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Budgeting in Moldova

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The institutional features of the budget process in Moldova are in a permanent flux, because of ambitious reform programmes that have been adopted in recent years and that are planned for the future. This article examines the Moldovan budget formulation process, the role of parliament, budget execution and budget discipline, the supply side of the budget process (public administration and service delivery), and accounting and audit.

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Keywords: budgeting, Moldova, financial management, budget preparation, parliamentary budget process, budgetary discipline

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Preface

This review of the budget process of the Republic of Moldova was carried out as part of the work programme of the OECD Working Party of Senior Budget Officials. In 2004, the Working Party established the Network of Senior Budget Officials of Central, Eastern and South-Eastern European (CESEE) countries. Budget reviews serve as a basis for examination of a country's budget institutions by the network in its annual meetings, and enable the participants to discuss the budget procedures of a country in depth.

A team of the OECD Secretariat consisting of Dr. Dirk Kraan (head), Mrs. Valentina Kostyleva and Mr. Colin Forthun, supported by Ms. Jutta Albrecht (consultant from German Technical Co-operation) and Mr. Ragnar Olofsson (consultant from the Swedish Ministry of Finance), undertook a mission to Chisinau from 9-12 March 2010 to prepare the review. During its mission, the team met with Mr. Veaceslav Negruta, Minister of Finance; Mrs. Maria Caraus, Vice Minister of Finance; Mrs. Nina Lupan, Vice Minister of Finance; Mr. Victor Barbaneagra, Vice Minister of Finance; Mr. Vasile Bulicanu, Budget Director; Mrs. Angela Voronin, State Treasury Director; Mrs. Dina Rosca, Assistent Director of Co-ordination and Generalisation of Budgetary Policy; Mrs. Liuba Ivanciucova, Assistant Director of the General Budget Directorate and Head of the State Budget and National Public Budget Division; Mrs. Emilia Prujanskaia, Assistant Director of the General Budget Directorate and Head of the Macro-financial Analysis and Forecast Division; Mrs. Nadejda Slova, Director of the National Public Budget Reporting Directorate of the State Treasury; Mrs. Ala Cislaru, Head of the Administrative-Territorial Units Budget Division of the General Budget Directorate; Mrs. Marina Semeniuc, Head of the Health Care and Social Protection Division of the General Budget Directorate; Mrs. Svetlana Bortoi, Head of the Education, Culture and Science Division of the General Budget Directorate; Mr. Ion Sirbu, Director for the Harmonisation of the Internal Financial Public Control System; and other officials of the Ministry of Finance.

The OECD team also met with Mr. Stefan Creanga, Director of the Public Procurement Agency; Mr. Valeriu Sava, Director of Budget and Finance Policy, and other officials of the Ministry of Health; Mr. Sobari Ion, Director of Economic Policies, Patrimony and Finances, and other officials of the Ministry of Education; and Mr. Ruslan Codreanu, Director of Policy, Strategic Planning and External Assistance, Mrs. Tamara Gheorghita, Director of Personnel Policy, and other officials of the State Chancellery.

Furthermore, the OECD team met with Mrs. Elizaveta Foca, President of the Court of Accounts; Mrs. Valentina Vazdautan, Assistant Director of General Municipal Finance and Budget Director of the City of Chisinau; and Mr. Valeriu Guma, member and secretary of the parliamentary Committee on Economy, Budget and Finance.

Finally the OECD team spoke with Mr. Valeriu Prohnitchi, Executive Director of the independent research institute "Expert Group".

The OECD team is grateful to all these officials and experts for the information they provided and for their willingness to explain the Moldovan procedures and practices. The

OECD team appreciated in particular the openness and frankness with which the Moldovan interlocutors presented their views on what has been achieved and what still needs to be achieved in the reform of the Moldovan budget institutions.

The team would like to thank in particular Mr. Eugeniu Cozmulici, Director of European Integration, International Relations and Protocol in the Ministry of Finance, for the excellent organisation of the meetings, his help with the collection of documents, and his practical support and hospitality during the team's stay in Chisinau.

Executive summary

Economic characteristics

In Moldova, GDP growth over the period 2001-07 has been strong: on average more than 6% per year, comparable to other CIS countries (Commonwealth of Independent States) in the same period. However, Moldova started from a very low level and has not substantially made good on its arrears. In 2007, GDP per capita amounted to USD 1 227, more than seven times lower than that of Russia (USD 9 059) and more than two times lower than Ukraine (USD 3 056). When compared with the lowest-ranking eastern EU countries, Moldova's GDP is almost seven times lower than Romania (USD 7 833) and more than nine times lower than Poland (USD 11 138) (Economist Intelligence Unit, 2008).

Moldova was hit hard by the Russian financial crisis of 1998, with the poverty rate doubling to 70% in 1999 and outward emigration surging. Nevertheless, overall growth remained resilient and reached a level of almost 8% again in 2008, mostly driven by foreign direct investment (12% of GDP in 2007, up from 7% in 2006) and large remittances[1] from workers abroad (30% of GDP in 2007).

The global financial crisis of 2009 has had a major effect on the Moldovan economy. A steep fall in household consumption was driven by a large drop in remittance inflows, as a result of the main work destinations for Moldovan migrants. Sharply higher domestic unemployment further constrained household consumption. Investment fell substantially owing to more difficult borrowing conditions and weak business confidence. With all of Moldova's export markets entering into recession in 2009, foreign sales dropped significantly.

Following the sharp deterioration of the fiscal position, Moldova signed a lending agreement in October 2009 with the IMF which will provide support of around USD 560 million and an additional special loan of USD 150 million for short-term financing of the budget deficit. Under the IMF agreement, growth is projected to reach 1.5% as a result of gradual recovery in external and domestic demand and an improved business environment. Over the medium term, the economy should return to its potential, with annual growth reaching 5% by 2012, led by a rebound in investment and exports, with remittances gradually recovering to their 2008 level.

The crisis of 2009, and pre-election spending hikes, resulted in a large increase in the fiscal deficit. In 2009, budget revenue dropped by about 10% in real terms relative to 2008. At the same time, current expenditures increased by over 13% in real terms, driven by large increases in public sector wages and pensions in the run-up to the elections of April 2009, financed partly by heavy domestic borrowing. Despite the recession, public sector wages rose in 2009 by 8.6% in real terms, whereas they decreased in the domestic economy. The previous government's pre-election wage policies were largely responsible for the overall increase in salaries during the recession. The budget began to experience financing shortfalls, and arrears started to accumulate.

Under the lending agreement with the IMF for 2010-12, the government aims to gradually narrow the budget deficit through revenue-raising measures, such as increasing excise taxes on a number of goods, and expenditure cutting, including reduction of administrative employment, less spending on goods and services and cutting subsidies. This programme should allow a return to budget balance towards 2014.

Since the beginning of the century, public debt in Moldova has been moderate and gradually falling as a percentage of GDP as a consequence of roughly balanced budgets. However, as a consequence of the financial crisis and spending hikes in 2009, a sharp upward turn occurred in 2009. Assuming that growth will return in 2010 and accelerate in the next few years in line with the authorities' recovery programme, the current upsurge should be temporary and should allow the debt to fall again as from 2012.

In the late 1990s and beginning 2000s, Moldova experienced double-digit inflation as a consequence of monetary policy aimed at a stable exchange rate, accompanied by strong foreign direct investment, increasing remittances and strong domestic demand. In 2006, the National Bank of Moldova switched its focus from the exchange rate to price stability, while retaining the targeting of monetary aggregates adopted in 1994. This ambivalent stance led to a certain unpredictability in its operations, focusing on the exchange rate in some instances and on price stability in others. The bank's new monetary policy strategy for 2010-12, developed in consultation with the IMF, switches the focus explicitly to inflation targeting and away from the exchange rate. The strategy document has set the inflation target at 5% for the medium term and also promises greater information dissemination and transparency, and more direct co-operation with the National Bureau of Statistics.

Budget formulation

Moldova has made considerable progress in recent years in the modernisation of its budget formulation process. Among the most significant reforms are the harmonisation and unification of the budget (removal of off-budget expenditures), introduction of a medium-term expenditure framework (MTEF), adequate budget coverage of state guarantees and regular macroeconomic forecasting.

When examining the Moldovan budget formulation process as a whole, the main problems still to be addressed can be diagnosed as follows:

- lack of a uniform budget classification that serves as the basis for both the MTEF and the annual budget law;
- a misconception of what an MTEF is and the aims it ought to serve;
- lack of recognition of the difference between estimates on the basis of current policy and normative ceilings;
- an overdose of planning documents;
- absence of a fiscal rule;
- lack of capacity in the budget directorates of line ministries.

While elaborating its ambitious agenda for further reform, the Moldovan government may consider focusing its attention on these problems. This leads to the following recommendations:

1. Use a simple and unique budget classification that does not cross ministerial boundaries, has a separate line item for current operational expenditure and organises the rest

according to expenditure groups or programmes; relegate all other classifications to the budget documentation for informative purposes.

2. Simplify the MTEF into a document of one sheet specifying ceilings for central government, local governments and the line ministries for a period of three or four years. Establish strict rules of budgetary discipline that make sure that all expenditure setbacks are compensated both during budget preparation and budget execution; avoid at all costs that the MTEF is changed during budget preparation after it has been established.
3. Make sure that at least twice a year current policy estimates at line-item level (baseline estimates) are updated: at the beginning of the MTEF process and at the beginning of the budget process. Final baseline estimates including new policies should also be published in the budget documentation, with a clear explanation of why costs of current policies are changing in future years (horizontal explanation) as well as of the changes since the previous budget (either because of setbacks or windfalls or because of cuts or new spending initiatives: vertical explanation).
4. Focus the sectoral plans on separate programmes or expenditure groups as distinguished in the budget classification; leave them to the responsibility of line ministers and do not draw up plans more often than once every four to ten years. Replace the National Development Strategy and the annual Action Plans in their present form by official statements at programme level, insofar as this is required for successful international co-operation on concrete programmes or projects. Preferably, they should be integrated in existing or new sectoral plans for programmes or expenditure groups.
5. Introduce an expenditure rule specifying that, over the medium term, assuming a moderate structural growth of GDP, the structural deficit should be zero or low enough to lead to a gradual reduction of public debt as a percentage of GDP. This rule could be imposed upon the MTEF (and hence on the budget). To make sure that the rule is enforced, Moldova could consider establishing an independent fiscal council, accountable to parliament, that would be authorised to reject or advise against a budget law that would violate the rule, similar to the fiscal council that has been established for this purpose in Hungary.
6. Improve the financial capacity of line ministries and subsequently transfer the responsibility for budget discipline to them, "making each line ministry its own Ministry of Finance". Also give substantially more discretion to line ministries to determine their own priorities within the ceilings of the MTEF. This would enable the Ministry of Finance to focus more on the larger picture.

Parliamentary approval

The role of the Moldovan parliament in the budget process is limited. The process as defined in the Constitution and the Budget Code (the organic budget law) gives parliamentarians approximately two months to scrutinise the government proposal, which is a bit shorter than the minimum of three months recommended in the "OECD Best Practices for Budget Transparency" (OECD, 2002). A budget committee is in place, with a co-ordinating role in the budget process. However, this role could be extended. There are two issues that parliament may want to consider:

- It would be useful to provide additional non-partisan staff to support the budget committee concerning budgetary issues. The staff could help provide additional and alternative information, for instance from independent research institutes or think tanks, and could help committee members to familiarise themselves with the technical aspects of the budget.

- The budget committee could devote more attention to the annual report on state budget execution and accompany its report to parliament concerning this document with recommendations or, ultimately, amendments on the current budget law, if it feels that the parliamentary views are not sufficiently respected.

Budget execution

The introduction of a single treasury account has been a success in Moldova. Strict budgetary discipline is maintained during budget execution. The State Treasury is responsible for the consolidation of accounts and works efficiently. Revision of the charter of accounts in connection with the budget classification is under way.

Cash management can be further improved. In particular, Moldova may consider upgrading its procedures for cash planning by setting up a commitment administration in the State Treasury (particularly for commitments that precede cash payments by one month or more) and by basing its cash plans on historical cash patterns in addition to the disbursement schedule. The accuracy of cash planning could also be improved if the financial directorates of central public authorities (CPAs are ministries and agencies not subordinated to a ministry) were required to submit quarterly or monthly cash plans in addition to the annual financial plan. This would significantly reduce the overall cash balance held at the National Bank of Moldova, leading to lower short-term borrowing and lower interest costs, and eliminating the need for "prioritising" of due payments.

Moldova may consider substantially easing its regime for reallocation. This would require two steps: first, a drastic reduction of the number of line items (which is also desirable for other reasons); second, the opening of the possibility to reallocate resources within certain limits under the condition of strict compensation (so that CPA expenditure ceilings cannot be exceeded) and with approval of the Minister of Finance. Provisions for this purpose would have to be included in the Budget Code; such provisions exist in many OECD countries. The limits could specify certain maximal percentages of appropriations subject to potential reallocation and could include the prohibition to reallocate in favour of current operational expenditures.

Furthermore, Moldova may consider bundling its supplementary budget proposals required for reallocations larger than allowed by the Budget Code (currently all reallocations) into two annual laws that are submitted to parliament in conjunction with quarterly financial reports (for instance, the first report due on 31 March and the third report due on 30 September). This would allow parliament to undertake a better scrutiny of the merits of the proposals.

Finally, Moldova may consider introducing a more flexible carry-over regime, in which carry-overs can be allowed by the Minister of Finance. That minister can then see to it that carry-overs are compensated by cuts of appropriations based on unrealistic cash expectations in the same CPA in the next budget year (so that cash spending in each year remains within the total cash ceiling of the CPA).

Public administration and service delivery

The government of Moldova has embarked on an ambitious programme to modernise its public administration and arrangements for service delivery. Important results have already been achieved, but much still remains to be done. This will require strong commitment of the government.

The government may consider applying a more systematic approach to the organisation of arm's-length and independent agencies at the central government level. Service delivery and policy execution in general (for instance, deciding licences, subsidies, tax assessments in individual cases) should be assigned to arm's-length agencies, not to (core) ministries. The status of independent agency should only be considered for institutions for which political interference in executive policy is excluded (National Bureau of Statistics, Electoral Council, National Bank of Moldova, universities, etc.). Both arm's-length and independent agencies should be financed by ministries. There is no reason why certain agencies would need the status of central public authority (CPA), directly financed by the Ministry of Finance. This arrangement is not common in OECD countries.

The government may consider strengthening the capacity of core ministries to steer the output of agencies and to better control the efficiency of agency operations, as the largest part of the public administration costs originate in agencies. The Ministry of Finance may have to play a lead role in the improvement of cost control of agencies, for instance by participating in teams of line ministries to be set up for this task.

Moldova has a very large public enterprise sector that is characteristic for a number of eastern European countries. The sector is fragmented, and there is no consistency in the status of companies. The majority of the enterprises are unprofitable, and it remained unclear after the discussion with Moldovan officials how they survive despite their insolvency. Subsidies to the companies, where the state government holds full or partial ownership, are allowed under specific conditions set by law. However, the present ways of subsidising lack transparency and accountability, and it seems that the state provides substantial support and protection for a selection of companies. The government has an extensive privatisation plan that includes the majority of state enterprises and joint-stock companies in which the state owns shares. The government may consider resuming its privatisation efforts as soon as market conditions improve. The lack of profitability of state enterprises and (partly) government-owned companies is not a valid reason to postpone privatisation or the sale of assets.

Local governments have an extensive mandate. By far the largest share of their revenues comes from equalisation grants. As in many OECD countries, local governments often lack sufficient resources for their mandates. However, the appropriate response to this problem is the increase of local tax shares. The aim of equalisation grants is to even out local variances in the relation between local tax revenues and local service needs or to support local governments with an atypical relation between tax revenues and spending needs. In Moldova, equalisation grants are currently used as the main financing vehicle for local government. Since tax sharing provides better incentives for cost control and promotion of local economic growth than equalisation grants, the Moldovan government may consider rebalancing its instruments for the financing of local government.

The Moldovan government may consider applying more effort to the enforcement of the existing fiscal rules of local government.

Although the available data on public employment numbers are somewhat uncertain, it is clear that the share of public employment in total domestic employment is high in Moldova. The Moldovan government may consider gradually reducing public employment, avoiding forced dismissals, but consistently pursuing reductions over a large number of years in accordance with a long-term plan of 10 or 15 years. This could be part of a further modernisation of human resource policy that facilitates horizontal transfers of personnel (desirable for intrinsic reasons but also required for personnel reduction) and promotes a more systematic application of performance assessment.

Promotion within the civil service is based on performance but it is not clear in which cases vacancies are internally published, who has access to published vacancies and who can apply for the vacant positions. The government may consider creating more clarity on these matters which are essential for the development of a professional civil service.

Top civil servants are appointed by ministers as is the case in OECD countries. In order to maintain the non-political character of the civil service, the Moldovan government may consider creating a civil service commission with the tasks of guaranteeing government-wide access to information on top-level vacancies and of advising on the sufficiency of the qualifications of the candidates.

