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# Public Expenditure and Financial Accountability (PEFA) Assessment Update for Moldova (2012-2014)

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Final PEFA Performance Report

Client: Delegation of the European Union to Moldova

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# Acronyms

AGA	Autonomous Government Agency
ASYCUDA	Automated System for Customs Data
ATU	Administrative Territorial Unit
BIZTAR	Business Regulatory & Tax Administration Reform Project
BPS	Budget Preparation Module
CBA	Cost benefit analysis
CEB	Council of Europe Development Bank
CFAA	Country Financial Accountability Assessment
CHU	Central Harmonisation Unit
CIFMA	Compulsory Insurance Funds for Medical Assistance
COA	Court of Accounts
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Report
CS	Customs Service
DEL	Departmental Expenditure Limit
DFID	Department for International Development
DMFA	The Division of state assets monitoring and analysis
DMFAS	Debt Management and Financial Analysis System
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
ENAP	EU-Moldova European Neighbourhood Action Plan
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FIA	Financial Inspection Agency (FIA)
FMC	Financial Management and Control
FMIS	Financial Management Information System
FRA	Fiduciary Risk Assessment
GD	Government Decision
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GFS	Government Financial Statistics
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German assistance)
GOM	Government of Moldova
HBS	Household Budget Survey
HDI	Human Development Index
IAU	Internal Audit Unit
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
JSC	Joint Stock Companies
LBSBP	Law on Budget System and Budget Process

LLPF	Law on Local Public Finance
LPA	Local Public Administration
MCC	Millennium Challenge Corporation
MDAs	Ministries, Departments and Agencies
MDL	Moldovan lei
MOE	Ministry of Economy
MOF	Ministry of Finance
MSTI	Main State Tax Inspectorate
MTBF	Medium Term Budget Framework
NAC	National Anti-Corruption Centre
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
NDS	National Development Strategy Moldova 2020
NSP	National Strategic Plan
ODA	Official Development Assistance
PCA	Partnership and Co-operation Agreement
PDL	Law on Public Debt, State Guarantees and On-lending from State Borrowings
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PIU	Project Implementation Unit
PPA	Public Procurements Agency
PPL	Law on Public Procurement
SAI	Supreme Audit Institution
SDDS	Special Data Dissemination Standard
SDR	Special drawing rights
SE	State Enterprise
SIDA	Swedish International Development Agency
SSIB	State Social Insurance Budget
STGD	State Treasury General Directorate
STS	State Tax Service
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
TT	Territorial Treasury
UNDP	United Nations Development Programme
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

Fiscal year – calendar year

Average exchange rates: 2011: 11.737 MDL/ USD,  
2012: 12.1122 MDL/ USD,  
2013: 12.5907 MDL/ USD,  
2014: 14.0388 MDL/ USD

## Overview of the indicator set

<b>A. PFM-OUT-TURNS: Credibility of the budget</b>		<b>Score in 2015</b>	<b>Score in 2011</b>
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	B
PI-2	Composition of expenditure out-turn compared to original approved budget	A	B+
PI-3	Aggregate revenue out-turn compared to original approved budget	A	B
PI-4	Stock and monitoring of expenditure payment arrears	A	A
<b>B. KEY ISSUES: Comprehensiveness and Transparency</b>			
PI-5	Classification of the budget	A	B
PI-6	Comprehensiveness of information included in budget documentation	A	A
PI-7	Extent of unreported government operations	A	A
PI-8	Transparency of inter-governmental fiscal relations	A	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	A	B+
PI-10	Public access to key fiscal information	B	A
<b>C. BUDGET CYCLE</b>			
<b>C(i) Policy-Based Budgeting</b>			
PI-11	Orderliness and participation in the annual budget process	B	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	A	B+
<b>C(ii) Predictability and Control in Budget Execution</b>			
PI-13	Transparency of taxpayer obligations and liabilities	A	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	A
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+
PI-17	Recording and management of cash balances, debt and guarantees	A	A
PI-18	Effectiveness of payroll controls	B+	B+
PI-19	Transparency, competition and complaints mechanisms in procurement	B	B
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	B+	B+
PI-21	Effectiveness of internal audit	B+	B+
<b>C(iii) Accounting, Recording and Reporting</b>			
PI-22	Timeliness and regularity of accounts reconciliation	A	A
PI-23	Availability of information on resources received by service delivery units	A	A
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	C+	C+
<b>C(iv) External Scrutiny and Audit</b>			
PI-26	Scope, nature and follow-up of external audit recommendations	B+	B+
PI-27	Legislative scrutiny of the annual budget law	B+	B+
PI-28	Legislative scrutiny of external audit reports	C+	C+
<b>D. DONOR PRACTICES</b>			
D-1	Predictability of Direct Budget Support	D+	D

D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	C	C+
D-3	Proportion of aid that is managed by use of national procedures	D	C



# Summary Assessment

## (i) Integrated assessment of PFM performance

### **A. Credibility of the budget**

This component of PEFA covers the performance indicators PI-1 to PI-4 which examine whether the budget is realistic and implemented as intended. Performance in this aspect has significantly improved in comparison with PEFA 2011. This improvement was achieved in spite of adverse circumstances due primarily to a difficult economic situation and internal disruptions related to political circumstances:

- Deviations between the originally approved budget and actual budget execution was less than 2% for each of the years under review (2012-2014), leading to an improved score for PI-1, which now is A;
- A significantly lower variance in the composition of expenditure was noted with less than 4% for each of the years under review, as compared to values between 3 and 12% in the period reviewed by PEFA 2011, so that also PI-2 scored A. In this context it should be noted that revenue fell short of budget in 2012, due to over-optimistic forecasts coupled with a negative development of the national economy. This resulted in the need to hold back expenditure. In 2013 and 2014, expenditure was higher than planned as a result of higher than planned revenue collection;
- Improved performance was also achieved in aggregate revenue out-turn compared to the originally approved budget. Deviations were under 2% for each of the years under review, whereas in PEFA 2011 the annual deviation ranged between 8% and 20%. This justified a raise of the score for PI-3 to A;
- The stock of arrears of central government remained low with 0.12% in 2014 and even less for 2012 and 2013, so that PI-4 has again achieved the highest score.

### **B. Comprehensiveness and transparency**

This group of indicators PI-5 to PI-10 assesses whether the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public:

- The main innovation in this regard was the introduction of a new GFS 2001 compliant Chart of Account and budget classification, which however is only going to be applied starting with the 2016 budget. Nevertheless, considering that the elements of programme classification have been applied progressively in the period under review to all sectors, the score for PI-5 was raised to A;
- Budget documentation (PI-6) continues to qualify for the top score as it was the case in the 2011 PEFA assessment, but public access to fiscal information (PI-10) was disrupted in 2014, and the score therefore deteriorated to B;
- The present assessment also confirms that there are no unreported government operations and that all projects funded by major donors are part of budget appropriations and fiscal reports as required by PI-7, which again scores A;
- Inter-governmental fiscal relations have been subject to significant changes during the period under review, as a result of the implementation of the fiscal decentralization reform. However, since the old system was still prevailing, there was no change in the score A for PI-8. There is however still room for improvement in one of the dimensions of this indicator.

- Improvements were noted with regard to monitoring of fiscal risk of public sector entities. The quarterly fiscal monitoring report prepared by the Ministry of Finance (MoF), based on the reports of state-owned enterprises (SOE) and joint-stock companies (JSC) to the National Bureau of Statistics was further improved, and SOEs and JSCs now also have to submit an audit report. The obligation for audit was however limited to public sector entities fulfilling certain criteria, but is still covering the major entities. Based on the improvements, the score for PI-9 was raised to A.

### **C. Budget cycle**

#### **Policy-based budgeting**

Indicators PI-11 and 12 assess whether the budget is prepared with due regard to government policy:

- A matter of concern in this area is the adherence to the budget calendar. There have been disruptions in the budget process for the 2015 budget, which was only adopted by Parliament in April 2015 (working with an Interim Budget, approved by the MoF, up to that date), and the fact that none of the three Medium Term Budget Frameworks (MTBFs) – for the periods 2013-2015, 2014-2016 and 2015-2017 – was approved by the government, mainly due to political reasons. The situation was similar in 2011, and the score remains B;
- There was nevertheless an improvement in coverage and methodology of the MTBF: Programme budgeting is now applied for 100% of the budget versus 58% in 2012 and 2011; the quality of the Medium-Term Debt Management Strategy has improved, providing for a debt sustainability analysis; and a new regulation on capital investment projects will contribute to improving the public investment management process. Strategic linkages between the National Development Strategy “Moldova 2020” (NDS), the MTBF and the performance indicators in the annual budgets remain weak. The raise of the score for PI-12 to A results mainly from a correction of the 2011 score.

#### **Predictability and control in budget execution**

Indicators PI-13 to PI-21 consider the extent to which the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds:

- The operations of the Customs Service (CS) and State Tax Service (STS) are governed by a largely transparent legal framework, and relevant information is available to taxpayers and customs traders via different communication channels. PI-13 continues to score A;
- The CS collects the customs duties and taxes at the border with support of the ASYCUDA World IS. This includes an automated customs clearance risk assessment module, but as yet without a tested and operational risk assessment module for post clearance audit controls. The deterioration of PI-14 (Effectiveness of measures for taxpayer registration and tax assessment) from A in 2011 to now B is due to a correction, as the effectiveness of penalties was not properly assessed in 2011;
- The main shortcomings in the STS operations relate to arrears collection. PI-15 scores again only D+, as in 2011;
- The Treasury System, implemented through the Financial Management Information System (FMIS) operated by the MoF, is the main factor in providing proper authorisation processes and controlling expenditure, ensuring that budget entities do not exceed the available appropriation and the monthly allocation. The financial control system can therefore be considered as sound. In this regard, the main

innovation is the implementation of a new FMIS which started to operate in 2015 for the 2016 budget preparation and will go live in 2016 for budget execution, however still without a dedicated commitment system. Expenditure control is concentrated in the State Treasury within the MoF and in the Territorial Treasuries. The Treasury Single Account system is in place since 2007, providing for proper cash management. As regard to debt management, mid-term debt management strategies are regularly prepared, and include a fiscal risk analysis, indicators for risk monitoring, and a debt sustainability analysis. The indicators PI-16, 17 and 20 remain unchanged;

- The main progress in public procurement consists in a significant decrease of the share of non-competitive procurement methods from 30% in 2008-2010 to 6% in 2012-2014. However, there is still no independent complaints review board in place, and therefore no change in the score for PI-19 assigned in 2011;
- New legislation for civil servants' salary calculation and a regulation on personnel cost limits have been adopted in order to improve payroll control and personnel expenditure projections, leading to a reduction of irregularities. PI-18 continues to score B+;
- Improvement was noted in the internal audit function further to the adoption of a methodology, a regulation on the certification on Internal Auditors, the National Internal Audit Standards, a training programme and a Code of Ethics. The increase in coverage and improvement of quality of the internal audit practice justifies an increase of the score for PI-21 to B+. Areas of concern are that the system-based audit is still at its early stages of development, with support of technical assistance, and that there is a low degree of implemented recommendations resulting from frequent changes in the management of the central level public entities.

#### ***Accounting, recording and reporting***

Indicators PI-22 to PI-25 reflect the adequacy of records and information produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

Accounting is carried out in a dual way: centralised on cash basis using the Treasury System and decentralised on modified accrual basis by the budget entities, whereby the quality of IT systems and accounting records of the budget entities vary greatly.

Budget execution reports are accurate, comprehensive and produced in a timely manner. The consolidated annual budget execution report is the basis for the annual financial statements which are prepared on cash basis, using a national methodology which is not IPSAS compliant, but broadly in line with international standards. There have been no changes since 2011, but within the new FMIS (see Chapter 4 for details) a new unified single chart of accounts and GFS 2001 compliant budget classification will be used for the execution of the 2016 budget. For the present assessment, all indicators remain unchanged, with PI-24 and 25 still at only C+.

#### ***External scrutiny and audit***

Indicators PI-26 to PI-28 assess to what extent the arrangements for scrutiny of public finances and follow up by executive are operating:

- The Law on the Court of Accounts (CoA) provides a sound basis for the further development of the CoA from an inspection body into a Supreme Audit Institution. Audit practice with regard to adherence to international auditing standards has improved. However, due to the lack of staff, the CoA is still not able cover the whole

spectrum of activities and continues to be supported by the Financial Inspection (the former Financial Control and Revision service) which focuses on identifying and investigating irregularities. This agency is under transformation, aiming to evolve into a financial control agency with focus on economic crime;

- The CoA submits its Annual Report to the Parliament that reviews it together with the annual Budget Execution Report submitted by the Government and adopts it by Parliament Decision. No progress was made in the area of legislative scrutiny of the External Audit Report due to political instability in the period 2012-2014. Capacities for scrutiny by the legislation remain weak. The scores for the indicators in this area remain unchanged with only a C+ on PI-28.

#### **D. Donor Practices**

Indicators D1 to D3 capture elements of donor practices which impact the performance of country PFM systems:

- Predictability in budget support continues to be poor. Nevertheless, the shortfall of the budgeted against disbursed support was significant only in 2013, which is a slight improvement in comparison to PEFA 2011 when the same shortfall was recurrent in three consecutive years. The main factor contributing to the shortfall is the contingency of disbursements on the achievement of performance indicators in policy matrices. The reasons for not achieving the indicators may be that conditionality is unrealistic, external factors may inhibit achieving the conditionality, or the Government did not actually carry out the programme;
- Financial information by donors on planned disbursements for projects and programme aid is provided, if at all, on an annual basis only. The US Government was the largest donor in the period under review with a share of more than 29% of all aid. There is a slight raise in D-1 and D-2 score which still remain at D+ and C, respectively;
- National procedures for financial management are used by donors in case of direct budgetary support and for loan or grant programmes reflected in the national public budget. There has been a reduction in the use national financial management and procurement system from over 50% in 2011 to an average 25% in 2013. The score for D-3 consequently dropped from C to D. For project support, larger donors (EU, USAID) continue to largely rely on their own procedures, in some cases partly aligned with national procedures (WB), whereas for instance SIDA and Swiss projects are usually implemented via local budgets following local procedures.

The Donor practices indicators will be discontinued under the new 2015 PEFA Framework.

#### **(ii) Assessment of the impact of PFM weaknesses**

This part analyses the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of budgetary outcomes at the three levels, i.e. aggregate fiscal discipline, strategic allocation of resources or efficient service delivery.

The main systemic weaknesses identified are the following:

#### *Budget planning and preparation*

- Poor adherence to the deadlines and milestones of the budget calendar persists. It is however acknowledged that this is not due to systemic problems warranting an overall revision, but rather to external factors, namely the political situation. The disruptions in the budget calendar did not affect the integrity of the process, and budgets have been regularly adopted before the start of the fiscal year. They also did not affect the fiscal discipline;
- In spite of the improvement of medium term budgeting in recent years in terms of coverage and methodology, strategic linkages between the NDS, the MTBF and the performance targets in the budget submissions are weak. Linkages between investment budgets and forward expenditure estimates are expected to improve on the basis of a newly adopted methodology, but its effects are yet to be seen. In terms of strategic allocation of resources, improvement is needed in order to establish a long-term horizon and consistency with the NDS. Costed strategies currently cover the 3-year MTBF period, whereas long-term policy strategies exist in parallel, with no or insufficient costing;
- Revenue forecasting needs to be improved, in order to allow efficient cash management.

#### *Revenue management*

- There are weaknesses in the legislation regarding tax penalties, which should be raised to become more effective, and taxpayer rights to be mentioned in the law, in particular confidentiality and privacy;
- Transparency for taxpayers should be further improved by dissemination of the existing taxpayer charter; developing Service Level Agreements (e.g. commitments to maximum response times); and designing easy-to-understand brochures about the main taxes;
- A significant number of tax appeals is not settled within three years;
- There is the need for development and dissemination of a customs charter.

#### *Budget execution, accounting and reporting*

- A dedicated and automated commitment management system is still not in place, even in the new FMIS. This results in the need for cash rationing, and thus inefficient cash management;
- The highly decentralized payroll system is inefficient. There is no centralised Human Resources MIS for the civil service. Control is mainly carried out through ex-post inspection; procedures for ex-ante control are missing;
- As regard to public procurement, an independent complaints review body is still missing. The new Public Procurement Law, which will come into effect in May 2016, establishes such a body. However, its independence is not ensured by the legal provisions. This negatively affects transparency of public procurement and thus value-for-money in public service delivery;
- The financial statements are not presented according to international standards. Information on financial risk and contingent liabilities is missing.

### *Internal audit, external audit and scrutiny*

- Coverage of the internal audit function in the public sector is still weak: a number of internal audit units is not operational, and most auditors lack experience. System audit is still in the early stages of development;
- The Court of Accounts is understaffed and can therefore not cover the whole scope of its activities;
- Independence of the CoA is not fully ensured since the Parliament decides on the CoA's budget, in particular salaries and number of staff of the CoA;
- The capacity of the Members of Parliament in analysing audit reports still needs strengthening. In-depth hearings are only rarely used as an instrument of parliamentary scrutiny.

### **(iii) Prospects for improvement**

This part assesses the extent to which institutional arrangements within the government support a timely and adequate reform planning and implementation process:

- The reform agenda for PFM is anchored in the PFM Strategy 2013-2020 which was approved by Government Decision No 573 of 6 August 2013. The Strategy, which addresses most weaknesses identified in the PEFA 2011, is structured into seven components. Details are presented in Section 4;
- The second main initiative for PFM reform is the fiscal decentralisation reform which is based on the National Decentralization Strategy and the 2012-2015 Action Plan on its implementation (approved by the Law No 68 of 5 May 2012);
- An additional factor for supporting reform initiatives is ongoing technical assistance provided mainly by EU and SIGMA.

Several measures outlined in the PFM Strategy and in the fiscal decentralisation strategy have already been implemented or are under implementation, in particular:

- The adoption of the new Law on Public Finances and Budgetary Fiscal Accountability (No 181 of 25 July 2014) which has entered into force in stages since 1 January 2015. It is effective since that date for the preparation of the 2016 budget and will be effective from 1 January 2016 for the execution of the 2016 budget;
- The introduction of the new unified GFS 2001 compliant Chart of Accounts and budget classification effective with the 2016 budget;
- Performance orientation in programme budgeting has been further strengthened through capacity building initiatives, and a new methodology for monitoring is under development, but effects still have to be seen;
- An amendment of the Tax Code and progress in the implementation of risk-based audit;
- The new FMIS;
- The new Public Procurement Law which addresses legal approximation of EU Directives in the area of public procurement;
- An amendment of the Law on Local Public Finances and the Tax Code of November 2013, aimed at establishing a new system for local budget preparation.

# 1 Introduction

The PEFA 2015, covering the fiscal years 2012-2014, is the fourth assessment undertaken in the Republic of Moldova. The preceding assessments took place in 2006, 2008 and 2011.

The Government of Moldova has acquired experience with the application of the PEFA methodology over the years, and the MoF has coordinated the preparation of a self-assessment, in advance of the deployment of the consultants, serving as basis for discussion and finalisation of the assessment for PEFA 2015.

According to the Terms of Reference, the specific objectives of PEFA 2015 were the following:

- in the short-term, track the progress since last PEFA assessment, including measuring the PFM performance over time, and to inform and strengthen the dialogue between the Government of Moldova, EU and the donor community;
- in the medium-term, assist the Government of Moldova and the donor community in assessing current PFM reforms and to identify potential PFM areas where further institutional support is required;
- in the short- and medium-term, assist the EU and other interested donors in determining the eligibility of Moldova for future budget support and macro-financial assistance programmes.

This assessment covers the core financial management and planning systems for the institutions of the central government that are funded from the national budget. The report has been elaborated reflecting the assessment of the PFM area covering the years 2012-2014, based on the 2011 PEFA methodology, with a supplement covering nine selected indicators as per new PEFA 2015 methodology.

The first visit of the consultants to Moldova took place from 7 to 23 September 2015. A kick-off meeting chaired by Minister of Finance Anatol Arapu was held on 10 September 2015. Further to the working sessions conducted by the consultants with the officials from the Government, Parliament and Court of Accounts and a Preliminary PEFA Report was submitted on 23 September 2015 to the stakeholders. The Delegation of the European Union to Moldova has coordinated the review of the text and provided consolidated comments from all institutions involved in the assessment in mid-October 2015 as well as from SIGMA, EC, World Bank and the EU High Level Policy Advice Mission. As stipulated in the ToR, this Preliminary PEFA Report was not a full report but contained only Section 3, and it was agreed that the PEFA Secretariat would not comment on this text, but only on the Draft Final Report.

The Draft Final PEFA Report was submitted on the 27 October 2015 and received again comments from the Moldovan institutions, as well as from the European Commission's services and PEFA Secretariat on 9 November 2015, and a revised version was prepared by the consultants.

A second mission took place from 16 to 25 November 2015 for supporting the validation process in which the relevant officials in the Moldovan institutions and the consultants held final consultations in order to address all pending matters in the performance indicators.

The Draft Final PEFA Report was submitted on the 18 November 2015 and a dissemination workshop was held on 24 November 2015.

The Quality Assurance Mechanism is described in Annex 6.

The main body of the Final Report is structured as follows:

- Chapter 2 provides the country background and is divided into three sections covering (i) the socio-economic situation; (ii) budgetary outcomes; and (iii) the legal and institutional framework supporting PFM;
- Chapter 3 provides the detailed analysis of the 31 performance indicators according to the 2011 PEFA methodology. An executive summary of this information is provided in the preceding *Summary Assessment*;
- Chapter 4 provides a description of the PFM Reform programme;
- Annex 1 summarises the information regarding the change in performance between the PEFA 2011 and 2015 assessments for each indicator;
- Annex 2 provides the assessment of the nine selected indicators according to the 2015 PEFA methodology;
- Annex 3 contains the list of tables and figures in this document;
- A list of officials met and documentation consulted during this assessment is presented in the Annexes 4 and 5 respectively.



## 2 Country Background Information

The objective of this section is to provide information on the country whose PFM system is being assessed, to allow sufficient understanding of the wider context to PFM reforms as well as the core characteristics of the PFM system in that country.

### 2.1 Socio-economic Situation

#### *Country context*

##### **Demographic situation**

Since independence, Moldova's population faces a decrease in population which is due primarily to low birth rates and high labour migration. Remittances from labour migrants continue to play an important role in the social and economic life of Moldova. The share of remittances is nearly 25% of GDP<sup>1</sup>, on average, over the last three years.

A steady decade of economic growth enabled considerable fiscal expansion and increased social spending. Increased spending in healthcare had a part in the reduction of infant mortality, which deteriorated sharply after independence, and in keeping life expectancy relatively high. Table 1 below provides a summary of basic demographic and social indicators. A demographic trend in 2014 was the increase of death over birth rate which explains the decrease in total number of population. The overall mortality rate rose while the infant mortality rate dropped. Life expectancy with both male and female has increased over the period of last three-four years.

**Table 1 - Demographic and social indicators 2008 to 2014**

	2008	2009	2010	2011	2012	2013	2014
Population (millions)	3,572	3,567	3,563	3,560	3,559	3,559	3,558
Birth rate (per 1,000)	10.9	11.4	11.4	10.5	11.1	10.6	10.9
Crude death rate (per 1,000)	11.8	11.8	12.3	10.1	11.1	10.7	11.1
Natural increase (per 1,000)	-0.9	-0.4	-0.9	0.4	0	-0.1	-0.2
Infant Mortality rate (per 1,000 live births)	13.5	13.1	11.6	11.0	9.8	9.5	9.5
Male life expectancy	65.6	65.3	65.0	66.8	67.2	68.1	-
Female life expectancy	73.2	73.4	73.4	74.9	75.0	75.6	-

Source: Statistical Yearbook of the Republic of Moldova 2014, Moldova Economic Trends N4 (Q4) 2011, N8 (Q4) 2012, N12(Q4) 2013, 16(Q4) 2014.

##### **Income level**

Average monthly wages steadily increased since 2010 and have been relatively stable during the 2012-2014 at the level of USD 280 on average. The real wage growth has been positive and increasing over the years of assessment. The average monthly disposable income has been increasing in MDL but due to the strong US dollar over the last year, it remains relatively unchanged with USD 130 on average for the period 2012-2014.

<sup>1</sup> Moldova Economic Trends N 16(Q4) 2014.

The rate of economically active population (aged 15 and above) has slightly increased reaching 41.2% in 2014. The bigger part of the population of Moldova, 30% in 2014, is employed in the agriculture sector followed by industry and trade. The official unemployment rate dropped from 7.4% in 2010 to 3.9% in 2014.

**Table 2 - Social-economic indicators on employment and wages**

	2010	2011	2012	2013	2014
Total population	3,563	3,560	3,559	3,559	3,558
Economically active population %	41.6%	42.3%	40.7%	41.4%	41.2%
Employed in agriculture %	28	28	26	29	30.5
Employed in industry %	13	13	13	12.1	12.3
Employed in construction %	6	6	6	5.5	5.6
Employed in trade %	19	19	18	18	17.1
Employed in transport %	6	6	6	6	5.7
Employed in public administration, education, health, social assistance %	22	21	22	20	19.5
in other activities %	6	7	9	9	9.3
Employment rate %	38.5	39.4	38.4	39.3	37.2
Unemployment rate of economically active population %	7.4	6.7	5.6	5.1	3.9
Real wage growth rate % change %	0.7	-0.1	4.1	3.5	5.4
Average monthly earning (in MDL)	2,747.	2,971.	3,042.	3,386.	4,172.
	60	70	21	21	00
Average monthly earning (in USD <sup>2</sup> )	248	240	260	280	292
Disposable income (avg. monthly per person) in MDL	1,274	1,444	1,572	1,681	1,768
Disposable income (avg. monthly per person) in USD	103	123	130	134	124

Source: Moldova Economic Trends, Statistical Yearbook of the Republic of Moldova 2014.

### Poverty reduction

Poverty reduction continues to be a priority that is high on the agenda of the Government of the Republic of Moldova. The National Development Strategy “Moldova 2020” sets forth the major objective to save 149,000 citizens from poverty by 2020. Progress in poverty reduction should be attained as a result of implementing different programmes for social support and labour employment, as well as measures in the area of agriculture modernisation and small and medium enterprise development.

During 2010-2011, poverty level was significantly reduced – with absolute poverty reaching 17.5% in 2011 – and continues to decrease. There are significant differences between the urban and the rural population living standards, with poverty rates three times higher in rural areas than in urban ones. At national level there has been an improvement in the quality of life of the population. There were increases in income from agricultural activities, salary-based incomes, and in incomes from social benefits, entrepreneurship activities, and remittances. A significant impact on poverty reduction was induced by the social programmes promoted by the Government. The increased income caused an increase in consumption expenditures. Households increased their consumption expenditures for almost all goods and services. At the same time, it was found that the high tariffs for utility services and the high prices for food products limit the

<sup>2</sup> NBM exchange rates as of year end.

financial resources of the poor households intended for other goods and services that contribute to have decent life.

The volume of remittances, which represents an important income source for a sizable part of the population, has contributed to a decrease in the poverty level.

Extreme poverty rates in Moldova drop to below 1.5% (see Table 3) of the population in 2010 and have been steadily decreasing ever since.

**Table 3 - Poverty Indicators**

	2006	2007	2008	2009	2010	2011	2012	2013
<b>Absolute Poverty</b>								
Rate	30.2	25.8	26.4	26.3	21.9	17.5	16.6	12.7
Gap	7.9	5.9	6.4	5.9	4.5	3.2	2.9	2.0
Severity	3.0	2.1	2.3	2.0	1.4	1	0.8	0.5
<b>Extreme Poverty</b>								
Rate	4.5	2.8	3.2	2.1	1.4	0.9	0.6	0.3
Gap	1.0	0.5	0.5	0.4	0.3	0.1	0.1	0.0
Severity	0.4	0.2	0.1	0.1	0.1	0	0.0	0.0
Gini coefficient by consumption expenditures per capita (weighted)	37	33	32	30	30	29	28.2	27.5

Source: Poverty Report Republic of Moldova 2013.

Table 4 below shows the evolution of the Human Development Index (HDI) which is a summary measure of three dimensions of human development: (i) leading a long and healthy life (measured by life expectancy at birth); (ii) being knowledgeable (measured by literacy and school enrolment); and (iii) having a decent standard of living (measured by GDP per capita). Moldova falls in the Medium Human Development category and is ranked 114 out of 195 countries in 2013.

**Table 4 - Human Development Index**

	2007	2008	2009	2010	2011	2012	2013
Moldova	0.616	0.622	0.620	0.623	0.649	0.657	0.663
Europe and Central Asia	0.709	0.714	0.713	0.717	0.644*	0.735	0.738
World	0.611	0.615	0.619	0.624	0.558*	0.700	0.702

Source: UNDP Human Development Reports 2012, 2013, 2014.

\* Based on less than half the countries in the group or region.

## Growth

Economic recovery that was observed in the PEFA 2011 continued during the present period under review. Moldova's economic performance over the last few years has been relatively strong, aided by improved fiscal, monetary and exchange rate policy. Moldova experienced the highest cumulative GDP growth in 2013. However, growth has been volatile because of climatic and global economic conditions. Real GDP growth reached the record 9.4% in 2013, however contracted to still strong 4.6% in 2014 due to the weak economic activity of major economic partners and Russian trade restrictions. Overall, there was an increase of production in most economic sectors. Considering the relatively high contribution to GDP of the agricultural sector, year 2012 saw a drop of the agriculture value added by 23% which caused the slump to -0.8% in the real GDP when the economy was hit by unfavourable weather conditions in agriculture and the Eurozone

crisis.

Economic growth continued to rely heavily on high remittances and credits. FDI, which had decreased to less than 140 million USD in 2009, recovered moderately and inflows in 2010-2013 have been in the range of 200 million USD, on average.

During 2012-2014, inflation decreased to 4.6% on average, compared to 7.6 % in 2011.

### **Economic situation**

The EU countries were the main trade partners of Moldova, with more than 53% share of export in 2014 followed by the CIS countries with more than 31%, versus 47% EU share in 2013 and 38% CIS share in 2013. Agricultural and food products make up around half of Moldovan exports. The other important export goods are textile, industrial and chemical products.

Exports increased faster (by 43%) than imports (by 27 %) in the period of under review, with the trade balance widened further because in absolute terms the share of imports in Moldova's external trade is much larger than imports. In addition, relatively low remittances, as compared to trends in earlier years, contributed to the widening of the current account deficit.

After Moldova signed a Free Trade Agreement with the European Union in 2014, thus enjoying preferential trade regime with the EU member states, Moldovan goods were imposed a ban for import into the Russian Federation in September 2013. This embargo seriously affected the export rate in 2014, and export to the Russian Federation, consisting mainly of agricultural products, decreased by nearly 33% influencing negatively the total export rate. Another contributing factor the decrease of demand for Moldovan product was economic crises in Ukraine and Russia.

Russia is also the main source of remittances in Moldova. The stability of the remittances flow in the first decade of the century shows a slump in the years of financial crisis followed by a slight trend of increase in the period of assessment. Nevertheless, in 2014 the remittances drop again to 24% of GDP. One of the reasons is the tense economic and political situation with the Russian Federation.

Table 5 provides a summary of economic indicators.

**Table 5 - Economic indicators 2010 to 2014**

	2010	2011	2012	2013	2014
GDP MDL million, of which:	71,885.5	82,349	88,228	100,510	111,757
Agriculture %	11.9	12.3	11.2	12.3	12.8
Industry %	13.3	13.9	14.0	14.3	14.1
Construction %	3.3	3.3	3.5	3.4	3.6
Trade %	12.9	13.5	13.7	13.6	13.8
Transport %	11.4	10.9	10.7	10.0	9.9
GDP \$ per capita	1.626	1.977	2.047	2.243	2.197
Real GDP Growth	7.1	6.8	-0.7	9.4	4.6
Consumer Price Inflation (An Av %)	7.4	7.6	4.6	4.6	5.1
Export of Goods (\$m)	1,542	2,278	2,229	2,466	2,339.5
Import of Goods (\$m)	3,855	5,147	5,153	5,448	5,317.0

	2010	2011	2012	2013	2014
Trade Balance (\$m)	-2,313	-2,869	-2,924	-2,982	-2,977.5
Current Account Balance (\$m) <sup>3</sup>	-483	-773	-538	-398	451,1
Total External debt (\$m)	4,711.1	5,359	6,019.8	6,673.4	6,494.9
Share of remittance in GDP in %	23	23	25	25	24
Exchange rate MDL/USD (annual average)	12.4	11.7	12.11	12.59	14.04

Source: National Bureau of Statistics - <http://www.statistica.md> and National Bank of Moldova - <http://www.bnm.md/Statistical> Yearbook of the Republic of Moldova 2014, Moldova in Figures 2015.

### Current challenges

In 2014, USD 1 billion (EUR 880 million) disappeared from three of Moldova's leading banks, Banca de Economii, Banca Sociala and Unibank in which the State holds shares. Within two days, loans worth USD 1 billion were granted by Banca de Economii and Unibank on the basis of false guarantees to companies that then transferred the money to UK and Hong Kong-registered companies whose ultimate owners are unknown.

These Banks are administered by the National Bank of Moldova (NBM), and the loss was covered from state reserves, thus protecting depositors, but creating a gap in Moldova's public finances equivalent to approx. 12% of GDP. Deficit is projected to widen significantly in 2015, while public debt is expected to increase in 2016. Government will have to issue Government Bonds, and Moldova's 2015 budget does not yet include the cost of interest on these bonds.

The three banks were put under special administration. On 16 October 2015 the NBM has revoked, following a Government Decision, the banking license of Banca de Economii and has named a liquidator for liquidation of the bank.

This banking scandal has led to the EU and World Bank putting on hold budgetary support to Moldova for until the affair has been cleared up Moldova until it is back on an IMF programme.

### *Overall government reform program*

The National Development Strategy "Moldova 2020" (NDS), which was approved by Law No 166 of 11 July 2012, is the overarching public policy document in Moldova, summarising the country's growth objectives. The NDS is focused on the following development priorities (in brief):

- Aligning the education system to labour market needs;
- Increasing public investment in the national and local road infrastructure;
- Reducing financing costs by increasing competition in the financial sector and developing risk management tools;
- Improving the business climate;
- Reducing energy consumption by increasing energy efficiency and using renewable energy sources;
- Ensuring financial sustainability of the pension system;
- Increasing the quality and efficiency of justice and fighting;
- Increasing competitiveness in agriculture and sustainable rural development.

<sup>3</sup> MBP5 (Balance of Payments of the Moldova).

Moldova's public finance policy objectives are encapsulated within the overall objectives of the NDS.

### *Rationale for PFM reform*

The implementation of several actions in the NDS requires improvement of the structure and level of funding.

The MTBF is the framework through which NDS actions requiring financing are being prioritized and financed. The establishment of priorities in the MTBF, the development of sectorial expenditure plans and program-based budget planning have to take into account the priorities envisaged by the NDS and other policy strategies. These documents are intended to be progress assessment tools, since the main NDS indicators shall be reflected in program-based budgets and in sectorial expenditure plans. The MoF in collaboration with the State Chancellery is responsible for ensuring this synchronization.

A reform agenda for public finance management – the PFM Strategy 2013-2020 – was therefore elaborated and approved in August 2013 (see detailed description in Section 4). Implementation of this strategy is also supported by the new Law on Public Finances and Budgetary and Fiscal Accountability (see Section 2.3). The Informative Note on the Draft Law (which was meanwhile adopted) provides a high-level overview of the systemic key issues in PFM as follows:

- The need for linking strategies and budgets;
- The need for budgetary and fiscal rules;
- The need for further strengthening programme budgeting;
- The need for capacity building in strategic planning and budget formulation in the CPAs;
- The need for improving cash flow planning and management.

## 2.2 Budgetary outcomes

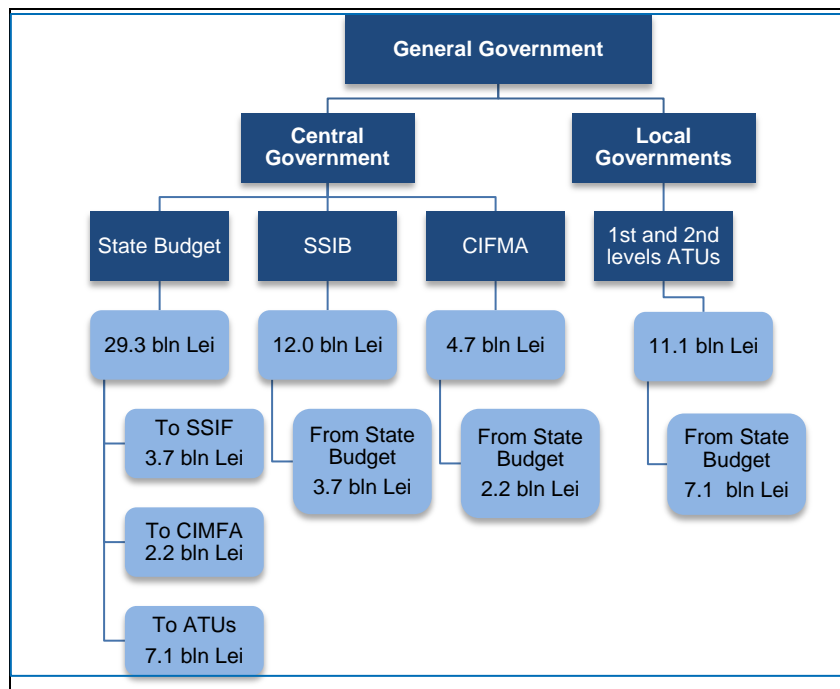
The information for this sub-section is drawn from the budget execution reports 2012-2014 published on the MoF website.

According to the Law on Public Finance and Budgetary-Fiscal Accountability (LPFBFA) No 181 of 25 July 2014, the National Public Budget consists of the State Budget, the State Social Insurance Budget (SSIB), the Compulsory Insurance Funds for Medical Assistance (CIFMA), and the Administrative-Territorial Unit (ATU) budgets, which in turn consist of the 35 budgets of the ATU of level 2: district (*rayon*) budgets (32), central budget of the Autonomous Territorial Unit Gagauzia with special status and municipal budgets of Chisinau and Balti; and budgets of Level-1 ATUs (*primarie*): budgets of villages (townships) and towns (municipalities, except for Chisinau and Balti).

The LPFBFA and the new budget methodology have established a new approach for the management of own-source revenue of public authorities (Special Funds and Special Means in the previous legislation). Article 43 of the LPFBFA regulates the management of these own-source revenues, and entrusts public authorities with spending autonomy, i.e. does not limit anymore the spending of those revenues to specific purposes.

Figure 6 below illustrates the structure of general government in Moldova together with the aggregate executed budgets for the fiscal year 2014.

**Figure 6 - Structure of the General Government with 2014 budget execution figures, in billion MDL**



Source: Annual Report on 2014 State budget execution. <http://mf.gov.md/reports>.

General government spending represents around 39.8% of GDP in the period under review<sup>4</sup>, while the State Budget makes up 26.3 % of the GDP. The social fund and health fund budgets are approximately 10.8 % and 4.2 % of GDP including transfers from the State Budget that in 2014 accounted for 30.4 % of the SSIB and 47.4 % of the CIFMA Budget.

Budgets of ATUs of both levels 1 and 2 represent approximately 10.2 % of GDP. In 2014, approximately 62.6% of this amount was financed by transfers of the State Budget.

Table 7 below shows the structure of the State budget for the period under review (budget execution). The main source of revenue for the State Budget has been the VAT with excises and foreign trade taxes at second and third place. Overall, indirect taxes generated more than 70% of current revenue in 2012 as well as in the period assessed by PEFA 2011, but this share has steadily declined in 2014 to 64%. Contribution of grants to revenue has significantly increased over the period from 7.6% in 2012 to 14.1 % in 2014.

<sup>4</sup> 40.1% in 2012; 38.5% in 2013 and 39.7% in 2014.

**Table 7 - Structure of the State Budget 2012-2014, in million MDL**

Category	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
<b>I. TOTAL REVENUE</b>	<b>20,090.6</b>	<b>100.0</b>	<b>22,436.7</b>	<b>100.0</b>	<b>27,717.7</b>	<b>100.0</b>
<b>1. Tax revenue</b>	<b>15,583.4</b>	<b>77.6</b>	<b>17,848.4</b>	<b>79.6</b>	<b>20,326.0</b>	<b>73.3</b>
<b>1.1. Direct taxes<sup>5</sup></b>	<b>770.4</b>	<b>3.8</b>	<b>800.9</b>	<b>3.6</b>	<b>2,626.0</b>	<b>9.5</b>
Profit tax	770.4	3.8	800.9	3.6	1,836.9	6.6
Personal income tax					789.1	2.8
<b>1.2 Indirect taxes</b>	<b>14,813.0</b>	<b>73.7</b>	<b>17,047.5</b>	<b>76.0</b>	<b>17,700.0</b>	<b>63.9</b>
Excise	2,887.7	14.4	3,500.8	15.6	3,427.1	12.4
VAT	10,638.8	53.0	12,129.5	54.1	12,815.0	46.2
Foreign trade tax	1,286.5	6.4	1,417.2	6.3	1,457.9	5.3
<b>2. Non-tax revenue</b>	<b>1,453.0</b>	<b>7.2</b>	<b>1,300.4</b>	<b>5.8</b>	<b>2,364.7</b>	<b>8.5</b>
Road tax	158.1	0.8	319.8	1.4		
Other taxes	1,294.9	6.4	980.6	4.4		
<b>3.Grants</b>	<b>1,558.0</b>	<b>7.6</b>	<b>1,958.3</b>	<b>8.7</b>	<b>3,929.4</b>	<b>14.1</b>
<b>Domestic grants</b>	<b>38.2</b>		<b>14.1</b>		<b>9.6</b>	
<b>Foreign grants</b>	<b>1,519.8</b>	<b>7.6</b>	<b>1,944.2</b>	<b>8.7</b>	<b>3,919.8</b>	<b>14.1</b>
Budget support	760.1	3.8	704.4	3.1	1,606.5	5.8
Financing of investment projects	759.7	3.8	1,239.8	5.5	2,313.3	8.3
<b>4.Revenue of special funds</b>	<b>358.0</b>	<b>1.8</b>	<b>384.8</b>	<b>1.7</b>	<b>388.2</b>	<b>1.4</b>
<b>5.Revenue of special means</b>	<b>1,094.1</b>	<b>5.4</b>	<b>639.4</b>	<b>2.8</b>	<b>652.2</b>	<b>2.4</b>
<b>II. TOTAL EXPENDITURE</b>	<b>21,675.3</b>	<b>100.0</b>	<b>23,901.2</b>	<b>100.0</b>	<b>29,347.9</b>	<b>100.0</b>
1. General public services	1,171.5	5.4	1,382.6	5.8	1,418.2	4.8
2. Foreign affairs	243.4	1.1	272.8	1.1	304.4	1.0
3. Judicial system	354.7	1.6	583.1	2.4	634.4	2.2
4. Public order and safety	1,625.0	7.5	2,177.7	9.1	2,566.7	8.7
<b>5. Social expenditure</b>	<b>9,217.0</b>	<b>42.5</b>	<b>9,502.1</b>	<b>39.8</b>	<b>12,292.4</b>	<b>41.9</b>
Education	2,209.3	10.2	1,815.5	7.6	3,427.4	11.7
<i>Transfers to ATU budgets</i>					1,502.9	
Culture, art, sports and youth	331.1	1.5	376.9	1.6	372.7	1.3
Health care	2,775.4	12.8	3,066.6	12.8	3,302.0	11.3
<i>Transfers to CIFMA</i>	2,043.2	9.4	2,161.2	9.0	2,200.4	7.5
Social insurance and social protection	3,901.2	18.0	4,243.1	17.8	5,190.3	17.7
<i>Transfers to SSIB</i>	2,567.3	11.8	2,828.1	11.8	3,660.2	12.5
<i>Transfers to local funds for social assistance to the population</i>	85.3	0.4	84.9	0.4	86.0	0.3
<i>Transfers to ATU budgets</i>			30.4		83.1	
6. Science & innovation	355.0	1.6	337.9	1.4	388.7	1.3
<b>7. Economic expenditure</b>	<b>3,481.6</b>	<b>16.1</b>	<b>4,468.2</b>	<b>18.7</b>	<b>5,801.8</b>	<b>19.8</b>
<b>10. Other areas</b>	<b>4,422.8</b>	<b>20.4</b>	<b>4,398.0</b>	<b>18.4</b>	<b>4,922.1</b>	<b>16.8</b>
<b>11.Net financing</b>	<b>-154.4</b>	<b>-0.7</b>	<b>-114.5</b>	<b>-0.5</b>	<b>-138.6</b>	<b>-0.5</b>
<b>III. Deficit</b>	<b>-1584.7</b>	<b>-7.3</b>	<b>-1,464.5</b>	<b>-6.1</b>	<b>-1,630.2</b>	<b>-5.6</b>
<b>IV. Financing sources</b>	<b>1,584.7</b>	<b>7.3</b>	<b>1,464.5</b>	<b>6.1</b>	<b>1,630.2</b>	<b>5.6</b>
1. Domestic sources	401.1	1.9	654.1	2.7	708.0	2.4
2. External sources	1,163.8	5.4	587.9	2.5	1,426.9	4.9

<sup>5</sup> Without CIFMA and SSIB.



Category	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
3. Funds from privatization	131.9	0.6	92.6	0.4	191.4	0.7
4. Changes in accounts balance	-112.1	-0.5	129.9	0.5	-696.1	-2.4

Source: Evolution of the State budget in the years 2000-2014, according to functional classification.

<http://mf.gov.md/files/files/Rapoarte/evolut%20BPN/evol%20BPN%202014/BS%202000-2014%20functii.xls>

On the expenditure side, current spending made up for 88% of total expenditure in the period reviewed by the previous PEFA and has steadily declined to 74% in 2014, transfers being the largest item. Goods and services follow in second place with public sector wages in third place (this relation was inverse in the previous PEFA).

The other two components that contribute to the central government budget are the SSIB and the CIFMA budgets.

**Table 8 - State Social Insurance Budget execution, 2012-2014, million lei**

	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
<b>TOTAL REVENUES</b>	<b>9,721.5</b>	<b>100.0%</b>	<b>10,589.9</b>	<b>100.0%</b>	<b>12,028.8</b>	<b>100.0%</b>
1. Contributions for compulsory state social insurance	7,150.0	73.5%	7,756.2	73.2%	8,362.6	69.5%
2. Non-contributions revenue	4.2	0.0%	5.6	0.1%	6.0	0.0%
<i>Other revenues</i>	0.7	0.0%	1.2	0.01%	1.7	0.0%
<i>Taxes and administrative fees</i>	2.0	0.0%	2.1	0.02%	2	0.0%
<i>Administrative sanctions</i>	1.5	0.0%	2.3	0.02%	2.3	0.0%
3. Transfers from the State budget	2,567.3	26.4%	2,828.1	26.7%	3,660.2	30.4%
<b>TOTAL EXPENDITURES</b>	<b>9,755.1</b>	<b>100%</b>	<b>10,716.2</b>	<b>100%</b>	<b>12,019.5</b>	<b>100%</b>
Social insurance and social assistance	9,747.2	99.9%	10712	100.0%	12020.4	100.0%
Net crediting	7.9	0.1%	4.2	0.0%	-0.9	0.0%
<b>BALANCE</b>	<b>-33.6</b>		<b>-126.3</b>		<b>9.3</b>	
Financing domestic sources	33.6		126.3		-9.3	

Source: MoF annual reports, 2012-2014.

**Table 9 - Compulsory Health Insurance Funds execution, 2012 -2014, million lei**

	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
<b>TOTAL REVENUES</b>	<b>38,70.0</b>	<b>99.2%</b>	<b>4,161.0</b>	<b>100.0%</b>	<b>4,637.7</b>	<b>99.5%</b>
1. Contributions for compulsory health insurance	1,797.5	46.4%	1,967.1	47.3%	2,414.5	52.1%
2. Non-contributions revenue	29.3	0.8%	32.7	0.8%	22.8	0.5%
<i>Other revenues</i>	26.8	0.7%	30.9	0.74%	18.1	0.4%
<i>Taxes and administrative fees</i>	0.1	0.0%	0.1	0.00%	2.5	0.1%
<i>Administrative sanctions</i>	2.4	0.1%	1.7	0.04%	2.2	0.0%
3. Transfers from the state budget	2,043.2	52.8%	2,161.2	51.9%	2,200.4	47.4%
<b>TOTAL EXPENDITURES</b>	<b>3,951.2</b>	<b>100%</b>	<b>4,226.1</b>	<b>100%</b>	<b>4,679.5</b>	<b>100%</b>

	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
Healthcare	3,951.2	100.0%	4,226.1	100.0%	4,679.5	100.0%
<b>BALANCE</b>	<b>-81.2</b>		<b>-65.1</b>		<b>-41.8</b>	
Financing domestic sources	81.2		65.1		41.8	

Structure of the revenue of the State budget is as follows:

**Table 10 - State budget actual expenditures by economic classification, in million MDL**

Category	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
<b>EXPENDITURES, total</b>	<b>21,675.3</b>	<b>100.0</b>	<b>23,901.2</b>	<b>100.0</b>	<b>29,347.9</b>	<b>100.0</b>
<b>Current expenditures</b>	<b>17,290.7</b>	<b>79.8</b>	<b>18,180.6</b>	<b>76.1</b>	<b>21,826.2</b>	<b>74.4</b>
Wages	3,942.5	18.2	3,874.5	16.2	4,251.2	14.5
Goods and services	4,096.3	18.9	4,884.8	20.4	5,234.4	17.8
Transfers	4,144.1	19.10	4,434.8	18.6	5,468.30	18.7
Interest payments	666.4	3.1	492.6	2.1	591.8	2.0
Other	4,441.4	20.5	4,493.9	18.8	6,280.5	21.4
<b>Capital expenditures</b>	<b>4,529.9</b>	<b>20.9</b>	<b>5,832.9</b>	<b>24.4</b>	<b>7,700.8</b>	<b>26.2</b>
<b>Net financing</b>	<b>-145.3</b>	<b>-0.7</b>	<b>-112.3</b>	<b>-0.5</b>	<b>-179.1</b>	<b>-0.6</b>

Source: Evolution of the State budget in the years 2000-2014, according to economic classification.

[http://mf.gov.md/files/files/Rapoarte/evolut%20BPN/evol%20BPN%202014/BS%202000-2014-cat\\_econ.xls](http://mf.gov.md/files/files/Rapoarte/evolut%20BPN/evol%20BPN%202014/BS%202000-2014-cat_econ.xls)

It should however be noted that the categories “Good and Services” and other include also transfers, so that a different picture is presented in the table below:

**Table 11 - State budget actual expenditures by economic classification with breakdowns of transfers, in million MDL**

Category	2012		2013		2014	
	Amount	%	Amount	%	Amount	%
<b>EXPENDITURES, total</b>	<b>21,675.30</b>	<b>100</b>	<b>23,901.20</b>	<b>100</b>	<b>29,347.90</b>	<b>100</b>
<b>Current expenditures</b>	<b>17,290.70</b>	<b>79.8</b>	<b>18,180.60</b>	<b>76.1</b>	<b>21,826.20</b>	<b>74.4</b>
Wages	3,942.50	18.2	3,874.50	16.2	4,251.20	14.5
Goods and services, excl. transfers to CIFMA	2053.1	9.5	2723.6	11.4	3034	10.3
Transfers	10,322.00	47.60	10,742.70	44.90	13,583.90	46.40
- Transfers to CIFMA	2043.2	9.4	2161.2	9	2200.4	7.5
- Transfers for production	421	1.90	444.4	1.9	606.5	2.1
- Transfers to citizens incl. SSIB	3,723.10	17.20	3,990.40	16.7	4,861.80	16.6
- Transfers to ATUs	4134.7	19.1	4146.7	17.3	5915.2	20.2
Others, excl. transfers to ATUs	306.7	1.4	347.2	1.5	365.3	1.2
Interest payments	666.4	3.1	492.6	2.1	591.8	2
<b>Capital expenditures<sup>6</sup></b>	<b>4,529.90</b>	<b>20.9</b>	<b>5,832.90</b>	<b>24.4</b>	<b>7,700.80</b>	<b>26.2</b>
<b>Net financing</b>	<b>-145.3</b>	<b>-0.7</b>	<b>-112.3</b>	<b>-0.5</b>	<b>-179.1</b>	<b>-0.6</b>

Source: Evolution of the State budget in the years 2000-2014, according to economic classification.

[http://mf.gov.md/files/files/Rapoarte/evolut%20BPN/evol%20BPN%202014/BS%202000-2014-cat\\_econ.xls](http://mf.gov.md/files/files/Rapoarte/evolut%20BPN/evol%20BPN%202014/BS%202000-2014-cat_econ.xls)

<sup>6</sup> Note that “Capital expenditures” also include a small amount of transfers to ATUs.

The functional breakdown of budget expenditure is presented in Table 12. Approximately 40% of the budget is spent on the broad social sectors (social protection, health and education), similar as in 2011, with public order & safety in second place with over 7% share in total expenditure, ahead of agriculture which was second place in 2011. Expenditure on servicing public debt has declined from 4% of total expenditure in 2011 to 2% in 2014.

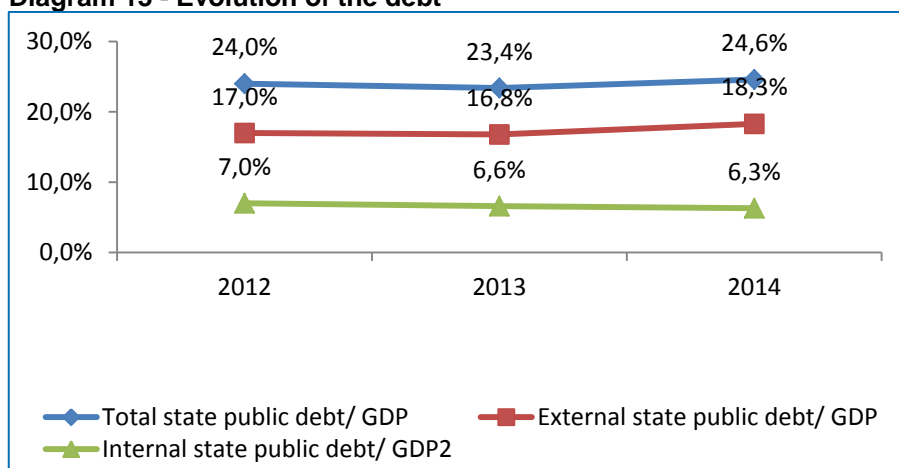
**Table 12 - Functional breakdown of the State Budget expenditure for 2012, 2013 and 2014 (budget execution), in million MDL**

Groups of functional classification	2012		2013		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
<b>Total expenditure</b>	<b>21,675.3</b>	<b>100.0%</b>	<b>23901.2</b>	<b>100.0%</b>	<b>29,347.9</b>	<b>100.0%</b>
1 General public services	1,171.5	5.4%	1,382.6	5.8%	1,418.2	4.8%
2 Foreign affairs	243.4	1.1%	272.9	1.1%	304.4	1.0%
3 National defence	280.7	1.3%	327.7	1.4%	400.8	1.4%
4 Judicial system	354.7	1.6%	583.0	2.4%	634.4	2.2%
5 Public order & safety	1,344.2	6.2%	1,850.0	7.7%	2,166.0	7.4%
6 Education	2,209.4	10.2%	1,815.4	7.6%	3,427.4	11.7%
7 Science & innovation	355.0	1.6%	337.9	1.4%	388.7	1.3%
8 Culture, sports & youth	331.1	1.5%	377.0	1.6%	372.7	1.3%
9 Health	2,775.4	12.8%	3,066.6	12.8%	3,302.1	11.3%
10 Social insurance and social protection	3,901.2	18.0%	4,243.1	17.8%	5,190.3	17.7%
11 Agriculture, forestry, fishing & water	1,253.8	5.8%	1,359.7	5.7%	2,008.9	6.8%
12 Environment & hydrometeorology	292.3	1.3%	400.8	1.7%	566.0	1.9%
13 Industry & construction	30.5	0.1%	37.4	0.2%	38.4	0.1%
14 Transport, roads & communication	1,686.3	7.8%	2,241.1	9.4%	2,882.2	9.8%
15 Housing & community amenities	152.6	0.7%	351.0	1.5%	427.4	1.5%
16 Fuel & energy	171.1	0.8%	243.4	1.0%	165.8	0.6%
17 Public debt service	666.4	3.1%	492.6	2.1%	591.8	2.0%
18 Reserve fund	55.3	0.3%	31.1	0.1%	27.7	0.1%
19 Other economic affairs	187.4	0.9%	235.8	1.0%	279.0	1.0%
20 Activities & services n.e.c	4,367.6	20.2%	4,366.8	18.3%	4,894.3	16.7%
23 Net lending	-154.5	-0.7%	-114.6	-0.5%	-138.6	-0.5%

Source: Annual Reports on 2012, 2013 and 2014 State budget execution, <http://mf.gov.md/reports>.

External debt has been managed efficiently and remained stable during the period under review. State public debt was as 24.0% of GDP in 2012, decreased at 23.4% of GDP in 2013 and increased slightly as 24.6% in 2014.

**Diagram 13 - Evolution of the debt**



Source: Annual Report on 2014 State budget execution.

<http://mf.gov.md/files/reports/Raport%202014%20RO.pdf>.

## 2.3 Legal and Institutional framework for PFM

### *Constitution and judicial system*

The Constitution of 1994 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. The government is formed by the Prime Minister, the Deputy Prime Ministers and the ministers (currently there are 19 members of government). 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 court system includes district courts, regional Courts of Appeal and a Supreme Court of Justice. Administrative courts adjudicate on issues of human rights, and the Court of Accounts oversees the administration of public funds. There is a Constitutional Court that enjoys sole authority over constitutional issues, including referendums and the legitimacy of laws and secondary legislation.

### *Structure of the budget entities*

The central government sector consists of 51 Central Public Authorities (CPAs) which are: the Parliament, the Presidency, the Court of Accounts, the State Chancellery, the Constitutional Court, the Superior Council of Magistracy, the Supreme Court of Justice, 16 ministries and 29 other central public institutions<sup>7</sup>. The local government sector consists of 35 ATUs of Level 2 (32 *rayons*<sup>8</sup>; the municipalities of Chişinău and Bălţi; and the Autonomous Republic of Gagauzia) and 896 ATUs of Level 1 (*primarie*<sup>9</sup>). There is a lowest tier of tertiary budget beneficiaries, i.e. spending units at the lowest level, consisting of primary and general secondary schools, kindergartens, cultural institutions and libraries, which are subordinated either to a *rayon* or a *primaria*. In total, there are about 2,800 public authorities (850 beneficiaries of the State budget, the *rayons*, the *primarie* and 1,018 local service delivery units). The ATUs are responsible for financing the primary and secondary education system and some social assistance services, but

<sup>7</sup> Agencies such as the National Statistics Bureau, the Cadastre, Land Relations Agency, etc.