The modernisation of the public procurement procedures that has been achieved in recent years is impressive. The Law on Public Procurement meets OECD standards and promotes transparency, efficiency and competition. The Public Procurement Agency is the central co-ordinating institution and the main driver of the reform process. The implementation of some of the reforms is still under way. Proper application of the law is the largest challenge in the procurement area.

Accounting and auditing

The public accounting practices of Moldova have improved considerably over the last decade. Financial reports are comprehensive, published in a timely manner and available on the website of the Ministry of Finance. Public accounts generally comply with international standards.

Currently six different charts of accounts are in use. The State Treasury has developed the draft Unified Budget Classification and Chart of Accounts for the public sector. This draft is in compliance with GFS 2001 standards (IMF, 2001). The State Treasury intends to implement the unified chart as from January 2012.

On the basis of the Budget Code, modern procedures of internal audit have been introduced in Moldova. The organisation of internal audit is still in development, but the results so far are encouraging. The set-up of the internal audit procedures complies with international standards.

In its further work on the improvement of internal audit, the government of Moldova may take into consideration that a few small internal audit units are not necessarily less effective than many large units. Many large units may produce so many reports that top officials and ministers hardly take notice anymore. It is important that internal auditors have a relation of confidence with the top management and focus on the real risks. This condition is more important than the size of the internal audit staff. The trend in the more advanced OECD countries is now towards the reduction of internal audit staff rather than towards further expansion.

The Law on the Court of Accounts has created a comprehensive and modern procedure for external audit. The improvements that have been achieved in the organisation and procedures of external audit over the last decade are impressive.

1. Introduction

1.1. Contents of the review

The main purpose of OECD budget reviews is to provide information about the current institutional features of a country's budget process, which can serve as a basis for discussion in a meeting of delegates from countries in similar conditions. Such discussions may be useful to other countries that can learn from the experiences of the country under review and for the country under review because it may receive suggestions from other countries for overcoming the problems it is facing. The OECD Secretariat usually adds its own policy suggestions to the reviews, but in general it strives for restraint in this respect in order to allow maximal room for exchange of views among peers. In countries of the most eastern part of Europe, restraint seems the more appropriate because these countries are already overloaded with policy advice on budget reform from international organisations and foreign donor countries. However, in the case of Moldova this approach raises two questions.

First, the institutional features of the budget process in Moldova are in a permanent flux, because of ambitious reform programmes that have in recent years been adopted and that are planned for the coming years. In this context, it is not always easy to distinguish between what should happen according to laws and decrees that are currently in force (sometimes since very recently), what is planned to happen in the near future according to laws and regulations that are on the drawing table, and what currently happens in practice. In this context, the budget review focuses on what happens in practice, but makes an effort to describe as well what the current regulations say and what reforms are planned.

Second, the OECD Secretariat has noticed that the emphasis of the advice from other international organisations and donor countries is not always on the same subjects that the OECD tends to highlight in its budget reviews. Most OECD budget reviews are of course concerned with OECD countries, but since 2004 the OECD Secretariat also conducts budget reviews in non-OECD countries, particularly in central and eastern Europe and in Asia. The general approach of non-member country reviews is that similar problems should be treated in a similar way, regardless of whether a country is a member of the OECD or not. Within certain limits, principles of effective and efficient public finance management are equally applicable to OECD and non-OECD countries. A difference in economic context may necessitate different budgetary policies, but generally does not justify a different approach to the reform of budgetary institutions. Since it can be useful for the Moldovan authorities to be informed about the specific priorities for institutional reform that follow from the OECD approach, this review exercises a bit less restraint in policy recommendations than OECD budget reviews commonly do.

Under the before-mentioned provisos, the review follows the usual set-up of an OECD budget review. In the rest of this section, some general economic and political characteristics of Moldova will be mentioned and recent institutional reforms will be briefly surveyed. Section 2 is devoted to the budget formulation process with separate attention for the budget structure and format, the annual budget process, the absence of a fiscal rule, the organisation of the Ministry of Finance and the evaluation of the budget process as a whole. Section 3 addresses the parliamentary budget process with separate attention for the Committee on Economy, Budget and Finance and for the parliamentary process. Section 4 focuses on budget execution with separate attention for the organisation of the executive process, cash management and budgetary discipline. Section 5 looks at the supply side of the budget process: the ministries and agencies that provide for public administration and service delivery. It looks at the organisation of government, the public enterprise sector, employment and procurement in the public sector, and the organisation and finance of local government. Finally, Section 6 looks at accounting and audit, with separate attention for internal and external audit.

1.2. General characteristics

1.2.1. Legal framework

Moldova gained independence in 1991. The Constitution of 1994 established Moldova as an independent republic. The Constitution provides for a single-chamber parliament of 101 members, a President elected by the parliament, and an independent judiciary. The members of parliament are elected every four years from party lists on the basis of proportional representation, with a threshold of 6% of the popular vote to gain parliamentary seats. The government is formed by the Prime Minister, the Deputy Prime Minister and the ministers (currently there are 19 ministers). The Prime Minister and the government are nominated by the President after consultation with the parliamentary majority. The nomination of the government needs the approval of the parliament.

The Constitution enshrines judicial independence. The court system follows the French pattern and includes regional courts, a Court of Appeal and a Supreme Court. Administrative courts adjudicate on issues of human rights, and the Court of Accounts oversees the administration of public funds. In addition, there is a Constitutional Court that enjoys sole authority over constitutional issues, including referendums and the legitimacy of presidential decrees. Constitutional amendments passed in 2000 increased the powers of parliament, by enabling parliament to elect the President (previously, the President was elected by popular vote) and reducing the powers of the executive branch.

The main laws and decrees regulating the budget process are:

- Law on the Budgetary System and the Budgetary Process of 1996 (henceforth called the Budget Code).
- Law on the Court of Accounts, revised in 2008.
- Law on Local Public Finance of 2003.
- Law on Public Procurement of 2007.
- Law on Public Debt, State Guarantees and On-lending from State Borrowing.
- Government Decision on drafting the Medium-Term Expenditure Framework of 2006.

The revenue side of the budget is further determined by:

- Tax Code of 1997.
- Customs Code of 2000.
- Law on Customs Tariffs of 1997.

The social security and health funds are regulated by:

- Law on the Public System of Social Insurance of 1999.
- Law on Mandatory Health Insurance of 1998.
- Law regarding the Rate, Method and Terms for Payment of the Obligatory Medical Insurance Contribution of 2002.

Other relevant laws are:

- Law on Government of 1990, specifying the organisation of the state and the responsibilities of ministers.
- Law on Local Public Administration of 2006, regulating public administration at the level of local government.
- Law on the Public Function and Status of Civil Servant of 2008.
- Law on Wages in the Public Sector of 2005.

1.2.2. Geography and demography

The land area of Moldova is 33 700 square kilometres (including the breakaway region of Transdniestr). It is one of the smaller CESEE countries (larger only than Armenia, Cyprus and Malta).

The population of Moldova is 3.6 million (excluding the breakaway region of Transdniestr which has a population of 0.4 million) and has shrunk by almost 10% since independence because of (temporary) emigration (according to the census of 2004). In view of its small geographical size, it is still the most densely populated country of the European part of the Commonwealth of Independent States (CIS). The birth rate stays ahead of the mortality rate, unlike in other countries in the region where the population is shrinking because of low birth rates. An estimated 400 000 Moldovans (over 10% of the population) are working abroad, mostly in Russia (60%), followed by Italy (19%) and Portugal (5%).

1.2.3. Political developments

In February 1994, the Agrarian Democratic Party, a centre-left group representing agro-industrial interests, won the largest number of seats in Moldova's first multi-party election. In 1996, Mr. Petru Lucinschi, a former head of the Communist Party in the Soviet era, was elected President by popular vote. In the late 1990s, a centre-right coalition dominated parliament. In July 2000, parliament approved constitutional amendments that granted parliament the right to elect the President by three-fifths majority. This sparked a pre-term legislative election, as parliament was unable to form the required majority. In the election (February 2001), the Party of Communists of the Republic of Moldova (PCRM), the successor of the prohibited Communist Party, won more than 50% of the votes, giving it 70% of the seats in parliament (in view of the electoral threshold banning small parties), more than sufficient to elect its leader, Mr. Voronin, as president. Mr. Voronin was re-elected after the parliamentary elections of 2005, when he was supported by four centrist opposition parties: the Christian Democratic Popular Party, the Democratic Party, the Social Liberal Party (since then absorbed in the Democratic Party) and Our Moldova Alliance. The ranks of the PCRM include young business people and economic pragmatists. Mr. Voronin held a firm grip on government and succeeded in ensuring that most of the powers and financial levers of the party remained in his hand. Nevertheless, his pro-European stance and economic pragmatism were at odds with traditional communist positions and in spite of, or perhaps because of, the nomination in 2008 of a fresh, reformist Prime Minister, Ms. Zinaida Greceanii (a former Minister of Finance, who has done much to improve relations with the EU and international organisations), support for the PCRM has gradually declined since 2001 (Economist Intelligence Unit, 2008).

Following the elections of April 2009, four parties gained seats (Liberal Democratic Party, Liberal Party, PCRM and Our Moldova Alliance), with the PCRM gaining the parliamentary majority. Since no party could muster enough votes to elect a President, a new election was called in July 2009. The election campaign in July produced a majority for non-communist parties which formed the Alliance for European Integration (AEI), but still they did not hold a large enough majority to elect a President. Under the current Constitution, the failure to elect a President means that another early parliamentary election must be held. According to the Constitution, the speaker of parliament serves as acting President in the meantime. After the July elections of 2009, a new AEI government has embarked upon an ambitious reform programme.

1.2.4. International relations

Talks with the EU resumed in January 2010, after Moldova satisfied the EU conditions regarding the conduct of the next election and improving relations with Romania. Moldova hopes to negotiate an Association Agreement, offering expanded trade preferences and possibly a visa-free regime, to go beyond the existing common Action Plan. The Action Plan came into force in February 2005 and serves as the basis for Moldova's participation in the EU European Neighbourhood Policy designed to deepen relations with a range of neighbours (Economist Intelligence Unit, 2010). The Action Plan was extended following its expiry in February 2008, and is updated in the form of the activity programme "European Integration: Freedom, Democracy, Welfare" 2009-13.

The issue of Transdniestr continues to dominate relations with Russia. Bilateral relations deteriorated sharply following Mr. Voronin's rejection of a Russian-proposed settlement plan in late 2003 (the "Kozak memorandum"). Under pressure from the domestic political opposition and western governments not to accept the Russian plan, Mr. Voronin refused at the last minute to sign it, on the basis that it offered Russia the possibility of prolonging its military presence in Transdniestr. In March 2006, Russia announced that Moldovan exports of wine – the country's main export product – would no longer be permitted into Russia, ostensibly for health reasons. Since then negotiations are being pursued in the so-called 5+2 format which involves the EU, the United States, Russia, Ukraine and the Organisation for Security and Co-operation in Europe, as well as Moldova and Transdniestr. Russia seeks to trade its approval for re-unification for a larger voice in a united Moldova, which is not acceptable to the Moldovan government. A breakthrough on Transdniestr seems unlikely for the near future. However, the government is committed to pursuing a pragmatic approach by seeking to preserve relations with Russia, while deepening ties with the EU. Russia revoked its ban on wine imports in 2007 and appears ready to build co-operative ties with the new government that was formed in 2009 (Economist Intelligence Unit, 2010).

1.2.5. Gross domestic product and industrial structure

Average annual GDP growth over the period 2001-07 has been strong: more than 6%, comparable to other CIS countries in the same period. However, Moldova started from a very low level and has not substantially made good on its arrears. In 2007, GDP per capita amounted to USD 1 227, more than seven times lower than that of Russia (USD 9 059) and more than two times lower than Ukraine (USD 3 056). When compared with the lowest-ranking eastern EU countries, Moldova's GDP is almost seven times lower than Romania (USD 7 833) and more than nine times lower than Poland (USD 11 138) (Economist Intelligence Unit, 2008).

Moldova was hit hard by the Russian financial crisis of 1998, with the poverty rate doubling to 70% in 1999 and outward emigration surging. The subsequent recovery was set back by Russia's ban on imports of Moldovan wine in 2006 (wine being one of the main export products), a doubling of natural gas prices by Russia's Gazprom in 2006 in line with Gazprom's policy of convergence to world market prices, and a drought in 2007 which led to a sharp drop in agricultural output. Nevertheless, overall growth remained resilient and reached a level of almost 8% again in 2008 (see Table 1), mostly driven by foreign direct investment (12% of GDP in 2007, up from 7% in 2006) and large remittances (see note 1) from workers abroad (30% of GDP in 2007).

Table 1. **Growth of real GDP**

Per cent of change on previous year

	2005	2006	2007	2008	2009	2010*	2011*
EU15 (older)	1.8	3.0	2.7	0.5	-4.3	0.9	1.6
EU10/12 (accession)	5.4	6.2	5.7	3.3	-3.0	2.2	2.8
Moldova	7.5	3.0	3.0	7.8	6.5	2.5	3.6

* Forecasts.

Sources: IMF (2008), "Republic of Moldova: 2007 Article IV Consultation and Third Review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility", International Monetary Fund, Washington DC; IMF (2010), "Republic of Moldova: Request for a Three-Year Arrangement under the Extended Credit Facility and Request for Extended Arrangement", IMF, Washington DC; IMF (2010), "IMF Executive Board concludes 2010 Article IV Consultation with the Republic of Moldova", *Public Information Notice* (PIN) No. 10/99, 27 July, IMF, Washington DC.

The global financial crisis of 2009 has had a major effect on the Moldovan economy. A steep fall in household consumption was driven by a large drop in remittance inflows, as a result of the main work destinations for Moldovan migrants. Sharply higher domestic unemployment further constrained household consumption. Investment fell substantially owing to more difficult borrowing conditions and weak business confidence. With all of Moldova's export markets entering into recession in 2009, foreign sales dropped significantly.

Following the sharp deterioration of the fiscal position, in October 2009 Moldova signed a lending agreement with the IMF which will provide support of around USD 560 million and an additional special loan of USD 150 million for short-term financing of the budget deficit. The economic programme linked to this agreement has four priority areas: *i)* fiscal policies to restore sustainability, while safeguarding public investment and social spending priorities; *ii)* flexible monetary and exchange rate policies to keep inflation under control, facilitate adjustment to shocks, and rebuild foreign reserves; *iii)* policies to ensure financial stability by early detection of bank difficulties and strengthening the legal framework for bank rehabilitation; and *iv)* structural reforms to raise the economy's potential. The programme's macroeconomic objectives for 2010 are cautiously optimistic. Growth is projected to reach 1.5% as a result of gradual recovery in external and domestic demand and an improved business environment. Over the medium term, the economy should return to its potential, with annual growth reaching 5% by 2012, led by a rebound in investment and exports, with remittances gradually recovering to their 2008 level (IMF, 2010a).

The structure of the domestic economy has been changing rapidly over the last decade (see Table 2). The share of agriculture declined from 22% of GDP in 2003 to 18% of GDP in 2007. In 2007, 60% of GDP was produced in the service sector, up from 54% in 2003. The change in the pattern of employment is even larger. Whereas in 2001 the agricultural sector still employed 51% of the domestic workforce (more than half), in 2007 this share had fallen to 34%. In the same period, employment in the service sector has risen from 38% (in 2001) to 50% (in 2007). However, the share of public administration in the service sector (43% of GDP; IMF, 2008)) remains very high for a country at Moldova's level of development.

Table 2. **Structure of the domestic economy**

Sector	Contribution to GDP (per cent)		Employment (per cent of total domestic employment)	
	2003	2007	2001	2007
Agriculture	22	18	51	34
Industry	24	22	11	16
Services*	54	60	38	50

* Services include: construction, transport, communication, trade, hotels, restaurants and public administration. In the employment numbers, other activities are included in services.
Sources: Contributions to GDP: Economist Intelligence Unit (2008), *Moldova Country Profile 2008*, EIU, London; employment: IMF (2008), "Republic of Moldova: 2007 Article IV Consultation and Third Review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility", International Monetary Fund, Washington DC.

1.2.6. Fiscal, monetary and regulatory policy

The crisis of 2009, and pre-election spending hikes, resulted in a large increase in the fiscal deficit. In 2009, budget revenue dropped by about 10% in real terms relative to 2008. At the same time, current expenditures increased by over 13% in real terms, driven by large increases in public sector wages and pensions in the run-up to the elections of April 2009, financed partly by heavy domestic borrowing. Despite the recession, public sector wages rose in 2009 by 8.6% in real terms, whereas they decreased in the domestic economy. The previous government's pre-election wage policies were largely responsible for the overall increase in salaries during the recession. Among other things, it promised teachers – indeed one of the worst paid groups in the public sector – a series of rises, including in April and November, that the new government did not annul. The budget began to experience financing shortfalls, and arrears started to accumulate (IMF, 2010a; see Figure 1).

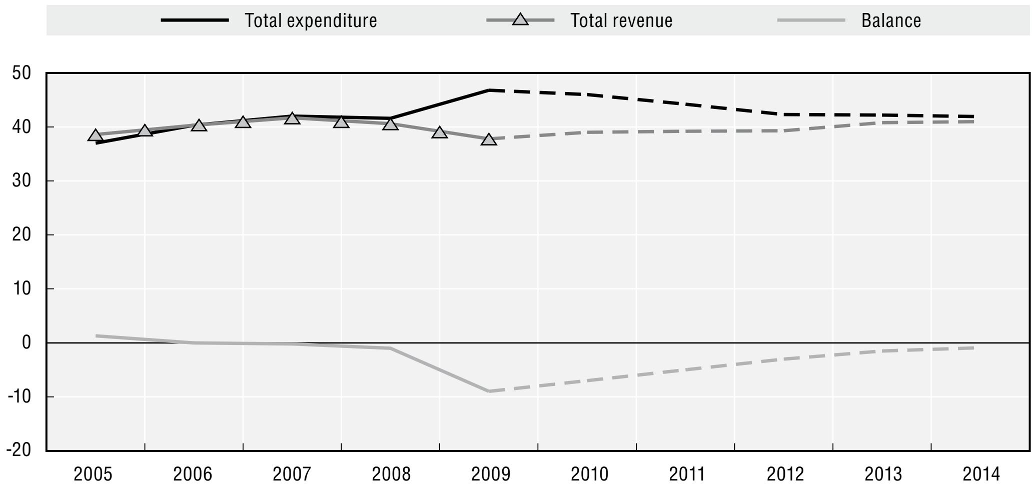
Under the lending agreement with the IMF for 2010-12, the government aims to gradually narrow the budget deficit through revenue-raising measures, such as increasing excise taxes on a number of goods, and expenditure cutting, including reduction of administrative employment, less spending on goods and services and cutting subsidies. The government also envisages withdrawing early retirement provisions from civil servants and the judiciary, although without altering the retirement age of 62. This programme should allow a return to budget balance towards 2014.

Since the beginning of the century, public debt in Moldova has been moderate and gradually falling as a percentage of GDP as a consequence of roughly balanced budgets. However, as a consequence of the financial crisis and spending hikes in 2009, a sharp upward turn occurred in 2009. Assuming that growth will return in 2010 and accelerate in the next few years in line with the authorities' recovery programme, the current upsurge should be temporary and should allow the debt to fall again as from 2012 (Figure 2).

In the late 1990s and beginning 2000s, Moldova experienced double-digit inflation as a consequence of monetary policy aimed at a stable exchange rate, accompanied by strong foreign direct investment, increasing remittances and strong domestic demand. In 2006, the National Bank of Moldova switched its focus from the exchange rate to price stability, while retaining the targeting of monetary aggregates adopted in 1994. This ambivalent stance led to a certain unpredictability in its operations, focusing on the exchange rate in some instances and on price stability in others. In sum, however, the bank allowed the Moldovan leu (MDL) to appreciate in the period 2006-09 by around 40%. In 2009, the bank abandoned monetary aggregate targeting in favour of an inflation target of 9%. However, in practice, the sudden downward pressures on the leu led the bank to intervene heavily in foreign

Figure 1. **Expenditures, revenues and balance of general government**

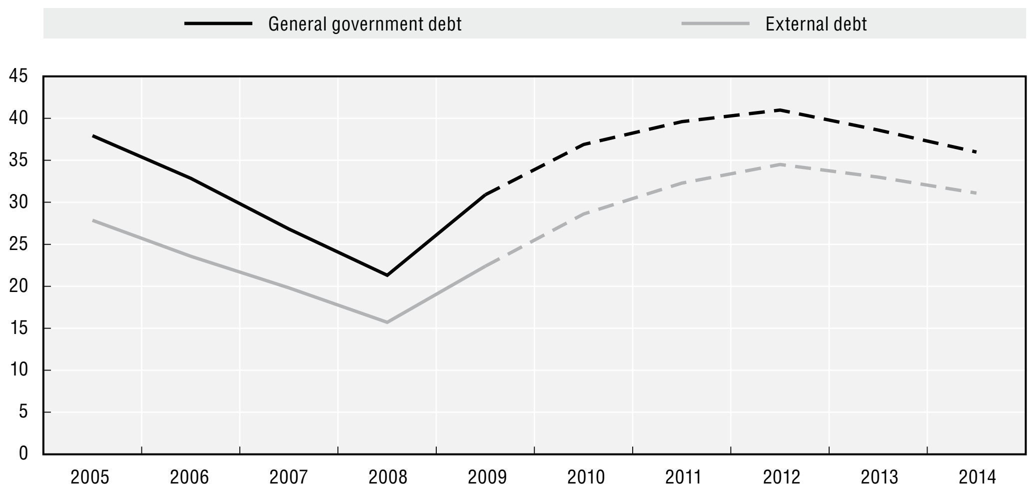
Per cent of GDP



Sources: IMF (2008), "Republic of Moldova: 2007 Article IV Consultation and Third Review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility", International Monetary Fund, Washington DC; IMF (2010), "Republic of Moldova: Request for a Three-Year Arrangement under the Extended Credit Facility and Request for Extended Arrangement", Washington, IMF.

Figure 2. **General government public debt**

Per cent of GDP



Sources: IMF (2008), "Republic of Moldova: 2007 Article IV Consultation and Third Review under the Three-Year Arrangement under the Poverty Reduction and Growth Facility", International Monetary Fund, Washington DC; IMF (2010) "Republic of Moldova: Request for a Three-Year Arrangement under the Extended Credit Facility and Request for Extended Arrangement", Washington, IMF.

exchange markets to support the leu, while prices deflated. The bank's new monetary policy strategy for 2010-12, developed in consultation with the IMF, switches the focus explicitly to inflation targeting and away from the exchange rate. The strategy document has set the inflation target at 5% for the medium term and also promises greater information dissemination and transparency, and more direct co-operation with the National Bureau of Statistics. The two institutions have developed a new index to measure core inflation.[2] The National Bank of Moldova intends to publish an inflation analysis the day after the statistics bureau releases its monthly consumer price data, as well as quarterly monetary policy and inflation reports (Economist Intelligence Unit, 2010).

In the last five years, the Moldovan authorities have pursued an ambitious reform programme aimed at achieving sustainable growth led by the private sector. A comprehensive reform of the business-enabling environment has been at the core of the government's efforts. These reforms include the overhaul of the business registration system, the streamlining of the regulatory regime through the so-called "guillotine exercise" for existing legislation, the introduction of regulatory impact analysis for new legislation affecting business operations, and fiscal incentives for the enterprise sector. While the full impact of these actions is yet to be felt, the initial positive results are confirmed by surveys in the enterprise sector. Despite these efforts, Moldova is still characterised by high barriers to entry and low competition in telecommunications, trade and food processing, keeping domestic prices of many consumer products significantly above international prices. In contrast, utility tariffs generally remained well below cost-recovery levels, leading to substantial arrears and under-investment.

1.2.7. Foreign aid

In May 2006, the government of Moldova concluded an agreement with the IMF concerning the three-year Poverty Reduction and Growth Facility, following up on earlier similar agreements of 1996 and 2000. Under the latest arrangement, Moldova was entitled to draw on IMF special drawing rights (SDR) to an amount of 80 million (USD 125 million), increased at the occasion of the first review (end 2006) to SDR 110 million (USD 170 million), subject to the conditions of the arrangement. Three reviews were conducted under this arrangement: the second in July 2007 and the third in April 2008 (IMF, 2008). Further reviews were not completed before the expiration of the arrangement.

In view of a dramatic worsening of the fiscal situation and a halt of government access to international capital markets, the IMF approved a new lending programme in January 2010, totalling USD 560 million. Under the programme, the government has committed, among other things, to gradually narrow the budget deficit through revenue-raising measures and expenditure cuts (see above).

The World Bank and other donors (EU, UN, the Netherlands, Sweden, the United Kingdom) have focused on the improvement of public administration. The National Development Strategy (NDS)[3] is the main medium-term strategic planning document which defines the development objectives. The NDS has a broader scope than previous strategies, but the reform of public administration is an important component.[4] The reform programme for public administration focuses on three areas: regulatory reform, the organisation of government and reform of the budget process. In each of these areas, World Bank and donor-supported technical assistance has been provided since the beginning of the century under the Poverty Reduction and Growth Facility. In spite of donor efforts to better co-ordinate[5] the assistance, the streamlining of foreign aid and technical assistance remains a major problem for the Moldovan government. In particular, the irregularity of disbursements and their integration in the national budget process remain areas of concern.

Currently the authorities are engaged in discussions with a Chinese construction company that could undertake public infrastructure projects, among other things to improve the road transport network of Moldova. The road network is in very bad shape due to arrears in maintenance. The projects would be financed by China's Eximbank up to

USD 1 billion (18.5% of Moldovan GDP). A memorandum of understanding on the loan was agreed between the previous government and the Chinese construction company in July 2008. The loan would be repayable over 15 years after a three-year grace period. Moldovans would account for 90% of the workforce involved in the projects.

1.3. Institutional policy in the recent past

In 2005, public administration reform became a policy priority for the government of Moldova, to promote European integration and improve the effectiveness and performance of public administration. In December 2005, a "Strategy of Central Public Administration Reform" was approved (CPAR). This document stipulated the following main objectives:

- more effective institutions that would perform better and cost less;
- a professional and well-paid civil service;
- a streamlined decision-making process;
- better links between policies and resource allocation;
- improved communication between government and society.

Donor partners supported this agenda through a multi-donor trust fund administered by the World Bank. Initially, progress on these objectives was slow, but the pace accelerated as from 2008. Important achievements to date include the approval of the Law on the Public Function and Status of Civil Servant, compliant with European traditions and values, improvements in civil service training, advancements toward establishing a fair and transparent civil service pay system, introduction of the single treasury account in the National Bank of Moldova, and steps towards the improvement of financial management (World Bank and the Republic of Moldova, 2008).

In January 2006, the government launched the "Public Financial Management Initiative" for the period up to 2010, with four components:

- improvement of budget planning and execution by institutionalising the medium-term expenditure planning, modernising the budget classification, and introducing a chart of accounts harmonised with the national accounts (GFS 2001) and implementing an integrated financial management information system;
- development of a system of internal control and internal audit in the central government bodies;
- establishment of training capacity and the delivery of training to civil servants in financial management;
- effective project implementation, monitoring and reporting.

The Ministry of Finance has developed a new budget classification and charts of accounts based on programmes, resulting in a programme classification for a number of pilot ministries. A programme classification should be implemented government-wide as from 2012. Work on the improvement of the medium-term expenditure framework (MTEF) has accelerated, leading to full incorporation of the framework in the annual budget process as from 2008 (MTEF 2008-11). Work on the revision of the Budget Code has progressed and should incorporate a modernised system of internal control and internal audit. Implementation of the new provisions of the Budget Code is planned for 2012. Arrangements for civil service training in financial management have been extended.

A strategic development plan for the Court of Accounts was launched in 2007. This work was successfully completed through the approval of the revised Law on the Court of Accounts in 2008. For a number of years, the Court of Accounts has benefited from technical assistance from the Swedish National Audit Office and the United Kingdom Department for International Development.

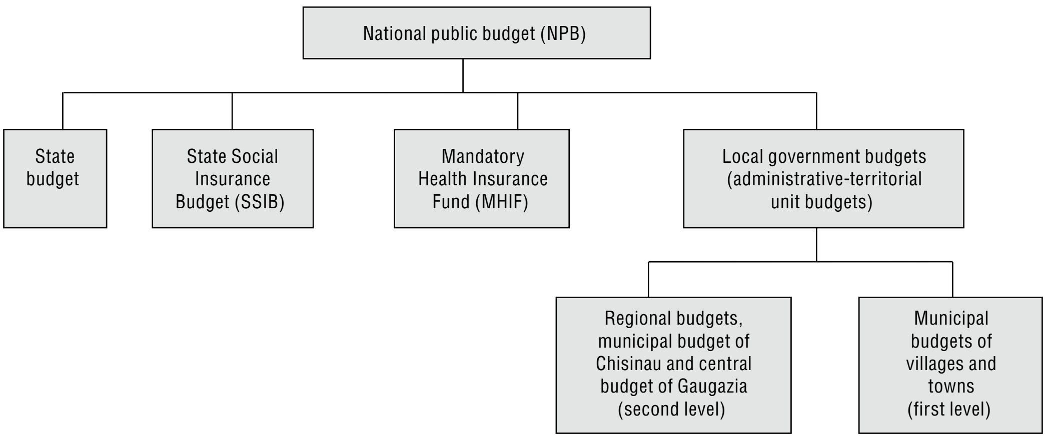
2. Budget formulation

2.1. Budget structure and format

2.1.1. The national public budget

The consolidated national public budget (NPB) of Moldova consists of four parts (Art. 2 of the Budget Code): the state budget, the State Social Insurance Budget (SSIB), the Mandatory Health Insurance Fund (MHIF) and the local government budgets (regions form the second level, and villages and towns form the first level). The local government budgets are formally part of the consolidated NPB but are decided, within strict limits, by the local governments; they do not belong to the central government in the sense of the national accounts. This section will focus on the central government part of the NPB. The financing of local government will be addressed in Section 5.

Figure 3. **Structure of the Moldovan national public budget**



Administration of the three different budgets of the central government is split between three ministries. The state budget is administered by the Ministry of Finance. The SSIB is the responsibility of the Ministry of Labour, Social Protection and Family and is administered by the National Social Insurance Agency. The Mandatory Health Insurance Fund is the responsibility of the Ministry of Health and is administered by the National Health Insurance Company. However, the transfers between the different parts of the NPB (including transfers to and from local government budgets) are under the responsibility of the Ministry of Finance. This is also true for cash management which, for the entire NPB, is assigned to the State Treasury, directly subordinated to the Ministry of Finance.

2.1.2. State Social Insurance Budget and Mandatory Health Insurance Fund

The SSIB and the MHIF both have their own revenues flowing directly to the respective budget. The SSIB receives social security contributions from employers and employees, and the MHIF receives its revenues from mandatory medical insurance premiums paid by employers and employees. The expenditures in the SSIB are mainly pensions (around 70% of expenditures), child allowances, and unemployment and sickness benefits. The MHIF finances the national health care system in Moldova. The budgets for both the SSIB and the MHIF are sent as separate laws to parliament together with the annual state budget law.

Due to structural factors, most importantly an ageing population with higher dependency ratios, the SSIB is increasingly becoming dependent on transfers from the state budget. Currently, 30% of the SSIB is financed by the state budget, including some 18% in virtue of premium payments for people eligible for state insurance and some 12% to cover the deficit. Currently 55% of the MHIF is financed from state transfers, all in virtue of premium payments for people eligible for state insurance (the MHIF budget is not allowed to present a deficit). The economic crisis has further worsened the situation, since the revenues in both budgets are linked to employment.

2.1.3. State budget

The appropriations of the annual state budget law of Moldova are presented in various annexes to the law. A special feature of the Moldovan system is that the different budget classifications in the annexes of the budget law (source of financing, administrative, economic, functional) all have the same legal status and all need to be approved by parliament (Art. 7 of the Budget Code). This leads to some confusion about the meaning and content of “line item” (presumably defined by the cross-section of these different classifications), and makes the formal budget a complex document. The use of different expenditure classifications, cutting the budget along different dimensions, is of course important for analysis and is also prescribed by international organisations for the purpose of national accounting. However, for the purpose of budget preparation and the allocation of resources among competing needs, only a single classification can be used.

Although all classifications have the same legal status, there is, according to officials at the Ministry of Finance and line ministries, a main classification which constitutes the factual basis for budget allocations and negotiations. This classification (not contained in any of the formal annexes of the budget) adheres to the following scheme:

- central public authority (CPA, namely a ministry, or an agency not subordinated to a ministry). There are 24 CPAs according to the Law on Government of 1990;[6]
- 20 main expenditure groups (*e.g.* education), broken down according to CPA;
- 112 expenditure groups (*e.g.* secondary education), broken down according to CPA.

The number of “line items” in this structure is not exceptionally high, but probably they do not represent line items in the formal sense because they do not take account of other classifications in the budget annexes that have legal status.

Some pilot CPAs are working with a programme classification in the state budget, but these do not constitute a real base for allocation and negotiation since not all CPAs use programmes and, of those that do, only parts of their expenditures are classified in the programme structure. This follows from the fact that the programmes cut across the CPAs and the expenditure groups. Furthermore, and most importantly, the programmes cut across the different budgets (state budget, SSIB, MHIF and local government budgets). As a consequence, the exercise of classifying expenditures in a programme structure is at the moment of little practical relevance for the preparation of the annual budget law.

All line items in the state budget are broken down on the basis of their source of financing. There are four different ways of financing:

- Base component: Regularly financed expenditures (from the general tax fund). In the annual budget for 2010, this component constitutes around 85% of expenditures.
- Special means: Expenditures financed by non-tax revenues collected by ministries or agencies based on the services provided by them (Art. 12 of the Budget Code; for example, the revenues collected from the fees on some certificates provided by the agencies or ministries). This component constitutes around 5% of expenditures.
- Special funds: Earmarked revenues. This component constitutes around 1.5% of expenditures.
- External sources: Basically expenditures financed from external donors. This component constitutes around 8% of expenditures.