<sup>8</sup> District.

<sup>9</sup> Mayoralties (town and settlements).

not the health services which are funded by the CIFMA. Moreover, the ATUs are responsible for construction and maintenance of local infrastructure and transport.

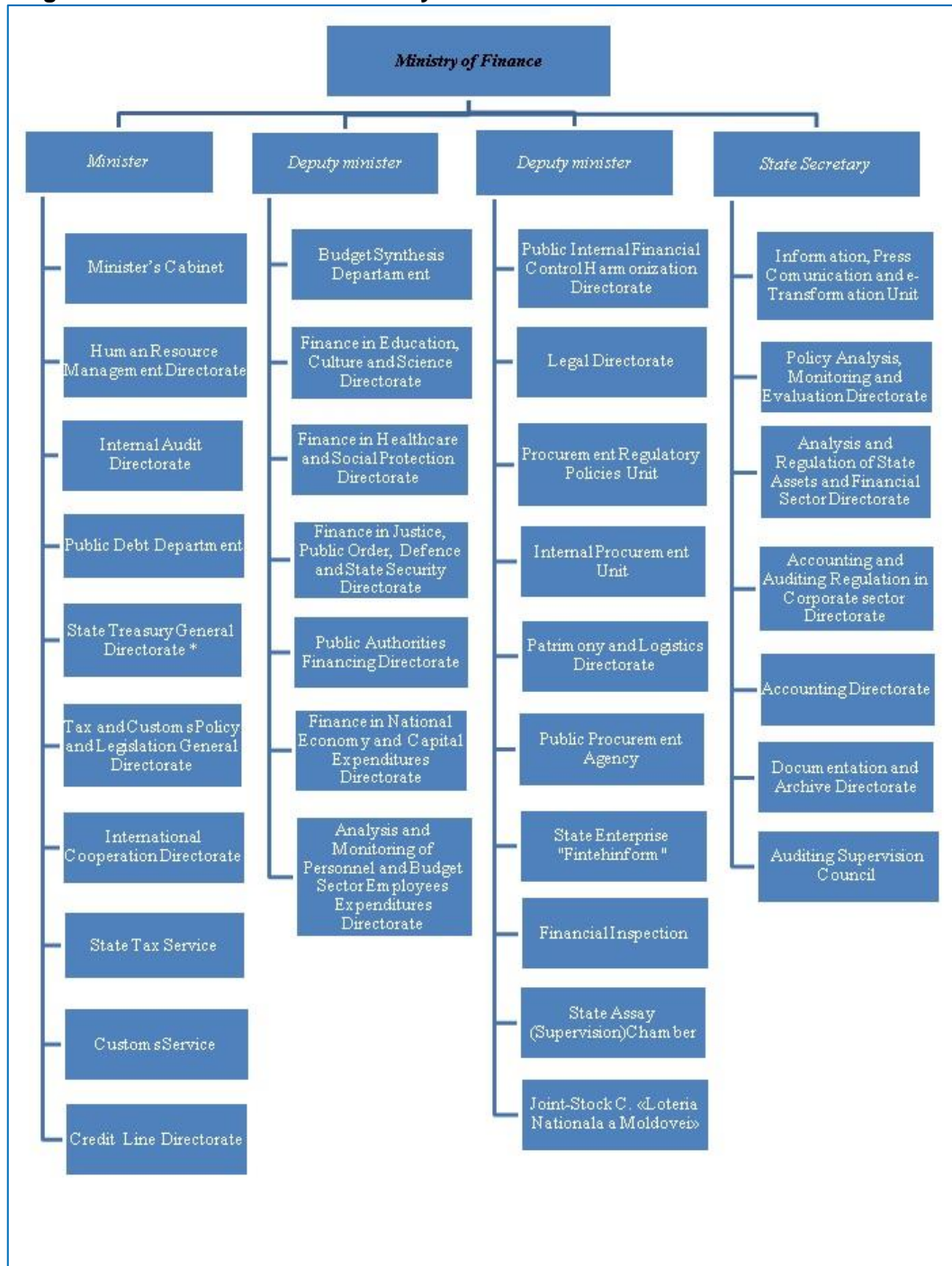
### *Structure of the Ministry of Finance*

The diagram below shows the organisational structure of the Ministry of Finance. In addition to the central apparatus, the structure includes the Territorial Treasuries of the MoF which operate as decentralized organisational units in their territories, coordinated by the State Treasury, and are responsible for the operation of the MoF treasury system. They do not have the status of legal entity. Coordination of their work is provided by the.

The following agencies are subordinated to the MoF:

- The State Tax Service of Republic of Moldova;
- The Financial inspection of Republic of Moldova;
- The Customs Service of Republic of Moldova;
- The Public Procurement Agency;
- The Auditing Supervision Council.

**Diagram 14 - Structure of the Ministry of Finance**



*Medium-term planning and budget preparation*

The relevant legal framework for PFM for the period under review was provided by the Law on Budgetary System and Budgetary Process (No 847-XIII of the 24<sup>th</sup> of May 1996 and amended subsequently several times), which established the framework for budget preparation and execution in Moldova. The new Law on Public Finances and Budgetary Fiscal Accountability (No 181 of 25 July 2014) has entered into force in stages since 1 January 2015. It is effective since that date for the preparation of the 2016 budget and will be effective from 1 January 2016 for the execution of the 2016 budget.

The preparation of the MTBF is regulated by Government Decision No 82 of the 24 January 2006 (“On drafting the Medium Term Expenditures Framework and Draft Budget”) which institutes a Coordinating Group for drafting the MTBF, regulates its activities and includes an Action Plan for drafting the MTBF.

The institutions involved in the State Budget preparation process are the General Division (GD) Budgetary Synthesis in the MoF, responsible for the coordination of the preparation of the National Budget, GD for Tax and Customs Policy and Legislation, GD for Public Debt and the Sectorial Finance Departments<sup>10</sup> in the MoF for the main sectors covered in the MTBF, which together with the GD for Budgetary Synthesis prepare the MTBF and review the budget proposals and the financing plans in their respective sectors. The MTBF preparation is carried out by the MoF with input from line ministries and under supervision of the Coordinating Group for drafting the MTBF.

A new FMIS has been implemented over the last years and was finalized, with delays, in 2014. Its Budget Preparation Module covers both mid-term strategic planning (MTBF and expenditure limits for ministries for 3-year period) and preparation of annual budget (detailed draft budgets, developed on the basis of programs that contain both financial and performance information). It is being already being applied for the 2016-2018 budget cycle for preparation of the 2015 annual State budget. It is planned to extend the program-based and performance budgeting to Level-1 ATUs.

#### *Budget execution*

The main institution managing the budget execution process is the State Treasury General Directorate in the MoF, which is responsible for (i) record keeping; (ii) administration of the Treasury Single Account; (iii) expenditure payment and control; (iv) forecasting and cash management; (v) reporting and regulating the accounting methodology. There are 38 Territorial Treasuries which represent the decentralised services of the MoF in the country, and do not have the statue of legal entities. The other relevant institution involved in budget execution is the National Bank of Moldova (NBM), where the Treasury Single Account is held and which ultimately executes the payment operations.

The budget execution modules of the FMIS will go live on 1 January for execution of the 2016 budget. This new FMIS is based on the new budget classification and Chart of Accounts (described under PI-5).

There are 320 users in the central structure of the MoF and in the social funds and 294 in the Territorial Treasuries which are connected to the FMIS and can submit payment orders using electronic signature. Currently, 300 users in the ATUs (including all *rayons*) have a connection to the FMIS which allows them to view account statements but not to execute transactions. Within the new FMIS, all institutions (including Level-1 ATUs) will be able to submit payment orders through the system.

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<sup>10</sup> These are: (i) the Dept. for financing of education, culture & science; (ii) the Dept. for financing of health and social protection; (iii) the Dept. for financing of public administration; (iv) the Dept. for analysis and monitoring of salary expenditure; (v) Dept. for financing of public order, the State defence and security; (iv) the Dept. for financing of national economy, capital expenditure and public procurement.

### *Further elements of PFM*

Further elements of PFM legislation are: the Law on Local Public Finances (No 397-XV of the 16th of October 2003), which was amended by Law No 267 of 1 November 2013 in view of establishing a new system for the preparation of local budgets; the Law on Public Debt, State Guarantees and on-Lending from State Borrowing (No 419-XVI from 2006, amended on 29 May 2014); the Law on Public Procurement (No 96-XVI from the 13th of April 2007) which has been replaced by the new Law on Public Procurement No 131 of 03 July 2015) that has been adopted in July 2015, and will enter into force on 1 May 2016; the Law on Accounting (No 113-XVI of the 27th of April 2007); the current budget classification approved by the Minister of Finance Order No 93 of 19 July 2010 that will be substituted with new budget classification approved by the Minister of Finance Order No 190 of December 31, 2014; the annual State Budget Laws; the annual Social Insurance Budget Law; the annual laws on Funds for Mandatory Health Insurance.

The GD for Public Debt in the MoF is responsible for management and reporting of the State debt.

The Public Procurement Agency, an independent agency under the MoF, is responsible for regulation, supervision, control and inter-institutional coordination in the area of public procurement.

### *Revenue management*

The legal framework for regulating the national public budget revenues includes the Tax Code (April 1997 as amended), Customs Code (July 2000, as amended), Law on Customs Tariff (November 1997, as amended), Law on approving the combined nomenclature of goods (no. 172 of July 25, 2014), Law on Public System of Social Insurance (July 1999) and Law on Mandatory Health Insurance (February 1998), Law regarding the rate, method and terms for payment of the obligatory medical insurance contribution (December 2002), Contravention Code (October 2008), Criminal Code (approved by the Laws No 985-XV DIN 18.04.2001), Law on Administrative Procedures (February 2000), Supreme Court of Justice Decision regarding the practice of examining disputes related to enforcement of the customs legislation in administrative proceedings (December 2010).

Tax revenue is collected through two main separate services – the State Tax Service and the Customs Service. In addition, judiciary executors (the bailiff service) are responsible for collecting tax and non-tax public revenues, including the forced sale of property, based on court decisions.

### *Internal and external audit*

The control function in Moldova has historically been carried out by the Court of Accounts (CoA) and by the Financial Inspection (former Financial Control and Revision Service) which is subordinated to the MoF. The mandate of the CoA consists in carrying out regularity audits (financial and performance audits) of the State Budget; the social insurance budget and health insurance funds; the ATU budgets; the public enterprises and Joint Stock Companies with State majority; and of the private sector institutions receiving subsidies.



The Central Harmonization function for internal audit and financial management and control (FMC) is established as Division for Harmonisation of the PIFC System in the MoF. Public sector internal audit and FMC is regulated by the Law on Public Internal Financial Control (No. 229 of the 23<sup>rd</sup> of September 2010) which is in force since 26 November 2011.

#### *Donor coordination*

The bodies responsible for donor coordination and for the management of donor funds are:

- The Department for Policies, Strategic Planning and External Assistance in the State Chancellery which is in charge of coordination of external assistance and responsible for strategic planning;
- The General Department for Public Debt, the International Cooperation Division in the MoF, and similar units (under different names) in most line ministries, which are responsible for donor coordination within the sector.

#### *Civil society*

The MoF, in cooperation with the NGO *Expert Group*, has prepared a pilot Citizens' Budget 2014 which was published in April 2015. This exercise will now be carried out regularly. Also, Moldova has conducted an unofficial Open Budget Survey, based on the Open Budget Initiative (OBI) methodology: in 2012, *Expert Group*, together with MoF, has prepared an assessment "Evaluation of transparency of the budget process in Moldova", where the OBI index was calculated with 60 points, which is a relatively high value, close to the qualification of "best practice". This exercise is being repeated. Evaluation results can be found at: <http://www.expert-grup.org/ro/biblioteca/item/1149-itb-2014&category=7>.

#### *Private sector*

Some aspects of relevance to the private sector have been analysed with the Chamber of Commerce and Industry:

- On the government publications: the draft annual budget and – to a lesser extent - the public procurement reports are the publications that present most interest for the private sector. Budget execution reports, external audit reports and government financial statements are being considered as less relevant;
- On public procurement: there is a demand for strengthening e-procurement and for more information on application of the legislation, in particular at the local level. Procurement methods are being considered as complicated (economic operators have limited skills in this area). Main concerns are the short timeframes for replying to tender announcements; and decisions on appeals which are not always sufficiently justified;
- On tax administration: the legal framework on the rights and obligations of taxpayers would profit from more clarity. Although tax payers have sufficient access to information regarding their payment obligations, this information is not always clear. There are delays in the processing of appeals. The low penalties on tax violations imposed by the Tax Inspectorate and Customs Service do not sufficiently encourage compliance. Control of fraud on social contributions is considered as ineffective.



### 3 Assessment of the PFM systems, processes and institutions according to the 2011 methodology

#### 3.1 Budget credibility

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

Score (scoring method M1)		A
Dimension	Minimum requirements	
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.	A

This analysis covers the Moldovan Central Government Budget, which encompasses the following three components:

- The State Budget without debt service payments and donor funded project expenditures, excluding transfers made to SSIB and CIFMA;
- The State Social Insurance Budget (SSIB), including transfers received from the State Budget, and;
- The Compulsory Insurance Funds for Medical Assistance (CIFMA), including transfers received from the State Budget.

The table below shows the aggregate expenditure out-turn compared to the original appropriations for the years 2012, 2013 and 2014.

**Table 15 - Central Government Budget expenditure out-turn compared to original appropriation in 2012-2014, MDL million**

Year	Original budget appropriation	Budget execution	Deviation (+/-)	Deviation (%)
2012	28,600.1	28,095.9	-504.2	1.8
2013	30,552.7	30,774.3	221.6	0.7
2014	35,803.1	35,900.9	97.8	0.3

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

Lower than planned expenditure in 2012 was a consequence of lower than planned collection of revenue.

Increased actual versus planned spending in 2013 and 2014 was a result of revenue collection being higher than planned. The State Budget Law was amended three times during the year – on 24 May by increasing expenditure for the general state services and legislative authorities' sectors, then by the amendments of 11 July and 30 November to authorise the required sequestrations due to the lower than planned revenue collection.

In 2012, in-year reduction of appropriation affected most sectors. The State Budget Law was amended three times during the year – on 24 May by increasing expenditure for the general state services and legislative authorities' sectors, then by the amendments of 11 July and 30 November to authorise the required sequestrations due to the lower than planned revenue collection.

In 2013, increased spending was only 0.7% compared to the original appropriation, and was mainly directed to the sectors: transport, road infrastructure, and information and communication technology.

In 2014, excess spending amounted to only 0.3% compared to the original appropriation. The State Budget Law was amended three times during the year, on 1 June, 25 July and 28 September, increasing the expenses and authorizing higher levels of revenue collection.

#### *Comparison of 2015 and 2011 assessments*

Variance of expenditure Difference between budget appropriation and execution in 2012, 2013 and 2014 was significantly smaller than in the period 2008-2010 covered by the previous PEFA assessment. This improvement is a result of the Government's commitment to fiscal consolidation.

In none of the years under review has the actual expenditure deviated from budgeted expenditure by more than 5%. The score, which was B in the PEFA 2011, is now raised to A.

#### *Developments in 2015*

A prudent budget policy continues to be observed to ensure medium-term and long-term stability of the budget.

The new Law on Public Finances and Budgetary-Fiscal Accountability (LPFBFA) No 181 of 25 July 2014 limits the number of budget adjustments to a maximum of two per year, and stipulates budgetary-fiscal policy rules which will become effective for the 2016 budget year.

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

		Score (scoring method M1)	A
Dimension	Minimum requirements		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.	Variance in expenditure composition exceeded 5% in one of the last three years.		A
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.		A

This indicator also analyses central government expenditure (as defined under PI-1), i.e. the State Budget without debt service payments and donor funded project expenditures, plus SSIB and CIFMA budgets excluding the transfers from the State Budget.

*(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.*

This dimension, measures the changes in expenditure composition by function, both at the level of original budget appropriations and budget execution data.

The functional budget classification has 21 main groups. The main functions “18- Replenishment of the Reserve Fund” and “23-Net-Lending” have been merged into the function “20-Activities and services not assigned to other main groups”, abbreviated as “Other expenditures”, in order to ensure consistency with the previous assessments in 2008 and 2011.

Expenditure of SSIB is reflected in the group “10-Social Insurance and Social Protection”. Expenditure of CIFMA is reflected in group “9-Healthcare”:

- In all three years the “Fuel & energy” group presented significant negative discrepancies in comparison with the original appropriation. This is mainly due to the reallocation from the main component of the State budget to projects funded from external sources for the Iasi-Ungheni gas pipe;
- The deviations of expenditures in the “Insurance and Social Assistance” group result from changes in the actual number of social allowances beneficiaries, as compared to the forecast one;
- Lower expenditures for some categories (due to the absorption capacity) led to increase in other categories, aimed at priority measures, such as the repair of the Parliament's building (in 2012-2013), payroll expenditures and financial support for farmers (in 2014).

The variance in expenditure composition has been calculated according to the PEFA methodology by adjusting the provision (net of external project financing and interest payments) for each function in the original budget by the overall percentage difference between approved budget and out-turn as established for PI-1.

The following tables provide the overall expenditure variance and the absolute variance in expenditure composition (Central government budget expenditure breakdown by functional classification in 2012-2014, in MDL million).

**Table 16 - Total absolute variance in expenditure composition in budget year 2012, in million MDL**

Functional head	Approved budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
1. Special purpose state services	1,051	1,086.8	1,030.4	56.4	56.4	5.5%
2. Foreign affairs	249.8	243.4	244.9	-1.5	1.5	0.6%
3. National defence	271.5	280.8	266.2	14.6	14.6	5.5%
4. Justice and constitutional jurisdiction	392.9	354.7	385.2	-30.5	30.5	7.9%
5. Public order & safety	1,376.3	1,344.2	1,349.3	-5.1	5.1	0.4%
6. Education	2,240.1	2,146.5	2,196.2	-49.7	49.7	2.3%
7. Science & innovation	360.4	355	353.3	1.7	1.7	0.5%
8. Culture, arts, sports and youth activities	334.1	331.1	327.6	3.5	3.5	1.1%
9. Healthcare	4,445.2	4,407.4	4,358.1	49.3	49.3	1.1%
10. Social insurance & social protection	11,201.5	11,041.9	10,982.1	59.8	59.8	0.5%
11. Agriculture, forestry, fishing & water	700.5	691.5	686.8	4.7	4.7	0.7%
12. Environment & hydrometeorology	254.9	264.2	249.9	14.3	14.3	5.7%
13. Industry & construction	30.5	30.5	29.9	0.6	0.6	2.0%
14. Transport, road maintenance, communications & computer science	1,218.8	1,146.7	1,194.9	-48.2	48.2	4.0%
15. Housing & community services	69.1	41.6	67.7	-26.1	26.1	38.6%
16. Fuel & energy	190	103.9	186.3	-82.4	82.4	44.2%
19. Other economic affairs	149.3	137.1	146.4	-9.3	9.3	6.3%
20. Other expenses	4,032.7	4,001.7	3,953.7	48.0	48.0	1.2%
<b>Allocated expenditure</b>	<b>28,568.6</b>	<b>28,009</b>	<b>28,009.0</b>	<b>0.0</b>	<b>505.8</b>	
Contingency	31.5	86.9				
<b>TOTAL expenditure</b>	<b>28,600.1</b>	<b>28,095.9</b>				
Overall (PI-1) variance						1.8%
Composition (PI-2) variance						1.8%
Contingency share of budget						0.3%

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

**Table 17 - Total absolute variance in expenditure composition in budget year 2013, in million MDL**

Functional head	Approved budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
1. Special purpose state services	1,180.5	1,261.6	1,189.2	72.4	72.4	6.1%
2. Foreign affairs	270.6	272.8	272.6	0.2	0.2	0.1%
3. National defense	306.9	327.7	309.2	18.5	18.5	6.0%
4. Justice and constitutional jurisdiction	624.1	583.1	628.7	-45.6	45.6	7.3%
5. Public order & safety	1,824.1	1849.9	1,837.5	12.4	12.4	0.7%
6. Education	1,849.1	1797.3	1,862.7	-65.4	65.4	3.5%
7. Science & innovation	337.3	337.9	339.8	-1.9	1.9	0.6%
8. Culture, arts, sports and youth activities	356.5	376.9	359.1	17.8	17.8	4.9%
9. Healthcare	4,707.8	4,754.2	4,742.5	11.7	11.7	0.2%
10. Social insurance & social protection	12,078.2	12,103.5	12,167.3	-63.8	63.8	0.5%
11. Agriculture, forestry, fishing & water	771.4	770.2	777.1	-6.9	6.9	0.9%
12. Environment & hydrometeorology	358	382.3	360.6	21.7	21.7	6.0%
13. Industry & construction	34.7	37.4	35.0	2.4	2.4	7.0%
14. Transport, road maintenance, communications & computer science	1,169.6	1,339.1	1,178.2	160.9	160.9	13.7%
15. Housing & community services	70.4	54.5	70.9	-16.4	16.4	23.2%
16. Fuel & energy	342.3	219.4	344.8	-125.4	125.4	36.4%
19. Other economic affairs	213.8	188.6	215.4	-26.8	26.8	12.4%
20. Other expenses	4049	4,113.1	4,078.9	34.2	34.2	0.8%
Allocated expenditure	30,544.3	30,769.5	30,769.5	0.0	704.4	
Contingency	8.4	4.8				
<b>TOTAL expenditure</b>	<b>30,552.7</b>	<b>30,774.3</b>				
Overall (PI-1) variance						0.7%
Composition (PI-2) variance						2.3%
Contingency share of budget						0.0%

**Table 18 - Total absolute variance in expenditure composition in budget year 2014, in million MDL**

Functional head	Approved budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
1. Special purpose state services	1,361.6	1,360.2	1,364.9	-4.7	4.7	0.3%
2. Foreign affairs	301.1	304.4	301.8	2.6	2.6	0.8%
3. National defense	380.3	400.7	381.2	19.5	19.5	5.1%
4. Justice and constitutional jurisdiction	687	634.4	688.7	-54.3	54.3	7.9%
5. Public order & safety	2,157.7	2,142.1	2,163.0	-20.9	20.9	1.0%
6. Education	3,395.4	3,304.1	3,403.7	-99.6	99.6	2.9%
7. Science & innovation	366	358.4	366.9	-8.5	8.5	2.3%
8. Culture, arts, sports and youth activities	376.7	372.7	377.6	-4.9	4.9	1.3%
9. Healthcare	5,346.2	5,279.4	5,359.3	-79.9	79.9	1.5%
10. Social insurance & social protection	13,699.7	13,534.2	13,733.3	-199.1	199.1	1.4%
11. Agriculture, forestry, fishing & water	904.1	1,107	906.3	200.7	200.7	22.1%
12. Environment & hydrometeorology	390.7	514.4	391.7	122.7	122.7	31.3%
13. Industry & construction	38.9	38.5	39.0	-0.5	0.5	1.3%
14. Transport, road maintenance, communications & computer science	1,401	1,460.4	1,404.4	56.0	56.0	4.0%
15. Housing & community services	88.7	27.9	88.9	-61.0	61.0	68.6%
16. Fuel & energy	251.9	111.1	252.5	-141.4	141.4	56.0%
19. Other economic affairs	254	271.3	254.6	16.7	16.7	6.5%
20. Other expenses	4,396.1	4,663.6	4,406.9	256.7	256.7	5.8%
<b>Allocated expenditure</b>	<b>35,797.1</b>	<b>35,884.8</b>	<b>35,884.8</b>	<b>0.0</b>	<b>1,349.7</b>	
Contingency	6.0	16.1				
<b>TOTAL expenditure</b>	<b>35,803.1</b>	<b>35,900.9</b>				
Overall (PI-1) variance						0.3%
Composition (PI-2) variance						3.8%
Contingency share of budget						0.0%



**Table 19 - Summary variance for the whole period under review**

Year	Total absolute expenditure variance - PI-1 (%)	Total absolute variance in expenditure composition - PI-2 (i) (%)	Total absolute variance of contingency expenditure - PI-2 (ii) (%)
2012	1.8%	1.8%	0.1%
2013	0.7%	2.3%	
2014	0.3%	3.8%	

The table shows that the total variance never exceeded 5 per cent of actual expenditure over the last three years, which means that the score is A, as it was the case for the previous evaluation.

*(ii) The average amount of expenditure actually charged to the contingency vote over the last three years*

**Table 20 - Contingency expenditure, in MDL million**

	2012	2013	2014
Total expenditure including contingent spending	28,095.9	30,774.3	35,900.9
Contingency expenditure (Combat of natural disasters)	86.9	4.8	16.1
Percentage of contingency expenditure	0.31%	0.02%	0.04%

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

Contingency expenditure was significantly below 3 % of total expenditure in all three years under review, and the score is therefore A.

#### *Comparison of 2015 and 2011 assessments*

Due to the raise of score in dimension PI-2 (i), further to a significantly lower variance in expenditure composition in all three years, the overall score was raised from B+ to A.

#### *Developments in 2015*

There are no specific developments.

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

		Score (scoring method M1)	A
Dimension	Minimum requirements		
Actual domestic revenue compared to domestic revenue in the originally approved budget.	Actual domestic revenue was between 97% and 106% of forecast domestic revenue in at least two of the last three years.		A

The total revenue attributed to the *Central Government Budget* covers the following sources of revenue:

- State Budget revenue excluding Grants;
- Grants;
- Revenue of the State Social Insurance Budget(SSIB) excluding transfers from the State Budget, and;
- Revenue of the Compulsory Insurance Funds for Medical Assistance (CIFMA) excluding transfers from the State Budget.

The table below shows the aggregate domestic revenue out-turn compared to the original appropriations for the years 2012, 2013 and 2014. The analysis and assessment of this indicator is made excluding grants.

**Table 21 - Central Government Budget revenue out-turn compared to original appropriation in 2012-2014, in MDL million**

	2012			2013			2014		
	Budget	Actual	(%)	Budget	Actual	(%)	Budget	Actual	(%)
(1) Total State Budget, incl. Grants, transfers*	21,367.3	20,090.6	94.0	22,736.6	22,436.7	98.7	25,814.8	27,717.7	107.4
(2) Grants	2,397.8	1,558.0	65.0	2,623.9	1,958.3	74.6	2,468.7	3,929.4	159.2
(3) State Budget, less Grants (1-2)	18,969.5	18,532.6	97.7	20,112.7	20,478.4	101.8	23,346.1	23,788.3	101.9
(4) SSIB	7,238.0	7,154.2	98.8	7,949.8	7,761.8	100.2	8,573.2	8,368.6	97.6
(5) CIFMA	1,823.3	1,826.8	100.2	1,935.2	1,999.8	103.3	2,454.1	2,437.3	99.3
(6) Total domestic revenue (3+4+5)	28,030.8	27,500.7	98.1	29,997.7	30,238.8	100.8	34,373.4	34,565.7	100.6

\* Transfers from CIFMA to the State Budget: 2012 MDL 12.9 mln; 2013 MDL 1.2 mln.; 2014 MDL 28.5 mln.].

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and C.IFMA 2012, 2013 & 2014;

Budget execution reports for 2012, 2013 & 2014.

Unlike the period reviewed in 2011 PEFA, when revenue collection was very volatile, the period reviewed in 2015 PEFA is characterised by a lower level of volatility, which became stronger at the end of 2014 due to the impact of the geopolitical crisis in the region and the restrictions imposed by the Russian Federation on Moldovan exports.

In 2012, the GDP contraction by 0.7% as compared with the 4% growth forecast in the budget, lead to an under-performance in revenue collection. In 2013, the economic recovery was faster than expected and the actual GDP growth was 9.4%, as compared

with the forecast 5%, resulting in higher than planned revenue collection by 1.8%. In 2014, the over-performance in revenue collection occurred owing to some unplanned budget revenues (licenses for mobile phone service providers). A slowdown in State Budget revenue collection occurred in Q4'14 because of the lower than planned collection of taxes, on the background of shrinking foreign trade due to the aforementioned factors.

VAT was the main source of revenue for all the three years under review, accounting for about 58-59% of the State Budget revenue (excluding grants) in 2012-2013 (12.1% of GDP), going down to 54% in 2014 as a result of the higher inflows of foreign grants this year, twice as much as in the previous years. Altogether the indirect taxes (VAT, excises and foreign trade taxes) decreased from the average of 80% of State Budget revenues down to 74% in 2014. However, excise rates have been lower than in neighbouring and peer countries, leaving VAT as the predominant tax base.

MoF uses a macro-fiscal model to forecast revenues by revenue source, as well as the budget deficit. The macroeconomic indicators used include GDP, inflation, the exchange rate, the production of industry, exports, imports, the "salary fund" (the total of salary income). There are also forecasts of debt servicing, internal and external funding. Much of it is based on trend-analysis. It is not a sophisticated econometric model, and it is all in MS Excel. The model is used for producing mid-term (3 year) revenue forecasts. The model produces tables for 7 years: 3 years from the most recent past, the current year, and the 3 years covered by the MTBF. The world oil price does not play an important role, not even as a determinant of VAT revenue on oil imports, because Moldova does not have that much industry, and also private consumption is not that significant. The National Bank of Moldova however works with this variable.

As for the institutional arrangements, there is a dialogue on revenue forecasts with both the CS and the MSTI – at least with respect to the annual budget forecast; they do not provide any feedback when the MoF is preparing the MTBF. Overall the cooperation is good. Not surprisingly, the two implementing organisations tend to argue for a reduction of the forecasts.

The General Division for Tax and Customs Policies and Legislation of the MoF always submits information on the impact of the proposed tax policy measures. They always attach an estimate of the financial impact when they make a policy proposal.

The source of the data presented above is the annex of the budget execution reports. Two of these, namely 2012<sup>11</sup> and 2013<sup>12</sup>, have been published on the MoF website. For 2014 the report has not been published yet<sup>13</sup>, because it has not yet been approved by parliament, as of 16 September 2015. Government is responsible for submitting the draft report, before the 1<sup>st</sup> of June, and this has been done, so that normally parliament approves it before the summer vacation. However, the present year 2015 is exceptional in this respect.

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<sup>11</sup> [www.mf.gov.md/files/reports/formular1\\_t.pdf](http://www.mf.gov.md/files/reports/formular1_t.pdf).

<sup>12</sup> [www.mf.gov.md/files/reports/formular\\_1\\_t.pdf](http://www.mf.gov.md/files/reports/formular_1_t.pdf).

<sup>13</sup> In spite of this information provided by the MoF, see [www.mf.gov.md/files/reports/formular1\\_t\\_2.pdf](http://www.mf.gov.md/files/reports/formular1_t_2.pdf).

#### *Comparison of 2015 and 2011 assessments*

The variance in revenue composition in all of the three years under review has been substantially lower than in the years examined by 2011 PEFA, which is an improvement of the overall performance of revenue management and policy, as well as of the revenue planning.

#### *Developments in 2015*

The Government continues the reforms initiated in the previous years concerning the tax policy and a more efficient tax administration, as well as the harmonization of the tax law to the EU law.

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

		Score (scoring method M1)	A
Dimension	Minimum requirements		
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	The stock of arrears is low (i.e. is below 2% of total expenditure).		A
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).		A

The MoF Order No. 21 of 18 February 2005 provides the regulatory basis for defining overdue arrears. The Moldovan definition and accounting of arrears are in line with the internationally accepted practices according to which a claim will be regarded as overdue arrears if payment has not been made within 30 days from the public institution receiving the invoice/claim from the supplier.

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

The analysis captures only arrears to final suppliers of goods and services and final beneficiaries. This includes arrears generated by the Central Government Budget, including SSIB and CIFMA defined as “external arrears”. The arrears from the State Budget to SSIB and CIFMA are excluded from the calculation of this indicator and are defined as “internal arrears”.

The table below shows the stock of arrears of the State Budget, SSIB and CIFMA:

**Table 22 - Stock of arrears in 2012-2014, MDL million**

Classification of arrears	2012	2013	2014
Total State Budget expenditure	19.013,0	20.822,5	25.091,0
Transfers to SSIB and CIFMA	4.610,5	4.989,3	5.860,6
<i>Arrears to SSIB and CIFMA (internal)</i>	-	-	-
<i>Other arrears (external)</i>	19.1	18.1	44.1
Total expenditure of SSIB	9,755.1	10,716.2	12,019.5
<i>Arrears of SSIB(external)</i>	-	-	-
Total expenditure of CIFMA	3,951.2	4,226.1	4,679.5
Transfers to the State Budget	12.9	1.2	28.5
<i>Arrears of CIFMA (external)</i>	-	-	-
<b>Total expenditure</b>	<b>28,095.9</b>	<b>30,774.3</b>	<b>35,900.9</b>
<b>Total arrears</b>	<b>19.1</b>	<b>18.1</b>	<b>44.1</b>
<b>Arrears/Total expenditure (%)</b>	<b>0.06</b>	<b>0.06</b>	<b>0.12</b>

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

In each of the three years under review, external arrears have been below 2% of total expenditure.

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

State Budget execution reports, published on a monthly basis on the MoF web site, contain all information about arrears. For the period under review the information was included in the following documents:

- 2012 State Budget Execution Report – Template No. 8 “Report on the Execution of State Budget Expenditure on the basis of the economic classification”, approved by MoF Order No 8 of 26 January 2013;
- 2013 State Budget Execution Report – Template No. 8 “Report on the execution of State Budget Expenditure on the basis of the economic classification”, approved by MoF Order No 2 of 10 January 2014;
- 2014 State Budget Execution Report – Template No. 7 “Report on the execution of State Budget Expenditure on the basis of the economic classification”, approved by MoF Order No 176 of 17 December 2014.

Information on the stock of arrears of CIFMA and SSIB is published in Template 2.1 of the SSIB “Report on the State Social Insurance Fund execution on the expenditure side”, approved by MoF Order No 156 of 01 November 2013, and in Template 1 of the CIFMA “Report on the Collection and Use of the Compulsory Insurance Funds for Medical Assistance” approved by MoF Order No 118 of 04 October 2011, respectively.

As there is reliable data about the stock of expenditure payment arrears, including an age analysis, the score is A.

*Comparison of 2015 and 2011 assessments*

No significant changes occurred since the 2011 PEFA, except for minor improvements in monitoring of arrears.

*Developments in 2015*

There are no specific developments.

## 3.2 Transparency and comprehensiveness

### PI-5. Budget Classification

Score (scoring method M1)		A
Dimension	Minimum requirements	
The classification system used for formulation, execution and reporting of the central government's budget.	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)	A

For the period under review (and until the 2015 budget, inclusive), the budget classification was regulated by Article 7 of the Law on the Budget System and Budget Process (LBSBP – No 847-XIII of 24 May 1996 with later amendments), which established the following categories:

- Budget revenue classification – based on the legislation that determines the sources of revenue;
- Functional classification of budgetary expenditures – which includes 21 groups at Level 1 and 125 groups at Level 2 (except for net lending). The functional classification although not fully COFOG compliant, was consistent with COFOG and a conversion table was used for mapping the existing classification with the COFOG classification, providing an analytic framework for resources appropriation by sectors, as well as for reporting to the IMF;
- Organisational classification of budgetary expenditures – which consists of the list of public authorities and other budget beneficiaries. Entities subordinated to certain public authorities<sup>14</sup> are incorporated into those public authorities' budgets;
- . Economic classification of budgetary expenditures – which was based on GFS 1986. Economic classification of expenditures in accordance with GFS 2001 is also used to prepare the monthly budget execution reports for the IMF.

Details of the four classifications are specified in the MoF Order No 91 of 20 October 2008 on Budget Classification (with later amendments). Additionally, this Order was amended in view of introducing a programme classification which includes 44 programmes and 250 sub-programmes. For the 2014 budget, all 50 central public authorities (CPAs) have submitted budget proposals on programme basis, compared to 29 CPAs (representing 73% of the budget expenditure) in 2013 and 23 CPAs in 2012 and 2011 with a share of 70% and 58% respectively.

A new budget classification is in effect since budget year 2016 and described below under "Developments in 2015".

<sup>14</sup> For instance, the residential institutions known as boarding schools, in the case of the Ministry of Education.

### Comparison of 2015 and 2011 assessments

As regards the period 2012-2014, there was no change in the budget classification in comparison with the 2011 PEFA assessment. However: That functional classification – although not fully COFOG compliant – was consistent with COFOG and a conversion table between that classification and the COFOG classification was established, which provided the analytic framework for resources appropriation by sectors, as well as for reporting to the IMF. Moreover, a programme classification has been in place since 2008 which provided the equivalent of a sub-functional classification. Until 2013 inclusive, it covered only a part of the CPAs. However, since the 2014 budget, the coverage at the central level has been 100%. Moreover, considering that a new COFOG compliant budget classification has been adopted in 2014, it appears justified to raise the score to A.

### Developments in 2015

A new budget classification structure has been established by Article 27 of the new LPFBFA (Law No 181 adopted on 25 July 2014). Also, in late 2014 the MoF approved (by Order 190 of 31 December 2014) the new budget classification in which the economic classification is integrated with a single, unified chart of accounts for the whole public sector, as well as methodological norms for its implementation. This structure has been put in effect starting with the 2016 budget cycle.

This Order regulates the structure of the new budget classification structure as presented in the table below.

**Table 23 - New budget Classification Structure in Moldova**

Budget classification elements	Abbreviation	Name	Number of digits
Organizational classification	Org1	Public authority	4 digits
	Org1i	Intermediate budget institution	4 digits
	Org2	Budget institution	5 digits
Functional classification	F1	Main group	2 digits
	F2	Group	1 digit
	F3	Sub-group	1 digit
Program classification	P1	Program	2 digits
	P2	Sub-program	2 digits
	P3	Activity	5 digits
Economic classification	K1	Type	1 digit
	K2	Category	1 digit
	K3	Chapter	1 digit
	K4	Article	1 digit
	K5	Paragraph	1 digit
	K6	Element	1 digit
Source classification	S1	Budget level	1 digit
	S2	Sub- budget level	1 digit
	S3	Component	1 digit
	S4	Sub-component	2 digits
	S5	Origin of source	1 digit
	S6	Donor	3 digits



Some remarks:

- On the functional classification: The first level represents 10 main groups. Each main group can be broken down in max. 9 groups, and each group can again be broken down into max. 9 sub-groups. This classification is compliant with the COFOG Classification of the Functions of Government;
- The economic classification is integrated with the Chart of Accounts and developed in compliance with the Government Finance Statistics (GFS) 2001;
- The programme classification: consists of two levels: “Programmes” (P1) and “Sub-programmes” (P2), which are hierarchically subordinated, as well as a third level – Activities (P3) – which is independent from P1 and P2. Thus, the sub-programme code can only be used together with the superior programme code; a list of activities can be established under any programme–sub-programme combination.

The new budget classification is reflected in the new FMIS which is operational since 2015 for the preparation of the 2016 budget, and will be in effect in 2016 for budget execution.

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

Score (scoring method M1)		A
Dimension	Minimum requirements	
Share of the nine core pieces of information in the budget documentation most recently issued by the central government.	Recent budget documentation fulfils 8 of the 9 information benchmarks.	A

The main annual budget document submitted to and adopted by the Parliament is the State Budget Law (the procedure and participation in the annual budget process are described under PI-11). Until 1 January 2015, i.e. for the period under review, the purpose, process and content of the annual budget and of the MTBF were regulated by the Articles 14-24 of the Law on Budget System and Budget Process (No 847-XIII of 24 May 1996, with later amendments). According to Article 24, the draft budget contains the following main annexes:

- A summary of the State Budget;
- Expenditure limits for the public authorities funded from the State Budget;
- Furthermore, the draft budget is accompanied by an explanatory note containing the following elements:
  - Revenue and expenditure forecasts based on strategies and policy papers in place, agreements signed/ratified with development partners;
  - The State debt policy;
  - The interrelation between the State Budget and the budgets of the ATUs.

The MTBF is the initial stage in the drafting and implementation of the budgetary-fiscal policy for three years. Content and approval process of the MTBF is described under PI-12. The MTBF incorporates:

- Revenue and expenditure forecasts (by sectors and budgets, including expenditure limits for central public authorities), resulted from the trends of the social and economic development of the country; and
- The objectives of the medium-term budgetary-fiscal and customs policies.

This indicator analyses whether the information items according to the table below are made available to the Parliament.

**Table 24 - Information made available to the Parliament**

	State Budget	MTBF
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes	Yes
2. Fiscal deficit, defined according to GFS or other internationally recognised standard.	Yes	Yes
3. Deficit financing, describing anticipated composition.	Yes	Yes
4. Debt stock, including details at least for the beginning of the current year.	Yes	Yes
5. Financial Assets, including details at least for the beginning of the current year.	Partially	No
6. Prior year's budget out-turn, presented in the same format as the budget proposal.	Yes	Yes
7. Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.	Yes	Yes

	State Budget	MTBF
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes	Yes
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes.	Yes	Yes

This table shows that the draft State Budget includes eight of the nine information elements required by the PEFA assessment framework. Only information on financial assets is not made available to the Parliament at the time of review of the draft budget (nor through any other official report).

*Comparison of 2015 and 2011 assessments*

There have been no major changes since the 2011 PEFA.

*Developments in 2015*

Development of the draft 2016 State Budget Law is regulated by new LPFBFA (No 181 of 25 July 2014) in the Articles 48-53. There are no major changes in the new legislation with regard to the information items assessed above.

*PI-7. Extent of unreported government operations.*

		Score (scoring method M1)	A
Dimension	Minimum requirements		
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).		A
(ii) Income / expenditure information on donor-funded projects which is included in fiscal reports.	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).		A

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

The main extra-budgetary funds are SSIB and CIFMA, whose revenue and expenditure are reported in-year and annual budget execution reports published on the MoF's website, in the same way as the execution reports on the State budget. There are thus no unreported extra-budgetary expenditures.

Previous PEFA assessments have pointed at the so-called "Special Funds" (according to Article 49 of the LBSBP) and "Special Means" (Article 12 of the LBSBP). They are part of the annual State Budget since 2005, and are thus not "extra-budgetary funds". The Special Funds are earmarked funds collected for specific purposes (e.g. for educational textbooks). These "Special Means" are own-source revenues of public institutions. The existence of earmarked funds and (earmarked) own-source revenue is not in contradiction with best practice in budget management, and since Special Funds and Special Means are included in the regular budget execution reports, their existence does not affect this indicator, which continues to be scored A.

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

All major donor grants and investment projects financed by loans are included in the budget, evidenced as budget appropriations and included in the periodical budget execution reports (see PI-10). The table below shows aggregate amounts (appropriation and execution) for donor funded projects in the State budgets in the period 2012-2014.

**Table 25 - Donor financed projects in 2012-2014: original appropriations in State Budget Law and actual outturn in MDL million**

	2012		2013		2014	
	Original budget appropriation	Actual expenditure	Original budget appropriation	Actual expenditure	Original budget appropriation	Actual expenditure
Grants	1,381,200.0	708,440.6	1,518,587.7	1,188,441.7	1,403,541.3	2,219,263.2
Loans	564,392.0	1,308,472.3	1,056,332.8	1,171,976.0	1,278,754.5	1,668,889.0
<b>Total</b>	<b>1,945,592.0</b>	<b>2,016,912.9</b>	<b>2,574,920.5</b>	<b>2,360,417.7</b>	<b>2,682,295.8</b>	<b>3,888,152.2</b>

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

*Comparison of 2015 and 2011 assessments*

No significant changes.

*Developments in 2015*

There are no specific developments.

*PI-8. Transparency of Inter-Governmental Fiscal Relations*

Score (scoring method M2)		A
Dimension	Minimum requirements	
(i) Transparency and objectivity in the horizontal allocation among sub-national governments	The horizontal allocation of almost all transfers (at least 90% of the value) from central government is determined by transparent and rule-based systems.	A
(ii) Timeliness of reliable information to sub-national governments on their allocations.	Sub-national governments are provided with reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.	A
(iii) Extent of consolidation of fiscal data for general government according to sectorial categories.	Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of sub-national government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.	A

The fiscal decentralisation reform which is currently implemented in Moldova is described in Section 4 of this Report.

Local budgets are developed, reviewed and approved according to Articles 19 and 20 of the Law on Local Public Finances (No 397-XV of 16 October 2003) (LLPF), which was amended by Law No 267 of 1 November 2013 in view of establishing a new system for the preparation of local budgets. This amendment has also affected the Tax Code.

The relation between the State Budget and the local budgets is regulated by the following laws:

- Law on Local Public Finances (No.379-XV of 16 October 2003);
- Law on Budget System and Budget Process, (No 847-XIII of 24 May 1996) - for the period under review;
- Law on Public Finances and Budgetary-Fiscal Accountability (No 181 of 25 July 2014) – from 1 January 2015;
- Law on Administrative Decentralisation (No 435-XVI of 28 December 2006);
- Law on Local Public Administration (No 436-XVI of 28 December 2006).

There are three main revenue sources for ATUs: (i) own-source revenue from taxes, fees and other direct collection credited fully to local budgets; (ii) shared revenues: allocated proportions from state taxes and fees; and (iii) transfers from the State budget. For this indicator, the intergovernmental transfers are examined.

*(i) Transparency and objectivity in the horizontal allocation among sub-national governments (ATU).*

In 2012 and 2013, the methodology for calculation and appropriation of transfers from the State budget to the local budgets was governed by Article 10 of the LLPF (before its amendment in 2013) and was thus the same as examined in the 2011 PEFA. Under this system, the amount of transfers from the State Budget intended for the 896 Level-1 ATUs was determined by the Level-2 ATUs in a cascading manner, according to Article 21 of the LLPF, mandating Level-2 ATUs to approve the allocations for Level-1 ATUs.

In 2013, in line with the fiscal decentralisation reform, a new system for the preparation of local budgets was piloted for the 2014 budgets in the ATUs within three districts (Basarabeasca, Ocnita, Riscani) and Chisinau Municipality.

Since 1 January 2014, after entry into force of the above mentioned amendment of the LLPF, the budgets of all ATUs are prepared according to the new system (i.e. the 2015 budgets).

In any case, the basis for the evaluation of this indicator is the fiscal year 2014 whose budgets were still prepared according to the old legislation. The 2011 PEFA evaluation has analysed the respective formula and considered that fiscal transfers made from the central government to Level-2 ATUs were governed by clear rules, i.e. by the above mentioned legislation and the per capita based formula, which applies further down to the transfers to Level-1 ATUs. A score of A was assigned in 2011, which is maintained since no relevant changes have occurred in the period under review.

The table below provides an overview of the volume of transfers in the period under review:

**Table 26 - Transfers from the State Budget to local budgets in 2014, MDL million**

	2014
<b>Total transfers</b>	<b>6,212.4</b>
General-purpose transfers	4,194.7
Special-purpose (earmarked) transfers	1,544.1
Transfers for capital expenses	473.6

Source: Annual budget Laws for 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

*(ii) Timeliness of reliable information to sub-national governments on their allocations.*

The local budgets are developed, reviewed and approved according to Articles 19 and 20 of the LLPF.

Before adoption of the above mentioned amendment of November 2013, the LLPF stipulated different deadlines for submission and approval of budgets for level 1 ATUs (15 November and 10 December, respectively) and for level 2 ATUs (1 November and 15 December, respectively). Further to the amendment of LLPF the deadlines for budget submission and approval have been unified for Level -1 and Level-2 ATUs, thus terminating the financial dependency of level 1 ATUs on level 2 ATUs (cascade budgeting). The deadlines are now the same for both levels of ATUs and is set on 1 November for the submission of draft budgets and on 10 December for approval of the draft budgets by the local councils. The approved budgets for all Level-1ATUs are consolidated by the Level-2 ATUs and submitted to the MoF for information.

For the period under review, the old provisions have to be considered, since they were in force until the 2014 budget (inclusive), irrespective of the pilot activities in four districts.

According to these old provisions, the preparation process for local budgets was as follows:

- Step 1: The MoF sends to the executive authorities of Level-2 ATUs the methodological guidelines containing macroeconomic forecasts, the fundamental principles of the state policy on revenues and expenditure for the coming year(s) and details regarding calculation of transfers from the State Budget to the concerned ATU budgets;
- Step 2: The Financial Divisions of Level-2 ATUs are required to pass the relevant information to level 1 ATUs within 10 days from receipt of the methodological guidelines;
- Step 3: Within 20 days, the Level-1 ATUs are required to finalize and submit the draft budgets to the Financial Divisions of Level-2 ATUs;
- Step 4: Level-2 ATUs consolidate the draft local budgets, and submit the consolidation to the MoF by the deadlines established in the circular.

During the period under review, the LPAs were informed within a reasonable term about transfers to be expected from the State budget as follows:

**Table 27 - Local budgets schedule submission in 2014**

Budget year	Circular and date sent	Deadlines for submission of the draft budgets
2014	No 06/2-07 of 14 June 2013 No 06/2-07 of 15 July 2013	23-31 July 2013

It can be concluded that local governments had reliable information on the allocations to be transferred to them in the last fiscal year (2014), and they had approximately 1 month after receipt of the circular to submit their budgets. The score for this dimension is therefore A.

*(iii) Extent of consolidation of fiscal data for general government according to sectorial categories.*

Article 29 of the LLPF requires that ATU budget execution reports are finalised and approved by local government executive authorities and councils by 15 February of the year following the fiscal year. Budget execution reports must be submitted to the MoF to be included in the consolidated report on the execution of the National Public Budget. This process was adhered as required by the law for the last fiscal year (2014).

**Table 28 - Local budgets reporting in 2014**

For the budget year	Actual submission date
2014	11 February 2015

As for the previous evaluation, the score for this component is A.

*Comparison of 2015 and 2011*

There are no significant changes, considering that the basis for the evaluation of this indicator for the period under review was still the old legislation.



### *Developments in 2015*

In the context of the financial decentralization reform based on the National Decentralization Strategy (NDS) and the 2012-2015 Action Plan on NDS Implementation (approved by the Law No 68 of 5 May 2012), the LLPF and the Tax Code have been amended in November 2013. The amendment is aimed at establishing a new system for local budget preparation, characterised by the following attributes:

- General-purpose transfers are appropriated directly from the State Budget to the local budgets, separately for each ATU, calculated according to a formula established by law, and different for Level-1 and Level-2 ATUs;
- The system of general-purpose transfers (for budget balancing) to local budgets is based on revenue, not on average normative costs of expenditure per capita, estimated at the central level;
- General-purpose transfers are calculated on the basis of the preceding annual budget execution report and on the official demographic data;
- The rates for shared state tax revenues are established by law and by types of local budgets;
- The following ATU competences are funded by special-purpose transfers: pre-school, primary and general secondary, special and complementary (extra-scholar) education and other delegated functions<sup>15</sup>;
- The remaining ATU competences are funded by own-source revenues, shares from state taxes and duties, and general-purpose transfers calculated according to a formula;
- The prioritization and use of financial resources are at the discretion of the ATUs.

A new system for the preparation of local budgets was piloted for the 2014 budgets in the ATUs within three districts and in Chisinau municipality, and since 1 January 2014, after entry into force of the above mentioned amendment of the LLPF, the budgets of all ATUs are prepared according to the new system (i.e. the 2015 budgets).

Another innovation is the new web-based reporting system for ATUs, established by the MoF that allows programme based budget preparation and consolidation of local budget data by sectors (economic classification).

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<sup>15</sup> by the Parliament at the Government proposal (ex. For 2015 - social payments from local budgets).

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

Score (scoring method M1)		A
Dimension	Minimum requirements	
(i) Extent of central government monitoring of AGAs, SOEs and JSCs.	(i) All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually.	A
(ii) Extent of central government monitoring of the fiscal position of sub-national governments	The net fiscal position is monitored at least annually for the most important level of sub-national government, and central government consolidates overall fiscal risk into a report.	A

*(i) Extent of central government monitoring of AGAs, SOEs and JSCs.*

As of 1 October 2014, the Public Property Agency (PPA) of the Ministry of Economy has registered the following entities:

- 246 SOEs with overall capitalization of MDL 6,436.5 million; and
- 113 JSCs with overall capitalization of MDL 5,367.6 million, of which MDL 3,778.1 million or 70.4 % belong to the state.

This is a decrease in numbers – but not in volume – compared to 315 SOEs (MDL 5.6 billion) and 196 JSCs (MDL 3.7 billion) in 2010.

AGAs are not considered in this analysis. They are subordinated to and strictly controlled by the government.

Oversight responsibilities lie with the “Division for Analysis and Regulation of the State Assets and Financial Sector” of the MoF (hereinafter “Analysis Division”) which monitors the financial status of SOEs and JSCs with 50+1% state participation. Financial monitoring is carried out by this Division in accordance with Article 21 of the Law on Administration and Denationalisation of Public Property No 121-XVI of 4 May 2007. Monitoring is conducted on the basis of the following information:

- Quarterly statistical reports<sup>16</sup> which are prepared by the management of the entities and approved by the entities’ Boards. These reports are submitted by the entities to the National Bureau of Statistics (NBS), which subsequently submits data to the MoF for monitoring purposes. The entity’s Board presents the information related to the financial situation of the entity to the line ministries and agencies:
  - Annual financial statements;
  - Auditor’s reports on the financial statements;
  - Information from the Main State Tax Inspectorate on tax liabilities of SOEs;
  - information provided by the National Commission for Financial Markets about the transactions involving national property.
- Information related to internal and external loans that are contracted for one year and longer by the entities, generalized according to Article 12 of the Law No 419-XVI of 22 December 2006 on the Public Debt, State Guarantees and on-Lending from State Borrowing. This information is provided by the General Public Debt Division of the MoF.

<sup>16</sup> “Quarterly Statistical Research No 5-CI “Consumption, Expenditure and Investments of the Enterprise”.

The SE “FinTechInform”, subordinated to the MoF, maintains a MIS which supports the Analysis Division in processing data from the annual financial statements and from the quarterly statistical reports received from the NBS. This system was recently upgraded with new economic financial indicators to facilitate financial monitoring to expand the scope of economic financial analysis. On the basis of the submitted quarterly reports, the Analysis Division prepares a consolidated quarterly report, covering all SOEs and JSCs and including the assessment of fiscal risk. Consolidated financial monitoring results are submitted quarterly and annually to the PPA and to the government. The Analysis Division also prepares a breakdown of financial performance and fiscal risk for line ministries regarding the SOEs and JSCs under their oversight.

As a result of the financial monitoring the MoF identifies problematic entities according to criteria such as a high level of indebtedness, negative value of own capital, significant reduction of profit etc. In the event that risks are identified, the MoF has the discretion to request an inspection by the Financial Inspection. Aggregated financial information derived from the Analysis Division’s monitoring and reporting system includes a report on fiscal risks, which is used for preparing the consolidated financial monitoring report that is included in the draft annual budget documentation.

According to the Law on Audit Activity (No 61-XVI of the 16<sup>th</sup> of March 2007), Law on state enterprises (No146-XIII from 16<sup>th</sup> of June 1994) and Law on joint stock companies (No1134-XIII from 02<sup>nd</sup> of April 1997), all SEs and JSCs are obliged to have their annual financial reports audited by independent external auditors (approved by the Government on MoF proposal). The activity of the SEs and JSCs may also be audited by the Court of Accounts and inspected by the Financial Inspection. Since smaller entities cannot afford the audit of annual financial statements, criteria have been introduced by a legal amendment<sup>17</sup>. Thereafter, audit is only compulsory if the SE meets at least two out of the following criteria: a share capital exceeding MDL 5 million; revenue exceeding MDL 10 million, and average number of employees exceeding 100 persons in the two previous consecutive reporting periods.

All conditions for score A are fulfilled.

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

Budget execution at local government level is subject to tight controls by the central Treasury and its subordinated territorial units. Once ATUs have completed their annual budget preparation process, including planning of fiscal transfers, shared taxes and own-source revenue, they rely on the Treasury for financial and cash flow management. In practice, a cash rationing system is in place with spending priorities being decided by local government based on available liquidity and communicated to the territorial treasuries.

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<sup>17</sup> Law No 324 of 23 December 2013 on Amendments and Addenda to Certain Legislative Acts, by which amendments were made to the Law on State-Owned Enterprises No 146-XIII of 16 June 1994. This Law also amended the Law on Joint Stock Companies No 1134-XIII of 2 April 1997, regarding the annual audit of financial statements of state-owned Joint Stock Companies that meet the pre-set criteria (Joint Stock Companies with the State participation of at least 50 + 1 shares must audit the annual financial statements) was mandatory.

Transfers made by central government to Level-2 ATUs and transfers made by Level-2 to Level-1 ATUs (see PI-8 for details) are based on annual appropriations and subject to strict control via the monthly allocation process. Allocation cannot be exceeded without MoF approval and/or revisions in the appropriations authorised by Parliament.

Via the Treasury, the MoF monitors the execution of ATU budgets through the territorial treasuries on a daily basis. Consolidated quarterly and annual reports on the execution of ATUs' budgets are prepared, approved by the local councils and published on the website of MoF since 2004.

ATUs also submit to MoF reports on debt repayment by the end of the reporting month, including payments in arrears (not settled after 30 days from having fallen due). The MoF prepares quarterly consolidated debt analysis reports where the ATUs' internal and external debt is evidenced. In the first quarter of 2015 the external ATU debt amounted to 1% and the internal ATU debt to 0.6%. ATUs' consolidated debt service figures are contained in the budget execution reports.

The LLPF regulates the access of Level-1 and Level-2 ATUs to short-term and long-term loans from domestic and foreign creditors. Level-2 ATUs are authorized to issue guarantees to Level-1 ATUs only with regard to loans for capital investments.

#### *Comparison of 2015 and 2011 assessments*

Compared with the 2011 PEFA, the main changes for dimension (i) relate to:

- the introduction of criteria which limit the obligation for external audit of financial statements;
- the requirement for submission of the auditor's report to the MoF;
- alignment of financial monitoring with the new National Accounting Standards;
- the upgrade of the Fintechinform MIS;
- Increased transparency regarding procurement of SOEs and JSCs (see PI-19);
- SIGMA Assistance to the Analysis Division for improving the financial monitoring capacities and mechanisms, in 2014.

For dimension (ii), there was no significant change since the 2011 PEFA assessment.

#### *Development 2015*

Training on the new National Accounting Standards will be held for the members of the censors Commissions.