In line with general practice in OECD countries, Moldova may consider switching to a single formal budget classification which serves as the basis for budget negotiations within the government and spending authorisation by parliament. In this way there would be no doubt which are the line items of the budget according to which the allocation is made. A single formal budget classification should meet the following requirements:

- a limited number of line items (not more than 500);
- based on CPAs (no line items cross-cutting CPAs);
- within each CPA, a separate line item for current operational expenditure (compensation of employment plus procurement);
- broken down by expenditure groups or programmes (apart from current operational expenditure);
- multi-annual estimates on the basis of current policy should be provided in the same classification.

A stylised form of such a classification is shown in Table 3. Systematic economic and functional classifications based on international standards (national accounts; COFOG, the Classification of Functions of Government) can be provided in the budget documentation.

Moldova would benefit greatly from pursuing the reform of budget classification foreseen for 2012 where the state budget will be programme-based. It is recommended that this reform takes account of the requirements mentioned above. It is particularly important that programme line items should not cut across CPAs, as this is a recipe for bureaucratic and political trouble as experienced by many OECD countries that have tried to move in this direction. If there is a clear and apparent need for more co-ordinated steering of programmes, organisational structures should be adjusted to programmes, even if this implies redistribution of tasks among ministries; but cross-cutting programmes should not be imposed on existing organisational structures.

Moldova uses cash-based appropriations for budget formulation and execution. According to the experience of OECD countries, this is the most suitable appropriation standard. Accrual budgeting leads to many practical and technical problems and reduces

Table 3. **Stylised budget classification**

	Expenditure				Source of financing
	t (budget year)	t + 1 (first out-year)	t + 2 (second out-year)	t + 3 (third out-year)	
Ministry 1					
Current operational expenditure core ministry					
Current operational expenditure agency 1					
Current operational expenditure agency 2					
Etc.					
Programme A					
Subprogramme A1					
Subprogramme A2					
Programme B					
Etc.					
Ministry 2					
Current operational expenditure core ministry					
Current operational expenditure agency 1					
Current operational expenditure agency 2					
Etc.					
Programme A					
Subprogramme A1					
Subprogramme A2					
Programme B					
Etc.					
Ministry 3					
Etc.					

the transparency and comprehensibility of the budget, not least for the politicians who have to decide on it. OECD countries that have moved in the direction of accrual budgeting are now reconsidering certain steps they have taken (Australia, United Kingdom) or have reversed their earlier decisions altogether (the Netherlands). It is recommended that Moldova continues with the cash standard.

2.1.4. State guarantees

State external guarantees play no significant role in the budget of Moldova. No new guarantees have been issued since 1998, and the stock is low. The expected cost of guarantees is duly included in the annual budget. These costs do not have much significance, due to the limited stock.

2.2. The annual budget process

The annual budget formulation process within the Moldovan government is divided into two separate stages. In the first stage, lasting from January to the end of April, the medium-term expenditure framework (MTEF) is elaborated. The second stage is the process for drafting the annual budget law, which starts when the medium-term expenditure framework is finalised and ends when the draft budget is submitted to parliament on 1 October.

The annual cycle of budget formulation follows a detailed and comprehensive timetable for both the MTEF and the draft annual budget proposal[7] in which it is stated which entity will prepare which information and at what time. Although the timetable is detailed and codified in a government decree, in reality there have been frequent significant delays. In 2009 and 2010, the MTEF was not produced at all.

Table 4. **The annual budget formulation calendar**

Preparation of the medium-term expenditure framework (MTEF)	
Adjustment of preliminary ceilings for sector expenditures for the first two years of the MTEF and drafting preliminary ceilings for the third year by the Ministry of Finance.	5 February
Updating macroeconomic estimates by the Ministry of Economy.	7 February
Submission of sector policies and updated expenditure strategic plans by CPAs to the Ministry of Finance and the Ministry of Economy.	20-25 February
Evaluation of total resources including total public revenues, expenditures and budget balance by the Ministry of Finance.	25 February
Adjustment of sector expenditure ceilings as a result of joint analysis of sector policies and their financial implications in relation to total expenditures by the Ministry of Finance.	10 March
Adjustment of expenditure strategic plans within the MTEF to the determined expenditure ceilings by the CPAs.	31 March
Presentation of the MTEF to the government.	10 April
Approval of the MTEF by the government.	1 May
Preparation of the annual budget proposal	
Methodological norms regarding budget proposals from the Ministry of Finance to CPAs and local authorities.	20 April
Submission of budget proposals by CPAs to the Ministry of Finance.	1 June
Updated forecast of main macroeconomic indicators for the following year.	1 June
Examination of budget proposals and elaborating the preliminary draft budget by the Ministry of Finance.	1 July
Presentation of the draft budget law to the government.	25 August
Presentation of the draft budget law to the Parliament.	1 October
Approval of the budget law by the Parliament.	5 December

2.3. Macroeconomic estimations

The Ministry of Economy is responsible for macroeconomic estimations (Art. 17 of the Budget Code). Some aspects of the macroeconomic forecast (*e.g.* the inflation level, the exchange rate) are prepared by the National Bank of Moldova. Regular forecasts are made twice a year: in February and in June. The forecast in February contributes to the formulation of the MTEF, while the June forecast feeds into the annual budget process. Forecasts cover a four-year period: the current year, the upcoming budget year, and two out-years. In the MTEF, all forecast years are published, while the annual budget memorandum only contains forecasts for the current year and the upcoming budget year.

In the budget formulation process, there are no second-round effects of the final results of provisional budget decisions on the macroeconomic assumptions, an iteration where the outcomes of the budget negotiations affect the macroeconomic forecast which, in turn, affects the ultimate estimates of expenditure and revenues. If the macroeconomic estimations are revised after the approval of the annual budget and the revision leads to significant changes in budget indicators, then this will lead to supplementary proposals to the annual budget law.

Within the broader reform agenda of the “Public Financial Management Initiative”, Moldova is in the process of strengthening its capacity for macroeconomic forecasts in the medium term. This is highly important, since the basis of all medium-term budgeting is a credible macroeconomic forecast which gives input to a baseline estimates for the MTEF and the annual budget.

Officials say that the current government does not interfere in the forecasts. Despite this, and bearing in mind the current unstable political situation and earlier examples of undue interference in different stages of the budget process from the side of the presidential administration, Moldova may consider establishing an independent economic forecasting bureau. Such bureaus exist in several OECD countries and contribute to an objective basis for the political discussion. Such bureaus can, for instance, also be tasked with forecasting the future costs of new programmes or the costs of election platforms of political parties. The already existing Institute of Economics, Finance and Statistics (IEFS) which performs economic analysis and is subordinated to both the Ministry of Economy and the Academy of Sciences, or a branch of it, could perhaps become the core of such an institution.

2.4. Medium-term expenditure framework

Starting in 2002 with initial support from the World Bank and the United Kingdom Department for International Development, the MTEF has been prepared annually. However, in 2009, mainly because of the political turmoil during that year, the necessary decisions could not be made to produce the MTEF. This means that there is no MTEF for 2010-12, nor for 2011-13. In fact, the MTEF process is currently superseded by external constraints imposed by the IMF and the EU (see Box 1). However, since the MTEF process is not formally abandoned, is anchored in law and – according to current plans – will be resumed in the coming years, it is important to look at it more closely.

The MTEF is prepared on a sector basis. For each sector, a sector strategic expenditure plan is established. The latest MTEF for 2009-11 includes 14 sector strategic expenditure plans (six sectors more than the MTEF for 2008-10), namely: education, health, social protection, culture, sports, youth, tourism, justice, penitentiary system, national defence,

Box 1. **External constraints on budget formulation**

Moldova is currently going through a fiscal crisis. A deficit of 1% GDP in the general government balance in 2008 turned into a deficit of 9% in 2009, following a drop in GDP of 7.3% and a fall in industrial production of over 20%.

Following the sharp deterioration of the fiscal position, Moldova signed a lending agreement in October 2009 with the IMF which will provide support of around USD 560 million for the medium term and, in addition, USD 150 million for short-term financing of the budget deficit. The conditions of the programme include measures on both the expenditure and revenue sides of the budget (see Section 1 above) aimed at reduction of the deficit to 7% in 2010 and 5% in 2011.

Another restriction on policy formulation is imposed by the European Neighbourhood Policy of the European Union and its subsequent implementation plans (the Action Plan and the activity programme "European Integration: Freedom, Democracy, Welfare" 2009-13; see Section 1). In these plans, agreed policy priorities are spelled out. Since Moldova is keen on further EU integration and hopes to negotiate an Association Agreement, the implementation plans have a strong influence on the budget process.

External donors also have a say on the use of funds. In 2010, more than 8% of the revenues in the consolidated national public budget originated from external donors (including general budget support and grants for specific projects).

These external constraints, which in the IMF case condition the reform agenda and in the case of the European Action Plan and external donor support agreements influence policy formulation in different policy areas, mean that the degree of freedom in the budget formulation process has currently decreased considerably. During the booming years, there was a tendency to use the buoyant revenues to increase social expenditures and state consumption. As a consequence, public expenditure rose quickly as a share of GDP. Even if the external constraints for the time being contribute to fiscal austerity, there is a risk of future developments along the same path as was seen in the boom years in the mid-2000s.

agriculture, transport, environment protection, and science and innovation. All of these strategies account for more than 80% of the overall expenditures.

The MTEF process is led by a co-ordination group headed by the Minister of Finance and including a number of other ministers as well as representatives from the parliament, presidential administration, agencies, social partners and subnational governments. For each sector, there is also a sector working group. Furthermore, MTEFs are elaborated in 10 out of 35 subnational regional governments.

Over the years, the MTEF has become more extensive, and each year additional sectors have been included in the process of developing sector strategic expenditure plans. The latest MTEF (for the period 2009-11) is a comprehensive 211-page document resulting from substantial analytical effort. However, also in this MTEF there are areas of expenditures that are not covered by strategic expenditure plans.

The MTEF includes the expenditure estimations for three years: the upcoming budget year and two subsequent years. The MTEF is approved by the government. Subsequently it is sent to the parliament for information only (part of the explanatory note accompanying the budget, Art. 18 of the Budget Code), not for approval.

The process of preparing the MTEF starts at the beginning of January and ends when it is approved by the government on 1 May at the latest. The starting point of the preparation process is when the Ministry of Finance updates the different sector expenditure ceilings and adds a new out-year. These preliminary ceilings are then distributed to the responsible line ministries for each sector.

On 7 February, new prices and other updated macroeconomic indicators are submitted by the Ministry of Economy. On the basis of this forecast, the Ministry of Finance produces a macro-financial framework which, among other things, includes estimations of total revenue and expenditures. It is finalised on 25 February. The macro-financial framework constitutes a sort of resource envelope for total expenditures.

In a parallel process, the different sector working groups, normally headed by different line ministries, evaluate their sector expenditures on the basis of the strategic policy priorities in their area and propose an updated sector expenditure plan to the Ministry of Finance.

In 2008, the government of Moldova introduced a medium-term National Development Strategy (NDS) with policy priorities. Every year this strategy is concretised into an annual action plan in seven key sectors. These annual action plans are supposed to feed into the sector expenditure plans of the MTEF. The State Chancellery plays an important role in the establishment of the NDS and in the annual action plans which feed into the MTEF, and also participates in the elaboration of the MTEF. However, when priorities are put into practice, *i.e.* in the annual budget process, the State Chancellery has a limited role.

Between 25 February and 10 March, the expenditure plans are – in the words of officials of the Ministry of Finance – "correlated with available resources". This basically means that the expenditure plans including new policy proposals are aligned with the level of total expenditures decided by the Ministry of Finance in the light of the latest macroeconomic forecast. If a sector expenditure plan in the view of the Ministry of Finance includes expenditures that are too high, negotiations occur between the Ministry of Finance and the responsible ministry to bring the estimations down to an acceptable level. In this process, different programmes and policies are prioritised, allegedly in accordance with the priorities in the National Development Strategy and the annual action plans per sector based on the NDS. The Ministry of Finance, however, has the ultimate power of decision on expenditure ceilings for each sector.

By 31 March, the different line ministries' strategic expenditure plans are adjusted and brought in line with the stipulated expenditure ceilings, and the MTEF is approved by the government on 1 May at the latest.

2.5. Drafting of the annual budget law

The starting point of the annual budget process within the Moldovan government is the *Methodological Guide* regarding the budget proposals which is produced by the Ministry of Finance (Art. 19 of the Budget Code) and distributed to CPAs at the end of April. This guide includes the preliminary forecasts of total revenues and preliminary ceilings of expenditures.

The *Methodological Guide* further contains detailed instructions of what should be included in the budget proposals submitted by the CPAs. The *Methodological Guide* is an important steering tool since it constitutes a baseline for discussions and actually includes policy proposals which have been accepted by the Ministry of Finance in the MTEF process.

The central public authorities, together with the subordinated agencies, develop a budget proposal on the basis of the *Methodological Guide* with expenditure and non-tax revenue forecasts (Art. 20 of the Budget Code). Also included in the budget proposal are expenditure requests exceeding the preliminary ceilings decided by the Ministry of Finance. The final budget proposals are submitted to the Ministry of Finance by 1 June. On the same date, updated macroeconomic forecasts are submitted by the Ministry of Economy.

During the month of June, the Ministry of Finance scrutinises the submitted budget proposals and, by 1 July, presents its preliminary proposal regarding the entirety of the budget with revenue forecast and expenditure ceilings for the next budget year (Art. 21 of the Budget Code). After that, the actual budget negotiations start between the Ministry of Finance and the CPAs. Sometimes, when resources are lacking, requests for new expenditures on the part of the line ministries can give rise to an agreement to postpone policies. In the negotiations, line ministries are asked by the Ministry of Finance to use their existing financial resources for priority programmes in line with the National Development Strategy and the annual action plan.

If the line ministries are not satisfied with the final allocation decisions of the Ministry of Finance and the issue cannot be resolved bilaterally, the issue is brought to the government (Art. 24 of the Budget Code). However, this is quite rare. According to officials of the Ministry of Finance, only about 5-6 appeals were brought to the Cabinet while preparing the draft budget law of 2010. This may in some part be attributable to the current fiscal crisis in Moldova where there are strong externally imposed restrictions on the state budget due to the agreement between Moldova and the IMF (see Box 1).

The expenditure appropriations in the annual budget law cannot be exceeded except for payments required by court decisions and for spending as a result of additionally received funding for externally financed projects, and additionally collected special means (non-tax revenues) and additionally collected special funds revenues (Art. 9 of the Budget Code). Apart from this, all additional expenditures have to be approved by parliament in a supplementary budget law.

When the budget has been approved, the line ministries enjoy discretion to allocate resources within each line item. However, as described above, the line item in the Moldovan budget is a complicated concept that results from the cross-section of different budget classifications. The Budget Code further stipulates that certain reallocations between line items can be made with the approval of the Ministry of Finance (for more details, see Section 4 on budget execution).

2.6. Relation between medium-term budgetary planning and the annual budget formulation

Officials of line ministries and their financial directorates see the MTEF and the annual budget process as two distinctly different exercises. It is emphasised that the MTEF is "strategic" and for planning purposes. The ceilings of the MTEF do not serve as real restrictions on subsequent budget negotiations. According to officials in the line ministries, the ceilings in the MTEF generally are too low even to finance current policy. This means that the line ministries rather focus on the annual budget law.

In the budget process in Moldova, there is no clear-cut distinction between estimations on the basis of current policy and ceilings. In discussions with responsible officials, the concepts are often used as synonyms, which leads to considerable confusion.

The MTEF is based on sectors that do not coincide with any of the classifications of the budget, including the mixed administrative/functional classification that is actually used for the budget negotiations.

Against this background, it is not surprising that the MTEF hardly plays a role during the second phase of the budget process which focuses on the upcoming budget law.

When comparing the total spending limits for 2009 in the MTEF for 2009-11 with the draft budget for 2009, the spending limits are exactly the same, since the forecasts included in the final version of the MTEF are adjusted according to the results in the budget negotiations after the budget law for 2009 was finalised. This means that the outcomes of the budget negotiations for the annual budget law for 2009 lead to changes in the final MTEF ceilings *ex post*. This, of course, synchronises both documents but in the wrong order: rather than the MTEF putting constraints on the budget law, the MTEF is retrospectively adjusted to the budget law, which further contributes to the perception that the MTEF is a mere paper exercise with no relevance in the real world.

2.7. Absence of a fiscal rule

Moldova lacks a fiscal rule as this concept is usually understood in OECD countries. Many governments in OECD countries have adopted numerical fiscal rules. In the Budget Code, it is stated that all actors including the Ministry of Finance, the government and the parliament shall act to ensure a balance over time of revenues and expenditures. This is the closest thing to a fiscal rule in the Moldovan budget process.

On the question of the existence of a Moldovan fiscal rule, officials point out the fact that there are restrictions when it comes to spending after the annual budget has been approved, but that these are rather restrictions in budget execution than a fiscal rule. The Budget Code states that, after the approval of the annual budget law, no expenditure can be approved without identifying the financing source. The same provision is included in the Constitution. This is not a fiscal rule in the sense of a restriction on budget preparation as it is usually conceived in the area of budgeting.

As noted in the *Public Expenditure and Financial Accountability Assessment and Public Financial Management Report* (World Bank and the Republic of Moldova, 2008), the outturn for expenditures was much higher than originally planned in the years 2005-07. The main explanation was the much higher-than-expected revenues, to a large extent due to the favourable economic development during these years. New expenditures were authorised in multiple supplementary budget laws during these years, which raised structural expenditures based on temporary windfall revenues, making the fiscal policy highly pro-cyclical. Higher expenditures during the good years contributed to a sharp rise in the ratio of expenditures to GDP and were an important factor behind Moldova's current large budget deficits. A well-designed expenditure rule would have had a dampening effect on the rise in expenditures during the boom years. In the Moldovan case, a fiscal rule could take the form of an expenditure rule specifying that over the medium term, assuming a moderate structural growth of GDP, the structural deficit should be zero or low enough to lead to a gradual reduction of public debt as a percentage of GDP. The growth assumption should be realistic and based on the realised trend growth in the past. This rule could be imposed upon the MTEF and subsequently on the budget. To make sure that the rule is enforced, Moldova could consider establishing an independent fiscal council, accountable to parliament, that would be authorised to advise against or reject a budget law that would violate the rule, similar to the fiscal council that has been established for this purpose in Hungary.

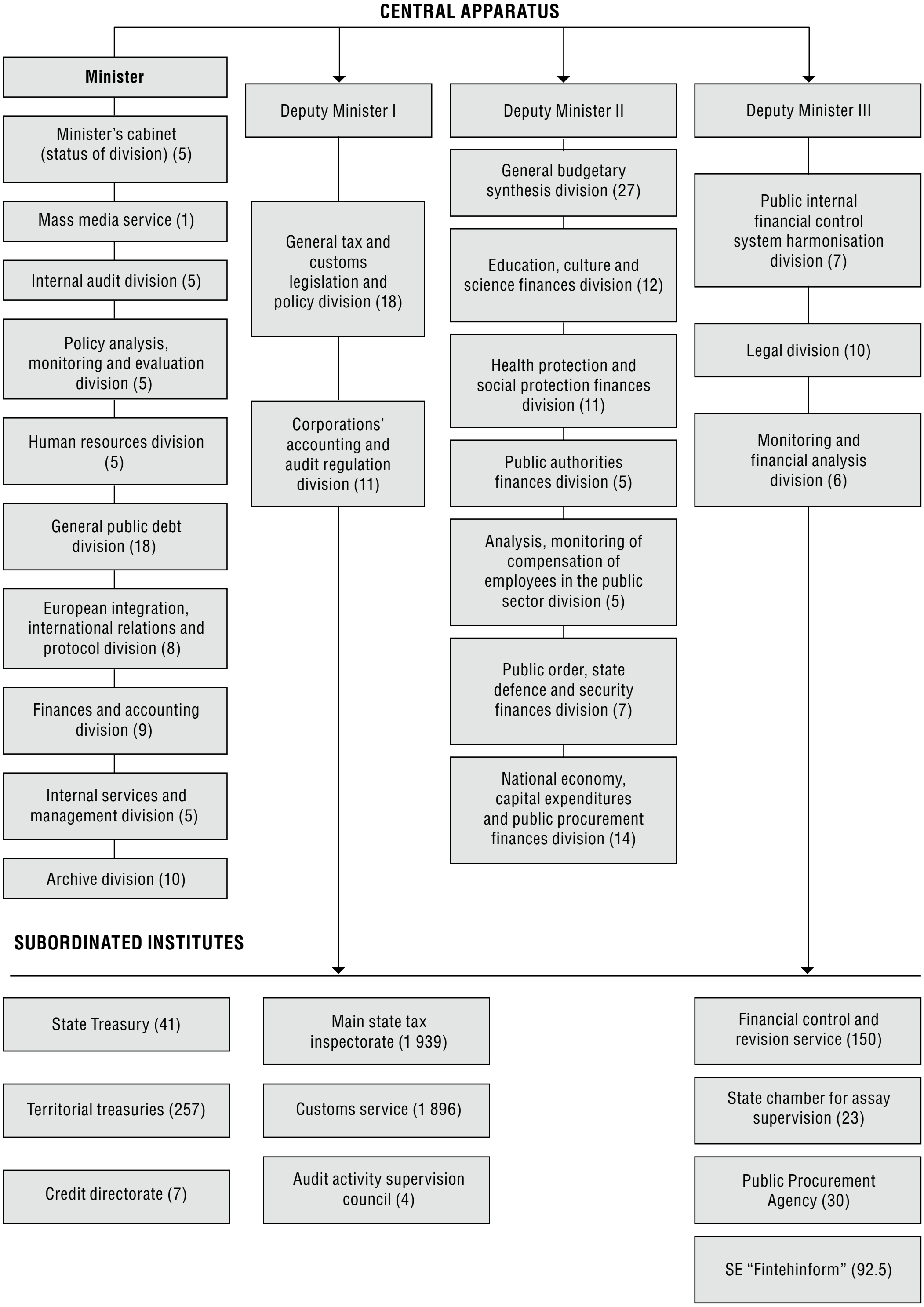
2.8. Organisation of the Ministry of Finance

The Ministry of Finance is led by the Minister of Finance and three Deputy Ministers (Figure 4). The divisions directly subordinated to the Minister are, *inter alia*, human resources, internal audit and international relations. The first Deputy Minister is head of tax and customs. The second Deputy Minister is responsible for the Budget Department. The third Deputy Minister is responsible for legal matters and internal financial control in the state apparatus.

The central apparatus of the Ministry of Finance has a staff of 204 employees. In April 2010, the status of the State Treasury was changed from a division of the Ministry of Finance to an arm's-length agency. However, the State Treasury is still located within the Ministry of Finance physically. The total number of employees including all subordinated institutions is 4 643.5, of which 298 in the central and territorial treasuries (the latter responsible for cash management of the regions and municipalities) and 3 835 in the Tax Service and the Customs Service.

There are five line divisions which co-ordinate and negotiate policies and budgetary issues with line ministries. Further, there is a division for analysis and monitoring of compensation of employees in the public sector and a general synthesis budgetary division. The total number of staff in these divisions is 81. The heart of the budget process, where everything is brought together, is the division for budget synthesis. This division is in its turn divided into four sub-divisions. One has the responsibility for the co-ordination and compilation of the state budget and national public budget, including the State Social Insurance Budget and the Mandatory Health Insurance Fund. Another sub-division is responsible for administrative-territorial unit budgets. The third sub-division deals with macro-financial prognosis and analysis, which among other things means translating macroeconomic forecasts provided by the Ministry of Economy into medium-term revenue

Figure 4. **Organisational chart of the Moldovan Ministry of Finance (August 2010)**[1]



1. Central apparatus of the Ministry of Finance: 208 units. State Treasury: 41 units. Territorial treasuries: 257 units. Building Administration General Division: 55 units. Total number of units in the Ministry of Finance: 561. Total number of units in the whole system: 4702.5.

Source: Ministry of Finance of the Republic of Moldova.

forecasts. Lastly, there is a sub-division handling, *inter alia*, co-ordination and generalisation of all policy proposals in the budget process.

According to officials within the ministries as well as external experts, the Ministry of Finance is a very strong player in the Moldovan budget formulation process and has substantial power for setting the agenda for negotiations as well as for resource allocation within line ministries to a rather detailed level.

The economic crisis has meant that there are both internal and external restrictions for the budget process which make it more centralised. However, for the development of an effective budget process in the longer term, the improvement of the administrative capacities of line ministries in general and their financial directorates in particular should be a priority of the first order. The prime responsibility for budget discipline could then be transferred to the line ministries, "making each line ministry its own Ministry of Finance" and giving substantially more discretion to line ministries to determine their own priorities in line with strategic expenditure plans. This would enable the Ministry of Finance to focus more on the larger picture.

2.9. Evaluation

When examining the Moldovan budget formulation process as a whole, the main problems can be diagnosed as follows:

- lack of a uniform budget classification that serves as the basis for both the MTEF and the annual budget law;
- a misconception of what an MTEF is and the aims it ought to serve;
- lack of recognition of the difference between estimates on the basis of current policy and normative ceilings;
- an overdose of planning documents;
- absence of a fiscal rule;
- lack of capacity in the budget directorates of line ministries.

This can be explained as follows:

1. Budget planning and negotiation can only take place on the basis of a single line-item classification. This classification should not cross ministerial boundaries, should have separate line items for current operational expenditure and should further be based on functional expenditure groups or programmes (see the stylised example presented in Table 3 above). The total number of line items should be kept within reasonable limits in order not to impair the manageability of the budget document as a whole.
2. The essence of an MTEF as it is used successfully in a large number of OECD countries is a set of ceilings for the central government as a whole and for separate line ministries over a period of three or four years including the upcoming budget year. In principle, this document can be printed on one sheet of paper, size A4. An MTEF in this sense should be as stable as possible.[8] In any case, it should not be changed again during budget preparation, but some OECD countries also strive to maintain it from year to year and add only a new year at the end of the planning period. The contents of this paper are therefore the most important decision in the entire annual budget cycle. In view of its importance for the subsequent process, it is reasonable that line ministries be given the opportunity to plead for new spending initiatives before the MTEF is decided. This can take the form of submission of new spending plans to the Ministry of Finance. The latter

ministry submits the MTEF to the government in conjunction with an update of the line-item estimates on the basis of current policy. There are now two possibilities: either the ceilings exceed the estimates so that there is some room for new spending plans for some or all ministries, or the estimates exceed the ceilings so that some or all ministries have to realise savings.[9] In both cases, the MTEF should be accompanied by an explanatory note that specifies the assumptions of the Ministry of Finance on the new spending initiatives to be honoured or the savings to be made. The most important budget negotiations have to take place on the basis of this single sheet document. After this document has been decided, nothing can change anymore in the allocation between ministries and in the total of expenditures. It is therefore important that the macroeconomic assumptions underlying this document are prudent: in times of economic boom, the GDP assumption should be considerably lower than actual expectations. In times of recession, the GDP assumption may exceed actual expectations, which will contribute to economic stabilisation. Most OECD countries use assumptions of the GDP growth trend over the cycle, both in good and bad times, but even then it is recommendable to use a prudence margin of a half or whole per cent below the trend. After the MTEF is established, there is of course still room for priority setting within line ministries. Line ministers can deviate from the assumptions of the MTEF if they want to give priority to spending initiatives that have not been honoured by the assumptions of the MTEF, but they have to find the room themselves by reallocation or use of expenditure windfalls appearing after the MTEF has been decided, and of course their final budget submissions have to be approved by the government.

3. The MTEF can only be proposed by the Minister of Finance on the basis of accurate line-item estimates. It is essential that everybody understands whether a proposed ministerial ceiling implies room for new spending initiatives or the need for savings. Similarly, line-item estimates should be updated after the MTEF is established so that rules of budgetary discipline can be applied. These rules should prescribe that all setbacks have to be compensated either from windfalls on other line items or from room for new spending or from reallocation. Under no circumstance should expenditure setbacks be a reason for adjustment of the MTEF once it has been established. (Rules of budgetary discipline should of course also apply during budget execution, but it is important to emphasise that they are similarly applicable during budget preparation.)
4. Moldova suffers from an overdose of planning documents without much practical significance. OECD countries have long ago given up the idea that national economic development can be steered by a central medium or long-term plan or annual action plans. Plans for separate programmes may play a useful role, but should only be made for the medium or long term (once every four to ten years depending on the policy area[10]). They have no role to play in the annual budget process, but serve to inform parliament of what the line ministers and the government are trying to achieve in a particular programme area (which may of course imply that the line ministers take them into account in their MTEF and budget submissions). Evidently, it is reasonable that foreign donors, who contribute financially to concrete programmes or projects, want to see the aims and policies necessary for the successful completion of these efforts reflected in planning documents, but in general this can most efficiently be achieved by way of official statements at programme level that are endorsed by the government and the responsible line minister, which can subsequently be integrated in existing or new sectoral plans. In addition, an incoming cabinet, particularly a coalition cabinet as

now governs in Moldova, may also feel the need to explain its programme in a more general political statement about its policies and priorities (practices in OECD countries differ considerably on this point). However, this is an internal political exercise in which foreign donors and international organisations should not try to interfere.

5. Absence of a fiscal rule can lead to a pro-cyclical budgetary policy in which structural expenditures are financed by windfall tax revenues in good times and structural savings have to be realised in bad times when tax revenues fall back. This pattern has clearly been visible in Moldova over the last decade. A fiscal rule can help to establish a more stable growth pattern in expenditures, with great benefits for planning at the programme level, and helps to stabilise the economy.
6. The capacity of the financial directorates of the line ministries is weak. As a consequence, the Ministry of Finance interferes in the allocation of resources within line ministries on a very detailed level. This in turn causes line ministries not to feel responsible for maintaining budgetary discipline, particularly during budget formulation.

On the basis of this diagnosis, it is recommended to the Moldovan government to make some additional reforms in the budget process. These reforms could be made part of the ambitious reform agenda that is already envisaged in Moldova (see Box 2).

Box 2. **Ongoing and foreseen reforms of the budget formulation process in Moldova**

Moldova is in the middle of pursuing a comprehensive reform agenda for the budget process. According to this agenda, all phases of the budget process will be affected: budget formulation, execution, reporting and auditing. Important planned reforms are:

- strengthening macroeconomic forecasting in the medium term;
- from 2012, a move from the current classifications to a classification based on programmes;
- fully integrating three or four-year line-item estimates in the annual budget from 2012;
- revision of the Law on the Budgetary System and the Budgetary Process (the Budget Code);
- revision of the Law on Local Public Finance.

2.10. Conclusions

As shown in this section, the budget formulation process in Moldova has been thoroughly modernised in the last few years. The budget is complete in that no significant public expenditures and revenues remain out of its scope. The social security and health funds have their own budget laws, and the remaining off-budget funds are included in the budget documentation. The basis for a more top-down budget process has been put in place with the introduction of a medium-term expenditure framework. The budget calendar is generally adhered to. The budget is submitted in a timely manner to parliament. Guarantees and tax expenditures are reported in the budget documentation.

While elaborating its ambitious agenda for further reform, the Moldovan government may consider focusing its attention on a number of issues that, in the light of best practice in OECD countries, could further be improved. This leads to a number of recommendations:

- Use a simple and unique budget classification that does not cross ministerial boundaries, has a separate line item for current operational expenditure and organises the rest according to expenditure groups or programmes; relegate all other classifications to the budget documentation for informative purposes.
- Simplify the MTEF into a document of one sheet specifying ceilings for central government, local governments and the line ministries for a period of three or four years. Establish strict rules of budgetary discipline that make sure that all expenditure setbacks are compensated both during budget preparation and budget execution; avoid at all costs that the MTEF is changed during budget preparation after it has been established.
- Make sure that, at least twice a year, current policy estimates at line-item level (baseline estimates) are updated: at the beginning of the MTEF process and at the beginning of the budget process. Final baseline estimates including new policies should also be published in the budget documentation, with a clear explanation of why costs of current policies are changing in future years (horizontal explanation) as well as of the changes since the previous budget (either because of setbacks or windfalls or because of cuts or new spending initiatives: vertical explanation).
- Focus the sectoral plans on separate programmes or expenditure groups as distinguished in the budget classification; leave them to the responsibility of line ministers and do not draw up plans more often than once every four to ten years. Replace the National Development Strategy and the annual Action Plans in their present form by official statements at programme level, insofar as this is required for successful international co-operation on concrete programmes or projects. Preferably, they should be integrated in existing or new sectoral plans for programmes or expenditure groups.
- Introduce an expenditure rule specifying that, over the medium term, assuming a moderate structural growth of GDP, the structural deficit should be zero or low enough to lead to a gradual reduction of public debt as a percentage of GDP. This rule could be imposed upon the MTEF (and hence on the budget). To make sure that the rule is enforced, Moldova could consider establishing an independent fiscal council, accountable to parliament, that would be authorised to reject or advise against a budget law that would violate the rule, similar to the fiscal council that has been established for this purpose in Hungary.
- Improve the financial capacity of line ministries and subsequently transfer the responsibility for budget discipline to them, "making each line ministry its own Ministry of Finance". Also give substantially more discretion to line ministries to determine their own priorities within the ceilings of the MTEF. This would enable the Ministry of Finance to focus more on the larger picture.

3. Parliamentary approval

3.1. Legal framework

Articles 26-31, 43 and 44 of the Budget Code contain the rules for parliamentary approval of the annual budget law. The government must submit a budget bill to parliament not later than 1 October (Art. 26 of the Budget Code) accompanied by the explanatory note. Parliament has to adopt the annual budget law by 5 December (Art. 31 of the Budget Code). The MTEF is not part of the annual budget law but its content is described in the explanatory note (Art. 18 of the Budget Code).