PI-10. Public access to key fiscal information

		Score (scoring method M1)	B
Dimension	Minimum requirements		
Public access to key fiscal information	The government makes public all the 6 listed types of information		B

The table below discusses the elements determining public access to the last available key fiscal information.

**Table 29 - Elements determining public access to key fiscal information for the fiscal year 2013**

Item	Explanation and Source	Result
(i) Annual budget documentation: a complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	The State Budget and the MTBF are published in the Official Gazette and on the web site of the MoF <sup>18</sup> .	<u>Compliant</u>
(ii) In-year budget execution reports: the reports are routinely made available to the public through appropriate means within one month of their completion.	Monthly and quarterly budget execution reports for all components of the budget are published on the MoF website.	<u>Compliant</u>
(iii) Year-end financial statements: the statements are made available to the public through appropriate means within six months after the audit.	<p>The annual State budget execution reports for all components of the budget are published on the MoF website and in the Official Gazette after approval by the Parliament and independently of the audit by the Court of Accounts (CoA).</p> <p>Due date according to the Law on Budget System and Budget Process is 15 July, which is generally later than six months after the end of the budget year.</p> <p>The 2013 State Budget Execution Report:</p> <ul style="list-style-type: none"> <li>• Approved by the Parliament on 3 July 2015. The delay was due to political reasons;</li> <li>• Published on 25 August 2015;</li> <li>• Audit Report published by the CoA on 25 July 2014.</li> </ul>	<u>Not compliant</u>
(iv) External Audit Reports: all reports on central government consolidated operations are made available to the public through appropriate means	According to Law No 261-VXI of 5 December 2008, the Court of Accounts, should submit to the Parliament the Annual Report on the administration and use of public financial resources and public property every year before 10th of October. The Report should be published in the Official Gazette	<u>Not compliant</u>

<sup>18</sup> <http://mf.gov.md/TranspDeciz/ProiecDeciz/bsparl>.

Item	Explanation and Source	Result
within six months after the audit was completed.	<p>within 15 days after review by the Parliament. Audit reports are also published on the website of the Court of Accounts</p> <ul style="list-style-type: none"> <li>The 2013 Report was presented to Parliament in October 2014. It was reviewed by Budget and Finance Committee and a decision was adopted to mandate the government to implement the recommendations. The report was however not published in the Official Gazette.</li> </ul>	
(v) Contract awards: award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	The information about the awarded contracts is published at least once a month both on the site of the Public Procurement Agency and in the Public Procurement Bulletin (see PI-19).	<u>Compliant</u>
(vi) The resources available to primary service units: information is made public through appropriate means at least annually, or made available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Resources made available to primary education (which is under the competence of local government) are published in the frame of the ATU budget execution reports (monthly earmarked transfers); resources made available to primary health care centres are published in the frame of the quarterly CIFMA budget execution reports.	<u>Compliant</u>

There is compliance only for 4 criteria, and the score is thus B.

The Court of Accounts is aware about inconsistencies in the legal framework where it is stipulated that the report cannot be published before discussion in the Parliament.

#### *Comparison of 2015 and 2011 assessments*

In the 2011 PEFA, there was full compliance for five criteria and partial compliance for criterion (iii), thus score A, which cannot be maintained for the period under review due to the disruptions in 2014.

#### *Developments in 2015*

No development.

### 3.3 Policy-based budgeting

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

Score (scoring method M2)		B
Dimension	Minimum requirements	
(i) Existence of and adherence to a fixed budget calendar.	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows ministries and agencies reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.	B
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	A comprehensive and clear budget circular is issued to ministries and agencies, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.	B
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.	C

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

During the period under review, the budget preparation process was governed by the following legislation:

- The Law on Budget System and Budget Process (LBSBP) (No 847-XIII as of 24 May 1996) that establishes the key deadlines for approval of the draft annual budget by the Government, submission to Parliament and approval of deadline for appropriation of the Budget Law by Parliament;
- Law on Local Public Finances (No 397-XV of 16 October 2003) that establishes the key deadlines for budget approval by level 1 and 2 ATUs;
- Government Decision No 82 of 24 January 2006 that establishes the MTBF and annual budget preparation calendar for central government entities and ATUs and sample medium term expenditure forecast calendar for ATUs.

Table 30 below reflects the terms from GD 82/2006 and analyses compliance with the calendar during the period under review (2012-2014).

**Table 30 - Degree of adherence to budget calendar for MTBF and annual budgets 2012- 2014**

Milestones in budget calendar	Deadline	Actual 2013 budget process	Actual 2014 budget process	Actual 2015 budget process
Update of the macroeconomic framework	07 February	27 February	20 February	07 February
Preparation of the basic macro-fiscal framework (revenue, expenditure, deficit)	25 February	29 March	26 February	28 February

Milestones in budget calendar	Deadline	Actual 2013 budget process	Actual 2014 budget process	Actual 2015 budget process
Central government entities submit to MoF their draft MTBF expenditure strategies	25 February	15 May	19 July	April-May
Notification of expenditure ceilings to central government entities	20 March	26 April	25 June	25 March
The Government approves MTBF	-	Published on the MoF website	Approved by the MoF Collegium on 24 December 2013 and published on the MoF website	Approved by ICSP on 15 July 2014 and published on the MoF website
MoF issues annual budget methodological instructions to central government entities and ATUs, including budget ceilings	20 April	4 June/6 June	21 June/14 June and 15 July	18 June /12 June
Central government entities and ATUs submit to MoF their draft annual budgets	1 June	9 July/16-20 June	23 July/23-31 July	18 July/14-22 July
Approval of the medium term expenditure forecasts of ATUs by local governments	20 June	See PI-8.		
Budget negotiations/hearings between MoF, central government entities and ATUs	01 June - 20 July	20-31 July /31 July - 2 August	5-21 August/15-17 October	28 July - 11 August/21-24 August
MoF submits to Government the draft annual budget	25 August	21 September	22 November	31 March 2015
GoM approves the draft annual budget and submits it to Parliament – Articles 26 and 32 of LBSBP.	1 October	28 September	3 December	8 April 2015
Adoption by Parliament of the annual budget law and appropriations – Article 31 of LBSBP.	5 December	2 November	23 December	12 April 2015
Level 2 ATUs approve their final annual budgets	10 December	See PI-8.		
Level 1 ATUs approve their final annual budgets	15 December	See PI-8.		



The main shortcoming evidenced by the above table is that the MTBFs for the periods 2013-2015, 2014-2016 and 2015-2017 have not been formally adopted. The reasons, which are mainly due to external factors (political issues related to the elections and the impact of the economic crisis), are further described under PI-12. However, the fact that the Government did not approve those MTBFs has not affected the budget process for these years, because all CPAs have been officially informed about the expenditure ceilings, they have drafted their expenditure strategies, and the annual budget laws for 2013 and 2014 have been adopted by the Parliament before the start of the fiscal year. In contrast, the 2015 draft State Budget Law was prepared, but due to political reasons (Parliamentary elections and change of government), it was not submitted to the government in due time. Nevertheless, the 2015 Interim State Budget was approved by the MoF as budget administrator by the Order No 183 of 22 December 2014, and posted on the MoF website.

In spite of these disruptions, the calendar allowed CPAs sufficient time to complete their budget submissions on time. In all three years under review, this timeframe was slightly more than four weeks from receipt of the budget circular, but significantly less than 6 weeks. Therefore, the score B is maintained.

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

During the annual budget preparation process, the MoF issues detailed methodological instructions which include macro-fiscal assumptions and guidelines for the presentation of the MTBF and the annual budget. These instructions define the process and inform CPAs on the expenditure ceilings by function for the forthcoming fiscal year and the two subsequent years. Specific guidelines describe the methodology for expenditure forecasting (e.g. for payroll and indexation of expenditure for commodities and services). Taking into account that the budget is now fully programme based, standards and definitions for the preparation of programme and performance based budget submissions are included as well.

The instructions also provide guidelines on revenue forecasting for the revenue collecting entities, including a description of each tax and the basis for the forecasts.

LPAs are only informed about the main principles of the State revenue and expenditure policy for the forthcoming years, as well as on the calculation of transfers from the State budget to the local budgets.

It can be concluded that a comprehensive and clear budget circular is issued to CPAs, which reflects ceilings.

In spite of the lack of a formal adoption of the budget estimates by the Cabinet, a political involvement of the government in establishing and approving the ceilings was ensured: both the MoF Collegium and the ICSP (Inter-ministerial Committee for Strategic Planning), which have approved the MTBFs 2014-2016 and 2015-2017 respectively, are inter-ministerial bodies comprised of Ministers. The MTBF 2013-2015, including the ceilings contained therein, have been discussed and approved in a Coordinating Group with representatives of the ministries at Minister level. It can therefore be concluded that the ceilings were approved by an “equivalent” of the Cabinet. It should also be noted that these disruptions – which are of political and not of systemic order – have not affected the

integrity of the process, and budgets have been regularly adopted before the start of the fiscal year.

The situation is comparable to the one observed in the PEFA 2011, and the score B is maintained.

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

The LBSPB requires the adoption of the annual budget law by 5 December. For the period under review, there have been delays twice, namely for the 2014 budget and for the 2015 budget:

- The 2013 Budget was adopted on 2 November 2012 – Law No 249 on 2013 State Budget;
- The 2014 Budget was adopted on 23 December 2013 – Law No 339 on 2014 State Budget;
- The 2015 Budget was adopted on 12 April 2015 – Law No 72 on 2014 State Budget with an interim State Budget, approved by the MoF, in place from January to April 2015 (whereby also SSIF and CIFMA operated under the interim procedures).

According to the PEFA methodology, it is relevant whether the budget was approved before the start of the fiscal year. Given that in one year (namely the 2015 Budget) out of the three years under review, the delay in approval of the State Budget by the legislature exceeded two months, the score is “C” for this dimension, in spite of the fact that in the other two years the State Budget was approved before the start of the fiscal year.

#### *Comparison of 2015 and 2011 assessments*

The situation is comparable to one observed by the 2011 PEFA assessment with regard to the disruptions in adherence to the budget calendar. The overall score for this indicator remains B.

An innovation is that starting with 2014 budget, all state budget expenditure is program based and performance oriented.

#### *Developments in 2015*

Since 2015, the budget calendar and budget planning process are regulated by the new LPFBFA which is in force for the preparation of the 2016 budget. The new calendar (according to Article 43) stipulates 1 June for the approval of the MTBF by the government and submission to the Parliament for information, and the extension of the deadline for the submission of the draft annual budget law to 15 October. The law describes budget preparation and approval (Articles 48-61) as well as the competences and responsibilities of all actors in the process (Articles 18-25). The methodological framework for the implementation of the new law is described in the “Methodological Set on the budget drafting, approval and amendment”, approved by the Order of the Ministry of Finance No 191 of 31 December 2014.

Starting with the 2015 and 2016 budgets, program-based budgeting will also extend to Level-2 and Level-1 ATUs.

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

		Score (scoring method M2)	A
Dimension	Minimum requirements		
(i) Preparation of multi-year fiscal forecasts and functional allocations.	Forecasts of fiscal aggregate indicators (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on an on-going annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and the differences are explained.		A
(ii) Scope and frequency of debt sustainability analysis.	DSA for external and domestic debt is undertaken annually.		A
(iii) Existence of costed sector strategies.	Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.		A
(iv) Linkages between investment budgets and forward expenditure estimates.	Most of the important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.		B

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

The MTBF in Moldova was first prepared for the 2003-2005 period, and became a compulsory stage of the budget preparation process through an amendment to the Law on the Budget System and the Budget Process (No 847-XIII from 1996, as amended). It is now regulated by the new Law No 181 of 25 July 2014 on Public Finance and Budgetary and Fiscal Accountability (Articles 47-49). Specifically, Article 47 prescribes that the Government shall approve the MTBF and submit it to the Parliament by 1 June, together with the draft Law on Medium-Term Macro-Budgetary Limits and, draft legal amendments, if applicable. The Parliament shall adopt by 15 July the Law on Medium-Term Macro-Budgetary Limits which establishes the ceilings for the main headings of the national public budget (revenue, expenditures, staff expenditures and balance of the budget)<sup>19</sup>.

The process begins each year with the issuance by MoF of the relevant methodological instructions in line with Government Decision No 82 of the 24 January 2006 (see PI-11). The MTBF submissions are based on the expenditure ceilings established by the MoF and communicated to the budget institutions<sup>20</sup> for preparing or updating the sector strategies and expenditure forecasts.

In accordance with Article 48 of the Law on Public Finance and Budgetary and Fiscal Accountability, the MTBF is structured as follows:

- Section 1 – Introduction;
- Section 2 – Macroeconomic context (information on the evolution of main macroeconomic indicators that influence the budget);
- Section 3 – Tax policy (revenue policy revenue management policies, the expenditure policy, including priorities based on strategic planning documents; state debt policy; and an assessment of budgetary-fiscal risks);

<sup>19</sup> This provision will be enacted effective 2016 for the 2017-2019 budget cycle.

<sup>20</sup> Central Public Authorities and agencies.

- Section 4 – Macro-fiscal context (revenues and expenditures by components; payroll expenditures; balance of the national public budget; balance of the internal and external state debt);
- Section 5 – Expenditure framework (sector ceilings by component, and inter-governmental transfers).

Since the 2011-2013 period, the MTBF also includes a section on the impact of new policy measures on expenditure.

MTBF documents have been prepared for the 3-year rolling periods under review, i.e. in 2012 for 2013-2015; in 2013 for 2014-2016, and in 2014 for 2015-2017.

The 2013-2015 MTBF was published on the MoF website and has served as basis for the preparation of the 2013 annual budget. However, during the assessed period, the 2013-2015 MTBF document was not adopted by the Government, since the macroeconomic indicators on which it was based had become obsolete due to the slowdown in economic growth.

The 2014-2016 MTBF was prepared and approved by the Collegium of the Ministry of Finance on 24 December 2013, and published on the MoF website. This MTBF was however again not adopted by the government due to political changes and the need for coordinating the fiscal policy and the macroeconomic and macro-fiscal indicators with IMF in order to sign a new programme with the IMF.

The preparation of the 2015-2017 MTBF was delayed, and the reason was again a review of the macro-economic indicators which occurred only in May 2014, requiring thus adjustments on the revenue and expenditure plans. The MTBF was submitted to the Government in July 2014, approved by the Inter-Ministerial Committee on Strategic Planning on 15 July 2014 and posted on the website of the MoF.

The fact that the Government did not approve the MTBF for the periods 2013-2015, 2014-2016 and 2015-2017 has not affected the budget process for these years, because all budget institutions have been officially informed about the expenditure ceilings, and the annual budget laws for 2013 and 2014 have been adopted by the Parliament before the start of the fiscal year. The 2015 interim State Budget was approved by the MoF as budget administrator by the Order No 183 of 22 December 2014, and posted on the MoF website.

The MTBF provides the ceilings for the upcoming budget year and estimates for the two forthcoming years. In addition, the MTBF and annual State Budget law use the same budget headings establishing a clear and transparent link between the MTBF forecasted ceilings and annual budget appropriations.

The tables 31 and 32 show a comparison of

- the 2013 ceilings included in the MTBF 2013-2015 and the corresponding 2013 State Budget appropriations; and
- the 2014 ceilings included in the MTBF 2014-2016 and the corresponding 2014 State Budget appropriations.

**Table 31 - Deviations between 2013 ceiling included in the MTBF 2013-2015 and 2013 State Budget appropriations**

No	Sector	Ceiling for 2013 according to the MTBF 2013-2015	Appropriation in the 2013 Annual Budget	Deviation in %
1.	Public education and education services	1,908,941.9	1,909,291.9	0.0%
2.	Healthcare	2,947,496.2	2,947,496.2	0.0%
3.	Social protection	4,068,298.7	4,068,298.7	0.0%
4.	Culture	264,158.9	269,057.0	1.9%
5.	Science and innovation	383,977.1	349,922.5	-8.9%
6.	Youth and sport	72,280.5	87,482.4	21.0%
7.	Tourism development	4,105.0	4,105.0	0.0%
8.	Penitentiary system	323,787.4	328,230.3	1.4%
9.	Justice	624,115.8	624,115.8	0.0%
10.	National defence	306,902.4	306,902.4	0.0%
11.	Agriculture and forestry	1,500,522.9	1,500,522.9	0.0%
12.	Transport development	2,122,993.5	2,122,993.5	0.0%
13.	Environment protection and hydrometeorology	355,156.6	395,803.4	11.4%
14.	Water management	166,434.8	173,361.6	4.2%
15.	Energy sector	419,022.2	419,022.2	0.0%
16.	Quality infrastructure and consumer protection	25,170.0	17,772.5	-29.4%

Source: MTBF 2013-2015 and 2013 State Budget Law.

Deviations result from the fact that financing of investment projects in the water sector became available from donors (water pipelines renovation or construction). The increase in the "Youth and Sport" sector is linked to the spending increase for the Olympic Games preparation at request of the Parliamentarians. The decrease in the "Science and innovation" sector is a result of structural reforms in education through which expenses for PhD studies have been moved from the Academy of Science to the Education budget.

**Table 32 - Deviations between 2014 ceiling included in the MTBF 2014-2016 and 2014 State Budget appropriations**

No	Sector	Ceiling for 2013 according to the MTBF 2014-2016	Appropriation in the 2014 Annual Budget	Deviation in %
1.	Public education and education services	3,432,269.2	3,432,269.2	0.0
2.	Healthcare	2,911,399.6	2,911,399.6	0.0
3.	Social protection	5,020,262.9	5,020,262.9	0.0
4.	Culture	287,540.5	287,540.5	0.0
5.	Science and innovation	405,736.4	405,736.4	0.0
6.	Youth and sport	89,178.0	89,178.0	0.0
7.	Tourism development	4,123.3	4,123.3	0.0

No	Sector	Ceiling for 2013	Appropriatio	Deviation
8.	Penitentiary system	390,192.8	390,192.8	0.0
9.	Justice	667,448.1	667,448.1	0.0
10.	National defence	380,287.3	380,287.3	0.0
11.	Agriculture and forestry	1,905,629.8	1,905,629.8	0.0
12.	Transport development	2,571,540.4	2,571,540.4	0.0
13.	Environment protection and hydrometeorology	424,571.4	424,571.4	0.0
14.	Water management	15,472.5	15,472.5	0.0
15.	Energy sector	408,754.9	408,754.9	0.0
16.	Quality infrastructure and consumer protection	21,045.6	21,045.6	0.0

Source: MTBF 2014-2016 and 2014 State Budget Law.

Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear.

There are no grounds for the score B in the 2011 PEFA assessment, and the score is therefore raised to A.

*(ii) Scope and frequency of debt sustainability analysis.*

An analysis of Central Government debt can be found in the relevant annual report produced by the Public Debt Division of the MoF. The analysis includes Central Government debt sustainability indicators used to enable better management of debt issuance and payments, present dynamics for the last two years and detect potential risks.

The Report on the Situation of Public Sector Debt, State Guarantees and State On-Lending is submitted quarterly and annually to the Government and Parliament.

The Medium-term Debt Management Strategy (see PI-17), which the MoF prepares after consultations with the NBM, includes a section with an analysis of current Central Government debt performance indicators and forecasts regarding the evolution of internal and external Central Government debt in the next three years. Sustainability parameters for the period 2015-2017 have been identified in the Medium-term Debt management strategy as follows:

- Share of the state debt service in relation to revenue of the main component of the State Budget:  $\leq 22\%$ ;
- Share of general government debt (State and ATU debt) in relation to GDP  $\leq 60\%$  GDP.

The debt sustainability analysis for the public sector (except for enterprises of the public sector) and external debt of the central administration is also conducted outside the MoF by representatives of IMF and the World Bank, whereby the NBM has a role in the process (see PI-17). In the period under review, this analysis by the IMF was conducted in 2012 and 2014.

*(iii) Existence of costed sector strategies*

In the 2015-2017 MTBF the number of sectors for which sector expenditure projections are developed was increased to 17 (education; healthcare; social protection; culture and arts; youth and sports; science and innovation; tourism; justice; penitentiary system; national defence; transport; agriculture and forestry; water management; environment protection; and additionally: private sector development strategy; quality and consumer protection infrastructure; and energy) as compared to 14 in the 2011-2013 MTBF. Over 85% of public expenditures are covered, as compared to 84% in the 2011-2013 MTBF.

At the stage of drafting the MTBF, the preparation of sector strategies by central government entities is coordinated by the Policy, Strategic Planning and External Assistance Division of the State Chancellery. The intention is to contribute to a better linkage between sector strategies, MTBF and measures envisaged in the Action Plan for the implementation of the “Moldova 2020” National Strategy. Sector strategies are costed– covering investment and recurrent costs - and aligned to the MTBF. They include the MTBF ceilings by programmes.

However, strategic linkages between the National Strategy, the MTBF and the performance indicators in the annual budgets could be improved.

*(iv) Linkages between investment budgets and forward expenditure estimates.*

The public investment programme is prepared by the National Economy Finance and Capital Expenditures Division of the MoF and incorporated in the MTBF and in the annual budget. The Public Debt General Division cooperates in this process by keeping track of external funding sources for capital projects.

Proposals for investment projects are prioritized in accordance with the strategic sector priorities in the MTBF and are planned against the medium term fiscal projections. The Law on Public Finance and Budgetary and Fiscal Accountability (Article 40) stipulates that capital investment projects are included in the budget and must derived from sector strategic plans. According to the MoF there is an emphasis on making sure that current costs and future liabilities of capital investment projects are captured and reflected in the MTBF sector expenditure plans. The MTBF rolls/updates the capital programme. Projects with a high completion degree (more than 70% of works completed) are prioritized.

A new Regulation on Public Capital Investment Projects (GD No 1029 of 19 December 2013) was adopted in 2013 and provides the methodological framework with clear criteria for appraisal and selection of capital investment projects, whose values exceed MDL 5 million. It covers: (i) responsibilities in the area of capital investments; (ii) the capital investment project cycle; and (iii) the annexes (Feasibility Study, project appraisal criteria, and forms). This regulation was however not yet in effect in the period under review, and its implementation is still now in the early stages. Skill shortages in the budget institutions constrain effective investment decisions and smooth implementation of the project cycle.

*Comparison of 2015 and 2011*

There were no major changes in comparison with 2011 PEFA on the dimensions (i) and (iii), but the inadequate score for (i) was corrected.

On dimension (ii), it is noteworthy that the quality of the Medium-Term Debt Management Strategy has improved, thus providing for a debt sustainability analysis.

On dimension (iv), the new Regulation on Public Capital Investment Projects will contribute to improving the public investment management process.

*Developments in 2015*

No specific developments, but there are initiatives to increase the coverage with sector expenditures strategies for more sectors. Currently, only 17 sectors - covering 85% of the National Public Budget – have strategies. For instance, there are no strategies for important sectors such as public order, IT development, and regional development.



### 3.4 Predictability and control in budget execution

#### PI-13. Transparency of taxpayer obligations and liabilities

Score (scoring method M2)		A
Dimension	Minimum requirements	
(i) Clarity and comprehensiveness of taxpayer obligations and liabilities.	Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.	A
(ii) Taxpayers' access to information on tax liabilities and administrative procedures.	Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	A
(iii) Existence and functioning of a tax appeals mechanism.	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.	B

With respect to PI-13, PI-14 and PI-15, the two following tables reflect the relative importance of the Customs Service (CS) vis-à-vis the Main State Tax Inspectorate (MSTI).

**Table 33 - Relative importance of main revenue categories**

	2012	2013	2014	2012	2013	2014
	mln. Lei			%age		
Income taxes	770.4	801.0	2,626.0	3.8	3.6	9.5
Domestic taxes on goods and services	14,121.3	16,118.7	17,845.3	70.3	71.8	64.4
<i>Of which: VAT</i>	<i>10,638.8</i>	<i>12,129.5</i>	<i>12,815.0</i>	<i>53.0</i>	<i>54.1</i>	<i>46.2</i>
Import duties	1,286.5	1,417.2	1,457.9	6.4	6.3	5.3
Other revenue	3,912.4	4,099.8	5,788.5	19.5	18.3	20.9
Total revenue	20,090.6	22,436.7	27,717.7	100.0	100.0	100.0

Source: MoF budget execution reports 2012-2014.

This table shows the unusual importance in Moldova of taxes on goods and services. First and foremost, of Value Added Tax (VAT), which accounts for half of all revenue; secondly also of the excises. This matters for the relative importance of the Customs Service vis-à-vis the Main State Tax Inspectorate (MSTI), because the vast majority of both VAT and excises are collected at the border by the Customs Service. See the following table (in billions of lei).

**Table 34 - Relative importance of VAT collections by the Customs Service**

Year	VAT total	Import VAT	Share of Customs Service
2012	10.64	8.91	83.8%
2013	12.13	10.11	83.3%
2014	12.81	10.89	85.0%

Source: Customs Service.

This background information is relevant for determining the weight of the information reported by the State Tax Inspectorate and the Customs Service respectively.

*(i) Clarity and comprehensiveness of taxpayer obligations and liabilities*

The main sources of public revenues in Moldova are taxes, fees and customs duties collected by the State Tax Service (STS) and the Customs Service (CS). In addition, social insurance and the mandatory health care insurance, managed by the National Social Insurance House (NSIH) and the National Health Insurance Company (NHIC), respectively – contribute significantly to the National Public Budget, administration of collected payments which is actually also done by the tax bodies.

At this moment in time, taxpayers' obligations and liabilities are stipulated in the following laws and regulations:

- Tax Code, No 1163-XIII of 24 April 1997;
- Customs Code No 1149-XIV of 20 July 2000;
- Code of Administrative Offences (approved by Law No 218-XVI of 24 October 2008);
- Criminal Code (approved by Law No 985-XV of 18 April 2001);
- Law on Customs Tariff No 1380-XII of 20 November 1997;
- Annual Laws on the State Social Insurance Fund and Laws on the Compulsory Insurance Funds for Medical Assistance;
- Law No 220-XVI of 19 October 2007 on State Registration of Legal Entities and Individual Entrepreneurs;
- Law No 1353 of 3 November 2000 on Agricultural Households and the Decision of the Government of the Republic of Moldova No 977 of 14 March 2001 on the Registration of Agricultural Households;
- Law No 837-XIII of 17 May 1996 on Non-Government Organizations that sets out the NGO registration and liquidation procedure;
- Law No. 489-XIV of 8 July 1999 on the public system of social insurance;
- Law No. 1585-III of February 27 1998 on the compulsory insurance of medical assistance;
- Law No. 720-XIII of 02.02.1996 on the Road Fund;
- Law No. 93-XIV of 15.07.1998 on the Entrepreneurship Patent;
- Law No. 1417 of 17 December 1997 implementing Title III of the Tax Code;
- Law No. 1054 of 16 June 2000 implementing Title IV of the Tax Code;
- Law No. 408 of 26 July 2001 implementing Title V of the Tax Code;
- Law No. 1056 of 16.06.2000 implementing Title VI of the Tax Code;
- Law No. 827-XIV of 18.02.2000 on the republican and local funds for social support of the population.

**Legal amendments.** Most of the legal acts have been reviewed, revised and partially completed (from the previous draft status) during 2012-2014. *Inter alia*, the Tax Code was complemented with the following additional provisions:

- The new Chapter 11<sup>1</sup> (articles 226<sup>1</sup>-226<sup>16</sup>) in Title V of the Tax Code on indirect methods of estimation of individuals' taxable income, in force since 13 January 2012. This new Chapter regulates the tax intelligence function;
- Before there was a 0% rate Corporate Income Tax (CIT)<sup>21</sup>. Since 1 January 2012 it is 12% (Tax Code art. 15b). This must have raised MSTI's workload considerably, along with the fact that the number of taxpayers is increasing, because of a process of fragmentation of formerly state-owned companies. Nevertheless, the number of MSTI officers is going down. Initially when established in 1990 it had over 3,000 officers, but

<sup>21</sup> <https://www.imf.org/external/pubs/ft/wp/2008/wp08203.pdf>.

now these are 1,912, which means a reduction by about 35% over 25 years. This development is offset by the process of computerisation;

- A special regime was put in place for small and medium enterprises, their operational revenues (turnover) being taxed at the rate of 3%;
- Since 2014, a pre-filled tax return mechanism was implemented in the Republic of Moldova, this one facilitating revenue declaration and shortening the time that individuals need to comply;
- With respect to excises, the specific rates (as distinguished from the ad valorem rates, see the table after art. 128 of the Tax Code) were adjusted for inflation;
- For tobacco products, Moldova is adjusting its excise rates gradually to the requirements of the EU directives. The World Health Organization, which considers tobacco worldwide public health enemy number one, and which believes that every year more than 6,300 of the people of Moldova are killed by tobacco products, reports that in Moldova in 2012 taxes made up only 43.7% of the retail price of a pack of 20 cigarettes. The World Bank recommends that taxes make up a share from two thirds (say 65%) to four fifths (80%) of the retail price of tobacco products. These are the percentages that are common in countries with effective tobacco control policies; Against that background, the Government of Moldova by Law No. 324 of 23 December 2013 amended the content of Annex No. 1 of Title V of the Tax Code, raising the excise rate for filter cigarettes containing tobacco from “45 MDL + 24%” to “75 MDL + 24%” per unit (1000 pieces). Members of Parliament submitted an application to the Constitutional court on 19 March 2014 arguing that the manner of adopting the challenged provisions had violated the procedure of working out the national public budget laid down in Article 131 para (4) and (6) of the Constitution. Six days later, on 25 March 2014, the Constitutional Court decided that indeed that had been the case, and declared the new excise rate unconstitutional<sup>22</sup>. Later on the formal requirements were met after all, so the tax rise entered into force without further complications;
- With respect to Value Added Tax (VAT), the rate on food and livestock was reduced from 20% to 8%, reducing the repressiveness (the relative burden on the lowest income groups) of VAT;
- The new Chapter 3<sup>1</sup> (articles 348<sup>1</sup> - 348<sup>5</sup>) in Title IX (“Road Taxes”) on “Tax for the use of roads of the Republic of Moldova by vehicles not registered in the Republic of Moldova, classified under tariff heading 8703 and by trailers attached to them, classified under tariff heading 8716 (Vignette)”, was inserted. This chapter introduces road tax vignettes for owners of cars that are registered abroad, for using their car in Moldova;
- In 2012 the World Customs Organisation released the new version of the Harmonised System, as it does periodically every 5 years<sup>23</sup>. Moldova started implementing this new version as per 1 January 2015, which cannot be considered fast.

The regulatory framework provides to a high extent transparency, as the adopted legal acts (laws) define most of the administrative procedures including the obligations of reporting, payments and sanctioning of non-compliance.

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<sup>22</sup> [www.constcourt.md/libview.php?l=en&id=535&idc=7&t=/Overview/Press-Service/News/Modification-of-the-excise-rates-for-tobacco-products-without-the-approval-of-the-Government-unconstitutional/](http://www.constcourt.md/libview.php?l=en&id=535&idc=7&t=/Overview/Press-Service/News/Modification-of-the-excise-rates-for-tobacco-products-without-the-approval-of-the-Government-unconstitutional/).

<sup>23</sup> [www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs\\_nomenclature\\_2012/hs\\_nomenclature\\_table\\_2012.aspx](http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs_nomenclature_2012/hs_nomenclature_table_2012.aspx).

Yet this may not be fully adequate for meeting the continuous challenges instigated by the grey/black economic activities, which is why major improvements in tax administration remain necessary to help boost revenue, including from the informal economy.

The regulations for business liquidation, included in a number of laws are not supplemented by a generalized regulation which would help supervisory bodies approach this complex topic and improve the sole proprietorship liquidation process (individuals).

**Exemptions.** All exemptions from tax are laid down in law (like Tax Code art. 33 – 36), they cannot be granted by an administrative decision. From every possible angle, including that of clarity and the limitation of discretionary powers of the tax administration, this is positive.

**Tax rulings.** Many countries have the instrument of “tax rulings”, which are written interpretations of the tax legislation issued by the tax authorities that the taxpayer can rely on, as they are binding on the tax authorities. They can be either public rulings<sup>24</sup>, which are published, or private rulings<sup>25</sup>, which are communicated to a single taxpayer on his request. This instrument could definitely promote the clarity of the tax legislation. Moldova’s Tax Code does not mention them. Instead, MSTI has various other arrangements.

First, sub-clause 133 1d of the Tax Code provides:

“(1) The Main State Tax Inspectorate under the Ministry of Finance of the Republic of Moldova (hereinafter the Main State Tax Inspectorate), shall: (...)

d) organise the popularisation of the tax legislation, answer letters, complaints and other petitions from taxpayers, in the established manner.”

The questions and answers mentioned in this sub-clause are stored in a database which is continuously updated and published at <http://monitorul.fisc.md><sup>27</sup>.

Second, there is an advisory board under the Main State Tax Inspectorate. It was established by a government decision in December 2010, inserting article 4<sup>1</sup> in the Annex to Government Decision No 1736 from 31 December 2002 on the Regulation of the Activity of the State Tax Service<sup>28</sup>. The members of this advisory board are representatives of the tax inspectorate, of taxpayers, and of academia. They review issues of fiscal law and recommend solutions.

The Customs Service also has an advisory board<sup>29</sup>. Its legal basis is Customs Service Order No 87-0 of 23.02.2013 on the Regulation of the Customs Service Consultative Committee<sup>30</sup>. According to the members it works well. It has to have meetings at least on a quarterly basis for the customs houses, but if necessary it can be convened more often, and that is what normally happens. The board is also used to inform the businesses about the changes made, and to get their feedback on draft amendments.

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<sup>24</sup> [https://en.wikipedia.org/wiki/Revenue\\_ruling](https://en.wikipedia.org/wiki/Revenue_ruling).

<sup>25</sup> [https://en.wikipedia.org/wiki/Private\\_letter\\_ruling](https://en.wikipedia.org/wiki/Private_letter_ruling).

<sup>26</sup> Another member of this network of tax information sites is [www.fiscservinform.md](http://www.fiscservinform.md).

<sup>27</sup> Another member of this network of tax information sites is [www.fiscservinform.md](http://www.fiscservinform.md).

<sup>28</sup> [http://lex.justice.md/document\\_rom.php?id=8AB4B41E:7318F071](http://lex.justice.md/document_rom.php?id=8AB4B41E:7318F071).

<sup>29</sup> [www.customs.gov.md/ro/content/consiliul-consultativ-0](http://www.customs.gov.md/ro/content/consiliul-consultativ-0); the corresponding page in English, [www.customs.gov.md/en/content/advisory-board-0](http://www.customs.gov.md/en/content/advisory-board-0), is empty.

<sup>30</sup> [www.aita.md/index.php/ro/biblioteca/arhiva-articolelor/11-noutati/123-ordin-nr-87-0](http://www.aita.md/index.php/ro/biblioteca/arhiva-articolelor/11-noutati/123-ordin-nr-87-0).

Third, there is a magazine called “Monitorul Fiscal FISC.MD”<sup>31</sup>, reflecting the official position of the State Tax Service. Its main objective is to inform the taxpayers about the official position of the State Tax Service about the implementation of tax laws, with the aim of tax practice systematization.

Fourth, clause 11-1 of the Tax Code provides: “...All uncertainties arising from the application of the tax legislation shall be interpreted in favour of the taxpayer”, a taxpayer-friendly provision indeed, although not all taxpayers are satisfied about the way it is implemented. At present (September 2015) work is in progress on a new draft law on the State Tax Service which will probably address the interpretation of the tax law including clause 11-1.

The Customs Service issues advance tariff rulings<sup>32</sup>.

*(ii) Taxpayers’ access to information on tax liabilities and administrative procedures.*

Taxpayers have several communication channels available for obtaining relevant information, including internet, call centres and help desks.

**Websites.** All the tax and customs legislation, including the Tax Code, international tax treaties, and the legislative and normative acts are published in the Official Gazette. All the Official Gazettes are easy to find<sup>33</sup> and are published both in the State language (Rumanian) and in the Russian language. The taxpayers can have access to these laws via [www.mf.gov.md](http://www.mf.gov.md)<sup>34</sup>, [www.fisc.md](http://www.fisc.md), [www.customs.gov.md](http://www.customs.gov.md) (although this is a new version of the website, presently presenting the information only in Rumanian and English; the old version of the website is still accessible via [www.customs.gov.md.888](http://www.customs.gov.md.888), and here the information is also given in Russian) and [www.justice.md](http://www.justice.md). The first mentioned websites also provide a lot of other information about domestic taxes and customs respectively.

The enterprise “Fiscservinform” developed and updated the [www.servicii.fisc.md](http://www.servicii.fisc.md) internet portal; this website represents a one-stop shop to access electronic services. By accessing it, over 33,000 online taxpayers can additionally use about 25 services and ICT tools meant to facilitate taxpayers’ business or professional activities.

**Call centres and helpdesks.** At the MSTI, there are two call centres providing support. The technical call centre provides assistance with the use of electronic filing facilities, and the second centre assists with responding to tax-related questions. All questions and responses are collected in a database with no access restriction. By consulting and assisting taxpayers and civil servants – who are users of the electronic fiscal services – the call centre registered and solved 175,462 applications from 2012 to 2014.

In order to ensure taxpayers’ access to information about tax liabilities and the administrative procedures, starting with 19 August 2014, the State Tax Service launched the Single Call Centre 0-8000-1525, which citizens and business entities may call to receive a wide range of information: about the enforcement of the tax laws; technical assistance; signal cases of non-compliance with the tax law; signal conflicts with and corruption from the side of civil servants; check the excise stamps – all by calling one single phone number. The launching of this important tool aimed at enhancing the

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<sup>31</sup> [www.fisc.md/monitorulfiscal.aspx](http://www.fisc.md/monitorulfiscal.aspx).

<sup>32</sup> [www.customs.gov.md/en/content/advance-tariff-rulings](http://www.customs.gov.md/en/content/advance-tariff-rulings).

<sup>33</sup> <http://monitorul.md>.

<sup>34</sup> [www.mf.gov.md/actnorm/taxes/laws](http://www.mf.gov.md/actnorm/taxes/laws).

communication with citizens, as was stated in the 2014-2015 Communication Strategy of the State Tax Service.

The customs call centre was established in 2013, about 2 years ago. It has two lines, one for anti-corruption, and the other for information under the responsibility of a separate unit. If the staff of this unit does not have the answer to the specific question, it will direct the caller to the department in charge. The call centre does not only use classical phone lines, but also Skype and email. It places FAQs on the customs website, and updates them regularly.

Each territorial office of the MSTI has a help desk, also known as “office for fiscal consultation”, where taxpayers can get the forms they need, and receive advice.

In the MSTI head office there is a unit of 4 officers in charge of communication with taxpayers, who among other things are responsible for sending by email the tax calendar of the upcoming month, with all deadlines for submitting returns and making payments, plus the latest legal amendments, not only in the Tax Code but also the legislation on accounting and social insurance. This service is offered for free. The taxpayers themselves can choose the categories of information they wish to receive.

**Magazines.** Another efficient way to provide taxpayers information on fiscal liabilities and administrative procedures is by publishing the *Fiscal Monitor „FISC.md”* periodical (already mentioned). This periodical systematises the fiscal practice and its adjustments in accordance with the legislation in force and presents the official stance with regard to the current fiscal aspects, and the examination aspects of general taxation principles, as well as the official stance of different professionals involved in tax collection and management. Thus **18** issues of the periodical were published during 2012-2014. Arguably, this communication channel comes in the place of brochures, which translate the artificial language of the law into natural language. In Moldova, brochures are hardly used; on the two websites [www.fisc.md](http://www.fisc.md) and [www.customs.gov.md](http://www.customs.gov.md) they cannot be found.

The Customs Service has a similar magazine, *Revista Vama* (“Customs Magazine”)<sup>35</sup>. It contains all the regulatory acts concerning the customs, as well as information about any amendments to the laws.

The Customs Service periodically organizes meetings with the taxpayers where the customs legislation is explained; the Director General of the Customs Service holds open hearings every month, while the heads of customs offices meet monthly with the business community.

Also, so as to ensure a transparent decision-making process, the draft laws and regulations, as well as the policy papers are published on the website of the Ministry of Finance ([www.mf.gov.md](http://www.mf.gov.md)), and meetings and working groups are being organized where they are discussed with the stakeholders.

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<sup>35</sup> <http://customs.gov.md:888/index.php?id=57>, <http://customs.gov.md:888/index.php?id=3011>.

**Other communication channels.** Besides the already traditional information means: telephone, office consultations, trainings, forums etc., starting with 2013, STS considerably widened the access ways to fiscal information by:

- organizing every year about 800 informative workshops for taxpayers;
- providing support to taxpayers to determine the fiscal liability and record fiscal obligations, in a chapter that contains updated information about the most frequently asked questions on the official mail address;
- organising round table discussions that provide access to information and allow dialogues between the public authority and taxpayers on topics of fiscal liability. They are organized if it is necessary to discuss a topic related to a certain category of taxpayers or a particular situation in a particular field. The meetings are of a collaborative-advisory nature;
- other actions of major importance, conducted for two consecutive years (2013-2014) under the topic “The Tax Service Helping Honest Transport Operators”, having the objective of voluntary fiscal compliance of persons who practice entrepreneurial activity in the field of transport;
- starting with Q2’2013, the State Tax Service began open dialogues with taxpayers, under the topic “Coffee with the Head of the Tax Service”, having the goal to address in a more formal environment the issues that the taxpayers encounter in their activity. As of 31 December 2014, as much as 82 dialogues were held with representatives of all of the branches of the national economy: industry, agriculture, energy, telecommunications, tourism, academic community, professional associations of accounting and audit, not-for-profit organizations, notaries, financial institutions, European business associations, artistic community, MPs etc.;
- providing fiscal consultations to taxpayers through the operating offices within territorial STIs.

The rights and obligations of taxpayers are specified in art. 8 of the Tax Code. With respect to the rights, it mentions the rights to free information, fair treatment, representation, instalment payments, and appeal. Not mentioned in the Tax Code are the following rights of taxpayers, which are international standards:

1. the rights to be assisted and to be heard;
2. the right to pay no more than the right amount of tax;
3. the right to enjoy confidentiality (which is elaborated in the Taxpayer Charter, but could be laid down in law); and
4. the right to enjoy privacy (i.e. refraining from interference in the personal life of the taxpayer, for instance with respect to his political and religious views and personal relationships; this is to be distinguished from confidentiality, and is not yet mentioned in the Taxpayer Charter).

MSTI has adopted a Taxpayer Charter<sup>36</sup> in 2011, summarising the rights and obligations of the taxpayer, and this is definitely a good thing. But more should be done to disseminate it, first of all by making it more visible (easier to find) for visitors of [www.fisc.md](http://www.fisc.md). And it does not cover some of the rights in the model Taxpayer Charter<sup>37</sup> developed by the Organisation for Economic Cooperation and Development (OECD), as mentioned above (being assisted, being heard; paying no more than the right amount; privacy). The Customs Service does not (yet?) have a client charter, although at customs stations there are information panels that summarise taxpayer rights and obligations.

<sup>36</sup> [www.fisc.md/Upload/LinkedPDF/CARTA\\_final.pdf](http://www.fisc.md/Upload/LinkedPDF/CARTA_final.pdf).

<sup>37</sup> [www.oecd.org/tax/administration/Taxpayers' Rights and Obligations-Practice Note.pdf](http://www.oecd.org/tax/administration/Taxpayers%20Rights%20and%20Obligations-Practice%20Note.pdf).

MSTI recognises some rights of taxpayers that are not laid down in the Tax Code. There are internal regulations of the MSTI that formulate additional rights of the taxpayer in the form of Service Level Agreements (SLAs), like issuing a so-called “patent” for small enterprises in less than 3 days, or issuing a tax clearance certificate within a certain number of days.

MSTI is becoming more service oriented. A key element of its mission is that it wants to provide service to taxpayers. Its logo with the motto “În serviciul contribuabilului” (“At the service of the taxpayer”) was approved by a special commission, and on 1 July 2014 by Government Decision Nr. 500 on the Approval of the emblem, flag, corporate colour, and Regulation of the use of the emblem, flag and corporate colour of the State Tax Service<sup>38</sup>.

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

The Tax Code and Customs Code have provisions and procedures for filing objections and appeals.

If the taxpayer does not agree with any decision, he has the right to appeal within 30 days with the territorial tax inspectorate; which must review the case and take a decision in 30 days. If the taxpayer disagrees again, he can file another objection against the decision within 30 days at the main tax inspectorate in Chisinau; and again they have 30 days for their decision. There are some exceptions when the term can be extended. At the end, or at any stage, the taxpayer has the right to bring the case to the court. The appeal process is further supported and facilitated by the provisions of the Law No. nr.793-XIV of 10 February 2000 on Administrative Procedures<sup>39</sup>.

Law No 190-XIII of 1994 on Petitions<sup>40</sup> stipulates in article 8:

“Petitions [i.e. objections] shall be considered by the appropriate bodies within a month and those not requiring additional examination – without delay or within 15 days...”

During 2014, the specifications for the “Contestatie” (“Objections and Appeals”) automated module of MSTI’s Integrated Tax Administration System were developed. The implementation of this module shall enhance the monitoring of objections and appeals filed by the taxpayers, and the taking and processing of decisions related to them. The objective is to create a tool that facilitates the monitoring and control of tax cases right from a PC through Internet.

As for the Customs, the Supreme Court of Justice issued Decision No 4 of 24 December 2010 regarding the examination of disputes related to the enforcement of the customs legislation in administrative proceedings. This decision is meant to provide clarity to the enforcement of the customs legislation in administrative proceedings.

MSTI received in 2012 684 objections. Of these, 486 were rejected, 39 were accepted in part, 42 were suspended till another audit would take place, 56 were granted, 7 were returned without review, and 54 were still under consideration at the time of reporting (September 2015).

<sup>38</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=353639>.

<sup>39</sup> [www.transparency.md/Laws/793-00\\_en.pdf](http://www.transparency.md/Laws/793-00_en.pdf).

<sup>40</sup> [www.transparency.md/Laws/190-94.pdf](http://www.transparency.md/Laws/190-94.pdf).



In 2013, 1,291 complaints were filed with MSTI, of which 990 were rejected, 47 were admitted in part, 56 were suspended waiting for a repeated control, 135 were met, 16 were returned without examination, and 47 were still being considered at the time of reporting. The total number of 1,291 appeals is a peak, related to the high number of audits in the previous year.

In 2014, 560 complaints were filed with MSTI, of which 387 were rejected, 47 admitted in part, 27 suspended, 51 satisfied, 28 returned without review, and 20 still under consideration.

There are no specialised tax courts. The State Tax Service states that there used to be economic courts, but these were closed around 2011 (the PEFA report 2011 at p. 38 mentions “the current initiative to abolish the Economic court”). Tax cases are now adjudicated in courts of first instance. The STS has sent a letter to the Supreme Court of Justice, in which it asked for the development of operational guidelines. STS believes there is a need for a specialised tax court, with professional judges.

The Customs Service received 703 “petitions” (i.e. objections or appeals) in 2012, 987 in 2013, and 629 in 2014.

From the above report concerning 2012 it appears that a significant number of cases can take three years or more before they are being settled. This, and in particular the need for a specialised tax court and for operational guidelines, is an argument for not awarding the score of A, which requires the whole system to operate effectively. Therefore, the score is B.

#### *Comparison of 2015 and 2011 assessments*

Concerning dimension (i), there have been various legal amendments.

As for dimension (ii), the web services were improved continuously and their functionality extended. MSTI is becoming more service oriented.

As for dimension (iii), appeals in tax cases were no longer adjudicated in economic courts, but in courts of first instance.

#### *Developments in 2015*

Initially, the intention was to improve tax compliance of wealthy individuals, and as a medium term objective, to gradually expand and reach other groups of taxpayers. The long-term objective of this approach is to facilitate the pre-filled tax return in line with the current best practices applied by most of the EU countries. For this matter, the changes are bottlenecked by the lack of staff, an issue that should be settled along the way.

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

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

*(i) Control measures in the taxpayer registration system*

The taxpayers are identified in the State Tax Register by introducing the assigned tax identification number. The tax identification numbers that represent the state identification number are transferred in the State Tax Register from the State Register of Legal Entities, State Register of Individual Entrepreneurs and from State Register of Non-Profit Organizations. The tax identification numbers of resident individuals, as well as of non-resident citizens of the Republic of Moldova are entered into the State Tax Register from the State Register of Population. The tax identification numbers of non-residents aliens and stateless persons are introduced in the State Tax Register when they file the taxpayer registration application. Entering the Taxpayer Identification Number (TIN) in the State Fiscal Register confirms that the entity is included in fiscal record keeping. These numbers are sent by the empowered state registration entities to the State Tax Service based on the concluded agreements, the State Tax Register being updated on a daily basis. Any persons, who, according to the tax legislation, must submit to the tax administration the tax return or other documents, must indicate in them his/her TIN and/or the TIN of another person. When concluding transactions and carrying out economic operations, the parties must indicate their TINs in the documents concerned. The tax administration must also indicate taxpayer's tax identification number in all of the notifications sent to him/her. The taxpayer registration data base is connected to the Treasury so that the collected revenues are specified by taxpayer using TINs/IDNO. Moreover, all the payments made by the Treasury are checked to make sure that the data (including bank accounts) match the data base of the Tax Service. The Tax Inspectorate places all the data needed for registration on its website, for them to be used when checking the following information: whether the enterprise exists, its address on the basis of the entered TIN/IDNO base, numbers of VAT invoices etc.

**Table 35 - Statistical data on the number of taxpayers registered / de-registered in the period 2012-2014**

	Number of registered taxpayers as of			Number of taxpayers de-registered during		
	31 Dec. '12	31 Dec. '13	31 Dec. '14	2012	2013	2014
Total	688,117	681,591	685,736	13,553	14,306	4,140
Legal persons	111,211	116,616	121,057	712	1,306	1,019
Natural persons	576,906	564,975	564,679	12,841	13,000	3,121

Source: MSTI.

The table shows that the total number of taxpayers is more or less stable. However, the number of legal persons has increased at a significant rate, whilst the number of natural persons has fallen by 2%. Moldova's population size is stable, with a growth rate that was exactly 0.0% as per 2012.

With respect to the CS, the customs transactions identify the Moldovan enterprises by TIN for the purpose of customs clearance and for the payment of duties and taxes. The "Asycuda World" Information System receives the data from the Treasury and Banca de Economii in customs offices, and the "UNIPASS" Information Offices receives the data from the Border Guard Service, they are, thus to a great extent connected to other registration systems.

The Automated Interbank Payment System is also using TIN/IDNO.

As for the registration of subjects as VAT payers, the efficiency of the measures taken within these procedures registered positive dynamics. Thus, a compulsory tax visit to the applicant is one of the measures taken during the registration as a VAT payer.

The main objectives of the tax visit are the following:

- to confirm that the taxpayer calculated correctly the registration threshold;
- to inform and consult the applicant about his/her obligations and rights as VAT payer.

In this context, the State Tax Service significantly intensified its activity focusing particularly on the transactions of the so-called "phantom" or "bogus companies".

**Table 36 - Decrease in the number of bogus companies, detected by the tax authorities during 2012-2014**

Item	2012	2013	2014
Total number of bogus companies, units	37	26	13
Inactive companies not paying the VAT, units	9	4	4
Inactive companies paying the VAT, units	28	22	9

Source: State Tax Service.

At the same time, in 2014 the State Tax Service launched a new service for taxpayers – "e-Factura" ("e-Invoice"), which is meant to replace the current mechanism of issuing and keeping records of fiscal invoices and traditional paper-based invoices with a modern IT-based mechanism. Through the "e-Invoice" service, the business entity will be able to issue and send invoices (for the VAT non-taxable deliveries) or the fiscal invoices without having to go to the tax authorities to order them. The "e-Invoice" service increases the efficiency of these documents movement from provider to buyer, it reduces corruption and counterfeit or loss of the issued invoices/fiscal invoices. Besides that, this service allows business entities to save the resources appropriated for the purchase and record keeping of paper-based invoices and fiscal invoices. In such a way, every business entity – once registered with the "e-Invoice" service – will have access to and use exclusively electronic invoices.

On 20 June 2014 the Government Decision No 294 of 17 March 1998 was amended with regards to certain aspects related to the registered high-security primary documents, which shall be printed in a centralized manner by the Main State Tax Inspectorate. Thus, entities can print the primary documents, such as: vehicle waybill; truck waybill; bus waybill; tax payment receipts (1-SF); non-tax payment receipts (2-SF); procurement invoice for the rental services and relevant expenses; goods procurement invoice; receipt; tally sheet for milk purchase, on sheets of paper without protective elements, with the series and number being assigned by the Main State Tax Inspectorate.

Assigning the series and number range for the aforementioned forms is a free service and is provided online by filing in a request through the "Order On-Line Standard Forms" IT system.

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

As for the effectiveness of penalties for the failure to register and declare, there is a wide range of sanctions for non-compliance with the tax law, which cover practically all the relevant situations. Some of the penalties for tax offences are laid down in Article 244 of the Criminal Code<sup>41</sup>.

Considering the amendments to the Tax Code made through the aforementioned legislative acts, the scope and the severity of the applied sanctions are appropriate and high enough to encourage taxpayers to comply with the law.

The customs authorities, on the basis of Article 129 of the Customs Code collect penalties for every day of delay for the payment of the import customs duties and export customs duties. The amount of the penalty is set out in the Tax Code. If the person avoids paying the import and export customs duties, then the customs authorities have the right to submit to the bank concerned an order to suspend any banking operation related to making payments out of the debtor's account until full payment of the customs duties. If the payer does not have an account, then the customs authorities have the right to seize his/her assets under the law. Failure to pay the customs obligation within the statutory period leads to an additional suspension of customs payer's right to carry out other customs transactions until the customs obligation is paid up.

We also note that Law No 324 of 23 December 2013 on Amendments and Addenda to Some Legislative Acts, in force since 01 January 2014, introduced Section 21<sup>1</sup> (Articles 130<sup>1</sup>-130<sup>14</sup>) – Enforcement of Customs Obligation.

Chapter X of the Customs Code stipulates the customs offences and the accountability for committing them, and the cases of customs offences and their investigation.

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

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<sup>41</sup> [www.icla.up.ac.za/images/un/use-of-force/eastern-europe/Moldova/Criminal%20Code%20Moldova%202002.pdf](http://www.icla.up.ac.za/images/un/use-of-force/eastern-europe/Moldova/Criminal%20Code%20Moldova%202002.pdf).

**Table 37 - Share of fiscal penalties collected by MSTI as a share of total NPB revenue for 2012-2014, in million MDL**

	2012	2013	2014
Total NPB revenue	19,028	19,986	23,410
Penalties imposed by MSTI	94	91	60
Share (%age) of collected penalties in total NPB revenue	0.50%	0.46%	0.26%

Source: MSTI.

The table below shows that in relation to overall revenue, the size of penalties received by MSTI is definitely not high (1% might be considered a more or less normal percentage).

**Table 38 - Fines imposed and collected by the Customs Service, in million MDL**

Year	Imposed fines	Collected fines	Percentage
2012	17.2	5.2	30.2%
2013	27.8	13.2	47.5%
2014	41.8	11.6	27.8%

Table 16 reveals that the fines imposed by the Customs Service are significantly lower than those imposed by MSTI (which as said are not high themselves), and that the Customs Service also has a problem in collecting them.

The score for this dimension in the self-assessment is A, but it is difficult to follow that judgment. Also to be taken into account is a comparison made by the Public Prosecutor's Office with punishments for robbery: these punishments are generally twice as high as those for tax fraud. The State Tax Service states that many organisations have studied the issue of the underground economy and estimate its size as ranging from 30% to 50% of GDP. So the STS does not manage to identify all cases of tax evasion, its audits are apparently not detailed and comprehensive enough to raise the risk of detection, but also the price to be paid in case of detection, i.e. the penalty, plays a role. STS also makes reference to a meeting at the Court of Accounts in 2015 discussing under-the-table-salaries and underground work, and in the meeting there was consensus that these phenomena in RoM are quite large. Therefore, the score is C.

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

#### **A. MSTI Domestic Taxes Audit**

Under the 2012-2014 Taxpayers Voluntary Compliance Programme and on the basis of the Compliance Risks Management Model, taxpayers were selected for audit from the following fields:

- wholesale and retail trade;
- manufacturing industry;
- transport and telecommunications;
- construction; who were monitored by the State Tax Service subdivisions in order to ensure taxpayers voluntary compliance.

These branches were and are still believed to be exposed the most to the risk of non-compliance because of the massive presence of the "under-the-table salary" and informal employment, which leads to a small share of tax liabilities if compared to the actual turnover.

As a result of the actions taken by a certain group of business entities working in these branches, in 2013 it was found that overall at the country level:

- MDL 925,048.3 thousand were **accrued** to the National Public Budget, which is by MDL 126,639.2 thousand more than compared to the same period of the previous year – an increase by 16%;
- MDL 1,179,774.9 thousand were **paid** to the National Public Budget, which is by MDL 209,868.4 thousand more than compared to the same period of the previous year – an increase by 22%;
- A similar analysis of another group of business entities for 2014 proved that;
- MDL 634,378.4 thousand were **accrued** to the National Public Budget, which is by MDL 123,771.6 thousand more than compared to the same period of the previous year in this group – an average increase by 24%;
- MDL 718,133.7 thousand **paid** to the National Public Budget, which is MDL 199,167.3 thousand more than compared to the same period of the previous year – an average increase by 16%.

Apart from the planning and selection, the third and arguably the most important element related to this dimension is an adequately skilled and experienced tax inspection staff tasked with performing the tax compliance control activities in a transparent, objective and fair manner. Combining these three elements the STS statistical data for years 2012-2014 summarise the following results.

**Table 39 - The outcome of STS taxpayer control activities in the period 2012 - 2014**

Activity	2012	2013	2014
Number of performed controls, all types.	63,527	74,029	60,400
Additional calculated revenue, 1000s of MDL	595,965.0	653,046.0	1,201,182.0
Additional calculated revenue, per single control, 1000s of MDL	9.38	8.82	19.89
Number of controls on the basis of documentary verification	3,652	2,959	3,922
Additional calculated revenue after documentary verification, 1000s of MDL	339,673.0	340,600.0	977,450.0
Additional calculated revenue, per single documentary verification, 1000s of MDL	93.0	115.1	249.2
Efficiency of documentary verification (in %) vs. total additional calculated revenue	57.0	52.2	81.4

Source: State Tax Service.

On the basis of the table above, we may conclude the following:

- In 2014, the number of conducted controls by all verification methods decreased by 18.4%, if compared to 2013 and by 4.9%, if compared to 2012;
- Concurrently, the amounts calculated additionally as a result of the controls conducted increased in 2014 by 83.9% (MDL 548,136 thousand) if compared to 2013, and by 101.6% (MDL 605,217 thousand), if compared to 2012;
- The weight of the tax controls conducted by the comprehensive verification method in the total number of tax controls conducted by STS in 2014 is of 6.5% against 4.0% in 2013 and 5.7% in 2012, while their efficiency increased in 2014 by 56% against 2013 and by 42.8% against 2012;
- Should we refer to the controls conducted by the comprehensive verification method, the average additionally calculated amount as a result of tax controls increased in 2014 by 116.5% against 2013, and by 168.0% against 2012?

The Main State Tax Inspectorate identified 31 risks related to tax administration after the analyses of the STS data. After their analysis and description, the “Methodological Norms for the Identification and Classification of Tax Compliance Risks” were drawn up and approved by MSTI Order No 107 of 11 February 2015. This allows for a uniform approach to the identified risks within STS.

Four reports on risks pertaining to the fields of constructions, transports, tourism and informal employment were drawn up. At this moment in time, a report on associate risks is being drafted.

### **B. Interference in MTSI's Tax Audit Program**

From the above mentioned 3,922 comprehensive audits during 2014, only 1,087 resulted from MTSI's own audit program. The others, 72% of the total, were triggered by ad hoc requests coming from external stakeholders such as law enforcement (the Ministry of the Interior), parliament, the Anti Corruption Centre, and the intelligence service. For each of these stakeholders there is legislation, such as the Code of Criminal Procedures, which obliges MTSI to comply with the request for an audit. These requests are often raised “just to be sure”, and are on average less productive than MTSI's own risk criteria, but lay a very large claim on MTSI's limited audit capacity. The time needed for the interaction between MTSI and stakeholders like the Ministry of the Interior, without any blame on the side of any stakeholder, is several months, partly because of duplication of effort (asking the same questions). This reduces the effectiveness of these audits further. Meanwhile MTSI's own audits are interrupted and sometimes left uncompleted, and MTSI's audit program itself cannot be completed.

To deal with this, MTSI has sent a draft law to all stakeholders for comments, and there was support among political actors (the Ministers of the Interior and of Justice at the time). However presently (November 2015) political support for this draft has become insecure, and it has become a matter of lower priority. One aspect of the proposed reform is to transfer all criminal investigations on tax issues to MTSI, which has the necessary capacity for that.

### **C. Customs post-clearance audit**

From 2012 to 2014, on the basis of Law No 267 of 23 December 2011<sup>42</sup>, Section 29<sup>1</sup> “Post-Clearance Audit” was introduced in the Customs Code to regulate post-clearance auditing. Later, on 11 January 2013, the Customs Service Order No 63-0 “Approving the Methodological Norms for the Conduct of Follow-Up Controls by Post-Clearance Audit and Re-Verification of Customs Declarations”<sup>43</sup> was approved. In this manner, the problems of legislative and regulatory nature were settled.

On the basis of CS Order No 541-0 of 7 November 2013, the follow-up controls conducted between 7 November 2013 and 10 November 2014 were self-assessed in terms of corruption risks<sup>44</sup>. The legal and regulatory framework relevant on follow-up controls was assessed for this purpose. As a result, measures were proposed to prevent the materialization of some of the identified risks, these being reflected in the Integrity Plan approved by CS Order No 472-0 of 10 November 2014. – To implement the recommendations from the Integrity Plan and optimize further legal framework regulating the control work, a set of amendments were made to the Customs Code, which were

<sup>42</sup> [http://lex.justice.md/md/341886\\_Art\\_XV\\_clause\\_56](http://lex.justice.md/md/341886_Art_XV_clause_56).

<sup>43</sup> <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=346500&lang=1>.

<sup>44</sup> [www.cna.md/sites/default/files/sna\\_activitati/sv\\_raport.docx](http://www.cna.md/sites/default/files/sna_activitati/sv_raport.docx).

approved by Law No 71 of 12 April 2015 on Amendments and Addenda to Some Legislative Acts<sup>45</sup>. Obviously this was a development after the reference period 2012-2014.

According to the new provisions of the Customs Code, the Customs Service (CS) intends to implement the concept of blue corridor for customs clearance as a measure aimed at facilitating trade by simplifying the customs formalities and reducing the time of customs clearance of commodities. Thus, to achieve this objective, the amendment of the Order 63-0 of 11 January 2013 “Approving the Methodological Norms for the Conduct of Follow-Up Controls by Post-Clearance Audit and Re-Verification of Customs Declarations”, of the CS Order No 480 of 18 December 2006 “Approving the Detailed Customs Declaration Processing Methodology”<sup>46</sup> and of the Order No 180-0 of 20 March 2012 “Approving the Instruction on Filling the Inspection Form In using “Asycuda World” CIIS” was initiated.

As for the analysis, planning and monitoring during the period between 2012 to 2014, after the structural changes performed in 2011 the Customs Service plans the follow-up controls at the central level. The Activity Programme for territorial units of control is then drawn up on the basis of the identified risks, after the analysis run by “Asycuda World” CIIS or on the basis of the information received from other units, state institutions, other states’ customs authorities, and it is separately drawn up for each semester by the management of the Customs Service. By the CS Order No 531-0 of 23 July, the methodological recommendations for the scheduling of follow-up control activities were approved.

Regarding the use of IT for follow-up control, the software for follow-up control management – “Module 6” in the “*Antifrauda*” IS was completed and will be tested and implemented in the shortest time possible. Note that the Customs Service still does not have a risk analysis software to identify the enterprises that should be subject to follow-up controls, this activity being performed manually.

#### **D. Fraud investigations**

MSTI does not have powers in the field of fraud investigations. If there is a suspicion of fraud, and a sufficient chance of conviction in a criminal court, MSTI submits its evidence and documents to the Prosecution Office and the Ministry of the Interior. Work is in progress on new legislation in this field, and MSTI and the Office of the Public Prosecutor participate; the recommendation of foreign consultants was to give this power to the tax authorities.

The National Anti-Corruption Centre (NACC)<sup>47</sup> may also play a role in fraud investigations. First, if there is a suspicion against public officials, and second, if there is a suspicion of money-laundering. Often the NACC will request the MSTI to do an audit. In the past, up till 1 October 2012, this Centre was called the Centre for Combatting Economic Crimes and Corruption. Then it was reorganized, as a consequence of the adoption on 25 May 2012 of Law No 120 on amending and supplementing certain acts, and the scope of work was narrowed down to anti-corruption and money laundering, without economic crimes (such as tax evasion) as before. Before late 2012, the Centre itself had the power to check tax fraud, and the Tax Code used to include this centre in the list of institutions with powers in the field of tax administration.

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<sup>45</sup> <http://lex.justice.md/md/358188/>.

<sup>46</sup> [http://lex.justice.md/document\\_rom.php?id=A42B5E07:BC0AA29B](http://lex.justice.md/document_rom.php?id=A42B5E07:BC0AA29B).

<sup>47</sup> <http://cna.md/en>.



The Public Prosecutor's Office deals with fraud investigations on the basis of the Criminal Code, the Code on Criminal Procedure, and title V on (Tax administration) of the Tax Code. If the tax authorities believe that violations have occurred, they send the materials (documents, and often photocopies of documents) to the prosecutor's office. If the prosecutor is convinced first, he will begin criminal prosecution. Prioritisation may depend on the expected complexity of the case; in certain scenarios many more entities appear to be involved in a tax evasion scheme. According to the code on Criminal Procedure, the prosecutor may take measures such as a search of premises, and other measures that are needed to collect evidence. Meanwhile the suspect has the right to defend himself, and the right to refuse accusing himself. He is obliged to present the requested documents, but does not have to make statements. The exchange of information between the public prosecutor and the tax authorities is satisfactory. Also there is a legal basis for exchange of information with colleagues in other countries.

**Table 40 - Number of cases referred to justice**

	2010	2011	2012	2013	2014
Tax evasion and banking and financial crimes	120	104	47	36	68
Smuggling and evasion of customs payments	45	43	43	43	47

Sources: Annual Reports of the Public Prosecutor's Office<sup>48</sup>, 2012 p. 45, 2013 p. 26, 2014 p. 27.

Tax evasion is only a part of the first category reported in this table. The number of cases referred to justice decreased steeply in 2012. But it should be noted that these are not all the recorded offenses of tax evasion per year, as these are reported as follows: 2010 206, 2011 219, 2012 351; for 2013 and 2014 these are not reported [annual report 2012 p. 35]. With respect to this wider category, there was a steep increase in the same year 2012.

The Public Prosecutor's annual report covering 2014 is the first to report the amount involved in these investigations. The damage is estimated as 732 mln. lei [p. 13/14 of annual report 2014].

The score for this dimension is B. There is a continuous audit program based on clear risk assessment criteria. In practice the program can be implemented to a limited extent due to the interference by audit requests coming from external stakeholders.

#### *Comparison of 2015 and 2011 assessments*

Concerning dimension (i), the most significant result was the successful settlement of the "bogus enterprises" problem.

Concerning dimension (ii), the score was reduced from A to C. Although no new significant aspects were noticed, the information received justifies no higher score. The 2011 PEFA assessment did not make a statement on the size of the underground economy.

Concerning dimension (iii), but also touching upon dimension (i), the results of the work performed since 2012 show positive trends. This is in particular true for the systematic analysis of information with significant contributions from the recent risk assessment oriented initiatives, such as the identification of new criteria. Section 29<sup>1</sup> "Post-Clearance Audit" has been in force since 2012, introduced in Chapter V of the Customs Code by

<sup>48</sup> [www.procuratura.md/md/d2004](http://www.procuratura.md/md/d2004).

Law No 267 of 23 December 2011 on Amendments and Addenda to Some Legislative Acts in order to solve the legislative issues that were identified during the post-clearance audit activities. All of this is overshadowed however by the interference of audit requests coming from other government institutions outside the tax organs. This explains the lowering of the score on this dimension from B in 2011, when this interference was not mentioned, to C.

#### *Developments in 2015*

**Penalties.** In order to separate all of the fiscal violations into 2 levels of significance and apply later sanctions accordingly, a recommendation was made to add phrases “insignificant fiscal violation” and “significant fiscal violation” in the Tax Code. Therefore, it was recommended to introduce in the Tax Code the word “warning” as a response to the insignificant fiscal violations, and for the significant fiscal violations – a fine depending on how significant the violation was, which were later approved by Law No 71 of 12 April 2015 on Amendments and Addenda to Certain Legislative Acts by the Government assuming commitment to the Parliament.

As a result of the amendments made, some of the fines envisaged by the Tax Code were decreased.

**Risk-based Audit.** As for activities in MSTI’s area, several directions were followed in 2015, but the main efforts remained focused on the development of internal capacities required for the implementation of the Taxpayer Compliance Programme. For this purpose, the STS has identified the most critical areas, where urgent response is needed to keep up the momentum created in late 2014 and the first half of 2015.

Being one of the top priorities of the STS 2011-2015 Development Programme, STS has embarked on the definition of the future Integrated Tax Information System (ITIS). The system’s concept was agreed upon and a feasibility report was prepared upon completion of a feasibility study.

The STS management is also working on a more efficient development of the methodological approach to the future dealing with wealthy individual taxpayers. This initiative is supported by the latest legislative amendments (see also PI-13) meant to facilitate the collection and use of third party information for the purpose of indirect determination of the tax base of a certain taxpayer.

On the Customs side the main development for 2015 focused on:

1. On-going operational implementation of the post-clearance audit;
2. Introduction of simplified procedures for selected entrusted traders;
3. Essential simplification of the customs clearance, enhanced traffic flow at the border, establishment of competitive and advantageous conditions for business entities;
4. Automatic identification of the follow-up control scope in terms of re-verification, excluding thus the human factor when deciding which customs declaration to be re-verified.

PI-15. Effectiveness in collection of tax payments

		Score (scoring method M1)	D+
Dimension	Minimum requirements		
(i) Collection rate for gross tax arrears, which is the percentage of tax arrears at the beginning of a fiscal year, which were collected during that fiscal year (average of the last two fiscal years).	The average debt collection rate in the two most recent fiscal years was of 60-75% and the total amount of tax arrears is significant.		D
(ii) Effectiveness of collected taxes transfer to the Treasury by the revenue administration.	All tax revenues are transferred directly on the accounts managed by the Treasury or transfers to the Treasury are made daily.		A
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.		A

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

**A. MSTI.** Tax arrears for state taxes, expressed as a percentage of total annual tax collections, are significant: 9.2% at the end of 2012, 9.9% at the end of 2013, and 9.5% at the end of 2014. With respect to total revenue the ratio of arrears over annual collections is of the same order of magnitude, and equally stable. A more detailed picture is given in the following tables.

**Table 41- Revenue collections and stock of arrears, MSTI, 2012-2014, in MDL million**

Revenue category	Stock of arrears, 31 Dec.	2012 Collections	Arrears as %age of collections	Stock of arrears, 31 Dec.	2013 Collections	Arrears as %age of collections	Stock of arrears, 31 Dec.	2014 Collections	Arrears as %age of collections
1	2	3	4=2/3	5	6	7=5/6	8	9	10=8/9
State taxes (income tax, VAT, excise taxes, road taxes)	759.1	8291.8	9.2%	931.9	9455.0	9.9%	982.7	10350.2	9.5%
Local fees	159.2	910.3	17.5%	165.8	985.5	16.8%	166.2	1068.9	15.5%
Other fees and payments	340.2	974.2	34.9%	388.9	558.2	69.7%	368.8	1667.2	22.1%
State social insurance contributions	831.8	6556.5	12.7%	835.0	7108.9	11.7%	980.4	8000.0	12.3%
Other payments to SSIB*	4.7	569.7	0.8%	2.8	2.1	133.3%	2.1	2.3	91.3%
Mandatory health insurance contributions	35.2	1723.3	2.0%	39.7	1874.7	2.1%	46.7	2319.8	2.0%

Revenue category	Stock of arrears, 31 Dec.	2012 Collections	Arrears as %age of collections	Stock of arrears, 31 Dec.	2013 Collections	Arrears as %age of collections	Stock of arrears, 31 Dec.	2014 Collections	Arrears as %age of collections
1	2	3	4=2/3	5	6	7=5/6	8	9	10=8/9
Other payments to CIFMA	2.4	2.3	104.3 %	2.6	1.7	152.9%	1.9	2.2	86.4%
Total NPB**	2132.6	19028.1	11.2%	2366.7	19986.1	11.8%	2548.8	23410.6	10.9%

Source: State Tax Service.

\* Since 2013, the STS does not report the amounts of benefits for temporary labour incapacity.

\*\* The amounts related to the main payments, penalties for delays, and fines are included.

**Table 42 - Arrears, revenue for the National Public Budget (NPB) and enforced collection, in million MDL**

Year	Stock of arrears (31 Dec.)	Total revenue	Share of arrears	Enforcement	Share of enforcement
1	2	3	4	5	6
2012	2.132,6	19.028,1	11.2%	427,1	2.2%
2013	2.366,7	19.986,1	11.8%	469,3	2.3%
2014	2.548,8	23.410,6	10.9%	482,0	2.1%

Source: MSTI.

Column 1: Year.

Column 2: Stock of arrears due to the NPB (including penalties and fines).

Column 3: Total NPB revenue.

Column 4: Share of arrears as a ratio of total NPB revenue (4=2/3\*100%).

Column 5: Enforced collections of arrears.

Column 6: Weight of enforced collection in total NPB revenue (6=5/3\*100%).

**Table 43 - Historical arrears collection rates for the period 2012-2014**

Budget	Dec. 2012	Dec. 2013	From 2013	From Dec. 2012	Ext. Dec. 2012	Ext. Dec. 2012 %	Dec. 2014	From 2014	From Dec. 2013	Ext. Dec. 2013	Ext. Dec. 2013 %
1	2	3	4	5	6	7	8	9	10	11	12
SB	956.5	1,140.6	506.0	634.6	321.9	33.7%	1,226.9	475.5	751.4	389.2	34.1%
TAUB	302.0	346.0	173.9	172.1	129.9	43.0%	294.3	142.5	151.8	194.2	56.1%
SSIF	836.5	837.8	571.6	266.2	570.3	68.2%	1,000.1	732.6	267.4	570.4	68.1%
CIFMA	37.6	42.3	18.2	24.1	13.5	35.9%	50.1	24.4	25.7	16.6	39.2%
<b>NPB</b>	<b>2,132.6</b>	<b>2,366.7</b>	<b>1,269.7</b>	<b>1,097.0</b>	<b>1,035.6</b>	<b>48.6%</b>	<b>2,571.4</b>	<b>1,375.0</b>	<b>1,196.3</b>	<b>1,170.4</b>	<b>49.5%</b>

Source: MSTI.

[Meaning of the columns. 1 = Budget;

2 = Balance as per 31 Dec. 2012;

3 = Balance as per 31 Dec. 2013; 4 = Balance as per 31 Dec. 2013 from year 2013; 5 = Balance as per 31 Dec. 2013 from 2012 and before; 6 = Arrears extinguished during 2013 from 2012 and before; 7 = Extinguished during 2013 as a %age of stock of debt per 31 Dec. 2012;

8 = Balance as per 31 Dec. 2014; 9 = Balance as per 31 Dec. 2014 from year 2014; 10 = Balance as per 31 Dec. 2014 from 2013 and before; 11 = Arrears extinguished during 2014 from 2013 and before; 12 = Extinguished during 2014 as a %age of stock of debt per 31 Dec. 2013.

SB = State Budget; SSIB = State Social Insurance Budget; CIFMA = Compulsory Insurance Fund for Medical Assistance.]

[3 = 4 + 5; 6 = 2 - 5; 7 = 6/2 \* 100%; 8 = 9 + 10; 11 = 7 - 10; 12 = 11/7 \* 100%]

**Table 44 - Historical arrears**

Budget	Balance as of 31.0	including for			Historic arrears paid		2014		Including for 2013		2012		Balance as of 31.12.2014
		2014	2013	2012	amount	% paid	amount	% paid	amount	% paid			
	1	2	3	4	5	6	7	8	9	10	11	12	13
SB	883.	227.0	179.	477.	3	28.0%	248.	52.3	42.4	19.	52.5	9.9%	1,226.9
BA	156.	45.4	2	83.9	1	46.8%	97.1	68.1	14.7	35.	25.9	23.6	294,3
SS	330.	97.8	59.1	173.	6	67.0%	634.	86.7	13.6	18.	21.3	10.9	1,000.1
CI	38.9	17.2	7.6	14.1	1	22.4%	7.2	29.5	1.8	19.	2.2	13.5	50.1
<b>NP</b>	<b>1,40</b>	<b>387.4</b>	<b>273.</b>	<b>748.</b>	<b>1,</b>	<b>45.2%</b>	<b>987.</b>	<b>71.8</b>	<b>72.5</b>	<b>21.</b>	<b>101.9</b>	<b>12.0</b>	<b>2,571.4</b>

Source: MSTI.

[Note: 1 = 2 + 3 + 4; 5 = 13 - 1; 6 = 5/13 \* 100%; 7 + 9 + 11 = 5].

Examining the settlement of historical arrears (including main payments, penalties and fines) with respect to tax, the table above reflect that during 2013 33.7% of arrears existing as per 31 December 2012 were settled, and during 2014 34.1% of the stock of arrears as per 31 December 2013.

Arrears collection continues to be a serious concern for the State Tax Service. All the legal measures are taken to reduce the volume of arrears by ensuring their forced settlement in order to ensure an as small as possible volume of arrears to the budget. The STS has a well developed range of debt collection instruments, including the freezing and garnishing of bank accounts, and the seizure of other assets.

In March 2014, the "Taxpayers' Current Account" tax liabilities record keeping IT system was commissioned for use, one of its functions being the tracking of historical balance accounts.

Thus, the arrears are monitored on a daily basis, the best measures of enforcement being quickly applied in order to collect them in a short time and in full. Considering the great concern about the arrears collection and reduction, the State Tax Service approached them in its annual compliance programmes for the years concerned, placing great focus on the tax administration actions by the aforementioned methods.

We mention that in order to improve arrears management, the State Tax Service in tandem with its partners from financial institutions, implemented the Automatic Information System for the creation and circulation of electronic documents between the State Tax Service and the financial institutions, which foresees in compliance with MSTI Order No 284 of 19 April 2012, starting with 1 September 2012, permanent circulation of electronic documents related to the opening, changing, closing or keeping record of bank accounts; suspension of and cancellation of the suspension of operations with bank accounts, including for the prevention of arrears to the budget; balance of and flow of money on bank accounts; "incasso" orders and other documents that can be circulated between STS and financial institutions.

It is appreciable that along with the implementation of this system, the efficiency and quality of STS intervention in terms of quick collection of arrears to the state budget owed by taxpayers in arrears increased. Analogically, from the perspective of the MSTI Order No 400 of 14 March 2014 approving the Instructions on record keeping of liabilities to the budget, a new mechanism to keep record of fiscal liabilities, including fiscal arrears, was implemented, and a new "Taxpayer's Current Account" AIS was put into practice, thanks to which the fiscal liability record keeping and management mechanism improved visibly.

Thus, along with the implementation of that system, the foundation was laid for new record keeping using a good system by which balances (arrears/overpayments) can be accessed online both by the taxpayer and the tax authorities, ensuring thus data transparency, break-down of historical debts that took shape after the principle of limitation period, viewing of balance sheets and fiscal operations of the entire company structured by its subdivisions, break-down of late payment penalty calculation, separate withdrawal of data on balances payable and balances receivable etc.

During this year, it is planned to implement a new system to connect the public authorities interested in that information, as well to give the possibility to the authorities governed by the legal framework in force to generate certificates confirming the lack or existence of arrears to the budget.

As for the practical aspects related to an efficient arrears management, as well as in order to recover the arrears – a number of staff trainings about arrears recovery took place. According to the MSTI Order No 1349 of 15 August 2013, the Methodical & Practical Guidebook on the Tracking of Arrears to the Budget was approved; it regulates both mandatory actions and detailed steps that the tax officer empowered with arrears recovery/reduction duties must take, as well as all of the measures, and legal and practical mechanisms to settle arrears as well as by force, including the involvement of courts of law and bailiffs in the recovery of the arrears to the budget.

Also, in accordance with the MSTI circular letter No 26-06-11-372/6419 of 21 August 2014, the risks related to arrears management and recovery, and appropriate solutions were drawn up and disseminated to the territorial tax authorities in order to improve the recovery of arrears to the budget.

Thanks to the implemented information systems, as well as to the work trends, the tax authorities were and are oriented towards the collection of significant arrears on the basis of the aforementioned methodologies in order to ensure a high degree of recovery.

Additionally, the arrears are analysed and broken down on a monthly basis, determining and assessing thus the degree of actual arrears that can be recovered and that are temporarily unrecoverable due to various reasons (challenged amounts, arrears in litigations, wrong balances etc.), and for which the tax bodies focus on the application of enforcement measures regulated both by the legal framework and the Methodical & Practical Guidebook on the Tracking of Arrears to the Budget.

**B. Customs Service.** The payment of import-export customs duties in advance before submitting the customs declaration minimizes the possibility to accrue debts to the State Budget in "customs payments" section. Therefore, in the following tables, the amounts of arrears are much smaller than those to the MSTI. These arrears emerged after the post-clearance audit, for which penalties for delays are being accrued on a continuous basis.

At the end of 2012 the debts totalled MDL 258 mln., at the end of 2013 – MDL 305 mln., at the end of 2014 – MDL 336 mln., accounting for 2.0%, 2.1%, and 2.2% of the revenues accumulated to the State Budget by the Customs Service, as shown in the table below. In terms of the PEFA-framework, which uses a threshold of 2.0% of collections, these arrears are significant. And the collection rates are still lower than those of MSTI: about 14% during 2012 and 2013, and 9% during 2014. This implies that the score for this dimension is definitely D.

**Table 45 - Revenue collection and increase in arrears, Customs Service, 2012-2014, million MDL**

as of 31 December 2012			as of 31 December 2013			as of 31 December 2014		
arrears	collected	weight of arrears in the collected amounts	arrears	collected	weight of arrears in the collected amounts	arrears	collected	weight of arrears in the collected amounts
257.6	12,612.3	2.0%	304.9	14,606.1	2.1%	336.1	15,425.1	2.2%

Source: Customs Service.

Year	Debts at the beginning of the year, mln. lei	Collected debts, mln. Lei	The share of collected debts from calculated debts, %
2012	123.8	17.14	13.84
2013	257.6	35.39	13.74
2014	304.9	27.14	8.90

Source: Customs Service.

In order to decrease the debts for the taxes and payments managed by the Customs Service, the existing mechanism was assessed and a new well-defined monitoring and management mechanism was put in place, and internal control measures were set up in order to ensure full collection within due term of business entities' debts.

In this context, the Law on Amendments and Addenda to Some Legislative Acts No 324 of 23 December 2013 added Section 21<sup>1</sup> "Forced Fulfilment of Customs Obligations" to the Customs Code, while the Code of Administrative Offences was complemented with Article 287<sup>2</sup> "Blocking of activity in case of enforcement of customs obligations".

Later, on 28 January 2014 the Director General of the Customs Service issued the Order Approving the Forms for the Enforcement of Customs Obligation No 30-O, published in the Official Gazette No 27-34/124 of 7 February 2014.

In March 2014, a workshop took place on the topic "Enforcement of Customs Obligations" in the Customs Officers Training Centre, whose beneficiaries were customs officers responsible of the forced collection of customs duties.

Before the amendments to the Customs Code by Law No 324 of 23 December 2013, precisely the empowerment of the customs authorities with the right to enforce the customs obligations, the Regulatory Decisions issued by the Customs Service until 2013 used to be sent to bailiffs for them to take measure to forcibly charge the duties; this, however, took too much time when charging the customs import duties.

A considerable part of the Regulatory Decisions issued by the Customs Service were challenged and are pending in courts now, with resolutions to suspend the administrative acts challenged being also issued. This prevents the collection of customs import duties.

According to the Regulation on the Extinguishment by Prescription of Customs Obligations (arrears older than 6 years long) – in 2013 MDL 0.3 thousand were cancelled, and in 2014 – MDL 2.1 thousand.

Because of the collection rates with respect to tax arrears highlighted in Table 20, namely 33.7% during 2013, and 34.1% during 2014, which are below 60% of the total amount of tax arrears; and because the stock of tax arrears was significant (more than 2% of annual collections; according to column 4 of Table 19 rather around 11%) the score for this dimension has to be D.

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

Consistent with the 2011 assessment, the MoF, MSTI and CS inform that all payment of taxes and customs duties are made directly to bank into the Treasury Single Account (TSA).

The amounts paid incorrectly, using incorrect bank accounts shall be reflected in “Unidentified Payments” which shall later be transferred back to payer’s bank accounts.

Once the customs duties are paid, the information becomes available online to all customs stations and allows for the customs clearance operations to take place.

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

Similarly, the reconciliation of revenues between the tax authorities and State Treasury General Division (STGD), Customs authority and STS on revenues is performed daily, monthly and annually at central and territorial level on taxes collected.

This measure of reconciliation is beneficial for the purpose of the revenue forecasting as well as short term cash flow management.

The STS reconciles tax assessments, actual collections and tax arrears on a monthly basis.

*Comparison of 2015 and 2011 assessments*

Concerning dimension (i), the most significant STS result shown after 2011 relates to the previously mentioned preventive measures, aiming at dealing with the serious arrears collection issue, while awaiting the advent of the new computerised application, currently being developed and tested. It will facilitate the establishment and maintenance of taxpayer’s current account, which shall allow for the maintenance of the requested analytical data.

Section 21<sup>1</sup> “Forced Fulfilment of Customs Obligation” and Article 287<sup>2</sup> “Blocking of activity in case of forced fulfilment of customs obligations” of the Code of Administrative Offences are in force since 2014 to ensure the full and timely collection of business entities’ debts.



As for dimension (ii), no new significant aspects were noticed; except that many incorrect payments are still made. Since this is largely a technical issue, it should be attended as a high priority task.

As for dimension (iii), there are also no new significant aspects.

#### *Developments in 2015*

The Taxpayer Current Account application is presently being tested by STS and it is expected that this component will be put into operation.

This is considered a huge step in the right direction, as it will enable the implementation of most of the recommendations issued by various missions. In addition, the Taxpayer Current Account concept will be included in the new Integrated Tax Information System (ITIS).

In the medium term, ITIS will facilitate automation of the payment process controls, so as to reduce significantly the amount of the error-hit transactions, representing a technical issue of the previous assessments.

One of the most serious issues in this context is the VAT treatment of companies that are formally insolvent. MSTI has proposed to the Ministry of Finance some amendments to the Tax Code, allowing the reverse charge of VAT with respect to supplies made by businesses declared bankrupt.

CS will continue to take forced customs duties collection measure, ensuring thus the reduction of debts to the State Budget. As a result of the aforementioned actions taken by the Customs Service, the debts did decrease, reaching down to MDL 301.1 million (from MDL 336.1 million in the beginning of 2015) on 30 April 2015.

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

		Score (scoring method M1)	C+
Dimension	Minimum requirements		
(i) Extent to which cash flows are forecast and monitored.	A cash flow forecast is prepared for the fiscal year, and is updated monthly on the basis of actual cash inflows and outflows.		A
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	MDAs are provided reliable information for one or two months in advance.		C
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	Significant in-year adjustments to budget allocations take place quite often and are somewhat transparent.		C

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

The Government forecasts cash flow for the purpose of planning budget execution based on the estimated revenues, which determines the aggregate expenditure level. When the State Budget is approved by Parliament, the line ministries (and other central government entities) and local governments (ATUs – administrative territorial units) are informed of their budget ceilings and on that basis all institutions prepare annual and monthly financial plans. These plans are consolidated by the line ministries and forwarded to the MoF where the State Treasury General Directorate (STGD) records them in the FMIS. The MoF furthermore estimates the monthly funding requirements (and hence expenditure limits) for the ATUs as well as required transfers to the State Social Insurance Fund and the Mandatory Health Insurance Fund. Central government entities are required to submit monthly financial plans (which however are not cash flow plans). These are not forecasts, but requests for monthly spending quotas. This means that the aggregate expenditure forecast produced by the STGD may to some extent be incomplete or not fully accurate.

STGD uses the financial plans and estimated funding requirements received by central government entities together with the revenue forecasts from the State Tax Inspectorate and the Customs Service to prepare a cash flow forecast for the upcoming fiscal year. In this process STGD also takes into account historical revenue and expenditure trends so as to assess whether the consolidated financial plans and expenditure (cash flow) patterns correspond with earlier years. This enables STGD to produce a regular overall cash flow forecast for the fiscal year.

STGD (Liquidity Management Division) prepares weekly aggregate cash forecasts which are in effect updated daily as soon as there is a change in circumstances.

It is noted that cash flow forecasts may not always be accurate for two fundamental reasons. The first has to do with the absence of a dedicated commitment registration and management system inevitably resulting in discrepancies between financial plans of line ministries and other central government entities and cash flow projections. The second is the result of liquidity shortages due to the adverse fiscal circumstances which force Treasury to enforce a cash rationing process.

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

Annual financial plans prepared by central government entities encompass separately all subordinate units and are broken down by monthly cash plans based on clear in-year expenditure plans for the fiscal year. These plans enable entities to plan and commit expenditures for the full fiscal year in accordance with their appropriations. However, when cash shortages arise – which was frequently the case in the years covered by the 2011 PEFA assessment – this information is not systematically communicated to spending units. In such situations, the MoF prioritises non-discretionary spending in a transparent manner, where debt/interest payments, salaries and pensions, scholarships, social benefits, energy payments and expenses from contingency funds are given priority.

There have been less cash flow problems in the period under review than in the period assessed in the 2011 PEFA, since there were no significant shortfalls in revenue collection (see PI-3).

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

Adjustments to budget allocations, which are beyond the *virement* rules, are specified in the Law on the Budgetary System and the Budgetary Process (No 847 XIII of 24 May 1996 with later amendments)<sup>49</sup>, specifically Article 41 (*Rectification of the State Budget*) and Article 42 (Additional appropriations in cases of *rectification* of the State Budget).

All changes in the budgetary allocations have been approved by the Parliament through a revision in appropriations, with the exception of two cases which were only approved by the Government. In the period under review by this PEFA assessment the following amendments have taken place:

- 2012 – three times: (1) Law No 119 of 24 May 2012 amending the 2012 State Budget Law; (2) Law No 177 of 11 July 2012 amending and complementing the 2012 State Budget Law; (3) Law No 273 of 30 November 2012 amending and complementing the 2012 State Budget Law;
- 2013 – three times: (1) Law No 80 of 18 April 2013 amending and complementing some legislative acts; (2) Law No 173 of 12 July 2013 amending and complementing the 2013 State Budget Law; (3) Law No 277 of 15 November 2013. Altogether there were 8 amendments to the annual budget law, the other 5 being of formal nature and/or relating to reallocations among budget programmes;
- 2014 – three times: (1) Law No 106 of 19 June 2014 amending the 2014 State Budget Law; (2) Law No 182 of 25 July 2014 amending and complementing the 2014 State Budget Law; (3) Law No 183 of 28 September 2014 amending and complementing the 2014 State Budget Law.

The reasons for these amendments can be summarized as follows:

- Adjustment of the budget to reviewed macroeconomic indicators (in May 2014, further to the economic developments);
- Increasing financial support for certain categories of pensions and salaries;
- Adjustments of EU grants for budget support programmes;
- Financial support to agricultural producers after the embargo by the Russian Federation on agricultural products from Moldova;

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<sup>49</sup> The new Law on Public Finances and Budgetary-Fiscal Accountability, which was not yet in force at the period under evaluation, contains a similar provision in Article 61 (*Rectification of the Annual Budget Law/Decision*).

- Prioritization of expenditure programmes within an updated resource envelope.

#### *Comparison of 2015 and 2011*

There have been no significant changes since the 2011 PEFA on dimensions (i) and (ii).

Regarding dimension (iii), the budget has been amended three times in each of the years 2012, 2013 and 2014. The score for this dimension is therefore decreased from A to C, which however does not influence the overall score for this indicator.

#### *Developments in 2015*

The Law on Public Finances and Budgetary-Fiscal Accountability No 181 of 25 July 2014 has entered into force in stages since 1 January 2015. It limits the in-year amendments of the budget to a maximum of two per year. The provisions of Article 61 (5) enter into force starting 1 January 2016.

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

		Score (scoring method M2)	A
Dimension	Minimum requirements		
(i) Quality of debt data recording and reporting.	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly		A
(ii) Extent of consolidation of the government's cash balances.	All cash balances are calculated daily and consolidated.		A
(iii) Systems for contracting loans and issuance of guarantees.	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.		A

*(i) Quality of debt data recording and reporting.*

The legal basis for borrowing of the State is set out by the Law on Public Sector Debt, State Guarantees and On-lending from State Borrowings (Law No 419 of 22 December 2006, amended on 29 May 2014 - Official Gazette No 397-399/704 of 31 December 2014, hereinafter: PDL) and secondary legislation regulating its implementation<sup>50</sup>. The law was amended in order to introduce modifications on local borrowing policy, improvement of recording and reporting of on-lent loans, and to generally align the Law to international best practice (based on a debt management performance assessment tool).

The Public Debt Department in the MoF is responsible for registration, monitoring and reporting of public sector debt. The Debt Management Financial Analysis System (DMFAS) version 5.3 from UNCTAD is used for monitoring, settlement and accounting of the external debt, whereas settlement and accounting of the domestic debt is carried out with in-house software (since DMFAS is not adequate for the purpose), and data is periodically migrated into DMFAS for reporting. State on-lending is managed as well with an in-house developed software tool.

Public sector debt reporting and monitoring is based on reports that the MoF receives from other entities as regulated in article 12 of the PDL. The Ministry of Economy and the NBM as well as other central and local public authorities provide input to the MoF for the preparation of forecasts. Public sector entities have to submit quarterly reports used by the MoF to monitor its exposure, disbursements and service of the public sector debt.

Reconciliation of domestic and foreign State debt is carried out on a monthly basis. Data maintained by the MoF in DMFAS is reconciled with invoices submitted to MoF by creditors. At the end of the month, after payments are made, MoF receives statements of accounts from creditors for reconciliation and confirmation of the debt balance.

In compliance with Article 12 (6) of the PDL, the MoF prepares quarterly and annual reports ("Reports on Public Sector Debt, State Guarantees and State On-Lending"), and submits them to Government and Parliament within 70 days after the end of the quarter and 90 days after year end, respectively. These reports are published on the MoF website

<sup>50</sup> On some measures of executing the Law no. 419-XVI from 22 December 2006 on public debt, state guarantees and on-lending from state borrowings" (Government Decision no. 1136 from 18 October 2007).

and contain a debt stock analysis (balance of the public sector debt by components); data on debt servicing and sources for debt financing; comparative figures; state on-lending; trends in macro-economic indicators; debt sustainability indicators; and an analysis of fiscal risks (market risk, liquidity risk, credit risk and operational risks). The reports are prepared in accordance with the IMF's Special Data Dissemination Standard (SDDS). Mitigation strategies are identified in the debt management strategy. See dimension (iii).

Complete records of the domestic State debt are also maintained by the NBM, given its function as State agent for the placement and servicing of government bonds. See also sub-dimension (iii).

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

The development of the Treasury system was carried out progressively starting in 1993. Initially, the 38 Territorial Treasuries (TTs), SSIB and CIFMA maintained accounts of budget institutions in commercial banks. Since the 1 January 2008, all budgets, including the whole local level as well as SSIB and CIFMA, are executed via the TSA. SSIB and CIFMA budgets are processed using a specialised Treasury client software for submission of payment orders to the State Treasury for processing via the NBM's Interbank Payment System.

All revenue is thus collected on the Treasury Single Account (TSA) and all payments are executed from there. The TSA is held in the NBM. Since the 1<sup>st</sup> of January 2008 all accounts of in commercial banks have been closed, with the exceptions described below.

In 2010, 84% of the budget funds were maintained in the NBM and 16% in commercial banks (for donor funded projects, Moldova's embassies and the Customs Service), whereas in 2014, only 71% of the budget funds were maintained in the NBM and 29% in commercial banks. The reason for this drawback in the progress towards a TSA is the high inflow of donor funds which are maintained in commercial banks further to donors' regulations.

The structure of the TSA reflects the structure of the budget (status on 31 December 2014):

- one MDL account with 161 sub-accounts (for TTs, SSIB and CIFMA);
- 30 FX accounts for channelling foreign exchange payments and receipts of budget institutions.

Several accounts are held within the TSA for every TT, corresponding to the budget components, i.e. for the State Budget (main component; special means and special funds; and investment projects funded from foreign sources) and for the ATU budget.

STGD has, like all domestic commercial banks, a real-time participant's access in the Interbank Payment System operated by the NBM for executing all domestic payment transactions in real-time. The STGD has thus real-time access to the consolidated cash position on the TSA. Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF on a daily basis.

Accounts maintained in commercial banks for cash operation and projects funded from external sources are reconciled on a daily basis by the institution holding the account, and on a quarterly basis by the MoF.

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

Contracting of loans and issuance of state guarantees is regulated by the PDL. Article 3 of the PDL identifies the MoF as contractor for domestic and foreign loans on behalf of the Government and explicitly overrides this possibility for any other central public authority. The same holds for the issuance of state guarantees to domestic or foreign parties. According to article 9 of the PDL, the ceiling for the state debt, both domestic and foreign, as well as the ceiling for state guarantees is established by the Annual Budget Law.

*Domestic debt:*

Management of the domestic State debt is regulated by article 15 to 22 of the PDL. Currently the two instruments for incurring domestic State debt are long-term state bonds and short-term Treasury bills, issued for placement on the domestic market. The State securities are placed on the domestic market via auctions organised by the NBM as State's agent.

*External debt:*

Contracting of foreign loans is regulated by the articles 23 to 27 of the PDL. Agreements on foreign State loans have to be approved by the Parliament by an organic law.

*Local level:*

Contracting of debt at the local level is regulated by Chapter VII of the PDL and by Articles 13-16 of the Law on Local Public Finances (No 397-XV of 16 October 2003 as amended<sup>51</sup>). According to Article 44 of the PDL, ATUs can contract foreign loans and issue guarantees for foreign loans only from IFIs and within the ceilings set out in Article 14 (4) of the Law on Local Public Finances (debt may not exceed 20% of the annual budget revenue for capital investments and 5% of the annual budget revenue for current expenditure).

ATU decisions on debt contracting, issuance of long-term securities and provision of guarantees have to be approved by the respective local council and reviewed by the MoF. Level-2 ATUs may contract short-term loans from the State Budget by submitting an application to the MoF. According to the Law on Local Public Finances, Level-2 ATUs may also issue municipal bonds and guarantees to municipal enterprises.

The contribution of the ATUs' debt to the public sector debt is less than 1%.

*On-lending:*

A more popular instrument than loans from commercial banks is on-lending to ATUs of loans contracted by the State from IFIs.<sup>52</sup> On-lending is only available to ATUs of Level 2 and Balti municipality, but Level-1 ATUs can borrow through their parent Level-2 ATU. On-lending is regulated by article 28 to 32 of the PDL, as well as by the Regulation on State On-Lending approved by Government Decision (GD) No 1136 of 18 October 2007. A draft GD for amending GD No 1136, aimed at taking into account the consequences of the fiscal decentralization, has been submitted to the Government for approval.

<sup>51</sup> Latest amendment: Official Gazette of Moldova No 397-399/703 of 31 December 2014.

<sup>52</sup> Such on-lending facilities are available through loans from EBRD, WB and CEB (Council of Europe Development Bank) for investments in the energy sector, construction and sewerage. Another instrument for on-lending is managed by the Credit Line Directorate of the MoF providing on-lending of external funds (State external loans) to the real sector through commercial banks.

According to these new provisions, on-lending will be available to Level-1 and Level-2 ATUs.

*State guarantees:*

Articles 33 to 42 of the PDL regulate the issuance of guarantees by the State. This instrument was used until 1999, but due to the restrictive requirements of the PDL it was not used anymore thereafter. In 2014, the last state guarantee has been cleared, and by now there are no more outstanding state guarantees.

*Debt management strategy:*

A three-year rolling Medium Term Debt Management Strategy is prepared annually, approved by the Government and published on the MoF website. For the period under review, these were the periods 2012-2014, 2013-2015, and 2014-2016.

This strategy includes a description of the existing debt portfolio's composition (by instruments) and evolution over time, a fiscal risk analysis (refinancing risk, currency risk and interest rate risk); indicators for risk monitoring; alternative scenarios based on risk analysis; sustainability parameters; and they establish ceilings for certain categories of state debt based on related risks. The strategy also identifies priority activities of the MoF oriented at medium and long term debt sustainability and for attracting funds for funding sector priorities.

The current strategy 2015-2017 was adopted in November 2014<sup>53</sup>: its objectives are: (i) to limit the issuance of state guarantees to priority projects for the national economy; (ii) gradual reduction of government debt with the NBM; and (iii) developing the internal market for state securities.

*Comparison of 2015 and 2011*

The main development was the amendment of the Public Sector Debt Law in order to introduce modifications on local borrowing policy, improvement of recording and reporting of on-lent loans, and to generally align the Law to international best practice.

*Developments in 2015*

It is planned to upgrade DMFAS to version 6.0 which provides more analytical and strategic tools, and allows management of the domestic debt.

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<sup>53</sup> Government Decision nr. 939 of 13 November 2014.



*PI-18. Effectiveness of payroll controls*

		Score (scoring method M1)	B+
Dimension	Minimum requirements		
(i) Degree of integration and reconciliation between personnel and payroll data	Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.		B
(ii) Timeliness of changes to personnel records and the payroll	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).		A
(iii) Internal controls of changes to personnel records and the payroll.	Authority and basis for changes to personnel records and the payroll are clear.		B
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	A payroll audit covering all central government entities was conducted at least once in the last three years (whether in stages or as one single exercise).		B

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

The management of personnel data and of the data on the salaries of civil servants, as well as the integration between personnel and payroll data are carried out through several mechanisms in the same manner as in the period under the previous assessment, as indicated below.

*On personnel data records:*

Every employing institution is responsible of personnel record-keeping, and keeps personnel records that contain all the relevant information (original employment application, position, qualification, trainings attended, shift in position, changes in the job duties etc.).

*On salary calculation:*

To attest the employees' actual time worked, timesheets are filled in every month and submitted to the accounting office of the employing institution, where the salaries are calculated monthly on the basis of the employee's status and time actually worked, in accordance with the laws in force (Law No 355-XVI of 23 December 2005 on the Payroll System in the Budget Sector, with later amendments, Law No 48 of 22 March 2012 on Civil Servants' Payroll System, with later amendments, and the Law No 328 of 23 December 2013 on Judges' Salaries, with later amendments).

Copies of the administrative acts on employment, change of position, dismissal, one-off payments etc. are submitted to the accounting office to update payroll records and to take account of the salaries to be paid in the upcoming month. A decision was made in September 2015 to increase the salaries of the civil servants by 3%. Due to the political instability over the last year the approval of an amendment related to the civil servants' salary increase is still being delayed at the Parliament. Nevertheless, once approved the amendment will be applied retroactively.

*On salary processing:*

The payment documents for the salaries that go along with a supporting note on the payment of salaries, benefits, and contributions to the state social insurance fund and compulsory insurance funds for medical assistance are submitted every month by the responsible authority/budgetary institution to TT of MoF. The TT of the MoF checks the payment documents and the annexed supporting documents, and verifies if there are financial means available according to the funding plan. There is no centralised IT system for payroll processing. The payroll is checked against the personnel record and the previous month payroll data every month on the basis of the data provided by the information database of the Government supported by "Fintehinform" State-Owned Enterprise. The Division for Analysis and Monitoring of Personnel Costs and Employees in the Budget Sector (DAMPCEBS) at the MoF manually checks and verifies on monthly basis the information from the personnel database with the payroll. There is a plan that this process is computerised.

*On the monitoring:*

Monitoring of the number of employees and salary expenditure is carried out by the MoF (see dimension (iii)).

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

*On annual basis:*

Every authority (central and local public institution) will draw up every year an Employment Plan for the subordinated institutions.

Over the 2012-2013 period, the Employment Plan was worked out considering the approved limit of personnel for that year as foreseen by the Government and communicated to the central public authorities (institutions) by GD, and to local public authorities by the decision of the District Council. Any in-year modification to that plan was to be officially approved by Government Decision.

Starting with 2014, the Government no longer decides on the limit of personnel. In such case the central and local public authorities (institutions) approve the Employment Plan for the subordinated institutions, keeping in mind that the salaries of the employees according to the aforementioned plan have to comply with the personnel costs limit, which was approved in the annual budget of the year concerned.

*In-year:*

The changes to the personnel records and the administrative acts on the basis of which the payroll records are being updated, are approved by the head of the institution and registered almost immediately (within three days). As the salaries are calculated every month on the basis of the data in the monthly time sheet and on current legislation, the changes are taken into consideration when they occur.

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

*On the level of salary calculation:*

The ex-ante control is based on the four eyes principle, according to which every transaction with financial implication requires two signatures: by the head of the institution and by the chief accountant. Internal control procedures within budgetary institutions are stringent, and the highly bureaucratic system of HR administration leaves little opportunities for irregularities.

Figures on salary calculation made in Level-1 ATUs (primary) are checked in the Level-2 ATUs (district) Finance Division to see whether they are in line with the norms and regulations. In case of concerns, the district authorities carry out an on-site check at the *primaria*.

*At the employing institution level:*

Keeping in mind the limits set out in the Employment Plan, every institution draws up the staffing table and approves in compliance with the provisions of the Order of the Minister of Finance approving the standard forms of the staffing tables for the employees of the budget sector (No 55 of 11 May 2012, with later amendments), which contain all the positions in the institution and the basic salaries by position. If, during the year, the remuneration conditions or the structure of the institution change – the staffing tables are updated.

The employees are hired according to the staffing table drawn up and approved in line with the limits of personnel approved for the budget year concerned, as well as other internal documents issued by the head of the institution. Evidence on work carried out is provided by the time sheets to be completed monthly by every employee and providing the basis for the salary calculation.

*On the monitoring level:*

An additional layer of control was introduced by the system of reporting to the MoF.

Until 2013, on the basis of developments and the macroeconomic policy, MoF established an annual limit on salary expenditure, and a limit on the total number of employees at central and ATU levels, by which every public authority (institution) establishes limits that its subordinated institutions have to comply with. These indicators were adopted within the annual State Budget Law and shared with the central level authorities (institutions) and ATUs by GD.

Starting with 2014, only the annual limits on personnel costs for central level public authorities (institutions) are approved by the State Budget Law. The personnel cost limits for ATUs are a component part of their budgets for the year concerned and are approved by the Decision of District (Local) Councils.

To establish the limits on personnel costs, starting with 2012, when drafting the budget and submitting proposals for the MTBF – the central and local public authorities (institutions) submit proposals on the number of employees and the estimates of personnel costs by categories of personnel, according to the tables drawn up by the Division for Analysis and Monitoring of Personnel Costs and Employees in the Budget Sector (DAMPCEBS) at the MoF.

To ensure that the provisions of the legislation on salary calculation in force are applied correctly, as well as to make it easier for budgetary institutions to estimate the needed means to remunerate work, DAMPCEBS drafted in 2014 standard tables for the calculation of the annual fund of remunerations per position, for all the fields of activity in the budget sector, and uploaded them on the MoF website to be used by the budgetary institutions.

All central level budgetary institutions and ATUs report every month to the MoF (DAMPCEBS) presenting the “Real-Time Monthly Report on Staffing Establishments and Complement of Staff in the Public Institutions of the Budget Sector” (Report No 8) which is registered in a database with the “Fintehinform” State-Owned Enterprise. Central level public authorities (institutions) and ATUs prepare aggregate reports which include information on the subordinated institutions about:

- the number of employees and corresponding expenditure approved for the budget year;
- the effective number of employees and the respective expenditure executed in the reporting period.

The reports are submitted printed on paper and signed by the heads of the respective institutions.

DAMPCEBS verifies the reports from the perspective of compliance with the Annual Budget Law, withdraws personnel costs from Treasury’s FMIS, conducts analyses to establish the criteria of aggregate expenditure, average expenditure by employee and the dynamics, registers the staffing tables per central and local public authority (institution) to confirm and monitor the number of employees annually, and if deemed necessary, according to the established procedure.

The MoF consolidates the aforementioned monthly report and sends it to the Government and IMF.

*(iv) Existence of controls to identify weaknesses of control measures and/or ghost workers.*

After examining the staffing tables and the reports on the number of employees and personnel costs, as well as other cases found during monitoring, DAMPCEBS submits half-yearly to the Financial Inspection Agency (FIA) proposals for the Financial Inspection Activities Programme for the next half of the year.

During the single-issue or complex inspections, the FIA conducts inspections on remuneration in most of the entities of the public central administration at least once in three years.

Larger institutions are subject to external audit by the Court of Accounts who audits payroll as part of the annual (or bi-annual) regularity audit. These institutions also have recently established Internal Audit Units which assess weaknesses of the internal controls system. The CoA cooperates with the FIA regarding the audit in the smaller institutions. The FIA supports the CoA in carrying external audit of the payroll within the annual (or bi-annual) inspection. It should be noted that the FIA focuses on identifying and investigating irregularities.

Due to the rigid and highly bureaucratic system of recruitment, frauds (such as ghost workers) occur very rarely. As for salary payment the cases that have been reported by the FIA are about employees receiving salaries, while they are away and their relative is substituting for them. These cases related to very few lower level budget institutions such as cleaning and security staff at local municipality schools and kindergartens. Such irregularities have a very low implication of less than 1%. According to the management of the FIA funds paid by error can be returned and claimed back. The Head of State

Treasury General Division also pointed out that retroactive adjustments, though rare, do happen when mistakes are made.

According to CoA reports, the main reasons for irregularities are ambiguous legislation on salary calculation and low skills of accountants in smaller municipalities regarding changes in legislation, resulting in incorrect calculation of salaries.

Compliance audits of the payroll, of all central level government entities, are carried out by the Internal Audit Units, the CoA as well as the FIA at least once in three years and are generally of good quality. However, the capacities of the IAUs are still limited, and system audits to identify control weaknesses are still not widely used. The last audit of the payroll and the remuneration process was made by the Internal Audit Unit of the MoF in 2013. The audit focused in salary and bonus calculation and payment.

#### *Comparison of 2015 and 2011 assessments*

- Law No 48 of 22 March 2012 on the Civil Servants' Payroll System, with later amendments, and Law No 328 of 23 December 2013 on Judges' Salaries, with later amendments, which provided for the establishment of some transparent and easy-to-apply rules, were approved;
- Establishing limits on personnel costs, starting with 2012, when drafting the budget and submitting proposals for the MTBF;
- The Order of the Minister of Finance approving the standard forms of the staffing tables for the employees of the budget sector (No 55 of 11 May 2012, with later amendments) was approved;
- Analysing and monitoring the remuneration level in the field of education. In July 2015 MoF's DAMPCEBS requested and received from local and central public authorities' information on the calculation of the annual remuneration fund for the teaching staff and academic staff – by type of position and by institution. The obtained data were used to estimate the necessary means to increase the salaries of the teaching staff starting with 1 September 2014;
- DAMPCEBS drafted in 2014 standard tables for the calculation of the annual fund of remunerations per position, for all the fields of activity in the budget sector, and uploaded them on the MoF website to be used by the budgetary institutions.

#### *Developments in 2015*

No current developments.

*PI-19. Transparency, competition and complaints mechanisms in procurement*

Score (scoring method M2)		B
Dimension	Minimum requirements	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	The legal framework meets four or five of the six listed requirements.	B
(ii) Use of competitive procurement methods.	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements.	A
(iii) Public access to complete, reliable and timely procurement information.	All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.	A
(iv) Existence of an independent administrative procurement complaints system.	There is no independent procurement complaints review body.	D

*(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.*

*Legislation and policy basis*

The Law on Public Procurement (no. 96-XVI from the 13<sup>th</sup> of April 2007)<sup>54</sup> [hereinafter: PPL], in force since the 27<sup>th</sup> of October 2007, regulates decentralization of the procurement function to the public authorities, brings public procurement in line with international standards and provides for more transparency. The legal framework on public procurement includes Government Decisions which regulate the different procurement methods.

The Law is oriented towards approximation of EU Directive 2004/18/EC<sup>55</sup>. Relevant policy basis is provided by:

- the Partnership and Co-operation Agreement (PCA, signed in November 1994 and in force since July 1998) on legal approximation to EU standards (Article 54 on Public procurement); and
- the EU-Moldova European Neighbourhood Action Plan (ENAP), adopted in 2005 whose Section 40 commits Moldova to develop conditions for open and competitive award of contracts between the parties, in particular through calls for tenders, in line with Article 54 of the PCA.

The PPL is generally in line with the relevant EU Directive 2004/18/EC, ensuring thus transparency, comprehensiveness and competition in accordance with EU standards. However, not all stipulations of this Directive are met to date. Main issues are the domestic preference, the electronic procedure (e-procurement), short deadlines for tender submission and the complaints procedure.

<sup>54</sup> Amended by Law no. 109 of 04 June 2010 and Law no. 124 of 18 June 2010.

<sup>55</sup> "On the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts", 31 March 2004.

In order to ensure full transposition of the EU Directives No 18/2004/CE and No 66/2007/CE (Remedies Directive), a new law on public procurement (Law No 131 of 03 July 2015) has been adopted, published in in the Official Gazette July 2015, and will enter into force on 1 May 2016.

#### *Institutional arrangements*

The *Public Procurement Agency* (PPA), established in 2009, is an independent agency subordinated to the MoF which is responsible for supervision, control and inter-institutional coordination in the area of public procurement. The PPA is involved in awarding contracts, since its mandate includes the review and approval of all contracts (as far as subject to the PPL) concluded by contracting authorities, for ensuring legal compliance. The PPA may thus request the re-evaluation or cancellation of decisions taken by a contracting authority in a tender procedure.

#### *Value-for-money*

As regards value-for-money, legislation is sound, however additional instructions on implementation would be required (e.g. the formulation and evaluation of sub-criteria in tenders), especially given the lack of technical skills of procurement officers who make little use of the “most advantageous bid in technical and economic terms” criterion for the award of contracts. Another concern is the large number of contracting authorities (more than 12,000), mostly conducting repetitive purchases of standardized goods and services. Arrangements for joint procurement would be needed to increase efficiency.

For evaluating this dimension, it is to be assessed whether the legal and regulatory framework for procurement complies with the criteria of the PEFA guidelines in the table below:

**Table 46 - Public procurement criteria**

Criterion	Status
(i) Organized hierarchically and precedence is clearly established;	The Law on Public Procurement regulates decentralization of the procurement function to the public authorities. Related secondary legislation is comprised of about 25 Government Decisions regulating the implementation of the Law.
(ii) freely and easily accessible to the public through appropriate means	The Law and related secondary legislation is published in the Official Gazette and on the PPA website <a href="http://www.tender.gov.md">www.tender.gov.md</a> .

Criterion	Status
(iii) applies to all procurement undertaken using government funds	<p>According to its Article 1, the PPL applies to all public authorities, legal entities governed by public law and associations of such authorities, as well as to public procurement contracts directly subsidized by such authorities by more than 50%. According to Article 2, the scope of the PPL covers public procurement contracts with an estimated value<sup>56</sup> exceeding MDL 20,000 for goods and MDL 25,000 for works and services. Procurement with a value not exceeding the above mentioned thresholds is regulated by the Regulation on Minor Value Public Procurement<sup>57</sup> where contracting authorities may directly contact a supplier without any competition.</p> <p><i>Exceptions</i></p> <p>The PPL explicitly provides for a number of exceptions which are listed in Article 4. In addition to exceptions such as "state provisions of tangible resources and emergency provisions", which would need review, there are some more problematic, not EU compliant exceptions, notably: concession contracts for public services and works; and defence related procurement contracts.</p>
(iv) makes open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	<p>Article 33(2) of the PPL specifies the 11 procurement methods:</p> <ul style="list-style-type: none"> <li>a) open (public) tender;</li> <li>b) closed tender;</li> <li>c) framework contract;</li> <li>d) competitive dialogue;</li> <li>e) negotiations;</li> <li>f) procurement from a single source;</li> <li>g) request for price quotations;</li> <li>h) dynamic procurement system;</li> <li>i) electronic auction/tender;</li> <li>j) procurements for the social housing construction schemes.</li> </ul> <p>The same article clearly identifies the open tender as the default procedure, whereby other procurement methods may only be used in cases specified by the PPL. These cases are mainly linked to thresholds. See dimension (ii) for details. Single source procurement is not contingent on a threshold, but applies to specific circumstances defined in Article 53 of the PPL and regulated by secondary legislation<sup>58</sup>.</p>
(v) provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	<p>All tender opportunities, contract awards and decisions on complaints are published in the Public Procurement Bulletin which is also available on the PPA's website.</p> <p>Annual procurement plans are published on the websites of the contracting authorities.</p>

<sup>56</sup> All values hereinafter are exclusive of VAT.