The budget year coincides with the calendar year (Art. 4 of the Budget Code). If an annual state budget has not come into force in due time, expenditure financing for the current year is done on a monthly basis at one-twelfth of the appropriations of the previous budget year (Art. 39 of the Budget Code). In practice, such delays in adopting the budget law have occurred twice in the period from 1996 until 2010.

3.2. Committee on Economy, Budget and Finance

The Committee on Economy, Budget and Finance (henceforth called the Budget Committee) is one of the nine standing committees of parliament of the Republic of Moldova. Members of the committee represent all political factions, and the chair is occupied by a member of the government party. There are 11 members in the committee.

The committee scrutinises the draft budget law as well as draft laws regarding economy, taxation, insurance, banking and other related issues.

There is no specialised parliamentary research service to assist parliament with scrutinising the budget. The Budget Committee has very limited analytical support: one analyst is attached to the committee. All committee meetings are attended by a member of the Court of Accounts participating in the approval and analysis of the budget appropriations.

3.3. Parliamentary process

Formally, parliament receives the draft budget law on 1 October from the Ministry of Finance. Informally, the draft budget is available for the Budget Committee on the website of the Ministry of Finance two weeks before. Parliament examines the draft budget in three readings. The first and second readings are held directly one after the other in October, while the third reading takes place in November.

During the first reading, the Minister of Finance presents the main directions of budgetary and fiscal policies and addresses the basic concept of the draft (Art. 29 of the Budget Code). Parliament hears the report of the Budget Committee, approves the draft annual budget law and returns it to the Budget Committee for preparation of the second reading. In the case of rejection in the first reading, Parliament will set a deadline for improvement and re-submission of the draft budget law. This has not yet happened in practice.

In the second reading, parliament examines the total revenues and their structure, the total expenditures and their structure, and the deficit (Art. 30 of the Budget Code). Parliament then approves the budget in the second reading and returns it to the Budget Committee for preparation of the third reading. Again, parliament can reject the budget law in the second reading and set a deadline for re-submission, which has not happened in practice.

After the end of the second reading, the members of all standing committees and line-item commissions start discussing the draft budget and examine the separate revenues and expenditures. If needed, the standing committees and the Budget Committee can request additional information from the Ministry of Finance. However, according to the committee, the Ministry of Finance does not always provide the requested clarifications in time, or the information provided does not respond to the needs of the committees. The complicated line-item structure and the lack of horizontal and vertical explanations of multi-annual estimates (see Section 2) make it difficult for parliamentarians to understand which concrete expenditures are authorised by which provisions of the budget law and what are the multi-annual consequences of any changes they may consider to propose.

After the examination of the draft budget law, standing committees send their proposals for amendments to the Budget Committee. These proposals can contain recommendations and/or modifications of words (describing expenditures in one of the classifications) or amounts of appropriations. The proposals are usually negotiated between the standing committees and the Budget Committee. During the budget negotiations in 2010, approximately 100 amendments reached the Budget Committee and most of them aimed to increase expenditures.

The Budget Committee make proposals to reallocate resources without modifying the total amount of revenues and expenditures. On this basis, the Budget Committee develops its recommendations on how to vote on the amendments and provides them to the plenary session of parliament.

In the third reading, every amendment is discussed and voted in the plenary session. The members of parliament can amend the draft budget, but the amendment proposals that lead to a change of revenues or an increase of expenditures can only be approved after the government accepts them (this is not a requirement of the Budget Code, but of the Constitution of the Republic of Moldova). However, on average an estimated 80% of the amendments are rejected.

The Constitution and parliamentary regulations provide a number of mechanisms for parliamentary control: questions, inquiry committees, and hearings of ministries in plenary session or at the meetings held by permanent committees.

Parliament or parliamentary groups can request the Court of Accounts to carry out audit missions. According to the Law on the Court of Accounts (Art. 30), these missions can be requested once each quarter without parliamentary decision, on the request of any parliamentary faction. The government informs parliament about the state budget execution at least once a year.

The annual report on state budget execution is examined by permanent committees of parliament including the Budget Committee. Parliament approves the annual report by 15 July. After approval, the annual report on state budget execution is published in the *Official Gazette* of the Republic of Moldova.

3.4. Conclusions

The role of the Moldovan parliament in the budget process is limited. The process as defined in the Constitution and the Budget Code gives parliamentarians approximately two months to scrutinise the government proposal, which is a bit shorter than the minimum of three months recommended in the "OECD Best Practices for Budget Transparency" (OECD, 2002). A Budget Committee is in place, with a co-ordinating role in the budget process. However, this role could be extended. There are two issues that parliament may want to consider:

- It would be useful to provide additional non-partisan staff to support the Budget Committee concerning budgetary issues. The staff could help provide additional and alternative information, for instance from independent research institutes or think tanks, and could help committee members to familiarise themselves with the technical aspects of the budget.

- The Budget Committee could devote more attention to the annual report on state budget execution and accompany its report to parliament concerning this document with recommendations or, ultimately, amendments on the current budget law, if it feels that the parliamentary views are not sufficiently respected.

4. Budget execution

4.1. Organisation of budget execution

The Ministry of Finance supervises and controls the execution of all four components of the national public budget (state budget, State Social Insurance Budget, Mandatory Health Insurance Fund, and local government budgets).

The State Treasury has a central role in budget execution: it checks and executes all payment orders and checks all commitments, and it is responsible for the consolidation of the accounts (through reconciliation of its payment records with the accounting data provided by the accounting divisions of the CPAs (ministries and agencies not subordinated to a ministry). The State Treasury currently has 41 employees; its territorial branches have 257 employees.

Moldova has implemented a single treasury account (STA) at the National Bank of Moldova. The STA covers transactions in all four components of the national public budget. In addition, the government has opened 147 accounts in commercial banks for carrying out foreign currency transactions and cash transactions and for managing projects financed from external sources.

Once parliament has approved the budget law, each minister elaborates a financial plan specifying the monthly distribution of its cash needs in accordance with the budget law. On the basis of the financial plans, and within 45 days after the publication of the budget law, the Ministry of Finance approves a disbursement schedule that allots the appropriated resources over the budget holders and over the months of the budget year (Art. 33 of the Budget Code).

According to the Regulation on the Statute, Rights and Obligations of Budget Executors[11] (budget holders), the budget executors must make expenditures during the budget year within the limits of the approved appropriations and the disbursement schedule. Reallocations of monthly allotments of the disbursement schedule require a signed authorisation of the Minister of Finance or his/her mandatory (Art. 33 of the Budget Code).

Payment orders and documents incurring commitments are signed by the budget holders and their chief accountants. Such orders and documents have to be authorised by officials from the State Treasury or a territorial treasury of the Ministry of Finance, in accordance with the provisions of the "Methodological Guidelines on the Cash Execution of National Public Budget".[12]

Moldova is currently revising methodologies for budget execution in 2010. There are plans to introduce a new more integrated chart of accounts to underpin a revised budget reporting format aligned with international standards (see Section 6). According to the Moldovan authorities, a major objective will be to better align the organisation of budget execution with the new financial management information system expected to be ready for launch in January 2012. These changes should also be reflected in the revision of the Budget Code, to be submitted to parliament in 2011.

4.2. Cash management

The Ministry of Finance has a subdivision dedicated to cash management, the Cash Flow Management Division. The division makes cash forecasts on a daily basis. The short-term debt management is the responsibility of another division in the Ministry of Finance, the General Public Debt Division.

The Minister of Finance is informed every day on revenue and expenditure developments. The State Treasury in Moldova plays a central role in cash management. A keyword is central control; the State Treasury checks carefully that all payment orders are in accordance with appropriations and the disbursement schedule and that prescribed procurement procedures are respected.

However, the general focus on control comes at the expense of overview and cash planning. Although the State Treasury approves commitment documents, it does not hold a commitment administration with forward payment dates. Nor does it plan its cash needs on the basis of historical cash patterns (in addition to the disbursement schedule). Since in practice payments always trail behind expectations as expressed in financial plans (and thus in the disbursement schedule), monthly cash needs, let alone daily cash needs, cannot be forecast accurately. This leads either to idle cash balances, held at the National Bank of Moldova, or to cash shortages and the need to prioritise due payments. In case of cash shortages, it seems to be standard practice that salaries, pensions, indemnities, compensations and state debt payment orders have top priority.

The accuracy of cash planning could also be improved if CPAs were required to submit quarterly and monthly cash plans in addition to the annual financial plan. A prerequisite would be improved financial management in the CPAs. Some interlocutors pointed out a lack of competence in cash planning at the ministries. Several line ministries were said to hold back resources during the budget year for prudence reasons, for instance only spending 60% of the budget by end September, leaving 40% for last quarter spending and thus risking rushed and wasteful spending by the end of the year (so-called "December fever").

4.3. Budgetary discipline

4.3.1. Overspending and reallocation

Budgetary discipline during execution is very strict. Overspending of line-item appropriations is not possible. If the line ministry needs additional resources in a line item, a budget amendment is necessary. The line ministry must present a reasoned amendment request to the Ministry of Finance including a description of financing sources or compensation through reallocation. The decision to initiate a supplementary budget relies on the government. The annual budget is revised on an *ad hoc* basis by the Ministry of Finance by submission of supplementary budget laws, usually two or three times yearly. But no routine is established.

From the parliament's point of view, the received supplementary proposals seem to contain only limited information on the reasons for the proposal and the calculations behind it. In general, the supplementary proposals are not accompanied by a more general survey of budget execution, which makes it hard for the parliament to assess the merits of the proposals.

The reallocation regime in Moldova is rather strict. In many countries, reallocating resources from one line item to another can, within certain limits, be allowed by the Minister of Finance. In Moldova, most reallocations between the budget lines in the annual budget law need to be authorised by supplementary budget law. The problem is aggravated by the complex line-item structure of the budget law. Since resources are appropriated in several classifications simultaneously (administrative, functional, economic), hardly any reallocation is possible in practice without a supplementary budget law. This makes the state budget very rigid and does not give line ministries freedom to make even minor changes to optimise the use of resources in the course of the budget year.

4.3.2. Carry-overs

Budgetary control is also very strict when it comes to carry-overs. Unused line-item funds cannot be transferred to the next budget year. The only way to transfer unused funds is by re-appropriation in the upcoming year's budget.

Moldova's strict carry-over regime is probably motivated by a justified concern that there might be a steady increase in unused funds over time if carry-overs were allowed without limits. However, some flexibility is necessary, for example for large public investment projects where monthly payments are notoriously difficult to plan ahead. Moldova should consider introducing a more flexible carry-over regime, in which carry-overs can be allowed by the Minister of Finance. That minister can then see to it that carry-overs are compensated by cuts of appropriations based on unrealistic cash expectations in the same CPA in the next budget year (so that cash spending in each year remains within the total cash ceiling of the CPA).[13]

4.3.3. Government Reserve Fund

The Government Reserve Fund is for unforeseen expenditures. The reserve fund amounts to 0.26% of total state budget expenditures in 2010. The government decides on the allocation of resources from this fund (Art. 23 of the Budget Code). However, the use of the fund might benefit from greater transparency, as some interlocutors suggested that the use of the fund should be examined. In 2009, the reserve fund was reduced from MDL 71.8 million initially approved in the budget law to MDL 34.4 million.[14]

4.4. Conclusions

The introduction of a single treasury account has been a success in Moldova. Strict budgetary discipline is maintained during budget execution. The State Treasury is responsible for the consolidation of accounts and works efficiently. Revision of the charter of accounts in connection with the budget classification is under way.

Cash management can be further improved. In particular, Moldova may consider upgrading its procedures for cash planning by setting up a commitment administration in the State Treasury (particularly for commitments that precede cash payments by one month or more) and by basing its cash plans on historical cash patterns in addition to the disbursement schedule. The accuracy of cash planning could also be improved if the financial directorates of CPAs were required to submit quarterly or monthly cash plans in addition to the annual financial plan. This would significantly reduce the overall cash balance held at the National Bank of Moldova, leading to lower short-term borrowing and lower interest costs, and eliminating the need for "prioritising" of due payments.

Moldova may consider substantially easing its regime for reallocation. This would require two steps: first, a drastic reduction of the number of line items (which is also desirable for other reasons, see Section 2); second, the opening of the possibility to reallocate resources within certain limits under the condition of strict compensation (so that CPA expenditure ceilings cannot be exceeded) and with approval of the Minister of Finance. Provisions for this purpose would have to be included in the Budget Code; such provisions exist in many OECD countries. The limits could specify certain maximal percentages of appropriations subject to potential reallocation and could include the prohibition to reallocate in favour of current operational expenditures.

Furthermore, Moldova may consider bundling its supplementary budget proposals required for reallocations larger than allowed by the Budget Code (currently all reallocations) into two annual laws that are submitted to parliament in conjunction with quarterly financial reports (for instance, the first report due on 31 March and the third report due on 30 September). This would allow parliament to undertake a better scrutiny of the merits of the proposals.

Finally, Moldova may consider introducing a more flexible carry-over regime, in which carry-overs can be allowed by the Minister of Finance. That minister can then see to it that carry-overs are compensated by cuts of appropriations based on unrealistic cash expectations in the same CPA in the next budget year (so that cash spending in each year remains within the total cash ceiling of the CPA).

5. Public administration and service delivery

5.1. *Organisational structure*

The public administration at the level of central government consists of 16 ministries and the State Chancellery (led by the Prime Minister) and a large number of independent and arm's-length agencies.[15] Some agencies have the status of CPA (central public authority) and are not subordinated to any ministry.

According to the Law on Government, the public administration at the central level consists of the following CPAs:

1. Ministry of Economy.
2. Ministry of Finance.
3. Ministry of Justice.
4. Ministry of Internal Affairs.
5. Ministry of Foreign Affairs and European Integration.
6. Ministry of Defence.
7. Ministry of Constructions and Regional Development.
8. Ministry of Agriculture and Food Industry.
9. Ministry of Transport and Road Infrastructure.
10. Ministry of Environment.
11. Ministry of Education.
12. Ministry of Culture.
13. Ministry of Labour, Social Protection and Family.

14. Ministry of Health.
15. Ministry of Information Technologies and Communications.
16. Ministry of Youth and Sports.
17. National Bureau of Statistics.
18. Cadastre and Land Relations Agency.
19. Interethnic Relations Bureau.
20. Border Service.
21. Agency “Moldsilva” (National Forestry Agency).
22. Material Reserves Agency.
23. Tourism Agency.
24. Centre for Combating Economic Crime and Corruption.

Apart from the agencies with CPA status, there are a large number of other independent and arm’s-length agencies that are financed by the ministries. Such agencies are usually established by an administrative rather than legislative act. The Constitution provides for the possibility of establishing such agencies: “in order to manage, co-ordinate and control the national economy, as well as other areas beyond the direct responsibility of ministries, other administrative authorities may be set up in accordance with the law” (Art. 107.2). In general, ministries lack the capacity to steer agency outputs or to control the efficiency of agency operations.

Moldova is a unitary state with local governments on two tiers. There are 35 legal territorial units of second level: 32 regions (“rayons”), 2 municipalities (Chisinau and Balti), 1 autonomous territorial unit (Gaguaz), and 1 unrecognised territorial unit (Transdniestr[16]) which does not subordinate itself to the constitutional bodies of Moldova. These 35 second-level units are divided into 896 first-level territorial units (towns and villages), which have no direct financial relations with the centre. They deal with their respective second-level units regarding their budgets and other financial issues. In total, there are 931 local budgets in Moldova.

Public services are delivered by both central and local government. The main responsibilities of the central government include the collective services of defence, basic research, law enforcement, transport and telecommunications infrastructure of national importance, environmental protection and cultural heritage, and facilities of national importance. The central government is also responsible for the individual services of higher education and health, as well as for social security benefits (pensions, unemployment, disability). Services are delivered by independent and arm’s-length agencies (some with CPA status, not subordinated to a ministry) as well as by regular branches of ministries, without any perceptible systematic approach to the distribution of tasks over the various types of organisation.

Governments at the local level are responsible for delivering an important share of public services. The local responsibilities are set by the Law on Local Public Finance and differ depending on the kind and level of local unit. The mandates mainly include: territorial development and town planning; providing utility services; construction and maintenance of roads, streets, bridges; providing social services to the population; construction and exploitation of housing for entitled population; primary and secondary education (pre-school, primary schools, gymnasiums, secondary schools, lyceums and secondary professional education); maintenance of local cultural institutions, libraries and museums and the organisation of public cultural activities; maintenance of parks and green spaces, and cemeteries; physical education and sports; and maintenance of public order.

The Moldovan public administration and service delivery arrangements have been subject to significant reforms since the adoption of the medium-term Strategy of Central Public Administration Reform (CPAR) in December 2005. Thus far the efforts have focused on civil service reform, training of the civil service, the civil service remuneration system, introduction of the single treasury account and public financial management. An important aspect of the reform process relates to the aim of the government to align the policies of Moldova with the policies of the European Union member states. For example, the activity programme "European Integration: Freedom, Democracy, Welfare" 2009-13[17] aims to contribute to better coherence (see Section 1). It stipulates among other things that decentralisation and ensuring local autonomy are among the priorities of the government.