<sup>57</sup> Government Decision No. 148 of 14 February 2008.

<sup>58</sup> Government Decision no. 1407 of 10 December 2008.



Criterion	Status
(vi) provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Article 71 to 74 of the PP Law regulates the rights to complaint, the submission and review of complaints, as well as the suspension procedure and relevant deadlines. The body reviewing the complaints is however an organizational unit within the PP and thus not independent. See dimension (iv)

Four of the requirements above are fully met: (i), (ii), (iv) and (v). There are some concerns relating to (iii), which are however being address by new draft legislation. As regards (vi), concerns on independence of the complaints review are treated and scored under dimension (iv) of this indicator.

*(ii) Use of competitive procurement methods.*

Article 33 of the PPL defines 11 procurement methods. Those already regulated by secondary legislation and applied are:

- the Open Tender, which is published in the PPA Bulletin and on the PPA website and open to all bidders;
- the Restricted Tender, which is applied when a large number of bidders is expected or if tender examination is complex. It is open only to a restricted number of suppliers determined in a short list;
- the Single Source Procurement, which is applied in specific cases defined by the PPL such as emergency situations, goods under copyright and products available only from one specific supplier;
- the Request for Price Quotation (RPQ), with or without publication, depending on the amount (see table below).

**Table 47 - Procurement methods**

Procurement method	Threshold for goods and services	Threshold for works	Publication
Minor value procurement	below MDL 40,000 (without VAT)	below MDL 50,000 (without VAT)	No
RPQ procedure	More than MDL 50,000	More than MDL 100,000	Tender notice in the Public Procurement Bulletin and on the PPA website.
Open tender	above MDL 200,000	above MDL 1,000,000	<ul style="list-style-type: none"> <li>• Tender notice in the Public Procurement Bulletin and on the PPA website;</li> <li>• prior announcement of intent.</li> </ul>
	above MDL 2,500,000	above MDL 99,000,000	Additional tender notice in the Official Journal of the European Community.

The threshold for minor value procurement was increased, since the last PEFA Assessment, from MDL 20,000 to 40,000 for goods and services, and from MDL 25,000 to MDL 50,000 for works. The threshold for publication requirement was decreased from MDL 100,000 to 50,000 for good and services, and from MDL 500,000 to 100,000 for works.

The table below shows the distribution of contracts by procurement method for the year 2014 (amounts in million MDL incl. VAT):

**Table 48 - Share of procurement methods applied in 2014**

Procurement method	2014	
	Amount	%
Open tender	4,912.8	45.32
Open tender through IT system	3,591.7	33.14
RPQ with publication	1,561.3	14.40
RPQ with publication through IT system	165.7	1.53
Framework agreement, subsequent contracts	7.7	0.07
RPQ without publication	220.5	2.03
Single source	379.8	3.50
<b>TOTAL</b>	<b>10,839.45</b>	<b>100.0%</b>

Source: Public Procurement Agency Annual Reports.

For the purpose of this assessment, Single Source procurement and RPQ without publication considered as non-competitive<sup>59</sup>, and this leads to the following statistics:

**Table 49 - Share of competitive procurement methods applied in 2014**

Procurement method	2014	%
Competitive	10,239.2	94.46%
Non-competitive	600.30	5.54%
<b>TOTAL</b>	<b>10,839.5</b>	<b>100%</b>

The application of less competitive procurement methods is regulated by legislation (Regulation on Single Source Public Procurement, approved by Government Decision No 1407 of 10 December 2008) and requires justification by the contracting authorities. The conditions here for are summarily: a) no suitable proposals submitted in response to the open or negotiated procedure; b) extreme urgency due to an unforeseeable event; c) for technical reasons or reasons of design protected by copyrights. The application of this regulation is controlled by the PPA and may be audited ex-post by the Financial Inspection or Court of Accounts. Non-competitive procurement is mainly used for services as such as electricity, heating, natural gas, water and sewage services (State monopolies).

*(iii) Public access to complete, reliable and timely procurement information.*

Information on public procurement is provided on the website of the PPA [www.tender.gov.md](http://www.tender.gov.md) and in the Public Procurement Bulletin issued by the PPA. Until 2015 the Bulletin was published in hard copy twice a week (available to subscribers only) as well as on the PPA website which is publicly accessible. Since January 2015, the Public Procurement Bulletin is published only on PPA website.

<sup>59</sup> Minor value contracts not taken into account, as they are not subject to the PPL.

Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public as follows, in line with criteria of the PEFA guidelines:

**Table 50 - Access to procurement information**

Criterion	Status
Government procurement plans	<p>Article 13 (1) b) of the PPL requires contracting Authorities to develop annual and quarterly public procurement plans. These are published on the websites of the Contracting Authorities.</p> <p>According to Article 19 of the PPL, contracting authorities must publish announcements of intent for scheduled procurement contracts over MDL 200,000 (goods and services) and over MDL 1,000,000 (works). These are published on the PPA website. If values exceed MDL 2,500,000 for goods and services or MDL 99,000,000 for works, the announcement of intent is also to be published in the “Official Journal of the European Community”.</p> <p>It was noted by the Court of Auditors that some contracting authorities have failed to comply with these requirements<sup>60</sup>. The situation has however improved in 2010.</p>
Bidding opportunities	All Tender notices are published in the Public Procurement Bulletin and contain all standard information. Tender documents are available on paper base from the contracting authorities and in electronic format on the PPA website.
Contract awards	All contract awards are published in the on the PPA website on monthly basis, indicating the successful tenderer and the contract amount
Data on resolution of procurement complaints	Information on all complaints filed is published on the PPA website and includes the filing and the decision date, the name of party filing the complaint, the description of the objection and the decision.

Implementation of e-procurement started in 2007, but its completion has been pending for several years due to lack of funds. The legal basis is set by the PPL in article 56 and by further legislation in the area of e-government. The implementation of an e-procurement system has progressed since 2013, and the system is used by larger central public authorities and some Level-2 ATUs, which together execute 48% of all public procurement. The system needs however to be improved, or may be replaced by a new IT system, or order to be able to cover all budget institutions.

*(iv) Existence of an independent administrative procurement complaints system.*

The responsible body for processing of complaints is the PPA, more specifically *the Division for Regulation and Control*. The complaints mechanism is regulated by the articles 71 to 74 of the PPL as described in the table below.

For scoring this dimension, it is to be assessed whether complaints are reviewed by an independent body in compliance with the criteria from the PEFA guidelines below:

<sup>60</sup> Source: Report on the performance audit of some objectives of the Law on Public Procurement (Decision of the CoA no. 19 of 28 May 2009).

**Table 51 - Procurement complaints system**

Criterion	Status
(i) comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	The Unit for Control and Appeals within the Department for Regulation and Controls of the PPA is the body responsible for reviewing complaints. It is only composed of civil servants. Those are deemed to be acquainted with the legal framework.
(ii) not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Art. 9(1) of the PPL defines the functions of the PPA, more specifically in lit. b its role in coordinating, monitoring, assessing and controlling compliance of the contracting authorities with the PPL. Although the PPA is not directly carrying out procurement transactions, it results from this provision that the PPA is involved in contract award decisions, since its mandate includes the review and approval of all contracts, leading to a possible re-evaluation or cancellation of decisions taken by a contracting authority in a tender procedure.
(iii) does not charge fees that prohibit access by concerned parties;	No fees are charged for filing a complaint.
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Processes for submission and resolution of complaints are defined in the PPL, Article 72. Upon receipt of a complaint, the PPA may suspend the execution of the procurement procedure. Based on the complaint review, the PPA may accept it, reject it, request re-evaluation of the bids or (as it is the case for the majority of the cases), initiate a mediation procedure for settlement, conducted between the PPA, the contracting authority and the claimant.
(v) exercises the authority to suspend the procurement process;	Suspension of the procurement procedure is regulated in Article 74 of the PPL. It is applied if the claim is substantial and there is evidence that a) the supplier would suffer damage without suspension; b) there exists a probability to satisfy the claim; c) the suspension would cause no damage to the parties involved in the procurement procedure.
(vi) issues decisions within the timeframe specified in the rules/regulations; and	Procedures for the review of complaints are defined in Article 73 of the PPL. The deadline for reviewing the complaints and issuing a decision is set at 20 working days after submission. Art 73 (10) stipulates that if the PPA fails to issue a decision within this deadline or if the supplier is not satisfied with the decision, the latter may appeal to the competent administrative court. A spot-check of the publication on the PPA website showed that in a few cases decision were issued with delay.
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	According to Art. 73 (9) of the PPL, a decision is issued on the review of the complaint, where the complaint: a) is left without examination (only in cases of late or improper filing); b) is withdrawn by the claimant; c) is accepted by the Contracting Authority as substantiated;

Criterion	Status
	<p>d) is accepted or rejected by the PPA; e) is settled amicably.</p> <p>Article 73 (10), regulates access to the administrative court in cases of delayed or unsatisfactory decision, and the PPA's competence to settle the dispute is terminated thereupon.</p> <p>In 2009, the PPA received 327 appeals of which 45 were accepted. Nine cases were escalated to the Court. In 2010, the PPA received 511 appeals.</p>

There is compliance in five of the seven criteria above and non-compliance for (i) and (ii). However, the PPA is not an independent body. The PPA is made responsible for handling appeals related to procurement transactions which have earlier been reviewed and approved by it. This results in a potential conflict of responsibilities. The PPA's dual responsibility in approving the procurement decisions (and thus being involved in the decision-making process) and on the other hand in resolving complaints on the same transactions is not an internationally accepted practice<sup>61</sup>.

Although the complaint review department of the PPA is a functionally independent unit within the PPA, it is not administratively independent from other units, and this apparent conflict in responsibilities may impose constraints in its freedom of action when handling complaints. Also, the financial autonomy of the PPA is restricted, since it is a budget institution under the MoF, depending on the allocation from the State budget to the MoF.

The new draft public procurement law foresees the establishment of a National Appeal Solving Agency which is subordinated to the MoF, and will act as independent complaints processing body for public procurement.

#### *Comparison of 2015 and 2011*

The main progress consists in the decrease of the share of non-competitive procurement methods from 30% in 2008-2010 to 6% in 2012-2014.

A number of regulations for the implementation of the current law have been amended.

#### *Developments in 2015*

The new law on public procurement, which has been adopted and will enter into force in May 2016, transposes the EU Directives No 18/2004/CE and No 66/2007/CE. It also establishes an appeals body (Complaint Settlement Agency). There have been concerns whether this agency can be regarded as independent, since it is an administrative authority subordinated to MoF according to Art. 1 (3) of the Law. This issue has been pointed out in the 2015 SIGMA assessment, and a legal amendment is planned aimed at ensuring the independence,

Secondary legislation for the implementation of the new law is under development.

<sup>61</sup> In this context it is furthermore relevant that the PPL is not fully compliant with the EU Remedies Directive 2007/66/EC.

*PI-20. Effectiveness of internal controls for non-salary expenditure and assets management*

		Score (scoring method M1)	B+
Dimension	Minimum requirements		
(i) Effectiveness of expenditure commitment controls.	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.		B
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ Procedures	Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.		B
(iii) Degree of compliance with rules for processing and recording transactions.	Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.		A

*(i) Effectiveness of expenditure commitment controls.*

The FMIS of the Ministry of Finance covers all Treasury operations and plays the main role in ensuring appropriate expenditure authorization and control processes, making sure that the authorities/budgetary institutions do not exceed the available means and monthly allocations. The financial control system can therefore be regarded as sound. At the level of the central Government, expenditure control is concentrated in TT Chisinau – State Budget within the MoF. On the local level, control is carried out by the TTs of the Ministry of Finance.

To improve the services of the Treasury to the budgetary institutions, an information system was additionally developed known as Institution - Treasury module, which is being currently tested. This module will ensure the remote servicing of budgetary institutions by TTs, which will allow for an increase in the efficiency of financial transactions, improvement of controls over payments, accounting records and reporting.

The process of expenditure commitment has not changed since the last PEFA Assessment in 2011. The central level budget beneficiaries have to submit to the MoF Financial Plans (cash flow forecasts, covering monthly expenditure breakdowns by economic classification) after the adoption of the Annual Budget Law by the Parliament. The Financial Plans are recorded in the FMIS thus providing the monthly limits for all spending. The FMIS does not allow payments to be made which exceed the available allocation.

The in-year adjustment of expenditure is subject to stringent regulations. All budget allocations lapse at the end of the budget year (except for explicitly authorized multi-year budget allocations where unspent funds can be reallocated in the forthcoming year). There is certain flexibility for carrying over funds from one month to the forthcoming month (and to the previous month with MoF approval). The balances on the accounts, which result from own-source revenue, can unconditionally be carried over to the forthcoming year. Transfer of allocations from one economic classification to another is allowed on the line item level if approved by the responsible line ministry, but this operation is not admitted for salary expenditure. If an increase in the overall budget is

required, the line ministries send proposals to the MoF who collates these requests and submits a draft budget amendment to the Government.

### *Commitments*

When a budgetary institution enters into a contractual obligation, it submits for registration the relevant contract to MoF's TT by which it is served. Although such registration does not have the effect of reserving funds for a specific date as such, it nonetheless ensures that the relevant budgeted allocation is decreased in line with the commitment made. The procurement contracts concluded by budget beneficiaries must be registered with the territorial treasuries of the Ministry of Finance, by which they will be assigned a one-of-a-kind registration number.

The existing FMIS provides for a comprehensive system of control preventing, to a great extent, commitments being made without available budget allocation. Although this is not a fully developed commitment management system, the new FMIS is expected to provide for a fully developed commitment management system, where it will be mandatory to register commitments with a payment date for every expenditure item, irrespective of the amount and the basis (contract or purchase order), and thus linking all types of expenditure to the effective availability of funds.

There is an expenditure commitment control system in place and it functions well by limiting the expenditures to the actual cash availability of the approved budget allocations.

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

For every payment request, the TT of MoF controls the procurement contract, the invoice and the availability of allocation, i.e. that the requested amount is within the contract amount and within the spending limits in the Financial Plan for the month. Also, MoF's TT checks whether the beneficiary's bank account details are the same as the ones in the contract. MoF's TT provides for two signatures (Head or Deputy of the TT and Chief Accountant).

Another layer of control has been introduced due to frequent cash shortages. Priority expenditure is executed based on the priorities set out in legislation. In case of cash shortages, the sequence for payment of non-priority spending items is set by the budget executor and presented to the MoF for approval. Financing such expenditure shall be based on requests to speed up the payment, which is presented to the Ministry of Finance by the budget executors. Financial planning is made in a way that there is a balance at the beginning of the month allowing the execution of the priority payments (salaries, pensions, scholarships, social benefits and debt service). Whenever there is not enough cash available on the respective sub-account for making a payment, the invoice is put on hold.

SSIB and CIFMA are clients of the MoF. Their expenditure is processed through the Treasury Single Account, using a special interface to the FMIS, and they are using their own control systems.

There are no concerns about the system of internal controls, as this system is fully integrated within the FMIS. Understanding of the need for control was found to be well developed in all visited institutions.

Summarily it can be said that the control cycle consists of three levels:

- preventive controls in the budget institutions;
- second level ex-ante control by the TTs; and
- ex-post control by the Court of Accounts or by the FIA at least every two years (plus ad hoc controls by the MoF on a case basis).

*Financial management and control (FMC<sup>62</sup>).*

Public Internal Financial Control Programme was approved (by GD No 1041 of 20 December 2013) to strengthen the managerial accountability and to further improve the FMC system and the internal audit practice.

In order to implement the provisions set out in the Law on Public Internal Financial Control No 229 of 23 September 2013, the MoF approved the Regulation on the Assessment and Reporting on the FMC System; and the Declaration on Good Governance (approved by MoF Order No 49 of 26 April 2012). The latter one guides managers to self-assess the FMC system, report on the organisation and the functionality of the FMC system, and issue a Declaration of Good Governance.

To facilitate the development of the current FMC system according to the National Internal Control Standards, approved by MoF Order No 51 of 23 June 2009, an FMC Manual was developed and handed over to managers. It consists of a collection of guidelines and best practices in the field.

Framework-Regulation on the Activity of the Finance Services was approved by a Government Decision No 433 of 15.07.2015 and enhances the main responsibilities and managerial control applied by the Finance Services.

The MoF carried out trainings and awareness raising seminars for managers, in order for them to promote the need and benefits of the FMC system, as well as to apply the relevant regulatory framework.

The MoF was supported by the twinning project "Strengthening the Public Financial Management in the RM" and the Collaboration Agreement with the Dutch Ministry of Finance. They provided methodology assistance in order to implement the FMC system in some public entities.

Though there is a regulatory framework on the development of the financial management and control system, it is not yet fully functional. The concept of managerial accountability is still not acknowledged among the management.

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

Recording and processing of financial transactions, following the principle of segregation of duties, is subject to the built-in controls of the FMIS. Together with the strong system of internal regulations, this leaves little room for non-compliance.

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<sup>62</sup> FMC is part of the PIFC system. See PI-21.



The fact that expenditure of ATUs is processed by the TTs adds an additional layer of confidence, since the staff in the TTs shows a high level of qualification. The ATUs (that now have only read-access to the FMIS) will in the future FMIS technically have the possibility to execute transactions. The operational processes of public expenditure execution through the treasury system of the MoF are systematically subject to internal audit. The audit missions are planned on the basis of risk assessment and analysis with the objective to verify the compliance with the procedures and rules of transaction processing and registration. Another element considered with audit planning is the assessment of the control activities established for risk management purpose.

The results of the internal audits conducted during 2012-2014 attest that the financial management and control system of the Ministry of Finance related to the public expenditure execution processes through the treasury system can be regarded as sound. The weaknesses found are insignificant and included in the admissible rate of error. A comprehensive set of rules and controls is set up, including at the level of the applied information system, which does not allow for the unauthorised bypass of the established general procedures. Responsibilities are delegated only to those employees who have the necessary competence, by establishing clear subordination levels. Duties and responsibilities are segregated in such a way as to ensure the fact that the functions of initiation of a transaction with financial consequences are apart from the transaction validity verification function.

During the reporting period, 64 recommendations were forwarded on the consolidation and maintenance of the control system on the execution of public expenditure through the treasury system. They particularly refer to the automation of certain internal control activities. This is expected to be improved once the new FMIS is introduced. For the implementation of the audit recommendations, Action Plans are drafted and approved. The results of the standard recommendation implementation degree tracking procedure show that 90% of the planned actions were fully carried out.

#### *Comparison of 2015 and 2011 assessments*

The new FMIS will become live as of January 2016 for budget execution according to the new budget classification. There is sufficient regulatory framework to improve the managerial accountability.

#### *Developments in 2015*

The FMIS on budget execution is being tested to be put into practice starting from 1 January 2016. The new FMIS is supposed to generate improvement in all Treasury operations, fully developed commitment management system, better quality reports will be produced, the paper work will be replaced by electronic documents thus minimising errors and paper circulation. It is to be noted that the new 2016 budget is being composed on the basis of the new FMIS functionality.

*PI-21. Effectiveness of internal audit*

		Score (scoring method M1)	B+
Dimension	Minimum requirements		
(i) Coverage and quality of the internal audit function	The internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meets professional standards. It is focused on systemic issues (at least 50% of staff time).		B
(ii) Frequency and distribution of reports.	Reports adhere to a fixed schedule and are distributed to the audited entity, Ministry of Finance and the Supreme Audit Institution.		A
(iii) Extent of management response to internal audit findings	Prompt and comprehensive action is taken by many (but not all) managers.		B

*(i) Coverage and quality of the internal audit function*

Significant reforms have taken place in the area of Public Internal Financial Control (PIFC), a concept developed by the European Commission covering internal audit and Financial Management and Control (FMC). The reforms in the area of internal audit started with the introduction of the PIFC concept, the legal provisions amending the Law on Budgetary System and Budgetary Process, the PIFC Law and the PIFC Strategy of 2010 revised for the period 2014-2017. The focus of the new strategy is to consolidate the internal control function and to deploy decentralised approach of development.

Following the last PEFA 2011, PFM Reform Strategy was developed covering 2013-2020 which elaborated extensive measures for the improvement and development of the internal audit function. Having established the underlying legal and regulatory framework governing the internal auditing in the public sector, the following documents were developed in the period of assessment 2012-2014:

- Regulation on the Certification of Internal Auditors in the Public Sector (MoF Order No 100 of 29 August 2012);
- National Internal Audit Standards (MoF Order No 113 of 12 October 2012);
- Methodological Norms for Internal Audit in the Public Sector (MoF Order No 105 of 15 July 2013);
- Code of Ethics for Internal Auditors and the Charter of Internal Audit (MoF Order No 74 of 10 June 2014);
- Program on Ongoing Training for Internal Auditors;
- Regulation on reporting the Internal Audit Unit activity (MoF Order No 113 of 15 September 2011).

The National Internal Audit Standards are entirely based on the International Internal Audit Standards issued by the Institute of Internal Auditors.

The requirements for the establishment of internal audit units (hereinafter – IAU) are provided in Art. 19 of Law on Public Internal Financial Control (no. 229 of 23 September 2010). The functioning and duties of IAU are regulated by the Internal Audit Charter (approved by MoF Order no. 74 of 10 June 2014).

In compliance to the PIFC Law, internal audit units (IAU) need to be established within CPAs and level 2 LPAs.

As of 31 December 2014, there existed 84 IAUs (they are 88 as of the time of this assessment), of which:

- in CPA - 23 IAUs;
- in level 2 LPA - 20 IAUs;
- in other public entities (such as public medical-sanitary institutions, Customs Service, Main State Tax Inspectorate) - 41 IAUs.

Note that 26 IAUs, from all levels, have not been functional because of lack of staff. There are three IAU at the CPA level which are not operational due to lack of staff and these are the IAUs at the Ministry of Defence, the Ministry of Environment and the National Anti-corruption Centre that only recently became a central level entity.

There are 133 internal auditors employed in the IAUs of the public sector (as of the assessment date - 140 internal auditors), 41 internal auditors (as of the assessment date - 43 internal auditors) of them had qualification certificates of internal auditor in the public sector.

According to a recent assessment carried out by the MoF, it was found out that:

- all IAUs have a Charter of Internal Audit;
- 96% have an Annual Plan of audit activity;
- 43% have a Strategic Plan of audit activity;
- 20% have a Quality Assurance and Improvement Program of the Internal Audit Activity;
- 84% have a system for the follow-up of recommendations;
- 68% of the IAUs conduct mostly compliance audits, whereas 59% of the IAUs carry out system-based audits.

In spite of the above figures that certainly indicate improvement in the area of the internal audit, it has been reported that no data are collected on the number of the different types of audit performed on annual basis. Therefore, it cannot be verified if 50% of staff time is focused on systematic issues.

The IAUs have been reported to be less focused on financial, performance, and IT audits, though, data was not provided to verify this statement.

The completed Annual Plans with IAUs from CPAs are 18 out 20 IAUs for year 2014. The other three IAUs are non functional. Thus, 90% of IAUs submitted Annual Plans to the MoF. The MoF organized two annual Internal Audit Conferences with the purpose to raise awareness of the importance of internal audit in the public sector, to disseminate the progress already achieved and to discuss the difficulties in the daily activity of the IAUs, as well as to share the examples of good practice. The MoF, together with the foreign partners, conducted regular trainings and awareness raising seminars for the internal auditors, in order to apply the relevant regulatory framework in such areas as planning the internal audit activity, conducting the internal audit mission, performance audit, IT audit, system audit. Moreover, awareness raising seminars were organized for top managers regarding the role and benefits of internal audit, as well as about the need to create an IAU at local level. A seminar was also organised for the local public authorities.

The MoF supported by the twinning project ("Strengthening the Public Financial Management in the RM") experts and via the Collaboration Agreement with the Dutch Ministry of Finance, conducted several pilot audit missions in a number of central and

local public authorities (e.g. Ministry of Finance, Ministry of Youth and Sports, Ministry of Health, National Social Insurance, Academy of Science of Moldova, Public Procurement Agency, Main State Tax Inspectorate, Customs Service, Municipality of Chisinau). At the same time, two joint internal audit missions were performed, in the MoF (with the participation of IAU from the Ministry of Information Technology and Communication, Ministry of Foreign Affairs and European Integration, State Chancellery, Information and Security Service and Agency for Interventions and Payments in Agriculture) and at the National Health Insurance Company (with the participation of IAUs from Mother and Child Health PMSI, Republican Narcologic Dispensary, Emergency Medicine Institute PMSI and Balti Municipality).

The Ministry of Finance acknowledges the need to further develop the practical skills of the internal auditors, performing more pilot audit missions that proved to be very efficient on-the-spot training tool.

The IAU of the Ministry of Economy, having been pointed out as one of the units with operational problems, has been visited for the purpose of this assessment. The Unit is staffed with only two employees, one being the Head of Unit and the other an auditor. The complex structure of the Ministry with 15 subordinated agencies (such as Public Property, Licensing Agency, Energy Efficiency, Consumer protection) and eight administrative authorities (e.g. National Meteorological Centre, National Accreditation Centre) provides for the rather voluminous range of audit objects. The IAU has been involved in trainings in the several technical assistance and capacity building projects and has been equipped with the knowledge and tools to perform the internal audit function. Strategic plans are prepared for period of three years, annual audit plans are elaborated based on risk-assessment, and the audit process has been reported to cover the standard methodological steps with preparation of audit report and follow-up on implementation of audit recommendations. According to the Head of the IAU 85% of the recommendations are implemented even if some of them are acted upon with certain delays. The system-based audits have been reported to constitute close to 50%. It is to be mentioned that the proportion of ad-hoc audits is very high - 30% of all audits carried out, the reasons being the frequent changes to the Annual Audit Plan due to the political changes and modified objectives with each change of management. Very often these ad-hoc requests relate to non-typical internal audit work but rather to inspection on alleged irregularities. The outstanding audit engagement is carried forward from one year into the next one.

#### *(ii) Frequency and distribution of reports*

Upon completion of every IA mission, audit findings and recommendations are being elaborated, together with the auditee, and presented in an Audit Report which is prepared in accordance with the National Standards and the Methodological Norms for IA. The report is submitted to the auditee and the head of the public entity. The report consists of fixed and standardised part (with template in Annex 113) and a second non-standardised part developed by the IAU, in other words, each IAU can decide how to structure the IA report. The structure of the Audit Report has been elaborated as a result of pilot audits undertaken with the different capacity building projects.

Based on the Audit Report, the auditee develops an Action Plan on the implementation of audit recommendations specifying deadlines. The Action Plan is approved by the manager of the public entity.

With the consent of the manager of the public entity, the Audit Reports are also sent to the Court of Accounts and the public control bodies.

At the same time, the IAUs develop an Annual Activity Report, submitted to the management of the public entity and to the Ministry of Finance. By aggregating the received reports, the MoF develops an Annual Consolidated Report on PIFC, which is subsequently submitted to the Government.

*(iii) Extent of management response to internal audit findings*

According to the Annual Activity Reports for 2014, the IAUs reported to the MoF on the implementation of audit recommendations, namely:

- issued audit recommendations - 2311;
- audit recommendations accepted by the manager of the public entity - 2248;
- audit recommendations implemented in full - 1561;
- audit recommendations implemented partially - 389;
- audit recommendations that are not implemented - 423.

The rate of recommendation acceptance by the manager of the public entities was 97%, while the implementation rate was 69% in year 2014. There is a gap between the accepted and the implemented audit recommendations. The reasons are various among which the frequent change in the management of the central level public entities. The percentage of the non-implemented recommendations out of the accepted is nearly 20% which indicates weaknesses of management sustainability nature.

*Comparison of 2015 and 2011 assessments*

The development of the internal audit function during the reported period was significant, given that its coverage is sufficient at the central level and there is a constant increase at the local level. To ensure the efficient conduct of audit activity, a relevant regulatory framework is set and most IAUs comply with it.

At the same time, the reporting of the internal audit activity and on the FMC system functionality allow the MoF to regularly monitor and report annually to the Government on the weaknesses and shortcomings and to undertake remedy actions for the reform of the current PIFC system.

Moreover, the PIFC Council has a decisive role; it was established under the MoF (MoF Order No 114 of 12 October 2012) as a consultative collegial body for strategic decision making that determines the direction of future internal audit activity.

*Developments in 2015*

- The continuity of training of internal auditors in the public sector is ensured in order for them to build practical skills to conduct audit activity;
- On-the-job assistance is provided to the internal auditors in the public sector, in order to conduct internal audit missions in line with the National Internal Audit Standards and Methodology Norms of Internal Audit in Public Sector;
- In order to strengthen the internal audit activity, it is planned to develop a regulation on the external assessment of internal audit subdivisions, with the support of the experts from the Dutch MoF.

### 3.5 Accounting, recording and reporting

#### PI-22. Timeliness and regularity of accounts reconciliation

Score (scoring method M2)		A
Dimension	Minimum requirements	
(i) Regularity of bank reconciliations	Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.	A
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.	A

#### *(i) Regularity of bank reconciliations*

The development of the Treasury system was carried out progressively starting with 1993. Since 1 March 2007 the MoF is participant in the Interbank Payment System, and starting with 1 January 2008 all budgets, including the whole local level as well as SSIB and CIFMA, are executed via the TSA. All accounts of TTs of the MoF in commercial banks have been closed. The TSA is held in the NBM and all revenue collection is made on the TSA.

The MoF has, like all domestic commercial banks, a real-time participant's access in the Interbank Payment System operated by the NBM for executing all domestic payment transactions directly in the real-time. The TTs of the MoF generate daily statements from FMIS and disseminate them to the budget institutions<sup>63</sup> on their territory. Account statements on foreign exchange transactions on the accounts held in the NBM are provided by the NBM to the MoF and reconciled on a daily basis. Account statements on funds held in commercial banks are provided to the institutions holding the accounts and reconciled by them on daily basis (and additionally on quarterly basis by the MoF).

All budget institutions keep accounting systems on modified accrual basis (see PI-25) and use the daily account statement on budget execution provided by the TTs (see PI-24) for reconciliation. Differences, if any, are small and resolved in a matter of a few days. There is no evidence of reconciliation differences in the financial reports.

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

Within the Treasury system, accounting is carried out on cash basis and there are no suspense accounts. Advance payments are treated as expenditure on cash basis.

As regards the accounting on modified accrual basis maintained in all central and local level budget institutions, advance payments are booked on accounts which are cleared upon final payment. According to the Annual Budget Law, advance payments may not exceed 10% of the total invoice amount and are only accepted for construction and general overhaul services.

In the financial statements submitted by the budget institutions (For details on these financial statements please refer to PI-25), advance payments are evidenced as assets in the balance sheet. The bookings are reversed upon booking of the final invoice.

<sup>63</sup> Central Public Authorities and agencies.

*Comparison of 2015 and 2011 assessments*

There were no significant changes.

*Developments in 2015*

There are no specific developments.

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

		Score (scoring method M1)	A
Dimension	Minimum requirements		
Collection and processing of information	Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.		A

ATUs are responsible for financing the pre-school, primary and secondary education system, cultural, youth and sport activities and infrastructure and community social assistance services.

**With regard to education:** Primary and secondary schools are under the rayon level (Level-2 ATU) administration. The schools' budgets are planned on per-capita basis (based on the number of students and costs per student) and costs per school. Both indicators are forecasted during MTBF development. The education budget is prepared and adopted at rayon level. During the State budget preparation process, local draft budgets are submitted to the MoF for coordination and consultation, and the MoF can intervene with amendments if necessary. Once adopted, the local budgets are submitted to the MoF for information purposes.

Primary and secondary education costs are included in the intergovernmental transfers from the State budget to the ATUs and are earmarked for the specific purpose. Intergovernmental transfers are regulated by the Law on Local Public Finances (No. 397 of 16 of October 2003), and were determined until the 2014 budget year on a formula basis as the difference between the local revenue and the expenditures for service provision. This system was replaced by entry in force of the amendments to the Law on Local Public Finances (by the Law No 267 of 1 November 2013, see PI-8), oriented at fiscal decentralisation. Transfers are executed on monthly basis to the rayon level.

All revenue and expenditure of service delivery units in the education sector is evidenced in the monthly, quarterly and annual budget execution reports of the State Budget and the ATU budgets.

**With regard to health care:** Primary health care units have a self-financing status and operate as non-profit organisations, based on contracts they have concluded with the territorial agencies of CIFMA. They plan their budgets based on the number of beneficiaries in out-patient service and in-patient facilities (number of beds). CIFMA, in turn, plans the Fund for current health services (Main fund) based on signed contracts, and receives transfers from the State budget. Primary health units carry out their own expenditure processes and report on quarterly (or monthly) basis about the services they have provided to the Territorial CIFMA, which disburses funds to them based on those reports. The first disbursement is an advance payment which is adjusted later on, on the basis of the presented reports. No resources are received in kind, since the health care centres purchase equipment and consumables on their own and invoice them to CIFMA as described. The MoF and the Ministry of Health monitor only the resources that are provided to CIFMA from the State budget in transfers (since January 2015, CIFMA participates in the Treasury Single Account for funds received from the State budget).



The primary health care units also have other sources of revenues, primarily own-source revenue (“special means”), which are evidenced in the monthly, quarterly and annual budget execution reports of the Funds. Donations in kind (such as ambulances) are received via the Ministry of Health and accounted for in the State budget.

*Comparison of 2015 and 2011*

There were no significant changes in procedures or reporting systems.

*Developments in 2015*

There are no specific developments.

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

		Score (scoring method M1)	C+
Dimension	Minimum requirements		
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).		C
(ii) Timeliness of the issue of reports.	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.		A
(iii) Quality of information.	There are no material concerns regarding data accuracy.		A

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

*Consolidated reports:*

Reporting on the execution of the State Budget was regulated for 2012 and 2013 by Article 44 of the Law on Budget System and Budgetary Process, while since 2014 Article 47 of the new Law on Public Finances and Budgetary-Fiscal Accountability (No 181 of 25 July 2014) is in force, providing for a similar provision.

The monthly budget execution reports are cumulative and structured by component of the budget (main component, projects funded from external sources, special funds and special means), for the State Budget and for the ATUs (consolidated over all ATUs). They contain planned figures for the year and for the period, executed amounts, deviations in amount and percentage. Reports on the National Public Budget contain also comparative figures for the corresponding period of the previous year. Reports are provided in aggregated form with the main headings, as well as on the detail level by administrative, economic and functional classification (see PI-5).

The MoF prepares a consolidated monthly budget execution report on the National Public Budget covering the State Budget, the ATUs as well as SSIB and CIFMA (who submit monthly and quarterly reports to the MoF).

All monthly and annual reports are published on the MoF website. The MoF additionally prepares quarterly budget execution reports for internal monitoring use. These reports are not published, and they are submitted to the Government or to other institutions only on request.

The reports on the State budget and on the ATU budgets are generated from the FMIS. The monthly ATU budget execution reports are submitted to the MoF by the TTs, whereas the quarterly and annual ATU budget execution reports are submitted to the MoF by the ATU Finance Departments after approval by the local councils.

*Reports on institution level*

The evidence on budget execution is maintained by the TTs. The TTs prepare daily account statements for each budget institution in their territory on expenditure and revenues, and provide them electronically and on paper base to the institutions. At the end of the month, the TTs prepare monthly budget execution reports for each budget institution in their territory, broken down by budget classification on line item level, and by subordinated institutions. These reports are provided on paper base to the institutions,

and electronically to the State Treasury who uses them to prepare the consolidated report.

The budget execution reports do not include information on commitments, since no commitment management system is yet available in the FMIS. Nevertheless, information on commitments related to public procurement contracts is maintained at the level of the TTs.

*(ii) Timeliness of the issue of reports.*

The monthly budget execution reports on all components of the budget are generally prepared within three weeks of the end of the month and published on the MoF website. This was verified by the assessors.

SSIB and CIFMA produce their monthly reports within 15 days, the quarterly reports within 30 days and the annual reports within 45 days after the end of the reporting period.

*(iii) Quality of information.*

The budget execution reports are generated by the existing Treasury FMIS, containing planned and executed amounts, deviations and comparative data.

There is assurance that the information presented in these reports is reliable:

- All expenditure and revenue is processed through the TSA, held in the Central Bank, and financial transactions are performed in real-time through the RTGS (Real Time Gross Settlement);
- The robustness of the Treasury FMIS;
- The segregation of duties and the *four-eyes* principle applied for any financial transaction;
- The centralized processing and additional layer of control by the TTs.

*Comparison of 2015 and 2011*

There was yet no substantial change in the production of budget execution reports since the 2011 assessment. During this period, the new FMIS has been developed and tested.

*Developments in 2015*

The new FMIS will go live for budget execution on 1 January 2016. The new law on Public Finances and Budgetary-Fiscal Accountability stipulates the submission of semi-annual budget execution reports to the Parliament.

*PI-25. Quality and timeliness of annual financial statements*

		Score (scoring method M1)	C+
Dimension	Minimum requirements		
(i) Completeness of the Financial Statements.	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.		A
(ii) Timeliness of submission of the Financial Statements.	The statement is submitted for external audit within 6 months of the end of the fiscal year.		A
(iii) Accounting Standards Used.	Statements are presented in consistent format over time with some disclosure of accounting standards.		C

*(i) Completeness of the Financial Statements.*

*Government financial statements*

The State Treasury prepares an annual budget execution report based on instructions of the MoF prescribing the format. According to the Law on Budgetary System and Budgetary Processes and the new Law on Public Finances and Budgetary-Fiscal Accountability, the MoF shall submit the State Budget Execution Report to the Government by 1 May of the forthcoming year and the Government shall submit the Report to the Parliament by 1 June (see also PI-10). After adoption by the Parliament, the Report is published in the Official Gazette. Separate budget execution reports are prepared by the ATUs, SSIB and CIFMA, which the MoF consolidates into one single document covering the State, the ATUs, CIFMA and SSIB, i.e. the whole national public budget.

The budget execution report itself is structured by component of the National Public Budget and lists expenditure and revenue by functional and economic classification. There are sections on capital investments, on the reserve fund, on the deficit, on the public debt and on inter-budgetary relations.

In addition to the budget execution report, the MoF prepares an explanatory note containing information on policy matters (tax, customs, expenditure, salaries, debt); public debt; capital investments; reserve fund; deficit; state debt; Inter-budgetary relations; monitoring results on state enterprises; privatisation proceeds; arrears.

The consolidated report is published in the Official Gazette. It is broadly in line with international standards for cash based accounting. It includes financial assets and liabilities on the level of each type of budget. It does however not include a disclosure of accounting policies, nor information on fiscal risk and contingent liabilities. The quality of the report is reliable, since it is generated from the existing Treasury FMIS.

*Financial statements of the budget institutions*

All budget institutions (at central and local level) maintain accounting systems on modified accrual basis. SSIB and CIFMA have accounting systems on accrual basis. Subordinated institutions prepare quarterly and annual reports and submit them to their parent institution, which, in turn, aggregates them and submits them to the MoF. These reports are however not consolidated nor published by the MoF. Several budget institutions do not have modern IT systems and maintain their accounts in a mix of paper base and Excel sheets, reporting to the MoF on paper basis.

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

According to the Law on Budgetary System and Budgetary Processes and the new Law on Public Finances and Budgetary-Fiscal Accountability, the MoF shall submit the State Budget Execution Report to the Government by 1 May of the forthcoming year and the Government shall submit the Report to the Parliament by 1 June:

- For 2012, the Report was submitted to the Government on 30 April 2013;
- For 2013, the Report was submitted to the Government on 29 April 2014, but has not been examined by the Parliament due to political reasons. The Report was re-submitted to the Government for approval on 29 April 2015;
- For 2014, the Report was submitted to the Government on 30 April 2015.

According to the new Law on Public Finances and Budgetary-Fiscal Accountability, the MoF, as well as SSIB and CIFMA, is also required to submit the annual budget execution report for audit to the Court of Accounts by 15 April of the forthcoming year.

*(iii) Accounting Standards Used.*

Accounting is made on cash basis, using a national methodology<sup>64</sup> which is not IPSAS compliant, but broadly following international standards. Six different charts of accounts are used:

- Two for cash accounting by the State Treasury, Territorial Treasuries and ATU Finance Divisions;
- Two for modified accrual accounting at different institutional levels;
- Two for accrual accounting (SSIF, CIFMA).

A unified single chart of accounts and a new GFS 2001 compliant budget classification have already been applied for preparation of the 2016 budget, and will be used for budget execution starting 1 January 2016, when the new FMIS will go live for executing the budget. Relevant secondary legislation was enacted in August 2011<sup>65</sup>. Amendments to legislation are still needed, and new instructions need to be prepared.

*Comparison of 2015 and 2011*

There was yet no substantial change in the production of financial statements since the 2011 assessment.

*Developments in 2015*

The new budget classification, developed in line with the GFS 2001 Standards is being used starting 2015 for the preparation of the budget, and the corresponding new chart of accounts will be used for budget execution and reporting starting from 1 January 2016. Development of an IPSAS compliant accounting methodology is planned.

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<sup>64</sup> In total 31 Ministerial Orders, published in the Monitorul Oficial.

<sup>65</sup> Methodological norms on accounting evidence and financial reporting in the budget system a Methodological Norms on cash based execution of the components of the national budget through the MoF treasury system (Minister Orders No 108 and 109 of 26 August 2011).

### 3.6 External scrutiny and audit

#### *PI-26. Scope, nature and follow-up of external audit*

		Score (scoring method M1)	B+
Dimension	Minimum requirements		
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.		B
(ii) Timeliness of submission of audit reports to legislature.	Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.		A
(iii) Evidence of follow up on audit recommendations.	A formal response is made in a timely manner, but there is little evidence of effective systematic follow up.		B

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

##### *Legal basis*

The Law on the Court of Accounts (No 261 of the 5th of December 2008), developed with support of the Swedish National Audit Office, was amended in 2014. The amendments relate to assigning the Court of Accounts the authority to ascertain administrative offences in case of failure to implement the Court of Accounts decisions. The Law provides the basis for development of external audit in line with the INTOSAI standards. The law is inspired by EU standards and reflects the key principles of the Lima Declaration of Guidelines on Auditing Precepts and the Mexico Declaration on SAI Independence. The independence of the CoA is not stipulated in the Constitution, but only in Article 2 of the Law on the Court of Accounts. Article 6 provides for organisational, functional, operational and financial independence. The Law on Budgetary System and Budgetary Process defines, in Article 13, the CoA as responsible for external audit of the management of public funds<sup>66</sup>.

There is stability in the management team of the CoA that has been working together since mid 2011. The number of audit staff has not changed after the auditors joined in 2011. It is to be noted that the Parliament is involved in the decision related to the internal administrative organisation of the CoA, namely decisions on salaries and increase of staff. This violates the independence of the CoA which should have the freedom to allocate their budget and to decide on the staff remuneration on their own.

The current Strategic Development Plan covers the period 2011 – 2015 with key objective the development of the profession of external auditors and improvement of the communication with the Parliament.

The CoA is member of INTOSAI and EUROSAI since 1995 and takes part in INTOSAI working groups.

<sup>66</sup> Amendment 108-XVI of 17 December 2009, effective 29 December 2009.

### *Scope and nature of audits*

According to the Law, the mandate of the CoA consists in carrying out regulatory (financial + compliance) audits and performance audits of:

- the State Budget;
- the SSIF;
- the CIFMA budget;
- the ATU budgets of Level 1 and 2;
- Public enterprises and Joint Stock Companies with State majority; and
- Private sector institutions receiving subsidies.

The SSIF and CIFMA are subject to a mandatory annual audit.

The scope of the CoA is rather voluminous especially when it comes to the local budget authorities. The Financial Inspection Office is often mobilised to support with audits in the lowest budget entities such as schools, kindergartens, cultural centres, village administrations.

The CoA started in 2009 with the implementation of performance audits and IT Audits.

The practices of regulatory and performance audits are continuously improved in terms of quality with the support of three capacity building projects: (i) a twinning project, funded by EU and supported by the SAs of Finland and Spain, (ii) a project with the Swedish National Audit Office, and (iii) a World Bank project. The projects' focus is on trainings, pilot audits, and professional development seminars. In addition, a methodology for audit of the Government Reports on the execution of the State Budget, State Social Insurance Funds and Compulsory Insurance Funds for Medical Assistance has been developed.

Statistics on the audit activity of the CoA and on the nature of audits carried out is shown in the table below:

**Table 52 - Audit activity of the CoA 2009-2013**

Indicators	2009	2010	2012	2013	2014
Number of completed audit missions in total, including:	37	42	35	49	41
- in accordance with the Annual Audit Plan of the Court of Accounts	27	31	33	45	39
- other requests and ad-hoc missions of the CoA	10	6	2	4	2
Number of decisions adopted regarding audit results:	41	42	35	44	38
Audit reports prepared as result of audit missions:	50	49	51	49	41
Types of audit:					
- Regularity audits (financial + compliance)	28	18	44	41	33
- Performance audits	4	5	5	5	5
- IT audits	2	2	2	3	3
- Other types of audit	16	24	0	0	0

Source: Court of Accounts.

The number of completed audit missions has increased by more than 5% in the period under assessment in comparison with the previous assessment (only 2009 and 2010 data considered). The increase of the number of the planned audits over that of *ad hoc* audit missions indicates stability in the work of the CoA. The *ad hoc* audits constitute a very small part of the total number of audits. There is a general rise in the number of audits performed. Regularity audits focusing on significant and systematic issues have been carried out in the period of assessment.

#### Coverage

Out of a total of 2,058 entities (including investment projects, programmes and beneficiaries of subsidies) subject to audit according to legislation, the CoA has audited 355 in 2014<sup>67</sup>. The table below shows the number of audits performed in different levels of public institutions for the period under assessment 2012-2014 compared to year 2009.

**Table 53 - CoA audit coverage 2009 and 2012-2014**

Type of audited entities	2009	2012	2013	2014	Avg 2012-2014
Central Public Authorities	29	19	13	8	13.33
Local Public Authorities	220	192	193	35	140.00
Subordinated institutions	129	99	60	56	71.67
State enterprises or companies with State majority	117	40	61	247	116.00
Other (Project WB, LLC etc.)	-	19	51	9	26.33
<b>Total number of entities</b>	<b>495</b>	<b>369</b>	<b>378</b>	<b>355</b>	<b>367.33</b>

The total number of audits performed in the period 2012 – 2014 dropped down by 26% compared to the data in 2009. With the selection on audit of expenditure, the CoA applies the materiality principle (auditing at least those institutions representing at least 2% of the total budget in terms of expenditure<sup>68</sup>). Compared to the 2011 PEFA Report data, the CoA has audited a total 78%, 72%, 74% of the of the State Budget expenditures shown in the table below for the years 2012, 2013, 2014, respectively.

The percentage, as reported by the CoA, of the State Budget expenditure audited in the period 2012-2014 is 78% in 2012, 72% in 2013 and 76% in 2014 (Average 75%). This is comparable to the data of the previous assessment period when it reported to be 75%.

Due to the lack of staff, the CoA is not able cover the whole scope of activities. Based on previous practice, activities are divided between the CoA, who audits ministries and Level-2 ATUs, and the FIA who audits (or rather: inspects) agencies and Level-1 ATUs. This distribution of duties is, however, not regulated by legislation. Control focus of the FIA is put on periodic ex-post control of budget execution and on compliance.

#### Standards

The audit process of the CoA follows the international standards of INTOSAI and IFAC (International Federation of Accountants), as well as COBIT and ISACA (Information System Audit and Control Association) for IT audit.

<sup>67</sup> Source: Activity Report of the CoA for the year 2009, (published 18 June 2010).

<sup>68</sup> But also some other institutions with a lower share, based on risk assessment.



Planning is made on the basis of a three-year audit plan which results in annual plans.

Three manuals have been developed: a Regularity Audit Manual including working papers, a Performance Audit Manual, and an IT Audit Methodology elaborating standards of work.

*(ii) Timeliness of submission of audit reports to legislature*

Draft audit reports containing findings, conclusions and recommendations are presented for discussion in public meetings with the audited entity, stakeholders and the media. The audited entities may provide comments within five days, before the Plenary of the CoA approves final report by voting. The Report is then submitted to the Parliament, Government, MoF and President, and published in the Official Monitor and on the CoA website. In cases of suspicion of fraud, the Report is submitted to law enforcement agencies (Prosecutor, National Anti-Corruption Centre as well to the National Committee of Integrity, in case of suspected conflict of interests, and to the Competition Council in case of suspected unfair competition).

The CoA prepares an Annual Report on the Management and Use of Public Financial Resources and Public Property (i.e. execution of national public budget) that is submitted to the Parliament by the 10<sup>th</sup> of October. The Parliament is then supposed to discuss in plenary and open sessions (the latter ones usually covered by media) the Annual Report. During the period of assessment due to political instability and frequent change of government, the feedback from the Parliament has been often delayed.

The CoA additionally prepares an annual Activity Report, covering a calendar year, which it submits to the Parliament by the 31<sup>st</sup> of March together with the Financial Report on its own budget execution.

*(iii) Evidence of follow up on audit recommendations.*

Recommendations have to be implemented by the audited entity within three to six months depending on the topic. The CoA has established a procedure for monitoring implementation, and carries out further ad hoc checks in cases of non-compliance. The Methodology Department of the CoA receives and registers the replies of the audited entities and sends out reminders when replies are late. Currently, it is possible to view the audited entities' replies, they are displayed on the CoA website [www.ccrm.md](http://www.ccrm.md) (Services, Decisions, Reports).

The main reasons that no action is taken upon the recommendations is the poor discipline which is typical about the small municipalities. The CoA also admits that some of their recommendations need to be improved, i.e. to provide more realistic deadline and to be achievable, because the content and quality of another part of recommendations requires more time, as they aim at improving the policies, regulatory-methodological framework, financial management and control. The possibility to impose sanctions on accountable persons, for the failure to implement the Court of Accounts decisions, was introduced and the enforcement procedure is being developed.

The usual type of recommendations of the CoA lists measures for remediation are in the area of budget revenue collection, registration and accounting evidence of public property, efficient management of funds allocated for capital investments and repairs, registration of immovable assets, poor application of public procurement legislation due both to lack of knowledge and deliberate irregular practices.

**Table 54 - Follow-up on recommendations**

Indicators		2009	2010	2012	2013	2014	Deviation * %
1	<b>Audit reports prepared as result of audit missions</b>	50	49	51	49	41	-5%
2	<b>Number of recommendations, of which:</b>	1.188	1.001	3.818	1.348	795	82%
	- implemented	573	379	765	202	81	-27%
	- in process of implementation	334	109	2.178	206	121	277%
	- not implemented with deadline passed	281	0	875	289	106	201%
3	<b>Audit material submitted to law enforcement agencies:</b>	15	16	16	16	6	-18%
	- number of acts filed	29	0	16	6	3	-43%
	- number of files submitted to the judiciary	14	0	7	1	1	-57%
	- number of ordinances of refusals to file acts	2	0	1	1	1	0%
4	<b>Impact of the CoA activities:</b>						
	adopted legal and normative acts	2	6	4	5	3	300%
	- amount of public funds irregularly used, identified (in million MDL)	12.5	0.0	7706,6	7734,0	9850,1	-95%
	- amount of funds restituted to the State budget (in million MDL)	1.0	24,6	1.15	1.2	3,6	-100%
	- public property restituted or taken in evidence (in million MDL)	0.1	154,9	356,2	120,3	897,2	861%
	- amount of accounting errors admitted (in million MDL)	308.1	0.0	511,6	53,4	501,3	-97%

Source: CoA\*The Deviation shows percentage of increase or decrease between the previous assessment period and the current assessment period.

The success rate for the implementation of recommendations which was reported to be over 90% in previous reporting period dropped down by average 27% for the whole period 2012-2014. The number of the recommendations in the period 2012 – 2014 increased by more than 80% compared to the previous assessment period. This indicates that there were more weaknesses and/or irregularities identified by the audit teams of the CoA. This coefficient also indicates that the professional skills of the auditor of the CoA have been strengthened. It is to be noted that the percentage of the implemented recommendations has been decreasing since 2009 and while it was calculated to be 43% average (based on data only for years 2009 – 2010) in the previous assessment period, the implemented recommendations in the period 2012 – 2014 are 18 % in average. The number of the recommendations being implemented (in process of implementation) is rather high. It is 42% of all recommendations made in the period 2012 – 2014 while it has been 20% in the previous assessment period. This is indicative of delays in the implementation of the recommendations. The reasons for such outcome could be i) the

deadlines for implementation are not realistic; (ii) the management of the audited entity is weak and cannot mobilise its capacity or (iii) frequent changes of management modifying the objectives and hence the priorities of the organisation.

*Comparison of 2011 and 2015:*

The current situation at the CoA has not changed much since 2011 due to the political instability in the country. Nevertheless, certain areas have been improved. The CoA has successfully completed the shift from external financial control to external audit, including regularity audit. The CoA is recognised as a credible external audit institution applying international standards of work. A Guidebook on Quality has been elaborated covering all requirements to the audit work in order to produce quality Audit Reports. The communication and cooperation with the Parliament has improved. The main shortcoming is the lack of qualified audit staff. A number of qualified auditors left the Court of Accounts during the assessed period due to several reasons: low salaries, retirement, etc. The negative impact of the political instability over the period of assessment is the drop in the percentage of implemented audit recommendations.

*Developments in 2015*

CoA plan to make further steps in maintaining full independence that will entail change in the Constitution.

PI-27. Legislative scrutiny of the annual budget law

		Score (scoring method M1)	B+
Dimension	Minimum requirements		
(i) Scope of the legislature's scrutiny.	The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as as details of expenditure and revenue.		A
(ii) Extent to which the legislature's procedures are well-established and respected.	Simple procedures exist for the legislature's budget review and are respected.		B
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	The legislature has at least two months to review the budget proposals.		A
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.		B

*(i) Scope of the legislature's scrutiny.*

According to the Law on Budgetary System and Budgetary Process (LBSBP) (No 847-XIII of 24<sup>th</sup> of May 1996 with later amendments) the draft State Budget should be submitted to Parliament by the 1<sup>st</sup> of October. The Parliament should pass the draft Budget Law by 1<sup>st</sup> of December. In compliance with Article 54 of the above-mentioned law, the MoF, the SSIF and the National Healthcare Insurance Fund are supposed to prepare draft annual budget laws and submit them to the Government for review. The laws shall contain general provisions on the approval of the main indicators, regulations for the budget year and annexes.

There is a new Law on Public Finance and Budgetary and Fiscal Accountability (No 181 of 25 July 2014) that has been in force since 2015. It provides slightly modified budget calendar and regulates the format and content of the Annual Budget Law.

The draft State Budget outlines in the Explanatory Note (also referred to as Briefing Note) the macro-economic and fiscal assumptions on which the budget is based, explanations on possible deviations from the expenditure ceilings approved in the MTBF. It also includes detailed information regarding the results of the last two budget years, the expected results for the current budget year, the planned indicators for the next budget year and estimates for at least two coming years. The draft budgets are to be submitted in format compliant to the organisational, programme and economic classification.

The draft State Budget is subject to readings in the Parliament after Government proposals. If there are any relevant (mainly fiscal) legislative amendments, they are adopted by separate law. The Government also submits to the Parliament the MTBF for information purposes but does not require approval, as this is not foreseen in the Law. The budget process will change as of the beginning of January 2016 when the Parliament will be able to review the MTBF budget indicators and can approve them before the annual budget law – macro budgetary limits.

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

The work of the Parliament and its committees is based on the Law on the Adoption of the Regulation of the Parliament (No 797-XIII of 2 April 1996 with later amendments). Chapter 3, Section 1 of the Law outlines the operations of the permanent committees. The Committee on Economy, Budget & Finance has the primary responsibility for budgetary aspects.

The process for the Parliament's examination and adoption of the draft State Budget is outlined in Chapter II of the LBSBP (No 847-XIII of 24 May 1996 with later amendments). According to article 27, the permanent committees first examine the draft State Budget and then report to the Committee on Economy, Budget & Finance on a pre-agreed date. On that basis, and in accordance with Article 28, the Committee on Economy, Budget & Finance prepares a report and a list of recommendations that are presented to the plenary of the Parliament. The examination of the draft State Budget is thereafter carried out in three readings that typically have the following content:<sup>69</sup>

- First reading – Hearing of the reports of the Government and the Committee on Economy, Budget & Finance, and examining main budgetary and fiscal policies;
- Second reading – Based upon a presentation of the Committee on Economy, Budget & Finance, the Parliament examines the estimated revenues (calculations and structure), estimated expenditures (structure and allocation), and the overall surplus/deficit;
- Third reading – Based upon a presentation of the Committee on Economy, Budget & Finance, the Parliament examines detailed appropriations and adopts the State Budget.

The broad procedures for the Parliament's review of the draft State Budget are well established and are generally respected. Nevertheless, delays do occur in the submission, review, debate and approval of the Budget Law.

The draft Annual Budget Law is consulted publically and all differences between line ministries are solved before it is finalised. Before the Draft Annual Budget Law enters for discussion at the Parliament, it is read by the different political groups represented in the Parliament. The vote is positive if the support is more than 51%.

The usual topics of discussion are the budget deficit, the state debt, agricultural spending and subsidies for agriculture.

The procedure allows first for the tax policies to be approved followed by the budget and the discussion on conditionalities with the World Bank, the potential for extra-budgetary support. The salaries of the employed in the budget entities as well as the pensions are also frequent topic of debate at the Parliament.

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

As already discussed in dimension (i), according to Article 26 of the LBSBP, the Government must submit the draft Budget to the Parliament by the 1<sup>st</sup> of October each year, and according to Article 31 Parliament must adopt the annual Budget Law by the 5<sup>th</sup> of December. Formally, there are more than two months to conduct readings and review

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<sup>69</sup> The State Budget can also be adopted after two readings.

the budget proposal. In practice, the draft State Budget is usually made available to the Parliament several weeks before the official deadline.

However, the 2012-2013 political issues have disrupted the otherwise robust process. Article 47 in the new Law (No 181 of 25 July 2014) on Public Finance and Budgetary and Fiscal Accountability prescribes that the Government shall approve the MTBF, which is integrated in the documentation that accompanies the draft annual budget. MTBF documents have been prepared for the 3-year rolling periods under review, i.e. in 2012 for 2013-2015; in 2013 for 2014-2016, and in 2014 for 2015-2017 (See PI-12 for more details).

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

According to the new Law on Public Finances and Budgetary Fiscal Accountability (No 181 of 25 July 2014) only two budget adjustments per year are allowed (provision in Article 61: Rectification of the Annual Budget Law/Decision). In addition, Article 60 stipulates clear regulations on the redistribution of budget allocations during the year. The issue on adjustments to budget allocations is elaborated in PI-16.

#### *Comparison of 2015 and 2011*

Apart from changes brought up by the new Law on Public Finance and Budgetary and Fiscal Accountability (No 181 of 25 July 2014) regarding a modified budget calendar, format and content of the Annual Budget Law, and redistribution of allocations, there have been no major changes related to the legislative scrutiny of the annual budget law.

#### *Developments in 2015*

There are no specific developments in 2015.

PI-28. Legislative scrutiny of external audit report

Score (scoring method M1)		C+
Dimension	Minimum requirements	
(i) Timeliness of examination of audit reports by the legislature.	Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.	A
(ii) Extent of hearings on key findings undertaken by the legislature.	In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.	C
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	Actions are recommended to the executive, some of which are implemented, according to existing evidence.	B

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

According to Article 8 of the Law on the Court of Accounts (No. 261 of the 5th of December 2008), the CoA shall submit the Annual Report to the Parliament by the 10<sup>th</sup> of October<sup>70</sup>, to be reviewed in the Plenary Meeting of the Parliament. The Report is received by the Budget Committee<sup>71</sup> in the Parliament, which is comprised of 13 members, reviews the Report and requests additional information from the CoA before including it in the Plenary Session of the Parliament.

The CoA has prepared, for the first time in 2010, a regularity audit of the 2009 Government financial statements (Annual Report), which was adopted by Decision of the CoA on the 9<sup>th</sup> of July 2010. The requirement for preparing a regulatory audit, i.e. an attestation of the Government financial statements, results from Article 4 of the Law on the Court of Accounts, which requires and “assessment of the regularity, legality, conformity, economy, efficiency, and effectiveness in the management of public financial resources and public property”. Since the Law was enforced on 1 January 2009, that year is the first one for which a regularity audit has been carried out. It resulted in a clean opinion. Regularity audits are carried out every year ever since that time.

The review of the CoA Annual Report by the Parliament shall be undertaken in October, together with the review of the Report on Budget Execution submitted by the Government and the Budget and Fiscal Policy document. According to Article 44 of the Law on Budgetary System and Budgetary Process, the Government shall submit the budget execution report for the State budget to the Parliament by the 1<sup>st</sup> of June, and the Parliament shall examine it and approve by Parliament Decision by the 15<sup>th</sup> of July. Article 44(8) stipulates that the review of the Budget execution report is carried out by a Parliamentary committee with participation of the concerned central public authorities. One single working group will be established for the three documents all together (instead of three working groups in the past) in order to improve policy consistence and efficiency.

It is a general practice, though not regulated by legislation, that the Plenary completes the review of the CoA Annual Report within three months, and usually before the review of the Draft Annual Budget Law. This review results in the adoption of a Parliament Decision.

<sup>70</sup> The new Law on Public Finance and Budgetary and Fiscal Accountability (No. 181 of 25 July 2014) that has been in force since 2015, stipulates new data for submission of the Annual Report, that is 1 June.

<sup>71</sup> Committee for Economy, Budget and Finance.

In addition to the Annual Report, the CoA submits other reports and, since February 2011, namely reports on the regularity, performance, IT audits carried out at different entities, as well as the annual Activity Report which elaborates on the execution of the CoA budget, the implementation of the strategic goals, data on types and number of performed audits, information on implemented and non-implemented audit recommendations, as well as staffing issues. Whenever the Budget Committee considers that a topic is of significant public interest, it selects it for discussion in the plenary session.

In spite of the political instability within the period under assessment, it can be considered that the process of examination by the legislature is correct and timely.

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

As mentioned above, a working group is established to review the Annual Report of the CoA. Working groups are established as well on an ad-hoc basis, when there are topics of public interest in an individual (regularity, performance) audit report, and the Budget Committee decides whether the topic should be further submitted to the plenary session. The Budget Committee meets on a weekly basis.

Hearings between the CoA and the Parliament take place annually to discuss the CoA Report. However, there is no evidence of hearings in the plenary meeting of the Parliament, with the participation of auditee representatives, who should answer to the questions asked by MPs about the irregularities and systemic drawbacks. MPs put questions to the Court of Accounts, and not to the managers of the audited entities.

The public hearing between the Parliament and the CoA, in its capacity of external audit institution, was conducted for the first time in October 2011, based on the Swedish model, whereby the Members of Parliament propose topics of interest for consideration by the CoA. Since that time annual hearings of the CoA Annual Report have been regularly attempted. It was reported that due to the frequent political changes in the composition of the Parliament the public hearings were organised but did not enjoy dedicated attention of the Members of the Parliament. The scrutiny capacity of the Parliament, to review the external audit findings and hold liable the Executive for the irregularities and the deficiencies identified by the CoA, needs to be strengthened. The practice described for this sub-dimension (i.e. the establishment of sub-commission/working groups) corresponds to the practice in most EU member states. However, the scope of hearings is restricted and leaves room for improvement.

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

Further to the recommendations issued in the CoA Reports to the Parliament, the Budget Committee forms working groups on topics that are of public interest. In case the Committee identifies that the implementation of a recommendation requires amendment of legislation, the Committee issues a corresponding recommendation to the Plenary. However, most of the audit recommendations relate to fiscal irregularities and are thus not a matter for discussion by the Parliament, but for regulation by the concerned institutions or Government. As a result of the review and the presented audit findings, the Parliament makes decisions with regard to the Court of Accounts' Annual Audit Report. These decisions contain recommendations to the Government, to the Court of Accounts, General Prosecutor and to commissions in the Parliament. The Committee monitors the implementation of the Parliament recommendations once in six months. The



implementation of the audit recommendations by the executive is monitored by the CoA (see PI-26) and reported in individual follow-up audit reports and the annual reports of the CoA to the Parliament. In cases of public interest, where recommendations have not been implemented in a timely manner, the topic may be submitted to the Plenary. It is necessary to develop the expertise of the Members of Parliament in interpreting the CoA's reports, and capabilities in this regard still need to be strengthened. On the other hand, it has to be taken into account that there are still weaknesses in the contents of the CoA reports, whose focus is often on cases for the law enforcement agencies and not necessarily on topics of interest for a parliamentary discussion.

#### *Comparison of 2015 and 2011*

The CoA have improved the audit practice by following international auditing standards, developing the professional skills of the staff and improving the quality of the reports. It is to be remarked that the CoA practice has matured in all aspects since the previous assessment period. Regretfully, this has not been the case with the legislative scrutiny capacity. The capacities of the Members of Parliament in analysing the CoA Reports are still underdeveloped. The political instability in the period 2012 – 2014 has furthermore blocked progress in this area.

New development is that the Activity Report of the CoA (including the financial statement of CoA) has been discussed frequently by the Parliament since 2011.

The facts as found and presented justify an overall score of C+.

#### *Developments in 2015*

- The Committee on Economy, Budget & Finance at the Parliament will create sub-committee within its structure that will be dedicated only to and responsible for the entire process of review of the CoA Annual Audit Report;
- The Parliament is supported by UNDP, and the CoA by the Swedish National Audit Office, in strengthening capacities for cooperation between the two institutions;
- Support from a Twinning project to develop the Regulation on procedures for cooperation between CoA and Parliament.

### 3.7 Donor practices

#### D-1. Predictability of Direct Budget Support

		Score (scoring method M1)	D+
Dimension	Minimum requirements		
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%		C
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	The requirements for score C (or higher) are not met.		D

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

The largest donors in regards to budget support are the European Union (with a focus on grants) and the WB (providing loans only).

Budget support programmes of the largest donors (EU and WB) are based on Financing Agreements. Disbursement dates for the tranches are determined in the policy matrices and are contingent on the achievement of the performance indicators. These qualitative and/or quantitative indicators are generally evaluated on annual basis both by the EU and the World Bank. The target dates for disbursement, which are based on the commitment of the Government to fulfil the conditions within the agreed timeframe, are established for a specific quarter following the indicator review.

The best approach to gather ex-post information about the forecasts provided by donors is to assess the support budgeted in the Annual Budget Law of the year in question and to compare it with the budget execution figures:

**Table 55 - Budget support in 2012-2014, in MDL million**

Budget support	2012			2013			2014		
	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation
Grants									
European Union	765	760.1	-1%	1077	704.4	-35%	988.8	1489.3	51%
Romanian Government							58	117.1	102%
<i>Total grants</i>	<i>765</i>	<i>760.1</i>	<i>-1%</i>	<i>1077</i>	<i>704.4</i>	<i>-35%</i>	<i>1046.8</i>	<i>1606.4</i>	<i>53%</i>
Loans									
World Bank	341	454.7	33%	387.2	99.3	-74%	910.3	464.4	-49%
<i>Total loans</i>	<i>341</i>	<i>455.2</i>	<i>33%</i>	<i>387.2</i>	<i>99.3</i>	<i>-74%</i>	<i>910.3</i>	<i>464.4</i>	<i>-49%</i>
<b>Total</b>	<b>1106</b>	<b>1215.3</b>	<b>10%</b>	<b>1464.2</b>	<b>803.7</b>	<b>-45%</b>	<b>1957.1</b>	<b>2070.8</b>	<b>6%</b>

Budget support	2012			2013			2014		
	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation	Budgeted	Disbursed	Deviation
budget support									
<b>Average total budget support deviation for 2012-2014:</b>				<b>-10%</b>					

Source: Annual Budget Laws and MoF budget execution reports.

The above table shows that there was a shortfall (difference between the budgeted and the disbursed funds in relation to budgeted funds) of more than 15% in only one year out of three assessed years. This is year 2013 when there are significant shortfalls of budget support from all donors. The analysis of the data shows that the deviations are very high and even that there are surplus funds disbursed with the grants in 2014, the significant shortfall in 2013 cannot be compensated for. This inconsistent pattern of flows indicates that there are significant problems in the predictability of budget support that affect the government fiscal management.

The negative deviation in 2013 was for failure to implement two metric indicators for public finance management. Whereas the positive deviation in 2014 is due to:

- An unplanned EU grant disbursed in 2014 that significantly outflows the annual budget this is due to an unconditional tranche of unremarked sectorial assistance; and
- Grant from the Romanian Government extended for cultural heritage and education purposes.

The analysis of the main deviation cases shows the following reasons:

**Table 56 - Disbursement deviations**

Donor	Observation	Reason
European Union	Shortfall in 2013 and 2014	- Indicators not achieved - two tranches that were initially planned for 2015 were actually disbursed in 2014
World Bank	Shortfall in 2013	The performance indicators were not achieved, which made it impossible to disburse the tranches, the amount was fully designated for budget support

This analysis demonstrates the following: the annual budget preparation is based on forecasts of expected disbursements. However, releases of budget support funds are subject to agreed conditions being met, particularly for the second and subsequent tranche releases. This in itself makes predictability problematic, because the major reasons for not achieving the indicators may be that the conditionality is unrealistic, external (macro-economic) factors may inhibit achieving conditionality, or the Government did not actually carry out the programme.

The conclusion is that the conditions for disbursement may not be fulfilled for various reasons (whereby clear responsibilities cannot be always assigned), and this makes predictability problematic and explains the occurrence of shortfalls. Events such as the economic and financial crisis, the changing political situation in Moldova and the impact of the government reform programmes have contributed to changing of the disbursement schedules.

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

The same observations as for dimension (i) can be made for in-year timeliness of disbursements. Disbursement of budget support grants is for the major part contingent on the achievement of indicators in policy matrices, in particular for the second and following tranches. This is a fundamental problem in predictability, as indicator achievement can often not be foreseen.

The budget is prepared on annual basis. Whenever changes in the disbursement schedule become foreseeable, either due to non-achievement of indicators or external factors, this results in amendments of the Annual Budget Laws. The comparison between disbursed amounts and modified budgets shows values of +10%, -45% and +6% for 2012, 2013, and 2014 respectively.

*Comparison of 2015 and 2011 assessments*

The main factors contributing to the poor predictability in budget support remain the same as in 2011: Contingency of disbursements on the achievement of performance indicators in policy matrices, low absorption capacity of the beneficiaries, poor forecasting by donors and disbursement delays as a result of bureaucratic procedures with the local authorities.

*Developments in 2015*

There are no current developments relevant for improving the predictability of direct budget support.

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

Score (scoring method M1)		C
Dimension	Minimum requirements	
(i) Completeness and timeliness of budget estimates by donors for project support.	At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification.	C
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	. Donors provide quarterly reports within two months of end-of-quarter on all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification	C

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

The External Assistance Department in the State Chancellery collects forecast and disbursement data from donors on projects. Some donors, particularly the World Bank, provide reliable data regularly. The WB uses a web-based information system for disbursement forecast available to its beneficiaries.

Donor information on planned disbursements is provided by most donors (especially the significant ones e.g. the World Bank, EBRD, EU, EIB, US Government) on an annual basis prior to the start of the coming fiscal year. Some, but not all, of the budget estimates provided are consistent with the functional budget classification of the government. Many donors continue providing budget estimates in their own classification. The External Assistance Department in the State Chancellery has not explicitly required budget estimates to be fully compliant with the government budget classification.

The donor funds are negotiated, agreed and contracted by the State Chancellery of the Government of Moldova. They manage and monitor the disbursement of funds.

State Chancellery uses an Aid Information Management System to record and process information about the assistance initiatives and related aid flows in the Republic of Moldova and a network of Sector Coordination Councils to manage and monitor the effectiveness of external assistance. The Aid Management Platform of the Government of Moldova covers information provided by donors on planned disbursements. This database also provides information about the donors' medium-term (three to five years) plans. The Aid Management Platform is quite comprehensive, since the inclusion of a project in the database is a prerequisite for VAT exemption.

To conclude, the extent to which donor funds for projects can be budgeted is contingent on the quality and the timeliness of information provided by the donors because the External Assistance Department in the State Chancellery has not specifically indicated the format of this information.

The composition and volume of the project and programme aid received in 2012 to 2014 is shown below.

**Table 57 - Project & programme aid provided in 2012 – 2014**

Donor	2012		2013		2014	
	Grant	Loan	Grant	Loan	Grant	Loan
WB	14,766.70	38,642.80	7,034.70	24,063.10	7,119.00	15,677.50
EIB		36,193.80		21,615.00		51,279.00
EBRD		10,574.70		18,428.40		23,963.40
European Union			12,557.90		12,167.50	
IFAD	1,771.00	8,718.30	2,866.80	9,760.90	175.90	2,330.10
CEB	643.20	4,312.80		9,277.10	130.40	4,169.00
Sida	1,070.90		-265.30*		846.60	
German Government	6,984.80		1,093.90		4,212.60	
Italian Government	52.10					
GEF			9.00			
UniCredit		8,920.70		5,652.40		5,083.90
US Government	24,642.30		60,034.30		96,948.90	
Romanian Government					31,687.30	
Global Fund	6,466.40		10,048.60		3,672.70	
Japanese Government	1,665.60					16,869.30
<b>Total</b>	<b>58,063.00</b>	<b>107,363.10</b>	<b>93,380.00</b>	<b>88,797.00</b>	<b>156,960.80</b>	<b>119,372.20</b>

\*refund of unused funds after project close.

Source: MoF General Division for Public Debt.

The table above shows a significant increase in the amount of donor aid provided to Moldova. The volume of funds has increased almost twice as much for the three-year period from 2012 – 2014 with nearly even distribution between grants and loans. The biggest donor appears to be the US Government with more than 29% share of the total amount of extended funds for the period 2012 – 2014. These US Government funds were provided only as grants and within the grants volume they constitute 56% of all extended funds for the entire assessment period. The total amount of the US Government funds for the three years is 262 million USD extended via the Millennium Challenge Corporation (MCC) with the purpose to develop business environment, infrastructure (rehabilitation of 96 km of the national road network, to lay irrigation system, as well as for investment and social improvement. The specific mechanism of the grants allows for direct transfer of funds from the US Government to the contractor. The MCC reports on budget estimates and disbursed funds to the MoF and these funds do appear in the State Budget but do not go through the Treasury. Thus, the US Government is the highest volume donor for the period under assessment followed by:

- World Bank with more than 17% of the total donor funds extended both as grants and loans;
- EIB with more than 17% share of the total donor funds extended as loans;
- EBRD with close to 9% extended as loans;
- European Union with nearly 4 % extended only as grants.

The scoring for this dimension has been based on the information provided by the MCC and the WB that do provide budget estimates for disbursement of project aid prior to the start of the coming year in functional budget classification. The other big donors also provide budget estimates for disbursement of project aid even if they are not necessarily consistent with the government budget classification.

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

Concerns about tendering and procurement capacity have led in the past to the establishment of Project Implementation Units (PIUs), allowing donors to use their own systems and processes for procurement and fund management.

Some, but not all, donor funded projects are implemented by PIUs, depending on the agreement of the donor with the particular beneficiary. PIUs present monthly reports on disbursements, expenditure and balance on the project account, as well as forecasts of future disbursements. The major part of projects managed by PIUs is that financed by the WB.

The World Bank being the most significant donor for the period under assessment provides for 61% of all funds extended on programmes and projects in year 2012 and 35% and 18% in the years 2013 and 2014, respectively. The average proportion of the WB funded programmes and projects, among all donor funds, is 18%. The US Government, the WB PIUs provide regular quarterly reporting on disbursements made as reported by their operational PIUs. Additionally, the External Assistance Department in the State Chancellery has reported that quarterly disbursement reporting amounting to 50% of all activities was received in 2014. These reports were submitted via via the Aid Management Platform and client connection software.

#### *Comparison of 2015 and 11 assessments*

The creation of the Aid Management Platform (*Platforma pentru gestionarea datelor privind asistența externă*) of the Republic of Moldova was a significant progress. It allows monitoring data on foreign aid provided to the Republic of Moldova. This tool will be much more useful for the Government of Moldova once the External Assistance Department in the State Chancellery explicitly requests that all donors start to provide disbursement estimates and reports on project support consistent with the government budget classification and as frequent as needed for processing, analysis and inclusion in the relevant government documentation.

#### *Developments in 2015*

No current developments on donor reporting.

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

Score (scoring method M1)		D
Dimension	Minimum requirements	
(i) Overall proportion of aid funds to central government managed through national procedures.	Less than 50% of aid funds to central government are managed through national procedures	D

National procedures for financial management are used by donors almost only in case of direct budgetary support (IMF, EU, World Bank) and for loan or grant programmes reflected in the national public budget.

For project support donors largely continue to impose their own procedures, in accordance with the terms established in the loan agreement. In some cases (e.g. GIZ) donor procedures for procurement are partly aligned to national procedures.

The 2013 Annual Report of the State Chancellery states that only 30 per cent of the assistance granted to government sector uses the national financial management system and procurement system, which represents a considerable decrease compared to 2010, when this share was 70%. According to 2013 data, however, the average percentage in the use of national procedures shows a regression trend, the share being 24%.

The data on this dimension has been provided only for year 2013 when such detail of information was compiled for the first time according to new indicators measuring the external technical assistance projects in Moldova. They are as follows:

- National budget procedures were used by 33% of the donors;
- National financial reporting system was used by 23% of the donors;
- National Audit System was used by 21% of the donors;
- National procurement system was used by 19% of the donors.

The lack of complete and consistent data for the entire assessment period would not allow relevant comparative analysis.

Other data available in the annual publication of the State Chancellery concerns the unconditional assistance which 79% in 2013 compared to 77% in 2010.

In projects which are not funded through budget support, the national procurement system is generally not used. There have been reviews of national procurement systems by some donors (WB, SIDA and UN Agencies) which have been followed by increased use of those procedures. The WB's recent review has led to the use of national systems for domestic procurement, but not yet for international tenders.

#### *Comparison of 2015 and 2011*

Comparative figures of 2013 indicate that there has been significant drop in the use of national procedures. For project support, donors continue to largely rely on their own procedures, in some cases partly aligned with national procedures.

#### *Developments in 2015*

No current developments.



## 4 PFM reform programme

### *The PFM strategy*

The reform agenda for PFM is anchored in the PFM Strategy 2013-2020 which was approved by Government Decision No 573 of 6 August 2013. The overall objective of this Strategy is to ensure efficient and effective allocation of public funds towards activities that contribute to economic growth and development of Moldova and maintain effective management of the use of public funds in all areas and sectors of government. The Strategy, which addresses most weaknesses identified in the PEFA 2011, is structured into seven components:

- *Component 1 - Macro-budgetary framework*, aimed at improving the quality of macroeconomic and fiscal budgeting to ensure macroeconomic framework based on a realistic and predictable budget;
- *Component 2 - Budget Development and Planning*, aimed at ensuring the allocation of public funds in close correlation with policy priorities in the medium term and to increase the effectiveness and transparency of the budget preparation process by implementing performance -based budgeting;
- *Component 3 - Budget execution, accounting and reporting*, aimed at improving and modernizing Treasury management, ensuring effective control and proper monitoring of expenditures at every stage and establish an adequate system of accounting and reporting;
- *Component 4 - Financial Management and Control*, aimed at establishing a system of financial management, internal control and internal audit in the public sector according to international practice, aimed at ensuring efficient and transparent use of public funds;
- *Component 5 – Administration of revenues*, aimed at increasing revenue mobilization by enhancing authorities' capacities to administer revenues in order to collect planned tax and customs revenues;
- *Component 6 – Public procurement*, aimed at establishing a modern system of public procurement in accordance with EU standards;
- *Component 7 - Financial Management Information System*, aimed at establishing a modern and effective management tool to support users in the budgetary process and provide a wide range of financial and non-financial information for decision making.

The Action plan 2013 – 2014 for implementation of the PFM Strategy was adopted with Decree No 130 of 20 September 2013. It presents an ambitious reform agenda along those components, grouped by mid-term and long-term objectives.

The overall responsibility for the implementation of PFM reforms lies with the MoF who coordinates the implementation of actions by its services and other authorities for each component of the PFM Strategy. The MoF leads the monitoring process and is responsible for regular evaluation of the reform progress. Apart from the MoF, stakeholders for the PFM Strategy are the development partners; the Parliamentary Commission for Economy, Finance and Budget; and the Court of Accounts.

For coordinating the implementation of the PFM Strategy, the MoF has appointed a technical team that is composed of professionals from the thematic areas of each component. In addition to ongoing monitoring and updating, the Strategy will be subject to an independent evaluation at regular intervals.

#### *The decentralisation reform*

Currently, a wide ranging decentralization reform is being implemented in Moldova, whose objectives, activities and actions are incorporated in the National Decentralization Strategy (NDS) and Action Plan implementing the 2012 – 2015 NDS, approved by Law No 68 of 5 April 2012. The NDS has several components, such as: financial decentralization, property decentralization, services and competences decentralization. The implementation has been gradual.

Fiscal decentralisation has been addressed through amendments of the LLPF and the Tax Code. Since the fiscal exercise 2015 new proportions for tax sharing apply (Personal Income Tax and Road Tax) and equalization is based on a new formula distributing funds from a Financial Support Fund according to three parameters: fiscal capacity, population and ATU surface.

Financial autonomy of bottom tier local governments (Level-1 ATUs) has been strengthened. Level-1 ATUs are no more depending on *rayons*. The LLPF and the Tax Code have been amended in November 2013 in this regard, and a new system for the preparation of local budgets was piloted for the 2014 budgets in the ATUs within three districts (Basarabeasca, Ocnița, Rîșcani) and Chisinau Municipality. 2015 budgets of all ATUs have been elaborated according to the new system.

It is intended by government, after experience gained with the new formulas in a first reform stage, to proceed with possible adjustments and in a second stage to decide on legal and regulatory measures to enhance the revenue base of local governments, in particular of own source revenues.

The mechanism for monitoring and evaluation of the reform process is composed of (i) annual reports with detailed impact assessment; (ii) periodical reports of results relating to specific stages; and (iii) through a final report on the implementation of the Strategy.

#### *The PIFC reform*

Public Internal Financial Control (PIFC), a concept developed by the European Commission covering internal audit and financial management and control (FMC), has been implemented in Moldova since 2010. Significant reform steps have already been completed, but acceptance of this concept among management still leaves room for improvement.

Baseline PIFC legislation has been adopted, together with internal control and internal audit standards and methodology, covering internal audit and FMC manuals with procedures, templates and checklists. National Internal Audit Standards were adopted (based on the International Internal Audit Standards issued by the Institute of Internal Auditors) and together with a regulation on the Certification of Internal Auditors in the Public Sector, an Internal Auditors Code of Ethics and Internal Audit Charter, an Internal Audit Training Programme, and a Regulation on reporting the Internal Audit Unit activity.

Despite these achievements, the internal audit practice is still in the process of being developed with support of technical assistance. Focus is still set on checking compliance of financial processes, and system-based audit is in the early stages.

Focus of the current PIFC Strategy (2014-2017) is set on further development and consolidation of the internal control function and deployment of a decentralised approach. The Strategy also defines the key objectives of the CHU which are to identify changes for strengthening managerial accountability and raising awareness and appreciation of the internal audit function.

The PIFC reform is under the responsibility of the CHU and closely monitored by EC DG Budget.



## Annex 1: Summary of PEFA 2011 and 2015 by Performance Indicator

	Indicator	Score 2015	Score 2011	Performance change
<b>A. PFM OUT-TURNS: Credibility of the Budget</b>				
PI-1	<b>Aggregate expenditure out-turn compared to original approved budget</b>	<b>A</b>	<b>B</b>	Aggregate budgetary planning in the last three years has been more realistic than in the past. Revenue and expenditure over and/or under-estimations have been minimised.  Aggregate expenditure deviation was lower in the period under review than in the period examined by the 2011 PEFA assessment. Deviations between the originally approved budget and actual budget execution were less than 2% for each of the years under review (2012-2014). With a deviation less than 5%, criteria for score A are fulfilled.
PI-2	<b>Composition of expenditure out-turn compared to original approved budget</b>	<b>A</b>	<b>B+</b>	A significantly lower variance in the composition of expenditure was noted with less than 4% for each of the years under review, as compared to values between 3 and 12% in the period reviewed by PEFA 2011, so that also PI-2 scored A.
	(i) Variance in expenditure composition during last three years excluding contingency items	A	B	
	(ii) Average amount of expenditure charged to contingency	A	A	
PI-3	<b>Aggregate revenue out-turn compared to original approved budget</b>	<b>A</b>	<b>B</b>	The variance in revenue composition in all of the three years under review has been substantially lower than in the years examined by 2011 PEFA, which is an improvement of the overall performance of revenue management and policy, as well as of the revenue planning.
PI-4	<b>Stock and monitoring of expenditure payment arrears</b>	<b>A</b>	<b>A</b>	No significant changes occurred in comparison with the period reviewed by the 2011 PEFA, except for minor improvements in monitoring of arrears. The stock of arrears of central government remained low with 0.12% in 2014 and even less for 2012 and 2013, so that PI-4 has again achieved the highest score.
	(i) Stock of expenditure	A	A	

Indicator		Score 2015	Score 2011	Performance change
	payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.			
	(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	A	
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>				
<b>PI-5</b>	<b>Classification of the budget</b>	<b>A</b>	<b>B</b>	The main innovation in this regard was the introduction of a new GFS 2001 compliant Chart of Account and budget classification, which however is only applied starting with the 2016 budget. Nevertheless, the score for PI-5 was raised since even the previous classification already qualified for a score A, considering the elements of programme classification which have been applied progressively in the period under review to all sectors.
<b>PI-6</b>	<b>Comprehensiveness of information included in budget documentation</b>	<b>A</b>	<b>A</b>	There have been no major changes since the 2011 PEFA.
<b>PI-7</b>	<b>Extent of unreported government operations</b>	<b>A</b>	<b>A</b>	There have been no major changes since the 2011 PEFA.
	(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	A	A	The present assessment also confirms that there are no unreported government operations and that all projects funded by major donors are part of budget appropriations and fiscal reports as required by PI-7 which again scores A.
	(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.	A	A	

Indicator		Score 2015	Score 2011	Performance change
<b>PI-8</b>	<b>Transparency of inter-governmental fiscal relations</b>	<b>A</b>	<b>A</b>	Inter-governmental fiscal relations have been subject to significant changes during the period under review, as a result of the implementation of the fiscal decentralization reform. However, since the old system was still prevailing, there was no change in the score A for PI-8. There is however still room for improvement in one of the dimensions of this indicator.
	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);	A	A	
	(ii) Timeliness of reliable information to sub-national governments on their allocations from central government for the coming year;	A	B	
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectorial categories.	A	A	
<b>PI-9</b>	<b>Oversight of aggregate fiscal risk from other public sector entities.</b>	<b>A</b>	<b>B+</b>	Improvements were noted with regard to monitoring of fiscal risk of public sector entities. The quarterly fiscal monitoring report prepared by the MoF, based on the reports of state-owned enterprises (SOE) and joint-stock companies (JSC) to the National Bureau of Statistics was further improved, and SOEs and JSCs now also have to submit an audit report. The obligation for audit was however limited to public sector entities fulfilling certain criteria, but is still covering the major entities, and the score for PI-9 remains A.
	(i) Extent of central government monitoring of AGAs and PEs.	A	B	
	(ii) Extent of central	A	A	

Indicator		Score 2015	Score 2011	Performance change
	government monitoring of SN governments' fiscal position.			
<b>PI-10</b>	<b>Public access to key fiscal information</b>	<b>B</b>	<b>A</b>	Public access to fiscal information was disrupted in 2014, with the budget execution report published with significant delay and the external audit report not published at all. The score therefore deteriorated to B.
<b>C. BUDGET CYCLE</b>				
<b>C(i) Policy-based Budgeting</b>				
<b>PI-11</b>	<b>Orderliness and participation in the annual budget process</b>	<b>B</b>	<b>B</b>	A matter of concern is the adherence to the budget calendar. There have been disruptions in the budget process for the 2015 budget, which was only adopted by Parliament in April 2015 (working with an Interim budget, approved by the MoF, up to that date), and the fact that none of the three MTBFs (for the periods 2013-2015, 2014-2016 and 2015-2017) was approved by the government, mainly due to political reasons. The situation was similar in 2011, and the score remains B.
	(i) Existence of and adherence to a fixed budget calendar	B	B	
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	B	B	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	C	C	
<b>PI-12</b>	<b>Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>A</b>	<b>B+</b>	There was an improvement in coverage and methodology of the MTBF: Programme budgeting is now applied for 100% of the budget versus 58% in 2012 and 2011; the quality of the Medium-Term Debt Management Strategy has improved, providing for a debt sustainability analysis; and anew regulation on capital investment projects will contribute to improving the public investment management process. Strategic linkages between the National Strategy, the MTBF and the performance indicators in the annual budgets remain weak. The raise of the score for PI-12 to A results mainly from a correction of the 2011 score.
	(i) Preparation of multi -year fiscal forecasts and functional allocations	A	B	
	(ii) Scope and frequency of	A	A	



Indicator		Score 2015	Score 2011	Performance change
	debt sustainability analysis			
	(iii) Existence of costed sector strategies	A	A	
	(iv) Linkages between investment budgets and forward expenditure estimates.	B	B	
<b>C(ii) Predictability and Control in Budget Execution</b>				
<b>PI-13</b>	<b>Transparency of taxpayer obligations and liabilities</b>	<b>A</b>	<b>A</b>	Concerning dimension (i), there have been various legal amendments.
	(i) Clarity and comprehensiveness of tax liabilities	A	A	As for dimension (ii), the web services were improved continuously and their functionality extended. MSTI is becoming more service oriented.
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A	A	As for dimension (iii), no essential changes occurred, although the management of objections and appeals became more convenient for the MSTI officers.
	(iii) Existence and functioning of a tax appeals mechanism.	B	B	
<b>PI-14</b>	<b>Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>B</b>	<b>A</b>	Concerning dimension (i), the most significant result was the successful settlement of the “bogus enterprises” problem.
	(i) Controls in the taxpayer registration system.	A	A	Concerning dimension (ii), no new significant aspects were noticed. The effectiveness of the penalties is doubtful.
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	A	Concerning dimension (iii), but also touching upon dimension (i), the results of the work performed since 2012 show positive trends. This is in particular true for tax-related aspects, where the results are largely generated by the systematic analysis of information with significant contributions from the recent risk assessment oriented initiatives, such as the identification of new criteria.
	(iii) Planning and monitoring of tax audit and fraud investigation programmes.	B	B	

Indicator		Score 2015	Score 2011	Performance change
<b>PI-15</b>	<b>Effectiveness in collection of tax payments</b>	<b>D+</b>	<b>D+</b>	<p>Concerning dimension (i), the most significant STS result shown after 2011 relates to the previously mentioned preventive measures, aiming at dealing with the serious arrears collection issue, while awaiting the advent of the new computerised application, currently being developed and tested. It will facilitate the establishment and maintenance of taxpayer's current account, which shall allow for the maintenance of the requested analytical data. New amendments to the legal framework are in force since 2014 to ensure the full and timely collection of business entities' debts.</p> <p>As for dimension (ii), no new significant aspects were noticed; except that many incorrect payments are still made. Since this is largely a technical issue, it should be attended as a high priority task.</p> <p>As for dimension (iii), there are also no new significant aspects.</p>
	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D	
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	A	
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	A	B	
<b>PI-16</b>	<b>Predictability in the availability of funds for commitment of expenditures</b>	<b>C+</b>	<b>C+</b>	<p>The Treasury Single Account system is place, providing for proper cash management, but there is still no dedicated commitment system. Therefore no change in the score.</p>
	(i) Extent to which cash flows are forecast and monitored.	A	A	
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	C	
	(iii) Frequency and transparency of adjustments to budget allocations, which	C	A	

Indicator		Score 2015	Score 2011	Performance change
	are decided above the level of management of MDAs.			
<b>PI-17</b>	<b>Recording and management of cash balances, debt and guarantees</b>	<b>A</b>	<b>A</b>	The main development was the amendment of the Law nr.419 on Public Debt, State Guarantees and On-lending from State Borrowings in order to introduce modifications on local borrowing policy, Mid-term debt management strategies are regularly prepared, and include a fiscal risk analysis, indicators for risk monitoring, and a debt sustainability analysis.
	(i) Quality of debt data recording and reporting	A	A	
	(ii) Extent of consolidation of the government's cash balances	A	A	
	(iii) Systems for contracting loans and issuance of guarantees.	A	A	
<b>PI-18</b>	<b>Effectiveness of payroll controls</b>	<b>B+</b>	<b>B+</b>	New legislation for civil servants' salary calculation and a regulation on personnel cost limits have been adopted in order to improve payroll control and personnel expenditure projections, leading to a reduction of irregularities. The score remains unchanged.
	(i) Degree of integration and reconciliation between personnel records and payroll data.	B	B	
	(ii) Timeliness of changes to personnel records and the payroll	A	A	
	(iii) Internal controls of changes to personnel records and the payroll.	B	B	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B	B	
<b>PI-19</b>	<b>Transparency, competition,</b>	<b>B</b>	<b>B</b>	The main progress in public procurement consists in a significant decrease of the share of

Indicator		Score 2015	Score 2011	Performance change
	<b>and complaints mechanism in procurement</b>			non-competitive procurement methods from 30% in 2008-2010 to 6% in 2012-2014. However, there is still no independent complaints review board in place, and therefore no change in the score for PI-19 assigned in 2011.
	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	B	
	(ii) Use of competitive procurement methods.	A	B	
	(iii) Public access to complete, reliable and timely procurement information	A	A	
	(iv) Existence of an independent administrative procurement complaints system	D	D	
<b>PI-20</b>	<b>Effectiveness of internal controls for non-salary expenditure</b>	<b>B+</b>	<b>B+</b>	The Treasury system, implemented through the FMIS operated by the Ministry of Finance, is the main factor in providing proper authorisation processes and controlling expenditure, ensuring that budget entities do not exceed the available appropriation and the monthly allocation. The financial control system can therefore be considered as sound. In this regard, the main innovation is the implementation of a new FMIS which started to operate in 2015 for the 2016 budget preparation and will go live in 2016 for budget execution, however still without a dedicated commitment system. The remains therefore unchanged.
	(i) Effectiveness of expenditure commitment controls.	B	B	
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	B	
	(iii) Degree of compliance with rules for processing and recording transactions.	A	A	
<b>PI-21</b>	<b>Effectiveness of internal audit</b>	<b>B+</b>	<b>C+</b>	Improvement was noted in the internal audit function further to the adoption of a methodology; a regulation on certification on Internal Auditors; National Internal Audit Standards; a training programme and a Code of Ethics. The increase in coverage and improvement of quality of the
	(i) Coverage and quality of	B	C	

Indicator		Score 2015	Score 2011	Performance change
	the internal audit function.			internal audit practice justifies an increase of the score for PI-21 to B+. Areas of concern are that system-based audit is still in the early stages of development, with support of technical assistance, and the low degree of implemented recommendations resulting from frequent changes in the management of the central level public entities.
	(ii) Frequency and distribution of reports	A	B	
	(iii) Extent of management response to internal audit findings.	B	B	
<b>C(iii) Accounting, Recording and Reporting</b>				
<b>PI-22</b>	<b>Timeliness and regularity of accounts reconciliation</b>	<b>A</b>	<b>A</b>	There were no significant changes.
	(i) Regularity of bank reconciliations	A	A	
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	A	A	
<b>PI-23</b>	<b>Availability of information on resources received by service delivery</b>	<b>A</b>	<b>A</b>	There were no significant changes in procedures or reporting systems.
<b>PI-24</b>	<b>Quality and timeliness of in-year budget reports</b>	<b>C+</b>	<b>C+</b>	There was yet no substantial change in the production of budget execution reports since the 2011 assessment. During this period, the new FMIS has been developed and tested.
	(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	
	(ii) Timeliness of the issue of reports	A	A	
	(iii) Quality of information	A	A	
<b>PI-25</b>	<b>Quality and timeliness of annual financial statements</b>	<b>C+</b>	<b>C+</b>	There was yet no substantial change in the production of financial statements since the 2011 assessment.  The new budget classification, developed in line with the GFS 2001 Standards is being used starting 2015 for the preparation of the budget, and the corresponding new chart of accounts
	(i) Completeness of the financial statements	A	A	
	(ii) Timeliness of submission	A	A	

Indicator		Score 2015	Score 2011	Performance change
	of the financial statements			will be used for budget execution and reporting starting from 1 January 2016. Development of an IPSAS compliant accounting methodology is planned.
	(iii) Accounting standards used	C	C	
<b>C(iv) External Scrutiny and Audit</b>				
<b>PI-26</b>	<b>Scope, nature and follow-up of external audit</b>	<b>B+</b>	<b>B+</b>	The Law on the Court of Accounts (CoA) provides a sound basis for the further development of the CoA from an inspection body into a Supreme Audit Institution. Audit practice with regard to adherence to international auditing standards has improved. However, due to the lack of staff, the CoA is still not able cover the whole spectrum of activities and continues to be supported by the Financial Inspection (the former Financial Control and Revision service) which focuses on identifying and investigating irregularities. This agency is under transformation, aiming to evolve into a financial control agency with focus on economic crime.
	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	B	B	
	(ii) Timeliness of submission of audit reports to legislature.	A	A	
	(iii) Evidence of follow up on audit recommendations.	B	A	
<b>PI-27</b>	<b>Legislative scrutiny of the annual budget law</b>	<b>B+</b>	<b>B+</b>	No change.
	(i) Scope of the legislature's scrutiny.	A	B	
	(ii) Extent to which the legislature's procedures are well-established and respected.	B	B	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all	A	A	

Indicator		Score 2015	Score 2011	Performance change
	stages combined).			
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B	B	
<b>PI-28</b>	<b>Legislative scrutiny of external audit reports</b>	<b>C+</b>	<b>C+</b>	The CoA has improved the audit practice by following international auditing standards, developing the professional skills of the staff and improving the quality of the reports. It is to be remarked that the CoA practice has matured in all aspects since the previous assessment period. This has not been the case with the legislative scrutiny capacity. The capacities of the Members of Parliament in analysing the CoA Reports are still underdeveloped. The political instability in the period 2012-2014 has furthermore blocked progress in this area.
	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	A	A	
	(ii) Extent of hearings on key findings undertaken by the legislature.	C	C	
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B	B	
<b>D. DONOR PRACTICES</b>				
<b>D-1</b>	<b>Predictability of Direct Budget Support</b>	<b>D+</b>	<b>D</b>	The main factors contributing to the poor predictability in budget support remain the same as in 2011: Contingency of disbursements on the achievement of performance indicators in policy matrices, poor forecasting by donors and disbursement delays as a result of bureaucratic procedures.
	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent	C	D	

Indicator	Score 2015	Score 2011	Performance change
approving body).			
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	D	
<b>D-2</b> <b>Financial information provided by donors for budgeting and reporting on project and programme aid</b>	<b>C</b>	<b>C+</b>	The creation of the Aid Information Management System was a significant progress. It allows monitoring data on foreign aid provided to the Republic of Moldova. However, this tool only become useful once all donors start providing disbursement estimates and reports on project support to the State Chancellery.
(i) Completeness and timeliness of budget estimates by donors for project support.	C	C	
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	C	B	
<b>D-3</b> <b>Proportion of aid that is managed by use of national procedures</b>	<b>D</b>	<b>C</b>	Comparative figures of 2013 indicate that there has been significant drop in the use of national procedures. For project support, donors continue to largely rely on their own procedures, in some cases partly aligned with national procedures.



## Annex 2: Draft PEFA assessment of selected indicators according to the 2015 methodology

### PI-8. Performance information for achieving efficiency in service delivery

		Score (scoring method M2)	B+
Dimension	Minimum requirements		
(i) Disclosure of annual performance targets for service delivery	Performance targets are presented for 10-25% of service delivery functions OR coverage is more than 25% but with deficiencies in the format or definition of the targets (outputs) or in the methods of measurement.		C
(ii) Disclosure of data on performance results achieved by service	Performance results are presented for more than 50% of service delivery functions and are comparable to targets.		A
(iii) Monitoring of resources received by service delivery units	A system exists, in more than 50% of service delivery functions that monitors if resources have reached service delivery units as planned.		A
(iv) Content and coverage of independent performance evaluations	Independent performance evaluations for more than 50% of service delivery functions have been undertaken in the last three financial years, and include recommendations for enhancing delivery.		A

The coverage of this indicator is central government. Services managed and financed by lower levels of government are to be included if the central government significantly finances such services through reimbursements/earmarked grants, or uses lower levels of government as implementing agents. Both are the case in Moldova: ATUs are responsible for financing the pre-school, primary and secondary education system, cultural institutions and some social assistance services. Moreover, the ATUs are responsible for construction and maintenance of local infrastructure and transport. The inter-governmental transfers from the State budget to the ATUs are regulated by the Law on Local Public Finances (No 397 of 16 of October 2003). They cover the difference between local revenue and per capita based expenditure needs for service delivery. This system has been replaced on 1 January 2015 when the amendments to the Law on Local Public Finances (by the Law No 267 of 1 November 2013, see PI-8), oriented at fiscal decentralisation, came into force.

Central government's contribution to ATUs in financing service delivery is significant. Total transfers to local budgets in 2014 budget execution amounted to MDL 7,106.5 million, of which MDL 5, 617.5 million lei or 79.0% are for education. And analysed the other way round: From total spending for education in the local budgets (MDL 5,906.8 million), as much as 95.1% originate from transfers from the central level.

Social insurance and national health insurance are administered respectively by the SSIB and CIFMA which are part of the Central Government Budget. Primary health care units are funded and maintained by the CIFMA.

The table below shows the distribution of the National Public Budget by sector:

**Table 58 - National Public Budget by sector**

Sector	Approved budget 2014 <sup>72</sup>	Share
General state services	1,997	5%
Defence and public order	2,573	6%
Justice	687	2%
Education	7,702	19%
Health	5,524	14%
Social assistance	14,409	36%
National Economy	7,194	18%
<b>TOTAL</b>	<b>40,086</b>	<b>100%</b>

Source MTBF 2015-2017.

The main sectors of service delivery that are being assessed for this indicator are education, health and social assistance, as well as water and sanitation.

*(i) Disclosure of annual performance targets for service delivery*

According to the methodological framework for budget preparation which is reflected in the budget circular, all budget institutions have to submit, together with their budget proposals, performance targets and performance indicators for their budget programmes at sub-programme level, using "Form no.4" which is annexed to the budget circular.

The information to be provided at programme and sub-programme level includes medium-term objectives ("with emphasis on the year for which the programme is approved"), scope and a description. Three types of non-financial indicators are to be provided: output indicators, outcome (results) indicators and efficiency indicators. Target values for performance indicators are to be defined for the three MTBF years, and also stated for the current year and for the two previous years, with an indication on whether they have been achieved. A measurement unit is provided, but no data collection/calculation method nor data sources.

Programme budgeting has been introduced in Moldova progressively since 2008. It covered already around 80% of the budget institutions in the period under review, and covers now 100%. The templates for budget submission including the said "Form no.4" have been in use since 2008.

Performance targets are clearly specified for all budget institutions. However, considering that no method of calculation and data sources are provided, the score is C.

*(ii) Disclosure of data on performance results achieved by service*

The MoF has established a basic reporting system for monitoring performance along these performance indicators. These reports, which are prepared on annual basis by each budget institution show at programme and sub-programme level for each indicator the target value, the actual value for the reporting year, as well as deviations in percent and a reason. The report also provides comparative figures of appropriated budget, adjusted budget and executed budget for that programme/sub-programme and deviations in percent.

<sup>72</sup> in million MDL.

These reports, which are submitted by the budget institutions to the MoF are not published. The annual budget execution reports include only the financial indicators. A summary of performance information for the two preceding years is also provided in the budget submissions within the above mentioned Form no.4 (which is as well not publicly available).

A methodology for improving the monitoring system is under development. The monitoring system already qualifies for score A.

*(iii) Monitoring of resources received by service delivery units*

Service delivery units, as described above, are indirect budget beneficiaries. Their expenditure processes are carried out by the parent institution who also keeps records on the transactions relating to their subordinated service delivery units. Transactions are evidenced in the account statements produced by the Territorial Treasuries of the MoF and sent to the Level-1 ATUs, which, in turn, provide them to their subordinated service delivery units on a regular basis.

Similar reporting systems are in place for the primary health care institutions that have contracts with the CIFMA. They operate as separate publicly owned legal entities, funded by CIFMA and the Ministry of Health.

This dimension corresponds to PI-23 in the 2011 PEFA methodology. The score is A.

*(iv) Content and coverage of independent performance evaluations*

Independent performance evaluations are undertaken by the Court of Accounts in form of performance audits. The following performance audits have been carried out in the period under review:

**Table 59 - Performance evaluations**

Year	Number of performance audits <sup>73</sup>		Description of those performance audits which are relevant to service delivery
	Total	Relevant to service delivery	
2012	7	1	“Water supply and sanitation in settlements”, carried out at the Water Agency
2013	8	1	“Application of eligibility criteria for beneficiaries of social assistance”, carried out in the Ministry of Labour, Social protection and Family; Social inspection; and Departments of social assistance and family protection in six selected ATUs
2014	9	1	“Efficiency of the HR Management procedures used by health care institutions for medical personnel”, carried out in the Ministry of Health

<sup>73</sup> Including IT audits and environmental audits with performance elements.

Performance audits are scheduled within the annual plan of the Court of Accounts, and selection of topics and institutions is risk-based. Recommendations for enhancing delivery are given in each of the performance audit reports. Additionally, the Court of Accounts covers performance aspects in the annual audit of the execution of the budget. The Audit report 2014 states that the Court of Account applies for this report the standards for financial audit, compliance audit and *performance audit*. Recommendations with regard to the performance of service delivery units are given throughout the report. The annual audit had coverage of about 75% of the budget in 2014 (see PI-26). The Report also states that – based on the findings – six opinions have been expressed about the financial situation and 41 recommendations have been formulated on compliance in the management of public funds, including public assets, as well as on *compliance with the performance criteria*.

The score is therefore A.

#### *Developments in 2015*

An improved methodology for monitoring performance is under development.

PI-11. Public investment management

		Score (scoring method M2)	D+
Dimension	Minimum requirements		
(i) Objective economic analysis	The requirements for a 'C' rating or higher are not met.		D
(ii) Costing over the project life cycle	The requirements for a 'C' rating or higher are not met.		D
(iii) Project monitoring and reporting	The two MDAs with the largest share of infrastructure projects have some processes in place to monitor physical and financial progress of project implementation. Project monitoring reports to management are prepared on an ad hoc basis.		C

A major step forward in the legal framework, affecting all three dimensions of this indicator, was Government Decision No 1029 of 19 December 2013 on Public Capital Investments<sup>74</sup>. The purpose of this decision is “to establish a transparent and efficient methodology for planning, implementing and managing capital investments financed from the national public budget”. For that purpose, it established a Working Group to ensure the transparency and the quality of the decision making process regarding public capital investments from the national budget. The Working Group consists of one representative from each of the following institutions:

- State Chancellery;
- Ministry of Finance;
- Ministry of Economy;
- Ministry of Regional Development and Constructions;
- Ministry of Transport and Road Infrastructure;
- Ministry of the Environment;
- Other specialized central public authorities (in case of necessity, depending on the specific projects being examined);
- Associative organizations of the local governments (Congress of local authorities);
- Social partnerships (National Trade Union Confederation and The National Confederation of Employees).

The Working Group should determine the policy and priorities for capital investments. In particular, it has the following main tasks:

1. To analyse trends and the structure of capital investment expenditures in the total expenditures of the national public budget and by its components;
2. To examine the portfolio of the current capital investment projects, including those funded by external sources, and to hear reports regards their performance and their estimated costs in the medium term;
3. To examine proposals for new capital investment projects submitted by public authorities and their impact on the budget;
4. To confirm the eligibility of capital investment projects to be included in the budget;
5. To establish the priorities of capital investments and to select the projects to be included in the MTBF and the annual budget.

<sup>74</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=350859>; in force since its publication in the Official Monitor nr.311/1157 from 27.12.2013. An English translation is available, but it is not online.

The regulation applies to capital investment projects the cost of which exceeds 5 million lei, and requires for every project a preliminary evaluation. It addresses methodologies like Cost-Benefit Analysis (CBA), cost-effectiveness analysis, and feasibility studies in some detail. Which type of analysis will be applied depends on the complexity of the proposed project, with cost-efficiency analysis for relatively complex projects. In a next stage it is expected there will be more guidelines for CBA and cost-effectiveness analysis. The regulation also ensures that the Working Group of public capital investment will review all proposed major projects. The document covers all the stages of the project, from identification, ex-ante evaluation and approval up to implementation, audit, and post implementation analysis. A couple of seminars have been provided by the World Bank Public Investment Management Technical Assistance program (prepared and delivered by international and local consultants), to sensitise both national and local public authorities.

*(i) Objective economic analysis*

Before 19 December 2013, investment decisions (at least those funded by domestic resources) could be taken without proper economic analysis, for political reasons, to ensure there were tangible benefits for each electoral district. There was an Investment Program, in Annex 4 "Allocations from the State Budget to local public authorities, intended to fund the capital expenses" to the State Budget Law. In practice the goal of the list of projects was to maximise the number of districts that would benefit – which is not a proper economic criterion. There was no law on public investment, but only Section 4 on Capital Investments from Chapter III of Law No 181 of 25 July 2014 on public finances and budgetary-fiscal accountability. Projects used to be approved without adequate preparation, and without proper scrutiny in Parliament.

In this period there was no written requirement that major investment decisions should be taken on the basis of economic analysis. But for external sources, this was of course a requirement. For example, the EU funded the reconstruction of courts buildings, within a conditionality framework similar to that of budget support. In this context, the Ministry of Justice has many projects funded from external sources.

A recent IMF mission addressed the matter of investment management. They found that presently the local authorities with more revenue have an important role, and they can take their own investment decisions. The present legal framework will minimise the influence of non-economic (political) criteria in public investment decisions.

The PEFA scoring methodology requires the identification of five central public authorities with the biggest allocations for capital expenditures. The main investor is definitely the Ministry of Transport and Road Infrastructure (which has a Road Fund); see the following table.

**Table 60 - MDAs with the largest capital expenditures, 2014 (in MDL 1000)**

Code	MDA	Approved	Adjusted	Deviation (%age)	Executed
264	Ministry of Transport and Road Infrastructure	2049,260	2,086,027	1.8%	2,023,347
456	Millennium Challenge Fund Moldova	1,146,314	1,146,314	0.0%	1,388,600
125	Ministry of Agriculture and Food Industry	860,345	936,583	8.9%	876,055

Code	MDA	Approved	Adjusted	Deviation (%age)	Executed
284	Ministry of the Environment	325,145	532,800	63.9%	692,951
200	Transfers to local budgets	445,266	519,176	16.6%	498,385
121	Ministry of Economy	406,020	450,462	10.9%	197,300
147	Ministry of Regional Development and Construction	327,767	325,219	(-0.8)%	376,389
	(...)	(...)	(...)	(...)	(...)
	<b>Total of all MDAs</b>	<b>6,646,796</b>	<b>7,651,089</b>	<b>15.1%</b>	<b>7,700,846</b>

Source: Ministry of Finance.

The score for this dimension is D, because Government Decision No. 1029 of 2013, which will definitely be helpful to avoid projects without economic analysis, and meets the requirements for a score of A, entered in force too late (27 December 2013) to be applied for the 2014 budget, and was not applied to the 2015 budget either due to shortage of funds.

*(ii) Costing over the project life cycle*

The Government Decision No 1029 of 19 December 2013 requires full costing throughout the implementation stage, including recurrent costs like support, repairs and maintenance, for instance in clause 7d:

*"The principle of sustainability – The operation and subsequent maintenance after the project's completion is taken into account in the planning and approval process for capital investment in the project".*

However, Government Decision No 1029 has not been implemented yet. There is not yet a unified methodology of project screening, preparation and appraisal, matters for which Resolution No 1029 created a framework. MoF has been developing guidelines which were approved by the Minister of Finance Order No. 185 of 3 November 2015 'The Methodology concerns the management of capital investment projects ". A deep and appropriate analysis was not made mandatory. There is no evidence of analysis of operational costs after the completion of the investment project. Therefore, the score is D.

*(iii) Project monitoring and reporting*

MoF does not monitor physical progress of investment projects. This is done by the responsible MDAs, and after the reference period by the Working Group, which will review implementation reports and performance reports. Project monitoring is done by these MDAs. Although all MDAs complete a quarterly progress report covering physical and financial progress (a requirement for a score of C), there is no accurate and adequate database at the level of MoF. MoF made the first attempt to complete such databases for the Budget 2015 (after the reference period), but it still has significant gaps, including gaps on incomplete projects which have not been financed for some years. This rules out a score of A. The other main concern about MDAs' monitoring reports is that such reports are not available to and have not been examined by the MoF (a requirement for obtaining a score of B) or the Working Group. Therefore, their value from the Public Finance Management perspective is limited.

### Developments in 2015

MoF has implemented a new Financial Management Information System (FMIS) with a module addressing investment projects. It became operational in 2015, and will be applied in the budget year 2016.

MoF will have complete and accurate information on financial progress. This will be guaranteed by, again, Government Decision No 1029 of 19 December 2013, which stipulates:

- “33. Along with the proposals for the new capital investment projects, the Ministry of Finance prepares and submits to the Working Group an analysis of the existing portfolio of the investment projects in the progress. (...)” and
- “34. Based on the information submitted, the Working Group examines the performance and costs of the existing portfolio and the progress of the investment projects according to the available budget resources.”

This information can be viewed in a database of the MoF, in which every investment project has its code, which is updated on a daily basis, and which generates reports for, for instance, the Road Fund, the Regional Development Fund, etc. The same will also be provided by the Projects module of the new Financial Management Information System. During the reference period (2012-2014), this information was maintained in the form of MS Excel files, which contain financial and non-financial information registered based on the budget classification (the example below), with data fields for the name of the project, general information about the objectives of the project, the responsible budget unit, the status of the project, degree of priority, manager of the project, start year, year of completion, implementation period (in number of years), number of reports, estimated costs, the source of financing, the implementing party, and more. All this information is used for budget planning and investment project monitoring.

Figure 61 - Project planning

**Proiecte**

Codul din litere: În mod automat de către sistem  
Codul din cifre: În mod automat de către sistem  
Numele proiectului: Denumirea (Ex.: Proiectul "Reforma educației în Moldova")  
Descriere: Informație generală privind obiectivele proiectului  
Investitor: Utilizatorul de buget ORG1  
Codul subprogramului: Legătura cu subprogramul căruia i se atribuie  
Executorul proiectului: Instituția responsabilă de implementare  
Statut: Propus  
Prioritate: În dependență de nivelul de importanță  
Tip: PFEX- finanțate din surse externe; IC- investiții capitale; PFEX&IC- ambele;  
Anul de creare: 2015  
Anul de lansare: Toate proiectele (inclusiv din anii anteriori) anul de lansare începând cu 2016  
Managerul de proiect: Persoana desemnată de beneficiar responsabil de implementare  
Perioada de implementare: anii  
Numarul raportului: Nr. raportului de verificare (în cazul cînd există proiect elaborat)  
Cost estimat: LEI  
Proiectant: Persoana care a elaborat proiectul  
Finanțat integral: 0,00  
Numărul proiectului: Nr. proiectului de execuție (în cazul cînd există proiect elaborat)

Alte date: Descriere succintă a proiectului  
**NOTĂ:**  
\* Fișa de proiect se completează de ORG1;  
\* Codul proiectului va fi constituit din litere până la aprobarea acestui;  
\* Toate proiectele care au fost implementate în anii precedenți, anul lansării va fi din 2016



PI-12. Public asset management

		Score (scoring method M2)	A
Dimension	Minimum requirements		
(i) Quality of central government financial asset monitoring	Up to date and substantially complete financial asset registers exist that provide for the identification of key assets, verification of their ownership. The performance of financial assets is monitored and reported annually according to specific criteria formally defined by the Government and disclosed.		A
(ii) Quality of central government non-financial asset monitoring	Up to date and substantially complete non-financial asset registers exist that provide for the identification of key assets, verification of their ownership. Comprehensive management and statistical reports (covering assets and related operations) are produced at least annually and disclosed.		B
(iii) Transparency in the sale, transfer and disposal of non-financial assets and usage rights	The procedures for the competitive and transparent sale, transfer or disposal of non-financial assets and asset usage rights are established in the legislation and are always respected.		A

The legal framework relevant for all dimensions ((i), (ii) and (iii)) is the following.