5.2. Public enterprise sector

According to the Public Assets Register of Moldova, there are 267 state enterprises with a share capital of MDL 5.2 billion, and 184 commercial companies in which the Republic of Moldova has a stake. The state-owned shares in the 184 joint-stock companies are distributed as follows:

- 25 companies have 100% state-owned shares;[18]
- in 62 companies, state-owned shares amount to 75-99%;
- in 42 companies, 50-75%;
- in 23 companies, 25-50%;
- in 10 companies, 10-25%;
- in 22 companies, up to 10%.

The state enterprises and joint-stock companies deliver goods and services in such economic sectors as industry, energy and transport. State enterprises and joint-stock companies also provide public utility, mail and telecommunication services. Gas and electricity companies are mostly privately owned. As a general rule, the state has no obligations towards the state enterprises and joint-stock companies to support them financially. However, some areas of the national economy which are defined as strategic by legislation are subsidised from the state budget. For example, the state enterprises engaged in developing plant genetics (grape and fruit cultivation) and cattle breeding are entitled to subsidies. The state also supports enterprises that deliver services and accomplish works according to national programmes approved by the government (land reform, cadastral services and geological survey). Public transport can also be subsidised. Some joint-stock companies may also request financial support from the government. Furthermore, certain financial support has been provided to (partly) government-owned companies as a consequence of the economic turndown of 2008, especially in the agricultural sector.

Approximately 42% of all state enterprises and (partly) government-owned joint-stock companies are profitable, as reported by the Ministry of Finance. Around 30% of their profits (for state enterprises) and dividends (for joint-stock companies) go to the state. The resources obtained from sale and privatisation of public assets are also collected in the state budget. They are not earmarked and may be used to cover the budget deficit. The majority of state enterprises and joint-stock companies are unprofitable. Many of them were severely hit by the financial crisis and the recent devaluation of the national currency. A number of large state enterprises are in a rather hopeless situation and have large debts. The same applies to the state railway enterprise.

The government of Moldova has an extensive privatisation plan. A government decree (Government Resolution No. 945R, 2007) lists 213 state enterprises to be privatised. The Ministry of Finance annually selects priorities from this list. It has been noted, however, that the privatisation efforts have been stalled for a few years (IMF, 2008). Currently, unfavourable market conditions due to the financial crisis hamper resumption of the privatisation efforts. However, it is important that the privatisation process is vigorously pursued as soon as the crisis is over. In general, it makes little sense to delay privatisation if enterprises and companies are unprofitable even in a favourable economic climate: the chance that profitability is restored is higher after reorganisation and re-capitalisation in the private sector than in the public sector.

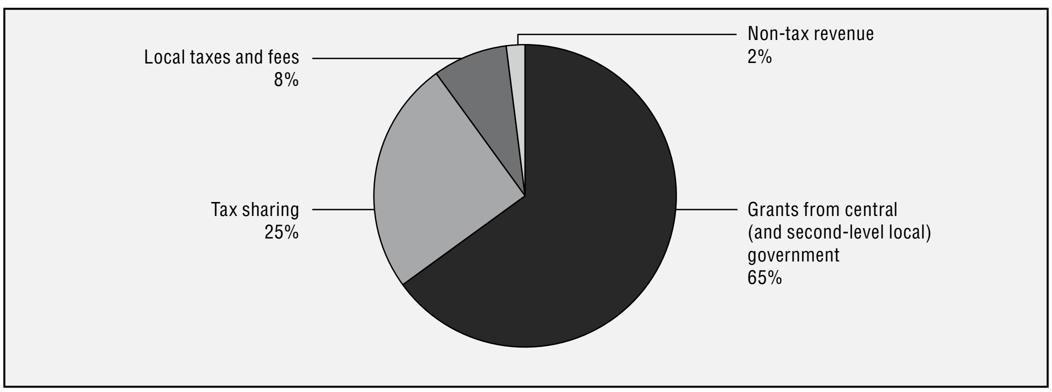
5.3. Local government finance

Local budgets are approved for one budget year which coincides with the calendar year. If a local budget is not approved by the beginning of the fiscal year, the allocations from the central budget are suspended and the expenditures are executed on a monthly basis in the amount of one-twelfth of total expenditures of the previous year within the limits of available resources.

Local budgets are constrained by fiscal rules. In the Law on Local Public Finance, it is stipulated that local current revenues and expenditures must be balanced (Art. 12). Capital expenditure can be financed either from a surplus from the previous year, from privatisation receipts or by loans taken up from the state or private banks. The outstanding debt may not exceed 20% of total annual revenues. Even though deficits on the current account are prohibited by law, there are, according to officials at the Ministry of Finance, no feasible tools for the central government to enforce this legislation and impose sanctions. In practice, however, local authorities rarely demand loans as the interest fee is high.

Figure 5 shows the structure of revenues of an average local budget by percentage of its main components.

Figure 5. **Revenue structure of a local budget in Moldova**



Source: Ministry of Finance of the Republic of Moldova.

Equalisation grants constitute roughly two-thirds of the total local revenues. The share of equalisation grants can amount to 80%. The equalisation grants aim to bridge the difference between, on the one hand, estimated expenditures based on normative indices (number of pupils, elderly, etc.) and, on the other hand, tax capacity. The normative indices are very detailed, for instance taking into account how many children there are in each of the relevant age groups. The meticulous procedure for calculating the equalisation grants reflects the fact that services are regulated by laws and regulations at the national level. State equalisation grants intended for the first and second-level local budgets go to the regions. In turn, each region sets the amount of grants to the first level in accordance with the legal equalisation formula. Furthermore, there are some special-purpose grants from the central government to finance, for instance, infrastructure projects or tasks mandated by the central government.

The rest of first and second-level local revenue consists of own tax and non-tax revenues. A quarter of total revenues comes from tax sharing of the personal income tax and the corporate income tax as well as road taxes, levied in its territory. Tax shares may differ depending on the type of local government. In general, second-level local governments receive the total revenue of the personal and corporate income tax, but the municipalities of Chisinau and Balti receive only 50% of the corporate tax revenue (the rest going to the state). Second-level local governments also receive 50% of the road tax levied on vehicle owners registered in their territory. Local taxes amount to 8% of revenues. Local taxes include real estate tax, tax on use of natural resources and several fees. Tax rates are not entirely at the discretion of the local government. Ceilings of local taxes are set by parliament. The smallest part of local revenues comes from non-tax revenues (charges for use of local property; fees for services, fines, confiscations, etc.). First-level local governments cannot levy non-tax charges and fees, unless they are provided in the tax legislation.

The dominant expenditure item of the local government budget is education which constitutes around 60% of local expenditures. Social assistance, culture and sports, and housing are other important expenditure items.

There is a structural problem in the financing of local governments. Originally, the equalisation system at the central level was supposed to contain transfers from both the state budget and from regions with high revenues compared to expenditures. Since tax revenues do not keep pace with the costs of the mandatory services, the transfer component from rich regions has disappeared. Even Chisinau municipality which earlier contributed to the system now also receives equalisation grants from the state budget. In 2005, the equalisation grant constituted 40% of total revenues of regional governments; in 2010, it was over 60%.

The execution of local budgets and financial reporting is controlled by the territorial treasuries, which are a part of the Ministry of Finance.

5.4. *Public employment*

In addition to the Law on the Public Function and Status of Civil Servant and the Law on Wages in the Public Sector mentioned in Section 1, important laws in the sphere of public employment are:

- the Labour Code;
- the Law on Conflict of Interest;
- the Civil Servant's Ethics Code.

The number of people employed in the public sector (general government and more than 50% of government-owned companies) amounted to 326.7 thousand in 2008, which is 26% of total domestic employment (Laborsta, *www.laborsta.ilo.org*). Within the public sector, 201.8 thousand people were employed in publicly owned corporations and 124.9 thousand in general government (both central and two-tier local levels). As to the OECD countries, the share of public employment in total domestic employment ranges from just over 5% in Japan and Korea to nearly 30% in Norway and Sweden, with an OECD average of 14% (OECD, 2009). It should be noted, though, that the OECD average is partly affected by the exclusion of the sometimes sizeable private education and private health sectors in a number of OECD countries. Nevertheless, the rate of public employment in Moldova seems to be very high (almost double the OECD average). According to numbers provided by the State Chancellery, 40% of general government employees work in the central government and 60% in local government.[19]

Over 21 000 public employees have the status of civil servant (as of 2008). Civil servants enjoy certain benefits and guarantees provided by the Law on the Public Function and Status of Civil Servant. The working conditions of other public employees are subject to the Labour Code.

To enter into the civil service, candidates have to satisfy certain general criteria (such as the requirement to know the official language) and take a competitive examination, after applying for a position and being interviewed. Civil servants are appointed for an undetermined term with some exemptions (for example, temporary replacement). It is very difficult to dismiss a civil servant. Unsatisfactory performance is almost the only ground for dismissal, but in practice this possibility is rarely applied.

The civil service law specifies requirements for promotion and career advancement. Promotion is based on performance. It is not clear in which cases vacancies are internally published and appointments are based on panel recommendations. Horizontal transfers within and between CPAs are possible and can be requested by civil servants. In the first half of 2010, 40% of vacancies were filled through horizontal transfers.

Top civil servants are appointed by ministers as is the case in OECD countries. There is no civil service commission in Moldova. In order to maintain the non-political character of the civil service, the Moldovan government may consider creating a civil service commission with the tasks of guaranteeing government-wide access to information on top-level vacancies and of advising on the adequacy of the candidates' qualifications.

Public employees are compensated according to the Law on Wages in the Public Sector that stipulates criteria for remuneration of both civil servants and other public employees. The law defines the base salary for each job and types of allowances. The structure of overall pay includes 40% of basic salary and 60% of entitlement supplements/benefits, including a seniority premium. The salary scales are specified annually and depend on the staff expenditure allocations provided by the budget law. There are no salary negotiations with trade unions. The government intends to introduce a performance-related pay scheme in 2012.

The average monthly wage in public administration, defence and compulsory social security amounted to MDL 2 802.4 in 2008. The average wage in health and social work activities was MDL 2 265.5 and MDL 1 670.5 in education (Laborsta, *www.laborsta.ilo.org*). The wages in the public sector remain rather low in comparison with average wages in the private sector, despite recent increases. Further wage increases for civil servants and public employees envisaged for 2009 were postponed due to the economic downturn and in accordance with the IMF support package (see Section 1).

The Human Resources Policies Division of the State Chancellery has a central co-ordinating role in human resource management. The division has five staff and up to five local consultants. It provides guidance on human resource management for central and local government.

The total size of central government employment is controlled by an annual government resolution establishing staff ceilings according to CPA. These ceilings cover the staff of the CPAs together with all subordinated agencies. Ministers have some discretion regarding the distribution of staff over tasks within the constraints of the budget appropriations (and the complicated line-item structure) which are largely determined by the annual budget law.

Almost two-thirds of the total public employment is concentrated at the local level. The central government decides annually the staff number ceiling for each local government.

As part of the IMF support package (see Section 1), the current government has pledged to reduce the number of public employees by 4 000 people in 2010.

5.5. *Public procurement*

The procurement procedure in Moldova has been thoroughly modernised in recent years. Emerging trends reflect the governmental commitment to make public procurement more transparent and efficient. Basic principles and institutional arrangements are elaborated in the Law on Public Procurement of 2007 and in secondary legislation. The key driver of the reform is the Public Procurement Agency which co-ordinates governmental efforts in elaborating managerial procedures in the area of procurement and implementing policies (Box 3).[20] The agency monitors and controls approximately 11 000 contracting authorities (of which 2 000 in Chisinau).

Several types of procurement procedures are established by the law. The request for price quotations (the RPQ) and the open (public) tender are the most frequently used procedures. The value of a contract is the main criteria for its operation. The threshold levels are presented in Figure 6.

The procedure for the RPQ implies awarding contracts via requests for price quotations which should comply with predefined specifications. Each supplier may submit a single price quotation without the right to change it subsequently. The pool of price quotations should consist of at least three offers submitted by suppliers. The winning quotation is the one which satisfies all requirements at the lowest price. RPQ procedures are of two kinds: requiring publication (threshold MDL 100 000 and MDL 500 000) and not requiring publication. The monetary share of contracts through the RPQ not requiring publication amounted to 12% of total procurements in 2009. The share of contracts concluded through the RPQ requiring publication in 2009 amounted to 6% of total procurements. Since the agency has said that the RPQ procedure not requiring publication is not very transparent or efficient and that it allows certain abuses (for example, the same supplier may register a few false companies and submit all three offers on behalf of these companies in order to block any competition), the government intends to amend the present legislation and make it compulsory to publish an announcement of intent in the *Public Procurement Bulletin* and on the public procurement webpage for this threshold.

Box 3. **The Public Procurement Agency**

The Public Procurement Agency is an independent agency subordinated to the Ministry of Finance; it has a staff of 25 people. The agency was created in 1997 and separated from the Agency for Provisioning of Tangible Resources, Public Procurements and Humanitarian Aid in December 2009. An indicative list of tasks carried out by the agency is contained in Article 7 of the Law on Public Procurement. The list includes:

- developing suggestions regarding the introduction of modifications and amendments to the public procurements legislation;
- co-ordinating, monitoring, assessing and controlling compliance of the contracting authorities with the public procurement procedures and with the procedures for the awarding of public procurement contracts;
- examining and registering public procurement contracts;
- requesting re-examination or cancellation, as the case may be, of the results of public procurement procedures;
- maintaining the automated public procurements register;
- examining and settling disputes between the parties participating in the public procurement procedures;
- providing methodological assistance and advice to the contracting authorities regarding the public procurements, initiating and supporting training facilities for the contracting authority staff involved in the preparation and implementation of the public procurement procedures, and awarding the public procurement contracts;
- issuing the *Public Procurement Bulletin*, and developing and maintaining the Internet page "Moldova's Public Procurements" which is the formal venue for publication of invitations and information on public procurements and the awarding of public procurement contracts.

Figure 6. **Thresholds of the Law on Public Procurement of 2007**

MDL 20 000 (goods, services) MDL 25 000 (works)	• Below this value, the contracts are considered as low-value public procurement contracts. The procedures for such contracts are simplified and described in secondary regulation. It implies that the buyer can directly contact a supplier without public procedure. • Above the threshold, the RPQ procedure is applied (the publication of an announcement of intent is not mandatory).
MDL 100 000 (goods, services) MDL 500 000 (works)	• The procedure for the values above this threshold is also the RPQ with one important requirement: the contracting authority should publish an announcement of intent in the *Public Procurement Bulletin* and on the public procurement website prior to the procurements.
MDL 200 000 (goods, services) MDL 1 000 000 (works)	• Above this threshold, the open tender procedure as described by the Law on Public Procurement must be pursued. • Another requirement for the contracts above this threshold is annual publication by the contracting authority of an announcement of intent for public procurement contracts scheduled to be awarded prior to the end of the budgetary year. The announcement is published within 30 days upon approval of the respective contracting authority's budget in the *Public Procurement Bulletin*.
MDL 2 500 000 (goods, services) MDL 99 000 000 (works)	• Above this threshold, annual publication by the contracting authority of an announcement of intent for public procurement contracts scheduled to be awarded prior to the end of the budgetary year should be done in both the *Public Procurement Bulletin* and the *Official Journal of the European Community*.

The RPQ procedure requiring publication is a transparent and efficient procedure and provides a competitive basis to suppliers. However, according to the agency there is still room for improvements, especially regarding the invitations. The Public Procurement Agency believes that it would be beneficial if the agency could co-ordinate the issuing of invitations and approve their content. However, the requirement to give approvals would also increase the agency's workload and thus necessitate additional staff capacity. Moreover, it is worth noting that OECD countries rather go in the opposite direction. The common trend is to minimise approval work by the central procurement institutions while focusing on strategic and substantive tasks. A conflict of interests might also arise in approval situations. As the central authority is also a dispute settlement body, its opinion might be biased if it has earlier approved the invitation that might become subject to dispute. Therefore, the Public Procurement Agency may consider a focus on strengthening the professional capacities of contracting authorities and providing guidance and support documentation, rather than requiring approvals.

The procurements contracted under public (open) tender are the most widespread. Their monetary share in total procurement amounted to 42% of total procurements in 2009 (14 456 contracts). The law elaborates transparent and efficient procedures for public tenders. It develops the rules and requirements for the tender documents, for submitting bids, for opening, examining and evaluating bids, for awarding bids and for concluding contracts. The supplier's qualifications, the compliance of the winner with the initial publication, and the evaluation of bids and decisions of a contracting authority are all examined by the agency, which may reject a decision and send the case back for a new procedure. The report on the procurements procedure is submitted to the agency within five days after the day of concluding the contract.

The Law on Public Procurement outlines a number of specific procurement procedures: framework contract, competitive dialogue, dynamic procurement system, and electronic auction/tender. Their availability for use by suppliers is a positive feature of the procurement legislation but these procedures have found very little use in practice yet. Their implementation should be promoted in the procurement community or in some case enforced by adopting new by-laws.

The law also provides procurement through the universal commodity exchange, a non-transparent mechanism for purchasing national emergency reserves which was extensively used in the past. However, the Public Procurement Agency emphasised that this practice is no longer common and will be abolished in the near future at the next stage of the reform process.