- Law No 121-XVI of 4 May 2007<sup>75</sup> "On the Administration and Privatisation of Public Property" (*Official Gazette of the Republic of Moldova*, 2007, no. 90-93 / 401 dated 29.06.2007). It specifies, among other things, the government property that cannot be privatised (art. 13, 22-3). This implies a definition of "key assets" (i.e. assets of strategic importance) to the government. According to this Privatisation Law, assets that cannot be privatized are "...those that ensure the defence capability and security; national culture heritage; ensure a minimum of social services guaranteed by the state; state monopolies; plots of land allocated to the state real estate fund; lands transferred to monasteries; businesses and organisations that were not included in the privatisation list approved by Government."
- Government Decision No 945 of 20 August 2007<sup>76</sup> "On Measures to Implement Law No 121-XVI of 4 May 2007 concerning the Administration and Privatisation of Public Property" (*Official Gazette of the Republic of Moldova*, 2007, no. 131-135, art. 981). It specifies, among other things, the sales procedure, and it contains a list of enterprises that are planned to be privatised.

MoF's FMIS has an assets management module which provides values of public assets, as a part of the government's financial reports.

*(i) Quality of central government financial asset monitoring*

Gold, SDRs, and foreign currency are managed by the National Bank of Moldova.

As for accounts in commercial banks, the responsible MDAs monitor their financial assets deposited there, and report on them annually in their financial statements.

Most financial assets are maintained in the Treasury Single Account – the subject of PI-21 (i).

<sup>75</sup> <http://lex.justice.md/md/324100/>.

<sup>76</sup> <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=326158&lang=1>.

With respect to shares in companies there is the following a division of labour:

- MoF (namely, its Division for Analysis and Regulation of State-Owned Assets and the Financial Sector)<sup>77</sup> does the financial monitoring of State-Owned Enterprises and Companies fully or in majority owned by the Government;
- the Ministry of Economy (more precisely, it's Agency on Public Property)<sup>78</sup> looks after the enterprises in which government has a minority share.

Relevant up-to-date data are publicly available<sup>79</sup> in the form of annually updated spreadsheets with the following information:

- Name of the company (58 of them in the latest version). Going by their names, they are active in the sectors of metal, airport catering, glass containers, scientific research, tobacco, international exhibitions, telecom, roads, bread, ceramics, wines, carpets, tractors, the national lottery, movie production, cinema, fuel, circuses, electricity distribution, banking, hotels, energy, gas, and petrol – quite a wide range. The list grows shorter by the year: 85 during 2012, 64 during 2013, and 58 during 2014;
- Size (as a percentage) of the government participation. In 5 of the 58 companies, the government has a minority share, in 19 others it has a 100% share, in 10 more its share ranges between 98% and 100%;
- Social capital (in thousands of lei);
- Net assets;
- Accounts receivable;
- Total debt;
- Revenue from sales;
- Other operating income;
- Net profit/net loss (the latter being a liability to the budget);
- Net profitability, as a percentage. Companies are presented in the order of this indicator. It is positive (up to 21.7%, for S.A. Metalferos) for 28 companies (for 18 of those, it ranges between 0% and 1%) and for another 28 it is negative (up to -185%). For 2 companies, no rate of profit or loss is given. Total profitability is always negative: -1% in 2012, -3% in 2013, -6% in 2014;
- Responsible ministry.

MoF regularly (at least annually) receives the relevant list from the Agency on Public Property under the Ministry of Economy, covering both minority and majority shares. MoF analyses all of the above-mentioned indicators. The criteria for the monitoring are laid down in the Government's Approval of Procedural Regulations No 875 of 21 October 2014 for the financial monitoring of SOEs, municipal enterprises, and trade companies with majority participation of the state<sup>80</sup>. It is an update of an old Government Decision No 580 from 2008<sup>81</sup>. The legal framework for privatising these assets consists of:

- Government Decision No 145 of 13 February 2008 "On the approval of the regulation on sale of public property shares on the Stock Exchange"<sup>82</sup> (*Official Gazette of the Republic of Moldova*, 2008, No 34-36, art. 212);

<sup>77</sup> At [www.mf.gov.md/en/Contacte](http://www.mf.gov.md/en/Contacte), it is called the "Financial analysis and monitoring division".

<sup>78</sup> [www.mec.gov.md/en/content/public-property-administration](http://www.mec.gov.md/en/content/public-property-administration).

<sup>79</sup> <http://date.gov.md/ckan/ro/organization/1167-agentia-proprietatii-publice>.

Confusingly, at [www.date.gov.md](http://www.date.gov.md) (underneath <http://date.gov.md/ckan/en/organization/1135-ministerul-economiei?page=3>), there are two more sources listing SOEs. Updating the contents of this part of the website would be helpful.

<sup>80</sup> <http://lex.justice.md/md/355197/>.

<sup>81</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=327906>.

<sup>82</sup> <http://lex.justice.md/md/326954/>.

- Government Decision No 919 of 30 July 2008 "On the organization and conduct of commercial and investment competitions for the privatisation of public property"<sup>83</sup> (*Official Gazette of the Republic of Moldova*, 2008, No 143-144, art. 924).

The results of the financial monitoring are available at [www.mf.gov.md/actnorm/reportinform](http://www.mf.gov.md/actnorm/reportinform). The most recent report, for 2014, is on the main page, and for the previous years the reports are in the archive at the bottom of the web page.

With respect to the verification of ownership of these financial assets, the following applies. In accordance with Law No 1134-XIII of 2 April 1997<sup>84</sup> on Joint Stock Companies, as well as legislation on the capital market, a joint stock company shall maintain a register of the company's security holders till it is delisted from the state register of joint stock companies. The register of security holders (either shareholders, bondholders, or holders of other securities) shall be maintained by both the company and the company registry or a central depository (hereinafter - the register) under a contract of maintaining the register. Usually issuers of shares in Moldova do not issue materialised shares as securities. They do it in the form of a personal account of persons (owners or custodians of securities of the company) that is registered in the register, indicating the class and number of securities they own, their purchase value and the encumbrances of ownership concerning such securities. An extract from the register of shareholders issued by a registrar is not a security. It is a document confirming the rights of the owner or custodian of the share: the right to participate in the management of the company, and the right to receive dividends as well as some of the company's property in case of liquidation.

As performance is disclosed annually, the score cannot be C. Specific criteria are formally defined by the government and disclosed, and key assets have been defined, therefore the score is not B either. Therefore the score on this dimension is A.

*(ii) Quality of central government non-financial asset monitoring*

The IMF's revised GFS from 2014<sup>85</sup> at pp. 177-190 specifies a wide range of non-financial assets, categorised as follows:

- Fixed assets (the category to which score B and C refer explicitly) such as buildings and structures; machinery and equipment like transport equipment, ICT; other fixed assets like cultivated biological resources; intellectual property products (software, databases); weapons systems (vehicles, tanks);
- Inventories (materials and supplies, work in progress, finished goods, goods for resale, military inventories);
- Valuables (gold, paintings, sculptures, jewellery, collections);
- Non-produced assets (land, mineral and energy resources, radio spectrum, non-cultivated biological resources, water resources; and intangible non-produced assets like contracts, leases and licenses, and goodwill and marketing assets).

Several of these categories, like inventories, are the responsibility of the responsible ministries. Monuments that are not buildings are monitored by the Ministry of Culture, but monumental buildings like theatres and museums are indeed monitored by the Agency for Public Property under the Ministry of the Economy, with indicators for their surface area and their value.

<sup>83</sup> <http://lex.justice.md/md/328788/>.

<sup>84</sup> <http://lex.justice.md/index.php?action=view&view=doc&id=326515>.

<sup>85</sup> [www.imf.org/external/np/sta/gfsm/](http://www.imf.org/external/np/sta/gfsm/).

The Agency includes the follow categories in its register of Non-Financial Assets, or “*patrimonium registry*”: lands, buildings, structures on land (like wells, dikes and dams), even underground constructions, structures that cannot be moved from one place to another, apartments, isolated rooms, parts of basements, water objects, with or without structures that are used, separated water objects, such as lands under the water, fences, roads, and electricity cables. Immovable assets are also registered in the public Register of Immovable Assets. That concerns land; buildings and constructions firmly linked to the land (constructions erected on the ground or in the ground) or adhering to the ground (foundation, pillars, poles) that are not inflatable (cannot be moved from place to place), apartments and other isolated premises, and other objects that are single and indivisible. Items such as fences, road furniture, sidewalks, are not separate items that are registered in the real estate register.

The Agency maintains its register by means of specialised, separate software (which is not part of the Financial Management Information System) which in 2001 it developed itself. Data are updated continuously, and once per year a printout is made. There are sub-registers for different fields, like State-Owned Enterprises (SOEs), joint-stock companies, and municipal enterprises, in conformity to Government Decision no. 665 of 2008<sup>86</sup> which specifies these categories. The software has been updated constantly, but now the Ministry of Economy intends to launch a tender for the development of up-to-date software, in a more modern programming language; this will enable the Agency to work more efficiently with other ministries. Apart from this, FMIS has an assets management module, mentioned above.

**Table 62 - Categories of non-financial assets**

Categories	Sub-categories	Captured in register(s)
Fixed assets	Buildings and structures	Yes (immovable goods that are public/state property)
	Machinery and Equipment	No
	Other fixed assets	Yes (protective dikes, masts for teleradio transmission, water reservoirs, irrigation tanks, pumping stations, water tanks, water storage ponds, fountains)
	Weapons systems	No
Inventories	-	No
Valuables	-	No
Non-produced assets	Land	Yes (state-owned assets related to land)
	Mineral and energy resources	No
	Other naturally occurring assets	No
	Intangible non-produced assets	No

The Agency publishes annual reports at [www.date.gov.md](http://www.date.gov.md)<sup>87</sup>, with separate spreadsheets for the categories already mentioned (State-Owned Enterprises (SOEs), joint-stock companies, and municipal enterprises).

<sup>86</sup> Cannot be found.

<sup>87</sup> To be precise: <http://date.gov.md/ckan/en/organization/1167-agentia-proprietatii-publice>.

As up-to-date, complete registers of fixed assets exist, and statistical reports and performance are disclosed annually, the score cannot be C. On the other hand, it is not clear what are key assets in this field, and the Agency focuses very much on fixed assets and on land. More could probably be done with respect to non-produced assets. Therefore the score on this dimension is B.

*(iii) Transparency in the sale, transfer and disposal of non-financial assets and usage rights*

The legal framework consists, in addition to what was already mentioned in the introduction to this indicator, of the following government decisions:

- Government Decision No 136 of 10 February 2009 "On the approval of the Regulation on auctions"<sup>88</sup> (*Official Gazette of the Republic of Moldova*, 2009, no. 41-44, art. 185);
- Government Decision No 1428 of 16 December 2008 "For the approval of the Regulations related to the sale and purchase of land"<sup>89</sup> (*Official Gazette of the Republic of Moldova*, 2008, No 226-229, art.1437);
- Government Decision No 468 of 25 March 2008 on the privatisation of non-residential premises which are leased out<sup>90</sup>.

This shows that various channels exist: commercial contests (i.e. tender procedures), or auctions. For each method there is a separate government decision, describing the procedure in detail. Always an announcement will be published in the Official Gazette, 30 days before the event. The announcement will refer to the legal basis. An auction could be cancelled if it was not announced in the Official Gazette. The results of the sale are published on website [www.date.gov.md](http://www.date.gov.md)<sup>92</sup>.

This framework is always implemented, there are no exceptions.

According with art. 28 of Law No 121-XVI of 4 May 2007 on the Management and Privatisation of Public Property, for State or Municipal Owned Enterprises or commercial companies that are in majority publicly owned companies included in the list of assets to be privatized (Government Decision No 945 of 2à August 2007) the following things are forbidden without the written consent of the legitimate authority or local council:

- a) the alienation of immovable property or movable fixed assets, excluding those that are transmitted for free to the balance of other public legal persons, public institutions or state or municipal owned enterprises;
- b) pledging them as collateral, or transmit them to a trust management;
- c) modifying the social capital or the share belonging to the state or administrative-territorial unit.

Assets of state and municipal public enterprises, and in majority publicly owned companies (hereinafter: SOEs), with the exception of fixed assets for special purposes, can be removed from circulation in accordance with the regulation on disposing used assets, Government Decision No 500 of 5 December 1998. This regulation establishes the modalities of disposing (written off) immovable assets, machinery, equipment,

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<sup>88</sup> <http://lex.justice.md/md/330824/>.

<sup>89</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=335974>.

<sup>90</sup> <http://lex.justice.md/md/327470/>.

<sup>91</sup> <http://date.gov.md/ckan/ro/dataset/13203-informatia-privind-rezultatele-privatizarii-bunurilor-propritate-publica-de-stat>.

<sup>92</sup> <http://date.gov.md/ckan/ro/dataset/13203-informatia-privind-rezultatele-privatizarii-bunurilor-propritate-publica-de-stat>.

vehicles and other used goods. They can be scrapped and removed from the balance sheet for instance if they:

- a) are completely worn out;
- b) have become unusable after accidents, natural disasters or violations of normal operating conditions;
- c) are “morally obsolete”.

Businesses can dispose of the fixed assets listed above only with the authorization of the central or local public administration. Material goods used for the protection of the population, the prevention of emergency situations and the elimination of their consequences can be disposed of only after coordination with the Service for Civil Protection and Exceptional Situations.

Unused assets of SOEs can be marketed in accordance with the regulations on the manner of determining and marketing unused assets of enterprises, Government Decision No 480 of 28 March 2008. The following assets can be sold: buildings, structures, transmission devices, machinery, computers, apparatus of all kinds, vehicles, working and productive animals, unfinished buildings and other fixed assets (hereinafter: assets).

The criteria for determining the assets that are not used in enterprise activity are as follows:

- lengthy non-use of the assets for their intended purpose (more than 1 year for movable assets, and more than 3 years for immovable assets);
- uneconomical use of assets related to changing operating conditions;
- replacement of assets with more efficient assets;
- lack of long-term production volume and orders for some assets (more than 1 year for movable assets, and more than 3 years for immovable assets);
- surplus assets and staff shortage for their use and exploitation;
- undesirability of continued use of assets due to increased levels of physical and/or moral abuse.

To determine the unused assets of SOEs by order of the administrator (manager) of the company a committee of 5 to 7 people is established. The committee examines proposals and arguments; the works council decides whether the unused assets will be offered for sale. To prepare the decisions of the council of the enterprise, the administrator shall submit proposals for marketing unused assets. The public administration authorities must analyse the economic and financial situation at the enterprise, consider the possibility of marketing the unused assets of the company, and according to the results of the examination, grant or withhold authorisation for their marketing. Unused assets may be released in the market only after obtaining the written consent of the Public Property Agency or the local council.

The procedures are competitive and transparent, therefore the score cannot be C. Because the legal framework is always applied, and not just in the majority of the cases, the score is not B either. Therefore, the score is A.

*PI-13. Management and reporting of debt and expenditure arrears*

Score (scoring method M2)		A
Dimension	Minimum requirements	
(i) Domestic and foreign debt data recording and reporting	Domestic and foreign debt records are complete, accurate, updated and reconciled on a monthly basis with data considered to be of high integrity. Comprehensive management and statistical reports (covering debt service, stock and operations) are produced at least quarterly.	A
(ii) Systems for contracting loans and issuance of guarantees.	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.	A
(iii) Preparation of a debt management strategy	A medium-term debt management strategy - covering all existing and projected government debt and with a horizon of at least 3 years - is updated annually and published. It sets target levels for indicators of interest-rate, refinancing and exchange rate risk based on thorough sustainability analysis.	A
(iv) Stock and monitoring of expenditure arrears	Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions. This data demonstrates that the stock of arrears is no more than 10% of total expenditure.	A

For the purpose of this indicator debt refers to all central government debt – both domestic and external.

Borrowing by and on-lending to public enterprises is not considered.

The legal basis for borrowing of the State is set out by the Law on Public Sector Debt, State Guarantees and On-lending from State Borrowings (Law No 419 of 22 December 2006, amended on 29 May 2014 - Official Gazette No 397-399/704 of 31 December 2014 hereinafter: PDL) and secondary legislation regulating its implementation<sup>93</sup>. The law was amended in order to introduce modifications on local borrowing policy, improvement of recording and reporting of on-lent loans, and to generally align the Law to international best practice (based on a debt management performance assessment tool).

*(i) Domestic and foreign debt data recording and reporting*

This dimension corresponds to dimension (i) of PI-17 according to the 2011 methodology.

The Public Debt Department in the MoF is responsible for registration, monitoring and reporting of public sector debt. The Debt Management Financial Analysis System (DMFAS) version 5.3 from UNCTAD is used for monitoring, settlement and accounting of the external debt, whereas settlement and accounting of the domestic debt is carried out with in-house software (since DMFAS is not adequate for the purpose), and data is periodically migrated into DMFAS for reporting.

<sup>93</sup> On some measures of executing the Law no. 419-XVI from 22 December 2006 on public debt, state guarantees and on-lending from state borrowings" (Government Decision no. 1136 from 18 October 2007).

Reconciliation of domestic and foreign State debt is carried out on a monthly basis. Data maintained by the MoF in DMFAS is reconciled with invoices submitted to MoF by creditors. At the end of the month, after payments are made, MoF receives statements of accounts from creditors for reconciliation and confirmation of the debt balance.

In compliance with Article 12 (6) of the PDL, the MoF prepares quarterly and annual reports ("*Reports on Public Sector Debt, State Guarantees and State On-Lending*"), and submits them to Government and Parliament within 70 days after the end of the quarter and 90 days after year end, respectively. These reports are published on the MoF website and contain a debt stock analysis (balance of the public sector debt by components); data on debt servicing and sources for debt financing; comparative figures; trends in macro-economic indicators; debt sustainability indicators; and an analysis of fiscal risks (market risk, liquidity risk, credit risk and operational risks). The reports are prepared in accordance with the IMF's Special Data Dissemination Standard (SDDS). Mitigation strategies are identified in the debt management strategy. See dimension (iii).

Complete records of the domestic State debt are also maintained by the NBM, given its function as State agent for the organization of placement and servicing of government bonds. See also sub-dimension (iii).

Domestic and foreign debt records are complete, accurate, updated and reconciled on a monthly basis with data. They are produced quarterly and include all debt related transactions. The score is therefore A.

*(ii) Systems for contracting loans and issuance of guarantees.*

This dimension corresponds to the dimension (ii) of PI-17 according to the 2011 methodology.

Contracting of loans and issuance of state guarantees is regulated by the PDL. Article 3 of the PDL identifies the MoF as contractor for domestic and foreign loans on behalf of the Government and explicitly overrides this possibility for any other central public authority. The same holds for the issuance of state guarantees to domestic or foreign parties. According to article 9 of the PDL, the ceiling for the state debt, both domestic and foreign, as well as the ceiling for state guarantees is established by the Annual Budget Law.

*Domestic debt:*

Management of the State domestic debt is regulated by article 15 to 22 of the PDL. Currently, the two instruments for incurring domestic State debt are long-term state bonds and short-term Treasury bills, issued for placement on the domestic market. These state securities are placed on the domestic market via the auctions organised by the NBM as the State's agent.

*External debt:*

Contracting of foreign loans is regulated by article 23 to 27 of the PDL. Decisions on foreign loans have to be adopted by the Parliament.



### *State guarantees:*

Articles 33 to 42 of the PDL regulate the issuance of guarantees by the State. This instrument was used until 1999, but due to the restrictive requirements of the PDL it was not used anymore thereafter. In 2014, the last state guarantee has been cleared, and by now there are no more outstanding state guarantees.

Central government's contracting of loans and issuance of guarantees are made within limits prescribed by the ceilings for state debt and guarantees. Although no hard fiscal rule is enshrined in legislation, fiscal targets are set in the debt management strategy, which establishes debt limits in order to mitigate risks and maintain sustainability – see dimension (iii). The score is therefore A.

### *(iii) Preparation of a debt management strategy*

A three-year rolling Medium Term Debt Management Strategy is prepared annually, approved by the Government and published on the MoF website. For the period under review, these were the periods 2012 – 2014, 2013 – 2015, and 2014 – 2016.

This strategy includes a description of the existing debt portfolio's composition (by instruments) and evolution over time, a fiscal risk analysis (refinancing risk, currency risk and interest rate risk); indicators for risk monitoring; alternative scenarios based on risk analysis; sustainability parameters; and they establish ceilings for certain categories of state debt based on related risks. The strategy also identifies priority activities of the MoF oriented at medium and long term debt sustainability and for attracting funds for funding sector priorities.

The current strategy 2015 – 2017 was adopted in November 2014<sup>94</sup>. Its objectives are: (i) to limit the issuance of state guarantees to priority projects for the national economy; (ii) gradual reduction of government debt with the NBM; and (iii) developing the internal market for state securities.

The debt management strategy for 2015-2017 sets the following quantitative targets for debt risk and sustainability parameters:

**Table 63 - Debt risk and sustainability parameters**

<b>Risk parameters</b>	<b>Target value</b>
Share of state debt due with maturity within one year in relation to total debt	≤ 35%
Share of domestic state debt in relation to total debt	≥ 20%
Share of state debt in a certain foreign currency in relation to total debt	≤ 50%
Share of state debt with fixed interest rate in relation to total debt	≥ 50%
<b>Sustainability parameters</b>	
Share of state debt service in relation to revenue (Main Component of the state budget)	≤ 22%
Share of state and ATU debt in relation to GDP	≤ 60%

Source: State Debt Management Medium-Term Program 2015-2017\*.

Strategies elaborated for the previous 3-year periods have a comparable content and coverage.

<sup>94</sup> Government Decision nr. 939 of 13 November 2014.

The three-year debt management strategy covers the domestic and external state debt with a horizon of three years and is updated annually and published. It sets indicative parameters for interest rate risk, refinancing and exchange rate risk, based on a sustainability analysis. This analysis takes into account different macro-economic scenarios. The score is therefore A.

*(iv) Stock and monitoring of expenditure arrears*

This dimension corresponds to PI-4 according to the 2011 methodology.

Information on the stock of arrears is obtained in the annual State budget execution reports and, for SSIBand CIFMA, included in the annual “Report on the State Social Insurance Fund execution on the expenditure side” and “Report on the Collection and Use of the Compulsory Insurance Funds for Medical Assistance” which are approved by MoF Orders.

The information on budget execution, including arrears, is also published on a monthly basis on the MoF website.

The MoF Order No 21 of 18 February 2005 p provides the regulatory basis for defining arrears. This definition and accounting of arrears are broadly in line with the internationally accepted practices according to which a claim will be considered in arrears if payment has not been made within 30 days from the public institution receiving the invoice/claim from a supplier.

The analysis captures only arrears to final suppliers of goods and services and final beneficiaries. This includes arrears generated by the Central Government Budget, including SSIBand CIFMA defined as “external arrears”. The arrears from the State Budget to SSIBand CIFMA are excluded from the calculation of this indicator and are defined as “internal arrears”.

The table below shows the stock of arrears of the State Budget, SSIF and CIFMA in 2012 – 2014 (in MDL million):

**Table 64 - Stock of Expenditure Arrears at the end of each year 2012 – 2014, million MDL**

Classification of arrears	2012	2013	2014
Total State Budget expenditure, without transfers	19.013,0	20.822,5	25.091,0
Transfers to SSIB and CIFMA	4.610,5	4.989,3	5.860,6
<i>Arrears to SSIB and CIFMA (internal)</i>	-	-	-
<i>Other arrears (external)</i>	19.1	18.1	44.1
Total expenditure of SSIB	9,755.1	10,716.2	12,019.5
<i>Arrears of SSIB (external)</i>	-	-	-
Total expenditure of CIFMA	3,951.2	4,226.1	4,679.5
Transfers to the State Budget	12.9	1.2	28.5
<i>Arrears of CIFMA (external)</i>	-	-	-
<b>Total State Budget expenditure</b>	<b>28,095.9</b>	<b>30,774.3</b>	<b>35,900.9</b>
<b>Total arrears</b>	<b>19.1</b>	<b>18.1</b>	<b>44.1</b>
<b>Arrears/Total expenditure (%)</b>	<b>0.06</b>	<b>0.06</b>	<b>0.12</b>

Source: Annual budget Laws for 2012, 2013 & 2014; Laws on SSIB and CIFMA 2012, 2013 & 2014; Budget execution reports for 2012, 2013 & 2014.

In 2012 – 2014, the external arrears have been below 2% of total expenditure.

As there is reliable data about the stock of expenditure payment arrears, including an age analysis, the score is A.

*Developments in 2015*

It is planned to upgrade DMFAS to version 6.0 which provides more analytical and strategic tools, and allows management of the domestic debt.

PI-14. Credible fiscal strategy

		Score (scoring method M2)	A
Dimension	Minimum requirements		
(i) Formulation of fiscal objectives and strategy	In one of the last three years, the government has set three year medium-term fiscal objectives (with quantitative targets) at the start of budget preparation.		B
(ii) Preparation and use of macro-economic forecasts as a basis for annual and medium-term budgets	Medium-term macro projections for at least three years are prepared and used in the preparation of the medium-term budget, inclusive of relevant economic aggregates, macroeconomic environmental risks to the fiscal variables (including revenue, expenditure and debt), and optimistic and pessimistic macroeconomic scenarios.		A
(iii) Difference between actual and the originally forecasted central government fiscal balance	The difference between the actual central government fiscal balance and the forecast was less than 1% of GDP in at least two of the last three years.		A

*(i) Formulation of fiscal objectives and strategy*

Law No 181 of 25 July 2014 entitled “Public finances and budgetary-fiscal responsibility”, Articles 14 and 15 state the objectives of the budgetary-fiscal policy and rules for the budgetary-fiscal policy. Thus, Article 15 says that:

- “A fiscal policy shall be developed in line with other convergent policies ensuring that the annual limit for the government budget deficit, excluding grants, till 2018, does not exceed 2.5% of the Gross Domestic Product. Exceeding this limit of the government budget deficit shall be allowed when there are real sources to finance capital investment projects from external sources (...);”
- Clause 3 mentions further exceptions, such as a natural disaster and other emergencies that endanger national security, a decline in economic activity, inflation above 10%, a systemic financial crisis, and the need to capitalise banks.

This article is one of the main changes in the new law.

The law entered into force only at the end of the reference period. Before that time, there used to be delays in the approval of the Medium-Term Budgetary Framework (MTBF). The MTBF document’s forecast was rather an internal document of the Government and did not become a guiding instrument for the Government and the Parliament in defining the budget and fiscal strategy as the basis for draft annual budgets. The legislation in place at that time did not establish clear budget and fiscal rules that have to guide the budget and fiscal policy. Admittedly, the government had a programme with the IMF under which it committed, among other things, to gradually decrease the budget deficit through revenue-raising measures and expenditure cuts.

The score for this dimension is B, because there were MTBFs in place with 3 year medium-term fiscal objectives with quantitative targets. They were not approved by the Government. The fact that the Government did not approve the MTBF for 2013 – 2015, 2014 – 2016 and 2015 – 2017 does not seem to have disturbed the budget process for these years much. The line ministries and other units of the Central Government were officially informed about the expenditure ceilings, and the budget laws for 2013 – 2014 were adopted by the Parliament before the fiscal year started.

*(ii) Preparation and use of macro-economic forecasts as a basis for annual and medium-term budgets*

When MoF prepares the mid-term forecasts, it distinguishes scenarios. Then the MTBF Coordination Group approves only one of the scenarios. Based on that scenario MoF prepares expenditure ceilings for the line ministries, in that stage there cannot be an optimistic or pessimistic version anymore, but only one figure. The scenarios and the risks on which they are based are laid down in documents: there is a section on risks in both the MTBF (normally § 4.8 entitled “Analysis and management of budgetary risks”) and in the annual budget. These documents are available online<sup>95</sup>. Typical risks that are distinguished in the MTBFs are as follows:

- Macroeconomic risks: slow pace of recovery of the world economy, adverse developments in the prices of Moldova’s export products, unfavourable weather conditions for agriculture, a decrease in exports to the Russian Federation, a decrease in remittances;
- Risks with respect to revenues: direct impact of the macroeconomic risks, delays in the disbursement of foreign assistance, approval of amendments in tax laws;
- Risks with respect to expenditure: budgetary pressure because of an election year; reforms requiring additional expenditure, for which funds are not available;
- Risks of internal and external financing the deficit.

With respect to revenue risks, the large extent of dependency of revenue sources (Value Added Tax and excise) collected from imports puts Moldova at risk. A natural response would be diversification of revenue sources, by promoting the collection of income taxes (the rate of Corporate Income Tax, 12%, and the top rate of Personal Income Tax, 18%, are both definitely low) and domestic VAT.

Macroeconomic forecasting has been problematic in the reference period:

- The 2013 – 2015 MTBF was published on the MoF website and has served as basis for the preparation of the 2013 annual budget. However, the MTBF itself was not approved by the Government, since the macroeconomic indicators on which it was based had become obsolete due to the slowdown in economic growth;
- The 2014 – 2016 MTBF was prepared and approved by the Collegium of the Ministry of Finance on 24 December 2013, and published on the MoF website. It was however again not adopted by the government due to political changes and the need for coordinating the fiscal policy and the macroeconomic and macro-fiscal indicators in order to sign a new programme with the IMF;
- The preparation of the 2015 – 2017 MTBF was delayed, and the reason was again a review of the macro-economic indicators which occurred only in May 2014, requiring thus adjustments on the revenue and expenditure plans. The MTBF was submitted to the Government in July 2014, approved by the Inter-Ministerial Committee on Strategic Planning on 15 July 2014 and posted on the website of the MoF.

Nevertheless the score on this dimension is A, because the mid-term projections cover 3 years, macroeconomic risks are specified at some length in each and every MTBF, and optimistic and pessimistic macro-scenarios are developed. The accuracy of the macroeconomic forecasts is not to be assessed.

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<sup>95</sup> For the MTBFs: [www.mf.gov.md/middlecost/CBTM2015](http://www.mf.gov.md/middlecost/CBTM2015).

(iii) *Difference between actual and the originally forecasted central government fiscal balance*

The table below shows that the deficit forecasts by MoF do not differ much from the realised value of the deficit. The reported deficit takes grants (2012: 1.77% of GDP; 2013: 2.01%; 2014: 3.62%) into account.

**Table 65 - Deficit forecast, in MDL million**

	GDP nominal	Forecast	Deficit		Difference (actual – forecast)	
			actual	actual (% of GDP)	(% of forecast)	(% of GDP)
<b>2012</b>	87,847	-1,625	-1,585	-1.8%	2.5%	0.05%
<b>2013</b>	99,879	-1,986	-1,464	-1.5%	26.3%	0.52%
<b>2014</b>	111,757	-2,782	-1,630	-1.5%	41.4%	1.03%

Sources: for GDP: National Bureau of Statistics<sup>96</sup>; for deficit forecast and actual: MoF Budget Execution reports, Table 2.3..

The score on this dimension is A, as in 2012 and 2013 the difference between the actual central government fiscal balance and the forecast was less than 1% of GDP.

*Developments in 2015*

It is expected that during 2015 the budget deficit will be much higher than before, and that grants will be substantially lower.

<sup>96</sup> [www.statistica.md/newsview.php?l=ro&id=4006&idc=168](http://www.statistica.md/newsview.php?l=ro&id=4006&idc=168);  
[www.statistica.md/newsview.php?l=ro&id=4350&idc=168](http://www.statistica.md/newsview.php?l=ro&id=4350&idc=168);  
[www.statistica.md/category.php?l=ro&idc=191](http://www.statistica.md/category.php?l=ro&idc=191).

PI-15. Revenue budgeting

		Score (scoring method M2)	B
Dimension	Minimum requirements		
(i) Medium-term forecasting of revenues	In addition to full coverage of estimates for the coming fiscal year, medium-term forecasts (for at least the three following years) of the major sources of government revenue (at least 75% of estimated revenue for the second and third years) are produced as part of the annual budget process, with documentation explaining assumptions and methodology used for each type of revenue as well as estimates or explanation of upside and downside risks.		A
(ii) Assessment of the fiscal impact of proposed policy changes	The proposed policy changes that are most significant to government revenue are supported by well-evidenced forecasts of the fiscal impact.		C
(iii) Extent of variance in revenue composition during the last three years	Variance in revenue composition was less than 10% in two of the last three years.		B

*(i) Medium-term forecasting of revenues*

MoF uses a macro-fiscal model to forecast revenues by revenue source, as well as the budget deficit. The macroeconomic indicators used include GDP, inflation, the exchange rate, the production of industry, exports, imports, the “salary fund” (the total of salary income). There are also forecasts of debt servicing, internal and external funding. Much of it is based on trend-analysis. It is not a sophisticated econometric model, and it is all in MS Excel. The model is used for producing mid-term (3 year) revenue forecasts. The model produces tables for 7 years: 3 years from the most recent past, the current year, and the 3 years covered by the MTBF. The world oil price does not play an important role, not even as a determinant of VAT revenue on oil imports, because Moldova does not have that much industry, and also private consumption is not that significant. The National Bank of Moldova however uses this variable.

These forecasts for the main revenue sources are used annually as an input for the MTBF that covers the 3 following years<sup>97</sup>. Changes in the effectiveness of revenue administration (both the Customs Service and the MSTI) are not included in the model. MoF gives in its MTBFs a listing (although not a quantitative estimate) of macroeconomic risks, and from those it derives budgetary risks. Examples are inflation, which will make revenues increase, or developments affecting imports, which will have an impact on revenue from imports (import VAT, excises, and import duties). Risks may interact; for instance, a decrease in imports may be partly reduced by a weakening of the exchange rate making imports more expensive.

MoF has methodological guidelines in the form of a user guide for the macro-fiscal model, on the basis of Order No 93 of MoF from 22 September 2008 regarding methodological guidelines for MTBF elaboration. At the last day of the reference period this user guide was incorporated into the methodological guidelines approved in Order No 191 of 31st Dec. 2014, which has a section (§ 4.5.2) regarding revenue (pp. 53-58). This section is general, about types of equations and methods that may be used.

<sup>97</sup> <http://mf.gov.md/middlecost/cbtm2015>.

As mentioned above under PI-14 (ii), macroeconomic forecasting has been problematic in the reference period. It is remarkable that the impact of this problem on the accuracy of revenue forecasting has remained limited.

*(ii) Assessment of the fiscal impact of proposed policy changes*

The MoF General Directorate Tax and Customs Policy and Legislation always presents the impact of the proposed tax policy measures. They will always attach an indication of the fiscal impact when they make a policy proposal. In the MTBFs this is always reflected in § 3.3 (or 3.4) entitled “The impact of tax and customs policy measures”. Examples are, in MTBF 2012-2014<sup>98</sup> (p. 22), an increase of the personal exemption under Personal Income Tax, or the reduction of dividend withholding tax from 15% to 6% and making it final; or in MTBF 2015-2017<sup>99</sup> (p. 24), extending the exemption of interest income earned on state securities. Where possible, costs and benefits are estimated quantitatively. Where this is not possible a positive expected impact on costs is indicated by “+”, and a negative one by “-”. That applies normally to about half of the measures; for one quarter of the measures, there is a quantitative estimate throughout the MTBF-period, and for the remaining quarter only a quantitative estimate for the first year of it. Footnotes specify the assumptions about inflation and about real GDP growth. The total impact is estimated both in millions of lei and as a percentage of GDP.

MoF has no standard methodology to estimate the impact of tax policy measures, they do it ad hoc, and there is no manual for it. Own methodologies are used to estimate the impact of the tax policy measures. MoF does not use econometric models and software. Normally the estimates are prepared using MS Excel.

The impact estimation process starts with determining the indicators that are needed. Then MoF will look for data in its existing databases. If these are not available, it will request data from its data suppliers. Data at micro level will be supplied by the State Tax Service, the Customs Service, the Ministry of Agriculture and Food Industry, etc.; data at macro level by, among others, the National Bureau of Statistics, the National Bank of Moldova, and the Ministry of Economy.

Revenue impact estimations are performed only for the medium term period. Estimates are made for all revenue policy measures, unless the indicators on which the policy measures will have an impact cannot be identified, or the data required for the analysis do not exist.

*(iii) Extent of variance in revenue composition during the last three years*

Variance in revenue composition is calculated in the way in which variance in expenditure composition is calculated according to the old (2011) PEFA methodology (in footnote 7 at the bottom of the explanation of PI-2, page 14b).

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<sup>98</sup> [www.mf.gov.md/ro/middlecost/CCTM2014/](http://www.mf.gov.md/ro/middlecost/CCTM2014/)

<sup>99</sup> [www.mf.gov.md/files/files/Acte%20Legislative%20si%20Normative/CBTM/2015%20-%202017/Cadru%20bugetar%20pe%20termen%20mediu%202015-2017.pdf](http://www.mf.gov.md/files/files/Acte%20Legislative%20si%20Normative/CBTM/2015%20-%202017/Cadru%20bugetar%20pe%20termen%20mediu%202015-2017.pdf)



MoF was not using a classification of revenue categories that is compatible with the IMF's Government Financial Statistics (GFS), either the old version from 2001 or the revised version from 2014. Therefore, it is not possible to use level three (3 digits) of the GFS 2014 classification. Instead, Moldova's classification is used, which was focussing on taxes, transfers and grants, and in which it is not clear how privatisation revenue is classified. This will be possible starting with 1 January 2016, once the new budget classification is implemented.

See the table on the next page. It should be noted that the columns "Adjusted approved" do not refer to Moldova's adjusted forecasts, but to the calculation method just mentioned, derived from the old (2011) PEFA methodology. For the same reason, deviations between "Adjusted approved" and "Executed" are calculated only at 3-digit level.

The deviations are caused mainly by two categories: external grants and taxes on goods and services. In 2012 and 2013 external grants were less than anticipated, but 2014 made up for that – because grants were delayed because of the non-fulfilment of certain conditionalities. There are two categories of grants, namely:

- budget support (which was more or less conform expectation in 2012 and 2014, but deviated strongly in 2013); and
- grants for investment projects (which was in line with the forecast in 2013, but far below the forecast in 2012, and far above it in 2014).

Both categories are disbursed only if certain criteria are met. Some of the criteria may have little to do with PFM, and more with for instance the political situation.

If grants had not been such a prominent part of total revenue, Moldova would have scored an A for this dimension (due to the small size of the deviations of 3.0% in 2012, 1.7% in 2013, and 3.2% in 2014). The methodology is such that deviations in one category (external grants) cause deviations in the other categories (such as taxes on goods and services). Therefore, apart from external grants, Moldova's performance in forecasting the composition of its revenues has been excellent.

The score for this dimension is B, because in the two years 2012 and 2013 the deviation was less than 10%.

#### *Developments in 2015*

In the current year 2015 so far no grants were received at all. EU budget support has been frozen due to the banking crisis and until there will be a new agreement with the IMF. That is why another huge discrepancy is expected for external grants for 2015.

**Table 66 - State Budget Revenue deviation, 2012-2014, million MDL**

		2012				2013				2014			
		Approved	Executed	Adjusted approved	Deviation	Approved	Executed	Adjusted approved	Deviation	Approved	Executed	Adjusted approved	Deviation
	Revenue, total	21,367.3	20,090.6	20.090,6		22,736.6	22,436.7	22.436,7		25,814.8	27,717.7	27.717,7	
1	Current revenue	18,968.9	18,488.4	17.835,5		19,833.9	20,173.0	19.572,3		23,345.7	23,731.1	25.066,6	
11	Tax revenue	16,686.7	16,178.2	15.689,7		18,135.6	18,336.8	17.896,4		21,829.7	21,929.2	23.438,8	
111	Income taxes	721.2	770.4	678,1	92,3	805.2	801.0	794,6	6,4	2,574.1	2,626.0	2.763,8	137,8
115	Internal taxes on goods and services	14,673.2	14,121.3	13.796,5	324,8	15,886.4	16,118.6	15.676,9	441,7	17,752.7	17,845.3	19.061,3	1.216,0
116	Taxes on external trade and on external operations	1,292.3	1,286.5	1.215,1	71,4	1,444.0	1,417.2	1.425,0	7,8	1,502.8	1,457.9	1.613,6	155,7
12	Non-tax revenue	830.7	858.1	781,1		713.7	812.1	704,3		426.8	761.5	458,3	
121	Other revenue from business activity and property	372.7	406.3	350,4	55,9	328.3	357.0	324,0	33,0	219.1	320.9	235,3	85,6
122	Fees and administrative payments	326.1	299.9	306,6	6,7	250.4	273.9	247,1	26,8	207.7	242.9	223,0	19,9
123	Fines and administrative sanctions	132.0	151.9	124,1	27,8	135.0	181.3	133,2	48,1	0	197.7	0,0	197,7
151	Special resources of public institutions	1,144.3	1,094.1	1.075,9	18,2	660.4	639.3	651,7	12,4	679.8	652.2	729,9	77,7
161	Revenues of special funds	307.1	358.0	288,8	69,2	324.1	384.8	319,8	65,0	409.4	388.2	439,6	51,4
3	Transfers	0.6	44.2	0,6		278.9	305.4	275,2		0.5	57.1	0,5	
31	Transfers for curr. spending from budgets at other levels		31.2	0,0		278.3	302.4	274,6				0,0	
313	Current transfers		31.2	0,0	31,2	278.3	276.8	274,6	2,2			0,0	0,0

		2012				2013				2014			
		Approved	Executed	Adjusted approved	Deviation	Approved	Executed	Adjusted approved	Deviation	Approved	Executed	Adjusted approved	Deviation
	from municipal budgets												
36	Transfers between budget components			0,0		0.6	1.2	0,6		0.5	28.5	0,5	
362	Transfers between the components of the state budget, state social ins. budget, compulsory medical ins. funds and components of administrative-territorial budget units		12.9	0,0	12,9	0.6	1.2	0,6	0,6	0.5	28.5	0,5	28,0
4	Grants	2,397.8	1,558.1	2.254,5		2,623.9	1,958.3	2.589,3		2,468.7	3,929.4	2.650,7	
411	Internal grants	10.9	38.2	10,2	28,0	11.3	14.1	11,2	2,9	9.5	9.7	10,2	0,5
412	External grants	2,386.9	1,519.9	2.244,3	724,4	2,612.6	1,944.2	2.578,1	633,9	2,459.2	3,919.8	2.640,5	1.279,3
	<i>Of which:</i> <i>Budget support</i>	<i>1,106.0</i>	<i>760.1</i>	<i>1.039,9</i>		<i>1,464.2</i>	<i>704.4</i>	<i>1.444,9</i>		<i>1.957,1</i>	<i>2,070.8</i>	<i>21.013,6</i>	
	<i>Other external grants</i>	<i>1,280.9</i>	<i>759.7</i>	<i>1.204,4</i>		<i>1,148.4</i>	<i>1,239.8</i>	<i>1.133,3</i>		<i>502.1</i>	<i>1,849.0</i>	<i>539,1</i>	
	<b>Total</b>	<b>21,367.3</b>	<b>20,090.6</b>	20.090,6	1.462,8	<b>22,736.6</b>	<b>22,436.7</b>	22.436,7	1.280,9	<b>25,814.8</b>	<b>27,717.7</b>	27.717,7	3.249,7
	<b>%age</b>				<b>7.3%</b>				<b>5.7%</b>				<b>11.7%</b>

Source: MoF budget execution reports 2012-2014, [www.mf.gov.md](http://www.mf.gov.md).

Note: The columns "adjusted approved" do not refer to officially adjusted prognosis, but from the evaluator's calculations.

PI-19. Revenue administration compliance

		Score (scoring method M2)	B+
Dimension	Minimum requirements		
(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government	Entities collecting more than 75% of government revenue provide easy access to comprehensive, user friendly and up-to-date information and administrative procedures, including a right of redress.		A
(ii) Management of risks to revenue	Entities collecting more than 50% of government revenue utilize risk management processes that may be limited in scope.		C
(iii) Audit and fraud investigation practices to achieve planned outputs in terms of coverage and additional revenue	Entities collecting more than 75% of government revenue undertake audits and fraud investigations and achieve planned outputs.		A
(iv) Management of revenue arrears	The share of revenue arrears at the end of the last completed fiscal year is below 20% AND revenue arrears older than 12 months are less than 75% of total revenue arrears.		A

With respect to PI-19, the two following tables reflect the relative importance of the Customs Service (CS) vis-à-vis the Main State Tax Inspectorate (MSTI).

**Table 67 - Relative importance of main revenue categories**

	2012	2013	2014	2012	2013	2014
	mln. lei			%age		
Income taxes	770.4	801.0	2,626.0	3.8	3.6	9.5
Domestic taxes on goods and services	14,121.3	16,118.7	17,845.3	70.3	71.8	64.4
<i>Of which: VAT</i>	<i>10,638.8</i>	<i>12,129.5</i>	<i>12,815.0</i>	<i>53.0</i>	<i>54.1</i>	<i>46.2</i>
Import duties	1,286.5	1,417.2	1,457.9	6.4	6.3	5.3
Other revenue	3,912.4	4,099.8	5,788.5	19.5	18.3	20.9
Total revenue	20,090.6	22,436.7	27,717.7	100.0	100.0	100.0

Source: MoF budget execution reports 2012-2014.

This table shows the unusual importance in Moldova of taxes on goods and services. First and foremost of Value Added Tax (VAT), which accounts for half of all revenue; secondly also of excises. The table does not present the relative importance of the Customs Service vis-à-vis the Main State Tax Inspectorate (MSTI), because the vast majority of both VAT and excises are collected at the border by the Customs Service. See the following table (in billions of lei).

**Table 68 - Relative importance of VAT collections by the Customs Service**

Year	VAT total	Import VAT	Share of Customs Service
2012	10.64	8.91	83.8%
2013	12.13	10.11	83.3%
2014	12.81	10.89	85.0%

Source: Customs Service.

This background information is relevant for determining the weight of the information reported by the State Tax Inspectorate and the Customs Service respectively.

*(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government*

Clarity and comprehensiveness of taxpayer obligations and liabilities

The main sources of public revenues in Moldova are taxes, fees and customs duties collected by the State Tax Service (STS) and the Customs Service (CS). In addition, social insurance and the mandatory health care insurance, managed by the National Social Insurance House (NSIH) and the National Health Insurance Company (NHIC), respectively – contribute significantly to the State Budget, administration of collected payments which is actually also done by the tax bodies.

At this moment in time, taxpayers' obligations and liabilities are stipulated in the following laws and regulations:

- Tax Code, No 1163-XIII of 24 April 1997;
- Customs Code No 1149-XIV of 20 July 2000;
- Code of Administrative Offences (approved by Law No 218-XVI of 24 October 2008);
- Criminal Code (approved by Law No 985-XV of 18 April 2001);
- Law on Customs Tariff No 1380-XII of 20 November 1997;
- Laws on the State Social Insurance Fund and Laws on the Compulsory Insurance Funds for Medical Assistance;
- Law No 220-XVI of 19 October 2007 on State Registration of Legal Entities and Individual Entrepreneurs;
- Law No 1353 of 3 November 2000 on Agricultural Households and the Decision of the Government of the Republic of Moldova No 977 of 14 March 2001 on the Registration of Agricultural Households;
- Law No 837-XIII of 17 May 1996 on Non-Government Organizations that sets out the NGO registration and liquidation procedure;
- Law No 499 of 8 July 1999 on the public system of social insurance;
- Law No 1585 of February 27 1998 on the compulsory insurance of medical assistance;
- Law No 720-XIII of 02.02.1996 on the Road Fund;
- Law No 93-XIV of 15.07.1998 on the Entrepreneurship Patent;
- Law No 1417 of 17 December 1997 implementing Title III of the Tax Code;
- Law No 1054 of 16 June 2000 implementing Title IV of the Tax Code;
- Law No 408 of 26 July 2001 implementing Title V of the Tax Code;
- Law No 1056 of 16.06.2000 implementing Title VI of the Tax Code;
- Law No 827-XIV of 18.02.2000 on the republican and local funds for social support of the population.

**Legal amendments.** Most of the legal acts have been reviewed, revised and partially completed (from the previous draft status) during 2012-2014. Inter alia, the Tax Code was complemented with the following additional provisions:

- The new Chapter 11<sup>1</sup> (articles 226<sup>1</sup>-226<sup>16</sup>) in Title V of the Tax Code on indirect methods of estimation of individuals' taxable income, in force since 13 January 2012. This new Chapter regulates the tax intelligence function.];
- Before there was a 0% rate Corporate Income Tax (CIT)<sup>100</sup>. Since 1 January 2012 it is 12% (Tax Code art. 15b). This must have raised MSTI's workload considerably, along with the fact that the number of taxpayers is increasing, because of a process of fragmentation of formerly state-owned companies. And MSTI is now also in charge of the Health Insurance Fund and the Social Insurance Fund. Nevertheless, the number of MSTI officers is going down. Initially when established in 1990 it had over 3,000 officers, but now these are 1,912, which means a reduction by about 35% over 25 years. This development is offset by the process of computerisation;
- A special regime was put in place for small and medium enterprises, their operational revenues (turnover) being taxed at the rate of 3%;
- Since 2014, a pre-filled tax return mechanism was implemented in the Republic of Moldova, this one facilitating revenue declaration and shortening the time that individuals need to comply;
- With respect to excises, the specific rates (as distinguished from the ad valorem rates, see the table after art. 128 of the Tax Code) were adjusted for the inflation rate and GDP;
- For tobacco products, Moldova is adjusting its excise rates gradually to the requirements of the EU directives. The World Health Organization, which considers tobacco worldwide public health enemy number one, and which believes that every year more than 6,300 of the people of Moldova are killed by tobacco products, reports that in Moldova in 2012 taxes made up only 43.7% of the retail price of a pack of 20 cigarettes. The World Bank recommends that taxes make up a share from two thirds (say 65%) to four fifths (80%) of the retail price of tobacco products. These are the percentages that are common in countries with effective tobacco control policies.

Against that background, Law No 324 of 23 December 2013, amending the content of Annex No. 1 of Title IV of the Tax Code, aims at raising the excise rate for filter cigarettes containing tobacco from "45 MDL + 24%" to "75 MDL + 24%" per unit (1000 pieces). Members of Parliament submitted an application to the Constitutional court on 19 March 2014 arguing that the manner of adopting the challenged provisions had violated the procedure of working out the national public budget laid down in Article 131 para (4) and (6) of the Constitution. Six days later, on 25 March 2014, the Constitutional Court decided that indeed that had been the case, and declared the new excise rate unconstitutional<sup>101</sup>. Later on the formal requirements were met after all, so the tax rise entered into force without further complications:

- With respect to Value Added Tax (VAT), the rate on food and livestock was reduced from 20% to 8%, reducing the regressiveness (the relative burden on the lowest income groups) of VAT;

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<sup>100</sup> <https://www.imf.org/external/pubs/ft/wp/2008/wp08203.pdf>.

<sup>101</sup> [www.constcourt.md/libview.php?l=en&id=535&idc=7&t=/Overview/Press-Service/News/Modification-of-the-excise-rates-for-tobacco-products-without-the-approval-of-the-Government-unconstitutional/](http://www.constcourt.md/libview.php?l=en&id=535&idc=7&t=/Overview/Press-Service/News/Modification-of-the-excise-rates-for-tobacco-products-without-the-approval-of-the-Government-unconstitutional/).

- The new Chapter 3<sup>1</sup> (articles 348<sup>1</sup> - 348<sup>5</sup>) in Title IX (“Road Taxes”) on “Tax for the use of roads of the Republic of Moldova by vehicles not registered in the Republic of Moldova, classified under tariff heading 8703 and by trailers attached to them, classified under tariff heading 8716 (Vignette)”, was inserted. This chapter introduces road tax vignettes for owners of cars that are registered abroad, for using their car in Moldova;
- In 2012 the World Customs Organisation released the new version of the Harmonised System, as it does periodically every 5 years<sup>102</sup>. Moldova started implementing this new version as per 1 January 2015, which cannot be considered fast.

The regulatory framework provides to a high extent transparency, as the adopted legal acts (laws) define most of the administrative procedures including the obligations of reporting, payments and sanctioning of non-compliance.

Yet this may not be fully adequate for meeting the continuous challenges instigated by the grey/black economic activities, which is why major improvements in tax administration remain necessary to help boost revenue, including from the informal economy.

The regulations for business liquidation, included in a number of laws are not supplemented by a generalized regulation which would help supervisory bodies approach this complex topic and improve the sole proprietorship liquidation process (individuals).

**Exemptions.** All exemptions from tax are laid down in law (like Tax Code art. 33 – 36), they cannot be granted by an administrative decision. From every possible angle, including that of clarity and the limitation of discretionary powers of the tax administration, this is positive.

**Tax rulings.** Many countries have the instrument of “tax rulings”, which are written interpretations of the tax legislation issued by the tax authorities that the taxpayer can rely on, as they are binding on the tax authorities. They can be either public rulings<sup>103</sup>, which are published, or private rulings<sup>104</sup>, which are communicated to a single taxpayer on his request. This instrument could definitely promote the clarity of the tax legislation. Moldova’s Tax Code does not mention them. Instead, MSTI has various other arrangements.

First, sub-clause 133 1d of the Tax Code provides:

“(1) The Main State Tax Inspectorate under the Ministry of Finance of the Republic of Moldova (hereinafter the Main State Tax Inspectorate), shall: (...)

d) organise the popularisation of the tax legislation, answer letters, complaints and other petitions from taxpayers, in the established manner.”

The questions and answers mentioned in this sub-clause are stored in a database which is continuously updated and published at <http://monitorul.fisc.md><sup>105</sup>.

<sup>102</sup> [www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs\\_nomenclature\\_2012/hs\\_nomenclature\\_table\\_2012.aspx](http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs_nomenclature_2012/hs_nomenclature_table_2012.aspx).

<sup>103</sup> [https://en.wikipedia.org/wiki/Revenue\\_ruling](https://en.wikipedia.org/wiki/Revenue_ruling).

<sup>104</sup> [https://en.wikipedia.org/wiki/Private\\_letter\\_ruling](https://en.wikipedia.org/wiki/Private_letter_ruling).

<sup>105</sup> Another member of this network of tax information sites is [www.fiscservinform.md](http://www.fiscservinform.md).

Second, there is an advisory board under the Main State Tax Inspectorate. It was established by a government decision in December 2010, inserting article 4<sup>1</sup> in the Annex to Government Decision No 1736 from 31 December 2002 on the Regulation of the Activity of the State Tax Service<sup>106</sup>. The members of this advisory board are representatives of the tax inspectorate, of taxpayers, and of academia. They review issues of fiscal law and recommend solutions.

The Customs Service also has an advisory board<sup>107</sup>. Its legal basis is Customs Service Order No 87-0 of 23 February 2013 on the Regulation of the Customs Service Consultative Committee<sup>108</sup>. According to the members it works well. It has to have meetings at least on a quarterly basis for the customs houses, but if necessary it can be convened more often, and that is what normally happens. The board is also used to inform the businesses about the changes made, and to get their feedback on draft amendments.

Third, there is a magazine called “Monitorul Fiscal FISC.MD”<sup>109</sup>, reflecting the official position of the State Tax Service. Its main objective is to inform the taxpayers about the official position of the State Tax Service about the implementation of tax laws, with the aim of tax practice systematization.

Fourth, clause 11-1 of the Tax Code provides: “...All uncertainties arising from the application of the tax legislation shall be interpreted in favour of the taxpayer”, a taxpayer-friendly provision indeed, although not all taxpayers are satisfied about the way it is implemented. At present (September 2015) work is in progress on a new draft law on the State Tax Service which will probably address the interpretation of the tax law including clause 11-1.

The Customs Service issues advance tariff rulings<sup>110</sup>.

#### Taxpayers’ access to information on tax liabilities and administrative procedures.

Taxpayers have several communication channels available for obtaining relevant information, including internet, call centres and help desks.

**Websites.** All the tax and customs legislation, including the Tax Code, international tax treaties, and the legislative and normative acts are published in the Official Gazette. All the Official Gazettes are easy to find<sup>111</sup> and are published both in the State language (Rumanian) and in the Russian language. The taxpayers can have access to these laws via [www.mf.gov.md](http://www.mf.gov.md)<sup>112</sup>, [www.fisc.md](http://www.fisc.md), [www.customs.gov.md](http://www.customs.gov.md) (although this is a new version of the website, presently presenting the information only in Rumanian and English; the old version of the website is still accessible via [www.customs.gov.md.888](http://www.customs.gov.md.888), and here the information is also given in Russian) and [www.justice.md](http://www.justice.md). The first mentioned websites also provide a lot of other information about domestic taxes and customs respectively.

<sup>106</sup> [http://lex.justice.md/document\\_rom.php?id=8AB4B41E:7318F071](http://lex.justice.md/document_rom.php?id=8AB4B41E:7318F071).

<sup>107</sup> [www.customs.gov.md/ro/content/consiliul-consultativ-0](http://www.customs.gov.md/ro/content/consiliul-consultativ-0).

<sup>108</sup> [www.aita.md/index.php/ro/biblioteca/arhiva-articolelor/11-noutati/123-ordin-nr-87-0](http://www.aita.md/index.php/ro/biblioteca/arhiva-articolelor/11-noutati/123-ordin-nr-87-0).

<sup>109</sup> [www.fisc.md/monitorulfiscal.aspx](http://www.fisc.md/monitorulfiscal.aspx).

<sup>110</sup> [www.customs.gov.md/en/content/advance-tariff-rulings](http://www.customs.gov.md/en/content/advance-tariff-rulings).

<sup>111</sup> <http://monitorul.md>.

<sup>112</sup> [www.mf.gov.md/actnorm/taxes/laws](http://www.mf.gov.md/actnorm/taxes/laws).



The enterprise “Fiscservinform” developed and updated the [www.servicii.fisc.md](http://www.servicii.fisc.md) internet portal; this website represents a one-stop shop to access electronic services. By accessing it, over 33,000 online taxpayers can additionally use about 25 services and ICT tools meant to facilitate taxpayers’ business or professional activities.

**Languages.** Moldova’s Tax Code and other tax legislation is accessible via [www.fisc.md](http://www.fisc.md) in three languages: in Romanian<sup>113</sup> (the state language), in Russian<sup>114</sup> (a widely used “language of interethnic communication”, used by an important segment of the population of taxpayers) and in English (without legal status). Deviations in the Russian version from the Rumanian version are few and insignificant, and once identified will be corrected soon. Not a single case is known where a taxpayer complained about having been misled by the Russian version.

In the English language version<sup>115</sup> there are substantial deviations, because this version does not reflect any of the amendments that took place since some point in time in 2013. For example, the adjustments for inflation of some amounts (specified in lei) since 2013 are not reflected. Clause 33-1 in the English version says “Each taxpayer (resident individual) is entitled to a personal exemption amounting to 9120 lei per year”, but in reality this was the level of the year 2013; for 2015 it has been raised, in line with inflation (about 5% per year) to 10,128 lei (as per the Rumanian and Russian versions).

Clause 15-a of the English version starts saying:

“The total amount of the income tax shall be:

a) for individuals and individual entrepreneurs:

– a tax of 7% from the annual taxable income that does not exceed the amount of 26700 lei (...).”