Unsatisfied suppliers have the right to contest the relevant decision made or the procedure applied. They can submit an appeal to the contracting authority, or, as usually occurs, appeal directly to the agency. The claim is submitted in writing and specifies the grounds. Upon receipt of the claim, the agency may order the suspension of the execution of the procurement procedure or halt its conclusion. Based on the examination of the claim, the agency may accept it, reject it, request re-evaluation of the bids or, in the majority of cases, initiate the procedure for settlement of the dispute in negotiation. The negotiation is conducted between the agency, the contracting authority and the claimant. If the agency fails to issue a decision within the established term or if the supplier is not satisfied with the decision, the latter may appeal to the competent administrative court. In 2009, the agency received 327 appeals of which 45 were accepted by the agency as substantiated. Nine cases reached the court.

Further reforms in the area of procurement aim to improve the application and execution of the law. The priorities set by the agency for further development in procurement include simplifying procedures, increasing transparency (advertisement for all procedures without exemptions), intensifying training activities in order to increase the professionalism of the procurement staff of contracting authorities, and implementing e-services.

5.6. *Conclusions*

The government of Moldova has embarked on an ambitious programme to modernise its public administration and arrangements for service delivery. Important results have already been achieved, but much still remains to be done. This will require strong commitment of the government.

The government may consider applying a more systematic approach to the organisation of arm's-length and independent agencies at the central government level. Service delivery and policy execution in general (for instance, deciding licences, subsidies, tax assessments in individual cases) should be assigned to arm's-length agencies, not to (core) ministries. The status of independent agency should only be considered for institutions for which political interference in executive policy is excluded (National Bureau of Statistics, Electoral Council, National Bank of Moldova, universities, etc.). Both arm's-length and independent agencies should be financed by ministries. There is no reason why certain agencies would need the status of central public authority (CPA), directly financed by the Ministry of Finance. This arrangement is not common in OECD countries.

The government may consider strengthening the capacity of core ministries to steer the output of agencies and to better control the efficiency of agency operations, as the largest part of the public administration costs originate in agencies. The Ministry of Finance may have to play a lead role in the improvement of cost control of agencies, for instance by participating in teams of line ministries to be set up for this task.

Moldova has a very large public enterprise sector that is characteristic for a number of eastern European countries. The sector is fragmented, and there is no consistency in the status of companies. The majority of the enterprises are unprofitable, and it remained unclear after the discussion with Moldovan officials how they survive despite their insolvency. Subsidies to the companies, where the state government holds full or partial ownership, are allowed under specific conditions set by law. However, the present ways of subsidising lack transparency and accountability, and it seems that the state provides substantial support and protection for a selection of companies. The government has an extensive privatisation plan that includes the majority of state enterprises and joint-stock companies in which the state owns shares. The government may consider resuming its privatisation efforts as soon as market conditions improve. The lack of profitability of state enterprises and (partly) government-owned companies is not a valid reason to postpone privatisation or the sale of assets.

Local governments have an extensive mandate. By far the largest share of their revenues comes from equalisation grants. As in many OECD countries, local governments often lack sufficient resources for their mandates. However, the appropriate response to this problem is the increase of local tax-shares. The aim of equalisation grants is to even out local variances in the relation between local tax revenues and local service needs or to support local governments with an atypical relation between tax revenues and spending needs. In Moldova, equalisation grants are currently used as the main financing vehicle for local government. Since tax sharing provides better incentives for cost control and promotion of local economic growth than equalisation grants, the Moldovan government may consider rebalancing its instruments for the financing of local government.

The Moldovan government may consider applying more effort to the enforcement of the existing fiscal rules of local government.

Although the available data on public employment numbers are somewhat uncertain, it is clear that the share of public employment in total domestic employment is high in Moldova. The Moldovan government may consider gradually reducing public employment, avoiding forced dismissals, but consistently pursuing reductions over a large number of years in accordance with a long-term plan of 10 or 15 years. This could be part of a further modernisation of human resource policy that facilitates horizontal transfers of personnel (desirable for intrinsic reasons but also required for personnel reduction) and promotes a more systematic application of performance assessment.

Promotion within the civil service is based on performance but it is not clear in which cases vacancies are internally published, who has access to published vacancies and who can apply for the vacant positions. The government may consider creating more clarity on these matters which are essential for the development of a professional civil service.

Top civil servants are appointed by ministers as is the case in OECD countries. In order to maintain the non-political character of the civil service, the Moldovan government may consider creating a civil service commission with the tasks of guaranteeing government-wide access to information on top-level vacancies and of advising on the sufficiency of the qualifications of the candidates.

The modernisation of the public procurement procedures that has been achieved in recent years is impressive. The Law on Public Procurement meets OECD standards and promotes transparency, efficiency and competition. The Public Procurement Agency is the central co-ordinating institution and the main driver of the reform process. The implementation of some of the reforms is still under way. Proper application of the law is the largest challenge in the procurement area.

6. Accounting and auditing

6.1. Accounting

Accounts are kept by around 2 500 accounting units attached to budget holders. All accounting units report at least on a monthly basis to the accounting divisions of CPAs (ministries and agencies not subordinated to a ministry).

There are six charts of accounts. These are kept at: *i)* the State Treasury; *ii)* the second-level local governments; *iii)* the public institutions (CPAs other than ministries, and some independent agencies such as universities); *iv)* the first-level local governments; *v)* the State Social Insurance Agency; and *vi)* the Health Insurance Agency.

The accounting basis of the various charts of accounts is different. The charts at the State Treasury (including the territorial treasuries) and at the second-level local governments are kept on a cash basis. The charts at the public institutions, the State Social Insurance Agency, the Health Insurance Agency and the first-level local governments are kept on an accrual basis.

The State Treasury has developed the draft Unified Budget Classification and Chart of Accounts for the public sector. This draft is in compliance with GFS 2001 standards (IMF, 2001). The State Treasury intends to implement the unified chart as from January 2012.

Each accounting unit has to prepare financial and statistical reports. The financial reports are quarterly and annual. Each unit submits its financial reports to the accounting division of the CPA to which it is accountable; at the same time, the units financed from local budgets submit reports to the general finance divisions under the local councils. The line ministries, CPAs and general finance divisions send the financial reports to the reporting division of the Ministry of Finance which consolidates the reports and informs the government and subsequently the parliament.

The monthly reports are published on the website of the Ministry of Finance on a monthly basis, and contain information about budget execution and current cash flows. The quarterly reports contain information on budget execution and are presented to the Ministry of Finance by the last day of the month following the reporting period. The annual report is approved by parliament and published in the *Official Gazette*; subsequently, it is available on the website of the Ministry of Finance.

The statistical reports give additional information about employment on 10 October and on staff wages specified by functions on 10 November, as well as on labour protection, automobiles and energy use.

6.2. Internal audit

A treaty between the government of Moldova and the EU was signed in 2005 regarding the implementation of PIFC (Public Internal Financial Control). Since then, the Ministry of Finance has completed its regulation for internal control procedures. The internal audit activities and the independence of internal audit units are regulated through the Budget Code and the Law on Public Administration. In addition, the Court of Accounts approved the internal audit standards.[21] Methodological guidelines for the implementation of internal audit in the public sector were approved by the Minister of Finance.[22] Currently there are 31 internal audit units. Progress since 2005 has been quite substantial (see, for instance, IMF, 2004).

The Ministry of Finance co-ordinates the work of the internal audit units through its Directorate for Harmonisation of the Internal Financial Public Control System. This directorate developed a strategic plan for implementing internal audit. The strategic plan envisages implementing internal audit in all CPAs and most of their subordinated agencies (for CPAs, the establishment of internal audit units is compulsory; for subordinated agencies, it is voluntary). All internal audit units must inform the Ministry of Finance about their strategic and activity plans and about their reports. Currently, the Directorate for Harmonisation of the Internal Financial Public Control System is working out training requirements for internal audit staff.

Audit units are independent from the finance and accounting units of the agencies. Audit units report directly to the ministers or the heads of agencies. The Directorate for Harmonisation of the Internal Financial Public Control System has worked out internal control standards that internal audits have to assess. Internal audits can have the character of compliance audits that check the legality of expenditures and revenues, operational audits that check the internal administrative and control arrangements, or performance audits that check the efficiency and effectiveness of expenditures.

The Ministry of Finance will henceforth submit an annual consolidated internal audit report to the government by 1 May of the year following the reporting year.

The strategic plan of the Directorate for Harmonisation of the Internal Financial Public Control System envisages also establishing internal audit units in every local government. The establishment of internal control units at the local level is an emerging trend.

The experience of OECD countries concerning internal audit is very diverse. Some countries have a limited internal audit staff of some dozens of employees in the total public administration (for instance, Denmark); others have built up an apparatus of hundreds of staff (for instance, the Netherlands). A few small internal audit units are not necessarily less effective than many large units. Many large units may produce so many reports that top officials and ministers hardly take notice anymore. It is important that internal auditors have a relation of confidence with the top management and focus on the real risks. This condition is more important than the size of the internal audit staff. The trend in the more advanced OECD countries is now towards the reduction of internal audit staff rather than on further expansion.

6.3. External audit

External audit in Moldova is based on Art. 133 of the Constitution and on the Law on the Court of Accounts. The Court of Accounts is independent and not subject to direction or control of any person or public authority (Art. 6 of the Law on the Court of Accounts). The law has created a comprehensive and modern procedure for external audit. The improvements that have been achieved in the organisation and procedures of external audit over the last decade are impressive.

The president of the court is elected for a five-year term by the majority of the members of parliament. The speaker of parliament proposes the candidate after consultation with the parliamentary factions. The court has seven members, including the president. The court decides on its reports and internal documents in plenary meetings.

The Court of Accounts has a staff of 150 employees (including support staff), of which 90 are auditors (March 2009). More than half of the personnel have completed academic or postgraduate studies in economics, law or public administration. The auditors are certified by the court.

The court must submit the annual report on the management and use of public financial resources and public property to parliament before 15 July. The report is reviewed in a plenary session of parliament. All components of the national public budget, including the social security and health budgets and the budgets of local governments, are subject to audit. Resources received from the EU, international organisations and other donors are also audited.

In addition to the annual report, the Court of Accounts conducts a large number of audits each year on special subjects. These are of three types: regularity (compliance) audits, performance audits, and other types such as operational audits and information technology audits. In 2009, the court produced 36 audit reports, namely 30 compliance audits and 6 performance audits.

Apart from the annual report, the court decides on its own programme of work and is autonomous in the selection of the special subject audits it will conduct. The selection takes into account the level of expenditure and any indication of illegal, inefficient or ineffective spending or revenue collection or of deficient administrative organisation or internal control. The court can submit reports to the parliament at any time of the year. However, the court must submit annually, by 15 March, the financial report on the implementation of its own budget during the previous budget year.

The work of the Court of Accounts is based on international auditing standards including those of the International Organisation of Supreme Audit Institutions (INTOSAI) and of European good practices. In practice, the activities of the court are not subject to interference by any other authority. It has free unlimited access to all records, persons, assets, premises and data. The court audits secret expenditures but is obliged not to disclose state secrets.

Critical assessments in audit reports are generally accompanied by recommendations to correct misleading or erroneous information in financial accounts or to improve inefficient practices or policies. All audit reports are submitted with recommendations to the auditees and, when the latter are subordinated to the government, to the government. The reports are accompanied by requests to inform the court about measures taken to implement audit recommendations. The court's department of methodology and strategic planning monitors the implementation of audit recommendations. In the annual audit report, parliament is informed about the implementation of recommendations by auditees in a separate chapter. The court also monitors the implementation of audit recommendations by auditees in subsequent controls.

Based on the latest amendments of the Law on the Court of Accounts (July 2010), audit reports must be published in the *Official Gazette* of the Republic of Moldova within 15 days following their approval date. The decisions of the Court of Accounts can be appealed at the Supreme Court of Justice within 30 days following their approval. The execution of the decisions enacted by the Court of Accounts cannot be suspended by the judiciary until the case is finally decided. All audit reports can be accessed on the website of the Court of Auditors (*www.ccrm.md*).

Parliament does not have an audit committee to review audit reports. The Court of Accounts submits audit reports to the parliament and its committees according to the theme of the audit. Most audit reports are submitted to committees for Economy, Budget and Finance, for Agriculture and Food Industry, for Social Protection, and for Health and Family.

The parliament and the court are currently establishing a process for dealing with audit findings. In the framework of the technical assistance given to the court through the multi-donor trust fund (see Section 1), a sub-project has been initiated on the examination of the audit reports of the Court of Accounts by parliament. The expectation is that this project will lead to a considerable improvement of the parliamentary examination of the audit findings.

If the court finds fraud or other illegal actions, it sends the documents to the Centre for Combating Economic Crime and Corruption for prosecution.

6.4. Conclusions

The public accounting practices of Moldova have improved considerably over the last decade. Financial reports are comprehensive, published in a timely manner and available on the website of the Ministry of Finance. Public accounts generally comply with international standards.

Currently six different charts of accounts are in use. The State Treasury has developed the draft Unified Budget Classification and Chart of Accounts for the public sector. This draft is in compliance with GFS 2001 standards. The State Treasury intends to implement the unified chart as from January 2012.

On the basis of the Budget Code, modern procedures of internal audit have been introduced in Moldova. The organisation of internal audit is still in development, but the results so far are encouraging. The set-up of the internal audit procedures complies with international standards.

In its further work on the improvement of internal audit, the government of Moldova may take into consideration that a few small internal audit units are not necessarily less effective than many large units. Many large units may produce so many reports that top officials and ministers hardly take notice anymore. It is important that internal auditors have a relation of confidence with the top management and focus on the real risks. This condition is more important than the size of the internal audit staff. The trend in the more advanced OECD countries is now towards the reduction of internal audit staff rather than towards further expansion.

The Law on the Court of Accounts has created a comprehensive and modern procedure for external audit. The improvements that have been achieved in the organisation and procedures of external audit over the last decade are impressive.

Notes

1. Money flows from abroad are registered as remittances in the current account of the balance of payments if they come from workers who are abroad longer than a year (otherwise they are registered in the national accounts as compensation of employment). A substantial part of the remittance is in fact used to buy goods and services (including property) and could perhaps better be classified as investment in the financial account (IMF, 2008).
2. Core inflation excludes changes in administrative prices and global fuel prices, and weather-induced changes in commodity prices.
3. The NDS replaced the "Economic Growth and Poverty Reduction Paper" and the "Memorandum on Economic and Financial Policies" that fulfilled similar roles under previous IMF and World Bank programmes.
4. The medium-term objectives of the NDS are: *i)* strengthening democracy based on the rule of law and respect for human rights; *ii)* settling the Transdniestrian conflict and reintegration; *iii)* enhancing competitiveness and the business environment; *iv)* enhancing employment and promoting social inclusion; and *v)* developing regions.
5. An important step in this direction was the Development Partnership Framework "Co-ordination and Harmonisation of Government and Donor Practices for Aid Effectiveness in the Republic of Moldova" between the government and major donors signed in May 2006.
6. In Moldova, the term central public authorities (CPAs) is used for the institutions involved in budget negotiations. The CPAs are the ministries, some agencies directly subordinated to the government and some independent public institutions such as the Audit Oversight Council and the Court of Accounts. In the Moldovan context, the CPAs are sometimes also referred to as primary budget executors.
7. See annex to Decision No. 82, 2006, of the Government of the Republic of Moldova.
8. In view of its binding force, the use of an MTEF in this sense is also known as "top-down budgeting". It stands in contrast to the practices that existed in many OECD countries before the 1980s which were known as "incremental budgeting". These practices basically implied that the total of expenditures was known only at the end of the budget negotiations and tax laws were adjusted at the end of the process to keep the deficit within reasonable limits.

9. Of course the Minister of Finance can also propose ceilings in such a way that certain ministries have to save whereas the new spending initiatives of others are honoured.
10. For instance, a school construction plan may cover four years; a defence procurement plan may cover ten years.
11. Order of the Ministry of Finance No. 2, of 3 January 2007.
12. Order of the Ministry of Finance No. 98, of 28 November 2005.
13. From a formal point of view, this requires that reallocations can, within certain limits, be allowed by the Ministry of Finance (see above).
14. Law No. 244-XVI, 21 November 2008.
15. The government consists of: the ministers heading a ministry; the Prime Minister and two vice prime ministers without portfolio (out of four vice prime ministers, the other two heading ministries); the governor of the Gaguaz region (home of an ethnic minority); and the chair of the Moldova Academy of Sciences.
16. Transdniestr has a special status and no financial relations with the Moldovan authorities.
17. See *www.polonia.mfa.md/img/docs/activity-program-government.pdf*.
18. The difference between state enterprises and joint-stock companies with 100% state-owned shares depends upon the patrimonial status of its property.
19. Namely 92 836 in central government and 139 168 in local government.
20. The reform process is ongoing and a number of substantial changes are being prepared for implementation in the near future. This section describes the situation as of March 2010.
21. Decision of the Court of Accounts No. 82 of 2007.
22. Decree of the Minister of Finance No. 118 of 2008.

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