Again, this amount is the level of the year 2013; for 2015 it has been raised, in line with inflation, to 29,640 lei (according to both the Rumanian and Russian versions). In the sphere of income tax, other adjustments for inflation took place in clauses 33-2, 34-1, 34-2, 35-1, 35-2 and many more.

The table of excise rates after article 128 has not been updated compared to both the Rumanian and Russian versions.

Furthermore, in the English translation, there is no clause 3<sup>1</sup> of article 3, and article 118<sup>1</sup> on the general electronic register of tax invoices does not reflect the amendments made in the Rumanian version since 12 July and 23 December 2013.

In short, the English version does not incorporate any of the amendments after some point in time in the first half of 2013 when the Tax Code was translated. This is a flaw, as English is no doubt the preferred language for many of the potential and actual foreign investors in the country, but it does not affect the rating, as the English language does not have legal status

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<sup>113</sup> [www.lex.md/fisc/codfiscaltxtro.htm](http://www.lex.md/fisc/codfiscaltxtro.htm).

<sup>114</sup> [www.lex.md/fisc/codfiscaltxtro.htm](http://www.lex.md/fisc/codfiscaltxtro.htm).

<sup>115</sup> [www.fisc.md/Upload/LinkedPDF/Tax%20Code.pdf](http://www.fisc.md/Upload/LinkedPDF/Tax%20Code.pdf).

in Moldova. MSTI's Taxpayer Charter does not mention a taxpayer right to be assisted, leave alone a right to be assisted in the language of his preference.

**Call centres and helpdesks.** At the MSTI, there are two call centres providing support. The technical call centre provides assistance with the use of electronic filing facilities, and the second centre assists with responding to tax-related questions. All questions and responses are collected in a database with no access restriction. By consulting and assisting taxpayers and civil servants – who are users of the electronic fiscal services – the call centre registered and solved 175,462 applications from 2012 to 2014.

In order to ensure taxpayers' access to information about tax liabilities and the administrative procedures, starting with 19 August 2014, the State Tax Service launched the Single Call Centre 0-8000-1525, which citizens and business entities may call to receive a wide range of information: about the enforcement of the tax laws; technical assistance; signal cases of non-compliance with the tax law; signal conflicts with and corruption from the side of civil servants; check the excise stamps – all by calling one single phone number. The launching of this important tool aimed at enhancing the communication with citizens, as was stated in the 2014-2015 Communication Strategy of the State Tax Service.

The customs call centre was established in 2013, about 2 years ago. It has two lines, one for anti-corruption, and the other for information under the responsibility of a separate unit. If the staff of this unit does not have the answer to the specific question, it will direct the caller to the department in charge. The call centre does not only use classical phone lines, but also Skype and email. It places FAQs on the customs website, and updates them regularly.

Each territorial office of the MSTI has a help desk, also known as “office for fiscal consultation”, where taxpayers can get the forms they need, and receive advice.

In the MSTI head office there is a unit of 4 officers in charge of communication with taxpayers, who among other things are responsible for sending by email the tax calendar of the upcoming month, with all deadlines for submitting returns and making payments, plus the latest legal amendments, not only in the Tax Code but also the legislation on accounting and social insurance. This service is offered for free. The taxpayers themselves can choose the categories of information they wish to receive.

**Magazines.** Another efficient way to provide taxpayers information on fiscal liabilities and administrative procedures is by publishing the *Fiscal Monitor „FISC.md”* periodical (already mentioned). This periodical systematises the fiscal practice and its adjustments in accordance with the legislation in force and presents the official stance with regard to the current fiscal aspects, and the examination aspects of general taxation principles, as well as the official stance of different professionals involved in tax collection and management. Thus 18 issues of the periodical were published during 2012 – 2014. Arguably, this communication channel comes in the place of brochures, which translate the artificial language of the law into natural language. In Moldova, brochures are hardly used; on the two websites [www.fisc.md](http://www.fisc.md) and [www.customs.gov.md](http://www.customs.gov.md) they cannot be found.

The Customs Service has a similar magazine, *Revista Vama* (“Customs Magazine”)<sup>116</sup>. It contains all the regulatory acts concerning the customs, as well as information about any amendments to the laws.

The Customs Service periodically organizes meetings with the taxpayers where the customs legislation is explained; the Director General of the Customs Service holds open hearings every month, while the heads of customs offices meet monthly with the business community.

Also, so as to ensure a transparent decision-making process, the draft laws and regulations, as well as the policy papers are published on the website of the Ministry of Finance ([www.mf.gov.md](http://www.mf.gov.md)), and meetings and working groups are being organized where they are discussed with the stakeholders.

**Other communication channels.** Besides the already traditional information means: telephone, office consultations, trainings, fora etc., starting with 2013, STS considerably widened the access ways to fiscal information by:

- organizing every year about 800 informative workshops for taxpayers;
- providing support to taxpayers to determine the fiscal liability and record fiscal obligations, in a chapter that contains updated information about the most frequently asked questions on the official mail address;
- organising round table discussions that provide access to information and allow dialogues between the public authority and taxpayers on topics of fiscal liability. They are organized if it is necessary to discuss a topic related to a certain category of taxpayers or a particular situation in a particular field. The meetings are of a collaborative-advisory nature;
- other actions of major importance, conducted for two consecutive years (2013-2014) under the topic “The Tax Service Helping Honest Transport Operators”, having the objective of voluntary fiscal compliance of persons who practice entrepreneurial activity in the field of transport;
- starting with Q2’2013, the State Tax Service began open dialogues with taxpayers, under the topic “Coffee with the Head of the Tax Service”, having the goal to address in a more formal environment the issues that the taxpayers encounter in their activity. As of 31 December 2014, as much as 82 dialogues were held with representatives of all of the branches of the national economy: industry, agriculture, energy, telecommunications, tourism, academic community, professional associations of accounting and audit, not-for-profit organizations, notaries, financial institutions, European business associations, artistic community, MPs etc.;
- providing fiscal consultations to taxpayers through the operating offices within territorial STIs.

The rights and obligations of taxpayers are specified in art. 8 of the Tax Code. With respect to the rights, it mentions the rights to free information, fair treatment, representation, instalment payments, and appeal. Not mentioned in the Tax Code are the following rights of taxpayers, which are international standards:

1. the rights to be assisted and to be heard;
2. the right to pay no more than the right amount of tax;

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<sup>116</sup> <http://customs.gov.md:888/index.php?id=57>, <http://customs.gov.md:888/index.php?id=3011>.

3. the right to enjoy confidentiality (which is elaborated in the Taxpayer Charter, but could be laid down in law); and
4. the right to enjoy privacy (i.e. refraining from interference in the personal life of the taxpayer, for instance with respect to his political and religious views and personal relationships; this is to be distinguished from confidentiality, and is not yet mentioned in the Taxpayer Charter).

MSTI has adopted a Taxpayer Charter<sup>117</sup> in 2011, summarising the rights and obligations of the taxpayer, and this is definitely a good thing. But more should be done to disseminate it, first of all by making it more visible (easier to find) for visitors of [www.fisc.md](http://www.fisc.md). And it does not cover some of the rights in the model Taxpayer Charter<sup>118</sup> developed by the Organisation for Economic Cooperation and Development (OECD), as mentioned above (being assisted, being heard; paying no more than the right amount; privacy). The Customs Service does not (yet?) have a client charter, although at customs stations there are information panels that summarise taxpayer rights and obligations.

MSTI recognises some rights of taxpayers that are not laid down in the Tax Code. There are internal regulations of the MSTI that formulate additional rights of the taxpayer in the form of Service Level Agreements (SLAs), like issuing a so-called “patent” for small enterprises in less than 3 days, or issuing a tax clearance certificate within a certain number of days.

MSTI is becoming more service oriented. A key element of its mission is that it wants to provide service to taxpayers. Its logo with the motto “*În serviciul contribuabilului*” (“At the service of the taxpayer”) was approved by a special commission, and on 1 July 2014 by Government Decision Nr. 500 on the Approval of the emblem, flag, corporate colour, and Regulation of the use of the emblem, flag and corporate colour of the State Tax Service<sup>119</sup>.

### **Existence and functioning of a tax appeals mechanism**

The Tax Code and Customs Code have provisions and procedures for filing objections and appeals.

If the taxpayer does not agree with any decision, he has the right to appeal within 30 days with the territorial tax inspectorate; which must review the case and take a decision in 30 days. If the taxpayer disagrees again, he can file another objection against the decision within 30 days at the main tax inspectorate in Chisinau; and again they have 30 days for their decision. There are some exceptions when the term can be extended. At the end, or at any stage, the taxpayer has the right to bring the case to the court. The appeal process is further supported and facilitated by the provisions of the Law No. nr.793-XIV of 10 February 2000 on Administrative Procedures<sup>120</sup>.

Law No 190-XIII of 1994 on Petitions<sup>121</sup> stipulates in article 8:

“Petitions [i.e. objections] shall be considered by the appropriate bodies within a month and those not requiring additional examination – without delay or within 15 days...”<sup>122</sup>

<sup>117</sup> [www.fisc.md/Upload/LinkedPDF/CARTA\\_final.pdf](http://www.fisc.md/Upload/LinkedPDF/CARTA_final.pdf).

<sup>118</sup> [www.oecd.org/tax/administration/Taxpayers'\\_Rights\\_and\\_Obligations-Practice\\_Note.pdf](http://www.oecd.org/tax/administration/Taxpayers'_Rights_and_Obligations-Practice_Note.pdf).

<sup>119</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=353639>.

<sup>120</sup> [www.transparency.md/Laws/793-00\\_en.pdf](http://www.transparency.md/Laws/793-00_en.pdf).

<sup>121</sup> [www.transparency.md/Laws/190-94.pdf](http://www.transparency.md/Laws/190-94.pdf).

<sup>122</sup> «*Petițiile se examinează de către organele corespunzătoare în termen de o lună, iar cele care nu necesită o studiere și examinare suplimentară - fără întârziere sau în termen de 15 zile...*».

During 2014, the specifications for the “*Contestatie*” (“Objections and Appeals”) automated module of MSTI’s Integrated Tax Administration System were developed. The implementation of this module shall enhance the monitoring of objections and appeals filed by the taxpayers, and the taking and processing of decisions related to them. The objective is to create a tool that facilitates the monitoring and control of tax cases right from a PC through Internet.

As for the Customs, the Supreme Court of Justice issued Decision No 4 of 24 December 2010 regarding the examination of disputes related to the enforcement of the customs legislation in administrative proceedings. This decision is meant to provide clarity to the enforcement of the customs legislation in administrative proceedings.

MSTI received in 2012 684 objections. Of these, 486 were rejected, 39 were accepted in part, 42 were suspended till a repeated control would take place, 56 were granted, 7 were returned without review, and 54 were still under consideration at the time of reporting (September 2015).

In 2013, 1,291 complaints were filed with MSTI, of which 990 were rejected, 47 were admitted in part, 56 were suspended waiting for another audit, 135 were met, 16 were returned without examination, and 47 were still being considered at the time of reporting. The total number of 1,291 appeals is a peak, related to the high number of audits in the previous year.

In 2014, 560 complaints were filed with MSTI, of which 387 were rejected, 47 admitted in part, 27 suspended, 51 satisfied, 28 returned without review, and 20 still under consideration. There are no specialised tax courts. The State Tax Service states that there used to be economic courts, but these were closed around 2011 (the PEFA report 2011 at p. 38 mentions “the current initiative to abolish the Economic court”). Tax cases are now adjudicated in courts of first instance. The STS has sent a letter to the Supreme Court of Justice, in which it asked for the development of operational guidelines. STS believes there is a need for a specialised tax court, with professional judges.

The Customs Service received 703 “petitions” (i.e. objections or appeals) in 2012, 987 in 2013, and 629 in 2014.

From the above report concerning 2012 it appears that a significant number of cases can take three years or more before they are being settled.

The overall score for this dimension is A, as MSTI and the Customs Service collect more than 75% of government revenue and indeed provide easy access to comprehensive, user friendly and up-to-date information.

*(ii) Management of risks to revenue*

Whilst risk management in the field of audit selection (dimension iii) is strongly developed at both the Customs Service and the MTSI, in the other areas it is a work in progress. No evidence has been presented that MSTI or Customs were adopting risk-based methods in areas like:

- the location of field offices and customs stations;
- communication with the taxpayer (e.g. the selection of taxpayers for informative visits);
- enforcement actions;
- the referral of cases of suspected fraud to the Office of the Public Prosecutor.

In the absence of a comprehensive risk management process, the score will be C.

*(iii) Audit and fraud investigation practices to achieve planned outputs in terms of coverage and additional revenue*

**A. MSTI Domestic Taxes Audit**

Under the 2012-2014 Taxpayers Voluntary Compliance Programme and on the basis of the Compliance Risks Management Model, taxpayers were selected for audit from the following fields:

- wholesale and retail trade;
- manufacturing industry;
- transport and telecommunications;
- construction.

who were monitored by the State Tax Service subdivisions in order to ensure taxpayers voluntary compliance.

These branches were and are still believed to be exposed the most to the risk of non-compliance because of the massive presence of the “under-the-table salary” and informal employment, which leads to a small share of tax liabilities if compared to the actual turnover.

As a result of the actions taken by a certain group of business entities working in these branches, in 2013 it was found that overall at the country level:

- MDL 925,048.3 thousand were **accrued** to the National Public Budget, which is by MDL 126,639.2 thousand more than compared to the same period of the previous year – an increase by 16%;
- MDL 1,179,774.9 thousand were **paid** to the National Public Budget, which is by MDL 209,868.4 thousand more than compared to the same period of the previous year – an increase by 22%.

A similar analysis of another group of business entities for 2014 proved that:

- MDL 634,378.4 thousand were **accrued** to the National Public Budget, which is by MDL 123,771.6 thousand more than compared to the same period of the previous year in this group – an average increase by 24%;
- MDL 718,133.7 thousand **paid** to the National Public Budget, which is MDL 199,167.3 thousand more than compared to the same period of the previous year – an average increase by 16%.

Apart from the planning and selection, the third and arguably the most important element related to this dimension is an adequately skilled and experienced tax inspection staff tasked with performing the tax compliance control activities in a transparent, objective and fair manner. Combining these three elements the STS statistical data for years 2012-2014 summarise the following results.

**Table 69 - Outcome of STS taxpayer control activities in the period 2012 - 2014**

Activity	2012	2013	2014
Number of performed controls, all types.	63,527	74,029	60,400
Additional calculated revenue, 1000s of MDL	595,965.0	653,046.0	1,201,182.0
Additional calculated revenue, per single control, 1000s of MDL	9.38	8.82	19.89
Number of controls on the basis of documentary verification	3,652	2,959	3,922
Additional calculated revenue after documentary verification, 1000s of MDL	339,673.0	340,600.0	977,450.0
Additional calculated revenue, per single documentary verification, 1000s of MDL	93.0	115.1	249.2
Efficiency of documentary verification (in %) vs. total additional calculated revenue	57.0	52.2	81.4

Source: State Tax Service.

On the basis of the table above, we may conclude the following:

- In 2014, the number of conducted controls by all verification methods decreased by 18.4%, if compared to 2013 and by 4.9%, if compared to 2012;
- Concurrently, the amounts calculated additionally as a result of the controls conducted increased in 2014 by 83.9% (MDL 548,136 thousand) if compared to 2013, and by 101.6% (MDL 605,217 thousand), if compared to 2012;
- The weight of the tax controls conducted by the comprehensive verification method in the total number of tax controls conducted by STS in 2014 is of 6.5% against 4.0% in 2013 and 5.7% in 2012, while their efficiency increased in 2014 by 56% against 2013 and by 42.8% against 2012;
- Should we refer to the controls conducted by the comprehensive verification method, the average additionally calculated amount as a result of tax controls increased in 2014 by 116.5% against 2013, and by 168.0% against 2012?

The Main State Tax Inspectorate identified 31 risks related to tax administration after the analyses of the STS data. After their analysis and description, the “Methodological Norms for the Identification and Classification of Tax Compliance Risks” were drawn up and approved by MSTI Order No 107 of 11 February 2015. This allows for a uniform approach to the identified risks within STS.

Four reports on risks pertaining to the fields of constructions, transports, tourism and informal employment were drawn up. At this moment in time, a report on associate risks is being drafted.

## **B. Interference in MTSI's Tax Audit Program**

From the above mentioned 3,922 comprehensive audits during 2014, only 1,087 resulted from MTSI's own audit program. The others, 72% of the total, were triggered by ad hoc requests coming from external stakeholders such as law enforcement (the Ministry of the Interior), parliament, the Anti Corruption Centre, and the intelligence service. For each of these stakeholders there is legislation, such as the Code of Criminal Procedures, which obliges MTSI to comply with the request for an audit. These requests are often raised "just to be sure", and are on average less productive than MTSI's own risk criteria, but lay a very large claim on MTSI's limited audit capacity. The time needed for the interaction between MTSI and stakeholders like the Ministry of the Interior, without any blame on the side of any stakeholder, is several months, partly because of duplication of effort (asking the same questions). This reduces the effectiveness of these audits further. Meanwhile MTSI's own audits are interrupted and sometimes left uncompleted, and MTSI's audit program itself cannot be completed.

To deal with this, MTSI has sent a draft law to all stakeholders for comments, and there was support among political actors (the Ministers of the Interior and of Justice at the time). However presently (November 2015) political support for this draft has become insecure, and it has become a matter of lower priority. One aspect of the proposed reform is to transfer all criminal investigations on tax issues to MTSI, which has the necessary capacity for that.

## **C. Customs post-clearance audit**

From 2012 to 2014, on the basis of Law No 267 of 23 December 2011<sup>123</sup>, Section 29<sup>1</sup> "Post-Clearance Audit" was introduced in the Customs Code to regulate post-clearance auditing. Later, on 11 January 2013, the Customs Service Order No 63-0 "Approving the Methodological Norms for the Conduct of Follow-Up Controls by Post-Clearance Audit and Re-Verification of Customs Declarations"<sup>124</sup> was approved. In this manner, the problems of legislative and regulatory nature were settled.

On the basis of CS Order No 541-0 of 7 November 2013, the follow-up controls conducted between 7 November 2013 and 10 November 2014 were self-assessed in terms of corruption risks<sup>125</sup>. The legal and regulatory framework relevant on follow-up controls was assessed for this purpose. As a result, measures were proposed to prevent the materialization of some of the identified risks, these being reflected in the Integrity Plan approved by CS Order No 472-0 of 10 November 2014. – To implement the recommendations from the Integrity Plan and optimize further legal framework regulating the control work, a set of amendments were made to the Customs Code, which were approved by Law No 71 of 12 April 2015 on Amendments and Addenda to Some Legislative Acts<sup>126</sup>. Obviously this was a development after the reference period 2012-2014.

According to the new provisions of the Customs Code, the Customs Service (CS) intends to implement the concept of blue corridor for customs clearance as a measure aimed at facilitating trade by simplifying the customs formalities and reducing the time of customs clearance of commodities. Thus, to achieve this objective, the amendment of the Order 63-0

<sup>123</sup> [http://lex.justice.md/md/341886\\_Art\\_XV\\_clause\\_56](http://lex.justice.md/md/341886_Art_XV_clause_56).

<sup>124</sup> <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=346500&lang=1>.

<sup>125</sup> [www.cna.md/sites/default/files/sna\\_activitati/sv\\_raport.docx](http://www.cna.md/sites/default/files/sna_activitati/sv_raport.docx).

<sup>126</sup> <http://lex.justice.md/md/358188/>.



of 11 January 2013 “Approving the Methodological Norms for the Conduct of Follow-Up Controls by Post-Clearance Audit and Re-Verification of Customs Declarations”, of the CS Order No 480 of 18 December 2006 “Approving the Detailed Customs Declaration Processing Methodology”<sup>127</sup> and of the Order No 180-0 of 20 March 2012 “Approving the Instruction on Filling the Inspection Form In using “Asycuda World” CIIS” was initiated.

As for the analysis, planning and monitoring during the period between 2012 to 2014, after the structural changes performed in 2011 the Customs Service plans the follow-up controls at the central level. The Activity Programme for territorial units of control is then drawn up on the basis of the identified risks, after the analysis run by “Asycuda World” CIIS or on the basis of the information received from other units, state institutions, other states’ customs authorities, and it is separately drawn up for each semester by the management of the Customs Service. By the CS Order No 531-0 of 23 July, the methodological recommendations for the scheduling of follow-up control activities were approved.

Regarding the use of IT for follow-up control, the software for follow-up control management – “Module 6” in the “Antifrauda” IS was completed and will be tested and implemented in the shortest time possible. Note that the Customs Service still does not have a risk analysis software to identify the enterprises that should be subject to follow-up controls, this activity being performed manually.

#### **D. Fraud investigations**

MSTI does not have powers in the field of fraud investigations. If there is a suspicion of fraud, and a sufficient chance of conviction in a criminal court, MSTI submits its evidence and documents to the Prosecution Office and the Ministry of the Interior. Work is in progress on new legislation in this field, and MSTI and the Office of the Public Prosecutor participate; the recommendation of foreign consultants was to give this power to the tax authorities.

The National Anti-Corruption Centre (NACC)<sup>128</sup> may also play a role in fraud investigations. First, if there is a suspicion against public officials, and second, if there is a suspicion of money-laundering. Often the NACC will request the MSTI to do an audit. In the past, up till 1 October 2012, this Centre was called the Centre for Combatting Economic Crimes and Corruption. Then it was reorganized, as a consequence of the adoption on 25 May 2012 of Law No 120 on amending and supplementing certain acts, and the scope of work was narrowed down to anti-corruption and money laundering, without economic crimes (such as tax evasion) as before. Before late 2012, the Centre itself had the power to check tax fraud, and the Tax Code used to include this centre in the list of institutions with powers in the field of tax administration.

The Public Prosecutor’s Office deals with fraud investigations on the basis of the Criminal Code, the Code on Criminal Procedure, and title V on (Tax administration) of the Tax Code. If the tax authorities believe that violations have occurred, they send the materials (documents, and often photocopies of documents) to the prosecutor’s office. If the prosecutor is convinced first, he will begin criminal prosecution. Prioritisation may depend on the expected complexity

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<sup>127</sup> [http://lex.justice.md/document\\_rom.php?id=A42B5E07:BC0AA29B](http://lex.justice.md/document_rom.php?id=A42B5E07:BC0AA29B).

<sup>128</sup> <http://cna.md/en>.

of the case; in certain scenarios many more entities appear to be involved in a tax evasion scheme. According to the code on Criminal Procedure, the prosecutor may take measures such as a search of premises, and other measures that are needed to collect evidence. Meanwhile the suspect has the right to defend himself, and the right to refuse accusing himself. He is obliged to present the requested documents, but does not have to make statements. The exchange of information between the public prosecutor and the tax authorities is satisfactory. Also there is a legal basis for exchange of information with colleagues in other countries.

**Table 70 - Number of cases referred to justice**

	2010	2011	2012	2013	2014
Tax evasion and banking and financial crimes	120	104	47	36	68
Smuggling and evasion of customs payments	45	43	43	43	47

Sources: Annual Reports of the Public Prosecutor's Office<sup>129</sup>, 2012 p. 45, 2013 p. 26, 2014 p. 27.

Tax evasion is only a part of the first category reported in this table. The number of cases referred to justice decreased steeply in 2012. But it should be noted that these are not all the recorded offenses of tax evasion per year, as these are reported as follows: 2010 206, 2011 219, 2012 351; for 2013 and 2014 these are not reported [annual report 2012 p. 35]. With respect to this wider category, there was a steep increase in the same year 2012.

The Public Prosecutor's annual report covering 2014 is the first to report the amount involved in these investigations. The damage is estimated as 732 mln. lei [p. 13/14 of annual report 2014].

The score for this dimension is A. There are clear risk assessment criteria and comprehensive documented audit plans, as required by score B. But this is the case for both MTSI and the Customs Service, so that not just one major tax area is covered, but all major taxes that apply self-assessment, as required by score A.

#### *Comparison of 2015 and 2011 assessments*

Concerning dimension (i), the most significant result was the successful settlement of the "bogus enterprises" problem.

Concerning dimension (ii), no new significant aspects were noticed.

Concerning dimension (iii), but also touching upon dimension (i), the results of the work performed since 2012 show positive trends. This is in particular true for the systematic analysis of information with significant contributions from the recent risk assessment oriented initiatives, such as the identification of new criteria.

Section 29<sup>1</sup> "Post-Clearance Audit" has been in force since 2012, introduced in Chapter V of the Customs Code by Law No 267 of 23 December 2011 on Amendments and Addenda to Some Legislative Acts in order to solve the legislative issues that were identified during the post-clearance audit activities.

<sup>129</sup> [www.procuratura.md/md/d2004](http://www.procuratura.md/md/d2004).

### *Developments in 2015*

**Penalties.** In order to separate all of the fiscal violations into 2 levels of significance and apply later sanctions accordingly, a recommendation was made to add phrases “insignificant fiscal violation” and “significant fiscal violation” in the Tax Code. Therefore, it was recommended to introduce in the Tax Code the word “warning” as a response to the insignificant fiscal violations, and for the significant fiscal violations – a fine depending on how significant the violation was, which were later approved by Law No 71 of 12 April 2015 on Amendments and Addenda to Certain Legislative Acts by the Government assuming commitment to the Parliament.

As a result of the amendments made, some of the fines envisaged by the Tax Code were decreased.

**Risk-based Audit.** As for activities in MSTI's area, several directions were followed in 2015, but the main efforts remained focused on the development of internal capacities required for the implementation of the Taxpayer Compliance Programme. For this purpose the STS has identified the most critical areas, where urgent response is needed to keep up the momentum created in late 2014 and the first half of 2015.

Being one of the top priorities of the STS 2011-2015 Development Programme, STS has embarked on the definition of the future Integrated Tax Information System (ITIS). The system's concept was agreed upon and a feasibility report was prepared upon completion of a feasibility study.

The STS management is also working on a more efficient development of the methodological approach to the future dealing with wealthy individual taxpayers. This initiative is supported by the latest legislative amendments (see also PI-13) meant to facilitate the collection and use of third party information for the purpose of indirect determination of the tax base of a certain taxpayer.

On the Customs side the main development for 2015 focused on:

1. On-going operational implementation of the post-clearance audit;
2. Introduction of simplified procedures for selected entrusted traders;
3. Essential simplification of the customs clearance, enhanced traffic flow at the border, establishment of competitive and advantageous conditions for business entities;
4. Automatic identification of the follow-up control scope in terms of re-verification, excluding thus the human factor when deciding which customs declaration to be re-verified.

#### *(iv) Management of revenue arrears*

The management of revenue arrears is an area where the PEFA methodology changed substantially. The PEFA-methodology of 2011 emphasises the extent to which arrears, once they arose, can be recovered; in Moldova that is not so high so that it scores D. The methodology of 2015 emphasis the relative size of the arrears, which in Moldova is small, so that its score rises to A.

**A. MSTI.** Tax arrears for state taxes expressed as percentage to state taxes perceived annually are significant: 9.2% at the end of 2012, 9.9% at the end of 2013, and 9.5% at the end of 2014. With respect to total revenue the ratio of arrears over annual collections is of the same order of magnitude, and equally stable. A more detailed picture is given in the following table.

**Table 71 - Revenue collections and stock of arrears, MSTI, 2012-2014 (MDL million)**

Revenue category	2012			2013			2014		
	Stock of arrears, 31 Dec.	Collections	Arrears as %age of coll.	Stock of arrears, 31 Dec.	Collections	Arrears as %age of coll.	Stock of arrears, 31 Dec.	Collections	Arrears as %age of coll.
1	2	3	4=2/3	5	6	7=5/6	8	9	10=8/9
State taxes (income tax, VAT, excise taxes, road taxes)	759.1	8291.8	9.2%	931.9	9455.0	9.9%	982.7	10350.2	9.5%
Local fees	159.2	910.3	17.5%	165.8	985.5	16.8%	166.2	1068.9	15.5%
Other fees and payments	340.2	974.2	34.9%	388.9	558.2	69.7%	368.8	1667.2	22.1%
State social insurance contributions	831.8	6556.5	12.7%	835.0	7108.9	11.7%	980.4	8000.0	12.3%
Other payments to SSIB*	4.7	569.7	0.8%	2.8	2.1	133.3 %	2.1	2.3	91.3%
Mandatory health insurance contributions	35.2	1723.3	2.0%	39.7	1874.7	2.1%	46.7	2319.8	2.0%
Other payments to CIFMA	2.4	2.3	104.3 %	2.6	1.7	152.9 %	1.9	2.2	86.4%
<b>Total NPB**</b>	<b>2132.6</b>	<b>19028.1</b>	<b>11.2%</b>	<b>2366.7</b>	<b>19986.1</b>	<b>11.8%</b>	<b>2548.8</b>	<b>23410.6</b>	<b>10.9%</b>

Source: State Tax Service.

\* Since 2013, the STS does not report the amounts of benefits for temporary labour incapacity.

\*\* The amounts related to the main payments, penalties for delays, and fines are included.

Arrears collection continues to be a serious concern for the State Tax Service. All the legal measures are taken to reduce the volume of arrears by ensuring their forced settlement in order to ensure an as small as possible volume of arrears to the budget. The STS has a well developed range of debt collection instruments, including the freezing and garnishing of bank accounts, and the seizure of other assets.

In March 2014, the "Taxpayers' Current Account" tax liabilities record keeping IT system was commissioned for use, one of its functions being the tracking of historical balance accounts.

Thus, the arrears are monitored on a daily basis, the best measures of enforcement being quickly applied in order to collect them in a short time and in full. Considering the great concern about the arrears collection and reduction, the State Tax Service approached them in its annual compliance programmes for the years concerned, placing great focus on the tax administration actions by the aforementioned methods.

We mention that in order to improve arrears management, the State Tax Service in tandem with its partners from financial institutions, implemented the Automatic Information System for the creation and circulation of electronic documents between the State Tax Service and the financial institutions, which foresees in compliance with MSTI Order No 284 of 19 April 2012, starting with 1 September 2012, permanent circulation of electronic documents related to the opening, changing, closing or keeping record of bank accounts; suspension of and cancellation of the suspension of operations with bank accounts, including for the prevention of arrears to the budget; balance of and flow of money on bank accounts; “incasso” orders and other documents that can be circulated between STS and financial institutions.

It is appreciable that along with the implementation of this system, the efficiency and quality of STS intervention in terms of quick collection of arrears to the state budget owed by taxpayers in arrears increased. Analogically, from the perspective of the MSTI Order No 400 of 14 March 2014 approving the Instructions on record keeping of liabilities to the budget, a new mechanism to keep record of fiscal liabilities, including fiscal arrears, was implemented, and a new “Taxpayer’s Current Account” AIS was put into practice, thanks to which the fiscal liability record keeping and management mechanism improved visibly.

Thus, along with the implementation of that system, the foundation was laid for new record keeping using a good system by which balances (arrears/overpayments) can be accessed online both by the taxpayer and the tax authorities, ensuring thus data transparency, break-down of historical debts that took shape after the principle of limitation period, viewing of balance sheets and fiscal operations of the entire company structured by its subdivisions, break-down of late payment penalty calculation, separate withdrawal of data on balances payable and balances receivable etc.

During this year, it is planned to implement a new system to connect the public authorities interested in that information, as well to give the possibility to the authorities governed by the legal framework in force to generate certificates confirming the lack or existence of arrears to the budget.

As for the practical aspects related to an efficient arrears management, as well as in order to recover the arrears – a number of staff trainings about arrears recovery took place. According to the MSTI Order No 1349 of 15 August 2013, the Methodical & Practical Guidebook on the Tracking of Arrears to the Budget was approved; it regulates both mandatory actions and detailed steps that the tax officer empowered with arrears recovery/reduction duties must take, as well as all of the measures, and legal and practical mechanisms to settle arrears as well as by force, including the involvement of courts of law and bailiffs in the recovery of the arrears to the budget.

Also, in accordance with the MSTI circular letter No 26-06-11-372/6419 of 21 August 2014, the risks related to arrears management and recovery, and appropriate solutions were drawn up and disseminated to the territorial tax authorities in order to improve the recovery of arrears to the budget.

Thanks to the implemented information systems, as well as to the work trends, the tax authorities were and are oriented towards the collection of significant arrears on the basis of the aforementioned methodologies in order to ensure a high degree of recovery.

Measures were also taken to propose amendments to the existing legal framework in order to cancel the collection of small and inefficient arrears because that requires even greater expenses than the volume of the arrears, including centralized annulment of small balances with expired limitation period, which would improve their management; these amendments, however, were neither supported nor forwarded for the updating of the laws in force.

Additionally, the arrears are analysed and broken down on a monthly basis, determining and assessing thus the degree of actual arrears that can be recovered and that are temporarily unrecoverable due to various reasons (challenged amounts, arrears in litigations, wrong balances etc.), and for which the tax bodies focus on the application of enforcement measures regulated both by the legal framework and the Methodical & Practical Guidebook on the Tracking of Arrears to the Budget.

**B. Customs Service.** The payment of import-export customs duties in advance before submitting the customs declaration minimizes the possibility to accrue debts to the State Budget in “customs payments” section. Therefore, in the following tables, the amounts of arrears are much smaller than those to the MSTI. These arrears emerged after the post-clearance audit, for which penalties for delays are being accrued on a continuous basis. At the end of 2012 the debts totalled MDL 258 mln., at the end of 2013 – MDL 305 mln., at the end of 2014 – MDL 336 mln., accounting for 2.0%, 2.1%, and 2.2% of the revenues accumulated to the State Budget by the Customs Service, as shown in the table below. In terms of the PEFA-framework 2015, which uses a threshold of 10.0% of collections, these arrears are far better than the threshold level required to score A. This, in combination with the information concerning MSTI, and irrespective of the low collection rate of customs arrears, implies that the score for this dimension is definitely A.

**Table 72 - Revenue collection and increase in arrears, Customs Service, 2012-2014 (MDL million)**

as of 31 December 2012			as of 31 December 2013			as of 31 December 2014		
arrears	collected	weight of arrears in the collected amounts	arrears	collected	weight of arrears in the collected amounts	arrears	collected	weight of arrears in the collected amounts
257.6	12,612.3	2.0%	304.9	14,606.1	2.1%	336.1	15,425.1	2.2%

Source: Customs Service.

Year	Debts at the beginning of the year, mln. lei	Collected debts, mln. Lei	The share of collected debts from calculated debts, %
2012	123.8	17.14	13.84
2013	257.6	35.39	13.74
2014	304.9	27.14	8.90

Source: Customs Service.

In order to decrease the debts for the taxes and payments managed by the Customs Service, the existing mechanism was assessed and a new well-defined monitoring and management mechanism was put in place, and internal control measures were set up in order to ensure full collection within due term of business entities' debts.

In this context, the Law on Amendments and Addenda to Some Legislative Acts No 324 of 23 December 2013 added Section 21<sup>1</sup> "Forced Fulfilment of Customs Obligations" to the Customs Code, while the Code of Administrative Offences was complemented with Article 287<sup>2</sup> "Blocking of activity in case of enforcement of customs obligations".

Later, on 28 January 2014 the Director General of the Customs Service issued the Order Approving the Forms for the Enforcement of Customs Obligation No 30-O, published in the Official Gazette No 27-34/124 of 7 February 2014.

In March 2014, a workshop took place on the topic "Enforcement of Customs Obligations" in the Customs Officers Training Centre, whose beneficiaries were customs officers responsible of the forced collection of customs duties.

Before the amendments to the Customs Code by Law No 324 of 23 December 2013, precisely the empowerment of the customs authorities with the right to enforce the customs obligations, the Regulatory Decisions issued by the Customs Service until 2013 used to be sent to bailiffs for them to take measure to forcibly charge the duties; this, however, took too much time when charging the customs import duties.

A considerable part of the Regulatory Decisions issued by the Customs Service were challenged and are pending in courts now, with resolutions to suspend the administrative acts challenged being also issued. This prevents the collection of customs import duties.

According to the Regulation on the Extinguishment by Prescription of Customs Obligations (arrears older than 6 years long) – in 2013 MDL 0.3 thousand were cancelled, and in 2014 – MDL 2.1 thousand.

Because of the collection rates with respect to tax arrears highlighted in Table 11<sup>2</sup>, namely 33.7% during 2013, and 34.1% during 2014, which are below 60% of the total amount of tax arrears; and because the stock of tax arrears was significant (more than 2% of annual collections; according to column 4 of Table 11<sup>1</sup> rather around 11%) the score for this dimension has to be D.

### *Developments in 2015*

With respect to dimension (ii), a recent document from mid-2015 without title signed by the Minister of Finance<sup>130</sup> mentions (§ 10) the intention to develop taxpayer compliance programs and build capacity in risk management. It says that

*“Order of the Main State Tax Inspectorate no. 107 of 11.02.2015 approved the methodological norms regarding the determination and classification of risks with respect to tax compliance. It also initiated the development of Systems for the analysis of compliance risks, which aims at the streamlining of tax administration by the planning of tax audits and promoting voluntary tax compliance by taxpayers on the basis of risk analysis.”*

MSTI announces that in 2015 fiscal “visits” (these are not audits, but informative visits) to taxpayers shall be based on risk.

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<sup>130</sup> [http://gov.md/sites/default/files/ministerul\\_finantelor.pdf](http://gov.md/sites/default/files/ministerul_finantelor.pdf).



PI-20. Accounting for revenues

		Score (scoring method M1)	A
Dimension	Minimum requirements		
(i) Coverage and timeliness of revenue information collected by the Ministry of Finance.	At least monthly, the Ministry of Finance collects revenue data broken down by revenue type and period from entities collecting all government revenue, and consolidates the data into a report.		A
(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.	All revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury and other designated agencies are made daily.		A
(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.	Complete reconciliation of assessments, collections, arrears and transfers to Treasury and other designated agencies takes place at least monthly within one month of end of month.		A

*(i) Coverage and timeliness of revenue information collected by the Ministry of Finance.*

Officially MSTI has to report its revenues on a quarterly basis, but in practice it reports on a monthly basis. It reports revenues specified by revenue source, and also by *rayon* (Moldova has 32 first-tier units of local government called *rayon* (district), plus a few other units like the municipality of Chişinău).

The unit responsible for receiving these revenue reports is MoF's Treasury Department. The monthly reports also cover the size of taxpayer arrears, and the extent to which they are paid. This applies to both the MSTI and the CS. The total size of revenue collections can be monitored in the present software system (called "Star") every day.

Every month, the State Tax Service prepares and presents to MoF revenue forecasts. According to the methodological recommendations developed by the State Tax Inspectorate, revenue forecasts are developed based on several indicators from various statistical reports, including the amounts assessed, amounts actually paid, and the dynamics of arrears.

MSTI Order No 409 of 19/03/2014 approved a series of statistical reports which makes it possible to analyse information on the amounts assessed, amounts paid and amounts of arrears during a particular period. Territorial state tax inspectorates use this report in order to inform the taxpayer on the filing, payment, and arrears of taxes, not less than once a month.

MoF produces comprehensive monthly revenue reports covering all revenue categories collected by all Ministries, Departments and Agencies.

*(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.*

Consistent with the 2011 assessment, the MoF, MSTI and CS inform that all payment of taxes and customs duties are made directly to bank into the Treasury Single Account (TSA).

The amounts paid incorrectly, using incorrect bank accounts shall be reflected in “Unidentified Payments” which shall later be transferred back to payer’s bank accounts.

Once the customs duties are paid, the information becomes available online to all customs stations and allows for the customs clearance operations to take place.

*(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.*

Similarly, the reconciliation of revenues between the tax authorities and State Treasury (ST), Customs authority and ST on revenues is performed daily, monthly and annually at central and territorial level on taxes collected.

This measure of reconciliation is beneficial for the purpose of the revenue forecasting as well as short term cash flow management.

*PI-23. Efficiency, transparency, competition and complaints mechanisms in procurement*

		Score (scoring method M2)	B+
Dimension	Minimum requirements		
(i) Monitoring the efficiency and effectiveness of the procurement system.	Databases (or records) are maintained for contracts representing at least 90% of value of procurement of goods, services and works, including both data elements required for this indicator. Analysis of this data is made available to management at least annually.		A
(ii) Use of competitive procurement methods.	The total value of contracts awarded through competitive methods in the most recent fiscal year, represents 80% or more of total value of contracts.		A
(iii) Public access to complete, reliable and timely procurement information.	All five of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.		A
(iv) Effectiveness of an independent administrative procurement complaint system	The requirements for a 'C' rating or higher are not met, since there is no independent procurement complaints review body.		D

*(i) Monitoring the efficiency and effectiveness of the procurement system.*

The database of the PPA is accessible to the public on the PPA website [tender.gov.md](http://tender.gov.md), where data for each procurement transaction can be retrieved (economic operator, amount, type of goods, services or works, etc.), and a filter allows the selection of transactions such as awards, changes (increase, reduction), cancellation (by reason), etc. Also, transactions in process and their status can be monitored.

All data elements required for this indicator are thus publicly available, i.e.:

1. successfully completed procurement processes (contracts awarded) compared to procurement processes planned in terms of numbers and values (for the most recent, completed fiscal year);
2. original contract value at award versus actual completion cost of contracts (for contracts completed during the most recent, completed fiscal year), with access to data for each contract.

Additionally, the Annual report of the PPA provides aggregated statistics by procurement method and economic category on the number of announcements, awards, changes, cancellations, complaints, etc.

*(ii) Use of competitive procurement methods.*

The table below shows the distribution of contracts by procurement method for 2014 (amounts in million MDL incl. VAT):

**Table 73 - Share of competitive procurement methods applied 2012-2014**

Procurement method	Amount	%	
<b>Competitive methods</b>			
Open tender	4912.8	45.32%	<b>94.39%</b>
Open tender through IT system	3591.7	33.14%	
RPQ with publication	1561.3	14.40%	
RPQ with publication through IT system	165.7	1.53%	
<b>Non-competitive methods</b>			
RPQ without publication	220.5	2.03%	<b>5.53%</b>
Single source	379.8	3.50%	
<b>TOTAL</b>	<b>5.878,39</b>	<b>100,0%</b>	<b>100,0%</b>

The application of less competitive procurement methods is regulated by legislation (Regulation on Single Source Public Procurement, approved by Government Decision No 1407 of 10 December 2008) and requires justification by the contracting authorities.

*(iii) Public access to complete, reliable and timely procurement information.*

This dimension corresponds to dimension (iii) of PI-19 in the 2011 methodology, and additionally stipulates the publication of the legal framework.

All five elements of key procurement information (legal framework, government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) are made available to the public as follows, in line with criteria of the PEFA guidelines:

**Table 74 - Access to procurement information**

Criterion	Status
Legal and regulatory framework for procurement	The Law on Public Procurement (no. 96-XVI from the 13 <sup>th</sup> of April 2007, with amendments) regulates decentralization of the procurement function to the public authorities, brings public procurement in line with international standards and provides for more transparency. The legal framework on public procurement includes Government Decisions which regulate the different procurement methods. The Law is published on the PPA website; secondary legislation is published in the Official Gazette.
Government procurement plans	Article 13 (1) b) of the PPL requires contracting Authorities to develop annual and quarterly public procurement plans. These are published on the websites of the Contracting Authorities.  According to Article 19 of the PPL, contracting authorities must publish announcements of intent for scheduled procurement contracts over MDL 200,000 (goods and services) and over MDL 1,000,000 (works). These are published on the PPA website. If values exceed MDL 2,500,000 for goods and services or MDL 99,000,000 for works, the announcement of intent is also to

Criterion	Status
	be published in the “Official Journal of the European Community”. It was noted by the Court of Auditors that some contracting authorities have failed to comply with these requirements <sup>131</sup> . The situation has however improved in 2010.
Bidding opportunities	All Tender notices are published in the Public Procurement Bulletin and contain all standard information. Tender documents are only available on paper base from the contracting authorities.
Contract awards	All contract awards are published in the on the PPA website on quarterly basis, indicating the successful tenderer and the contract amount
Data on resolution of procurement complaints	Information on all complaints filed is published on the PPA website and includes the filing and the decision date, the name of party filing the complaint, the description of the objection and the decision.

*(iv) Effectiveness of an independent administrative procurement complaint system*

This dimension corresponds to the dimension (iv) of PI-19 according to the 2011 methodology, but dropped the requirement of inclusion of private sector and civil society in the appeals body.

For scoring this dimension, it is to be assessed whether complaints are reviewed by a body fulfilling the following criteria:

**Table 75 - Public procurement criteria**

Criterion	Status
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Art. 9(1) of the PPL defines the functions of the PPA, more specifically in lit. b its role in coordinating, monitoring, assessing and controlling compliance of the contracting authorities with the PPL. Although the PPA is not directly carrying out procurement transactions, it results from this provision that the PPA is involved in contract award decisions, since its mandate includes the review and approval of all contracts, leading to a possible re-evaluation or cancellation of decisions taken by a contracting authority in a tender procedure.
(2) does not charge fees that prohibit access by concerned parties;	No fees are charged for filing a complaint.
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Processes for submission and resolution of complaints are defined in the PPL, Article 72. Upon receipt of a complaint, the PPA may suspend the execution of the procurement procedure. Based on the complaint review, the PPA may accept it, reject it, request re-evaluation of the bids or (as it is the case for the majority of the cases), initiate a mediation procedure for settlement, conducted between the PPA, the contracting authority and the claimant.

<sup>131</sup> Source: Report on the performance audit of some objectives of the Law on Public Procurement (Decision of the CoA no. 19 of 28 May 2009).

Criterion	Status
(4) exercises the authority to suspend the procurement process;	Suspension of the procurement procedure is regulated in Article 74 of the PPL. It is applied if the claim is substantial and there is evidence that: <ul style="list-style-type: none"> <li>a) the supplier would suffer damage without suspension;</li> <li>b) there exists a probability to satisfy the claim;</li> <li>c) the suspension would cause no damage to the parties involved in the procurement procedure.</li> </ul>
(5) issues decisions within the timeframe specified in the rules/regulations; and	Procedures for the review of complaints are defined in Article 73 of the PPL. The deadline for reviewing the complaints and issuing a decision is set at 20 working days after submission. Art 73 (10) stipulates that if the PPA fails to issue a decision within this deadline or if the supplier is not satisfied with the decision, the latter may appeal to the competent administrative court. A spot-check of the publication on the PPA website showed that in a few cases decision were issued with delay.
(6) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	According to Art. 73 (9) of the PPL, a decision is issued on the review of the complaint, where the complaint: <ul style="list-style-type: none"> <li>a) is left without examination (only in cases of late or improper filing);</li> <li>b) is withdrawn by the claimant;</li> <li>c) is accepted by the Contracting Authority as substantiated;</li> <li>d) is accepted or rejected by the PPA;</li> <li>e) is settled amicably.</li> </ul> <p>Article 73 (10), regulates access to the administrative court in cases of delayed or unsatisfactory decision, and the PPA's competence to settle the dispute is terminated thereupon.</p> <p>In 2009, the PPA received 327 appeals of which 45 were accepted. Nine cases were escalated to the Court. In 2010, the PPA received 511 appeals.</p>

There is compliance in five of the six criteria above and non-compliance for criterion (1): The PPA is not an independent body. The PPA is made responsible for handling appeals related to procurement transactions which have earlier been reviewed and approved by it. This results in a potential conflict of responsibilities. The PPA's dual responsibility in approving the procurement decisions (and thus being involved in the decision-making process) and on the other hand in resolving complaints on the same transactions is not an internationally accepted practice<sup>132</sup>.

<sup>132</sup> In this context it is furthermore relevant that the PPL is not fully compliant with the EU Remedies Directive 2007/66/EC.

Although the complaint review department of the PPA is a functionally independent unit within the PPA, it is not administratively independent from other units, and this apparent conflict in responsibilities may impose constraints in its freedom of action when handling complaints. Also, the financial autonomy of the PPA is restricted, since it is a budget institution under the MoF, depending on the allocation from the State budget to the MoF.

The requirements for a 'C' rating or higher are not met, since there is no independent procurement complaints review body.

#### *Developments in 2015*

The new law on public procurement, which has been adopted and will enter into force in May 2016, transposes the EU Directives No 18/2004/CE and No 66/2007/CE. It also establishes an independent appeals body (Complaint Settlement Agency). However, this agency is not independent, since it is an administrative authority subordinated to MoF according to Art. 1 (3) of the Law. This issue has been pointed out in the 2015 SIGMA assessment.

Secondary legislation for the implementation of the new law is under development.

The new law on public procurement, which has been adopted and will enter into force in May 2016, transposes the EU Directives No 18/2004/CE and No 66/2007/CE. It also establishes an appeals body (Complaint Settlement Agency). However, this agency is not independent, since it is an administrative authority subordinated to MoF according to Art. 1 (3) of the Law. This issue has been pointed out in the 2015 SIGMA assessment.





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## Annex 4: Persons consulted

### Ministry of Finance

Anatol ARAPU	Minister of Finance
Maria CĂRĂUȘ	Deputy Minister of Finance
Veronica URSU	State Secretary, Minister of Finance
Vasile BULICANU	Head of General Division on Budgetary Synthesis
Vasile BOTICA	Deputy Head of General Division on Budgetary Synthesis
Valentina BASOC	Head of Department on State Budget and National Public Budget, General Division on Budgetary Synthesis
Ion IACONI	Head of Division on Budgets of Administrative-Territorial Units, General Division on Budgetary Synthesis
Dina ROSCA	Deputy Head of General Division on Budgetary Synthesis, head of Division on Coordination and Consolidation of Budgetary and Taxation Policies, General Division on Budgetary Synthesis
Nina ROTARU	Deputy Head of Division on Coordination and Consolidation of Budgetary and Taxation Policies, General Division on Budgetary Synthesis
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Natalia SCLEARUC	Head of Division on Macro-Financial Forecasting and Analysis, General Division on Budgetary Synthesis
Emilia PRUJANSKAIA	Main specialist, Division on Prognosis and Macro-Financial Analysis, General Division on Budgetary Synthesis
Nina LUPAN	Director of State Treasury
Svetlana PLACINTA	Head of the Methodology Department
Eleonora BAGRII	Head of Division on regulating and monitoring of the treasure system functionality
Nadejda SLOVA	Head of Division on Reports of the Public National Budget, State Treasury
Viorel PANA	Head of Division on Finances of National Economy and Capital Expenditure
Anastasia CERTAN	Head of the General Division on Tax and Customs Policy and Legislation
Ion SIRBU	Head of Division on Harmonisation of the Public Financial Internal Control System
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Camelia GURAU	Head specialist, Division on External Financing and Debt
Ana PRODAN	Interim Head of Division on Analysis and Regulation of the State Owned Assets and Financial Sector,
Natalia LEVITCHI	Deputy Head of Division on Analysis and Regulation of the State Owned Assets and Financial Sector

### **Main State Tax Service**

Gheorghe COJOCARI	Deputy Director
Andrian TIMOTIN	Deputy Director
Irina CULIC	Superior inspector, Operational management and services to taxpayers
Ludmila GRITCO	Deputy Head, Directorate of Methodology, Record-keeping and Fiscal Statistic

### **Customs Service**

Sergiu MOLDOVANU	Deputy Head, Directorate on Strategic Management
Valentina POPA	Head of Custom Revenue Directorate
Liliana TARABURCA	Head of Customs Revenues Section
Oxana ONCEANU	Chief inspector, Division for Control of Custom Duties Collection and Legal Support
Maria CANDU	Chief inspector, Division for Control of Custom Duties Collection and Legal Support
Rodica GOLBAN	Main inspector, Post-clearance Control Division

### **Public Procurement Agency**

Viorel MOSNEAGA	Director, Public Procurement Agency
Valeriu SECAS	Deputy Director, Public Procurement Agency

### **Financial Inspection**

Alexei SECRIERU	Director
Ion BORTA	Deputy Director
Valeriu BABARA	Deputy Director

### **Parliament**

Stefan CREANGA	MP, Chairman, Parliamentary Committee on Economy, Budget & Finance
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### **Court of Auditors**

Ecaterina PAKNEHAD	Member of CoA
Angela PASCARU	Member of CoA

### **Ministry of Economy**

Iurie SPASOV	Head of Internal Audit Unit
Nina CIUMACENCO	Auditor

### **Public Property Agency**

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Marcela RUSSU	Deputy Head, Department of Keeping of Public Property and Conducting Financial Analysis

### **General Prosecutor Office**

Ghenadii PIRLII	Head of Financial and Economic Investigation Department
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Valentin BOZU Deputy executive director

### **Civil society: Independent Think-Tank “Expert-Group”**

Dumitru BUDIANSCHI Project coordinator

### **Private sector: Chamber of Commerce (by e-mail)**

Nicolae Chimerciuc Leading specialist for project coordination





## Annex 5: Documents Consulted

### LEGAL FRAMEWORK

- Law on Public Finance and Budgetary-Fiscal Accountability (Law No 181 of July 25, 2014 published in Official Monitor nr.223-230/519 of August 08, 2014);
- Law on Budgetary System and Budgetary Processes (Law No 847 of May 24, 1996, re-published in the *Official Monitor of the Republic of Moldova*, 2005 special edition (with amendments);
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- Tax Code No 1163 of 24 April 1997, re-published in the *Official Monitor of the Republic of Moldova* on 08 February 2007, special edition (with amendments);
- Law on Public Debt, State Guarantees and On-lending from State Borrowings No 419 of 22 December 2006, *Official Monitor of the Republic of Moldova* No 32-35 on 09 March 2007;
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- Law on Public Internal Financial Control No. 229 of 23 September 2010, *Official Monitor of the Republic of Moldova* No 231-234 of 26 November 2010;
- Law on the Court of Auditors No 261 of 05 December 2008, *Official Monitor of the Republic of Moldova* No 237-240 of 31 December 2008 (with amendments);
- Law on the Payroll System in the Public Sector No 355 of 23 December 2005, *Official Monitor of the Republic of Moldova* No 35-38 of 03 March 2006 (with amendments);
- Law on monitoring movable assets No 267 of 29 November 2012, *Official Monitor of the Republic of Moldova*, No. 1-5 of 04 January 2013;
- Law for the approval of the National Development Strategy "Moldova 2020" no.166 of 11 July 2012, *Official Monitor of the Republic of Moldova*, No 245-247 of November 30, 2012 (with amendments);
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- Laws on the Compulsory Medical Insurance Funds for 2012, 2013, 2014 and 2015 as published in the respective *Official Monitor of the Republic of Moldova*;
- Law on the state enterprise No 146 of 16 June 1994, *Official Monitor of the Republic of Moldova* No. 2 of 25 August 1994 (with amendments);
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- Decision of the Parliament on the Court of Accounts Report on the management and use of public financial resources and public property in 2011 No 286 of 13 December 2012, *Official Monitor of the Republic of Moldova* No 10-14 of 18 January 2013;
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- Twinning contract “Support Procurement Public System in Moldova” MD09/ENP – PCA/FI/05, March 2011;
- Annual Reports on Public Procurement Agency activity for years 2012-2014;
- Citizens Budget for 2015, <http://mf.gov.md/newsitem/9652>;
- Moldova in figures, statistical pocket-book, 2012, 2013, 2014;
- Annual Year Statistic Book, Social Economic situation in Republic of Moldova, 2012, 2013, 2014, National Bureau of Statistic;
- Moldovan Economic Trends, National Institute for Economic Research, No. 4-17, ISSN 1857-3134;
- Public Expenditure and Financial Accountability (PEFA) Assessment update for Moldova (2008-2010), October 2011;
- PEFA Public Financial Management Performance Measurement Framework 2011;
- PEFA Public Financial Management Performance Measurement Framework 2015;
- PEFA Self-assessment by Ministry of Finance, July 2015;
- National Development Strategy „Moldova 2020”: SEVEN solutions for economic growth and poverty reduction, July 2012;
- Global Study on Decentralization capabilities (including e-Governance potentialities) in the Republic of Moldova, August 2015;
- Taxpayer Compliance Programme 2011, April 2011.



# Annex 6: Disclosure of Quality Assurance Mechanisms

## *PEFA Assessment Management Organization*

- Oversight Team – Chair and Members:
  - Aneil Singh, Head of Operations, EU Delegation to Moldova;
  - Ms. Ekaterina Yakovleva (EU Delegation to Moldova).
- Assessment Manager: Ms. Ekaterina Yakovleva (EU Delegation to Moldova);
- Assessment Team Leader and Team Members:
  - Ms. Ilse Schuster –Team Leader;
  - Mr. Maarten de Zeeuw;
  - Ms. Elisaveta Teneva;
  - Ms. Eugenia Veverita.

## *Review of Terms of Reference*

*Draft terms of reference dated 10 of March June 2015 was submitted for review on 11 of March 2015 to the following reviewers:*

- Ministry of Finance;
- European Commission, DG ECFIN;
- PEFA Secretariat;
- World Bank.
- Final terms of reference: 27 of April 2015.

## *Review of the Assessment Report*

- Date(s) of reviewed draft report(s):
  - Review of the Preliminary report: 23 September - 13 October 2015;
  - Review of the Draft Final Report: 27 October – 13 November 2015;
  - Review of the Final Report – 17-20 November 2015.
- Organisations invited for review:
  - Authorities of the Republic of Moldova (Ministry of Finance, Court of Accounts, Parliament Committee for Economy, Budget and Finance);
  - PEFA Secretariat;
  - European Commission – Commission Directorate-General for International Cooperation and Development;
  - SIGMA;
  - World Bank;
  - UNDP;
  - EIB;
  - IFC;
  - EBRD;
  - IMF;
  - Slovakaid;
  - USAID;

- Embassies of Bulgaria, France, Estonia, Germany, Lithuania, Poland, Romania, Sweden and UK to Moldova.
- Reviewers who provided comments:
  - Authorities of the Republic of Moldova (Ministry of Finance, Court of Accounts) – 13-15 October 2015;
  - Julia Dhimitri, Holy Tiana Rame, PEFA Secretariat – 28 October – 23 November 2015;
  - Mr. Peter Kovacs and Mrs Olfa Alouini (European Commission Directorate-General for International Cooperation and Development) – 8 October 2015;
  - Ms. Iryna Shcherbyna (World Bank) – 12 October 2015;
  - Mr. Marian.LEMKE (SIGMA) – 24 September 2015;
  - Mr. Rimantas Veckys (Adviser to the Ministry of Finance European Union High-Level Policy Advice Mission) – 2 October 2015.

*Review of final draft report*

- (i) A revised final draft assessment was forwarded to reviewers on 25 November 2015 and included a table showing the response to all comments raised by all reviewers;
- (ii) This form, describing the quality assurance arrangements is included in the revised draft report.



Public Expenditure and Financial Accountability (PEFA) Assessment Update for Moldova  
(2012-2014)  
Final PEFA Performance report  
25 November 2015

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat  
November 25, 2015