

Public Investment Management in Moldova: reform priorities

Investment is a key contributor to the sustainable growth and development of any economy. It is of particular importance for a transition economy, which experienced a severe depression at the start of the transition process, characterised by dis-investment and a significant depreciation of its capital stock; Moldova is no different from other transition economies in this regard. While sustained economic growth was registered in Moldova from 2000 onwards, the public capital stock as a share of GDP continued to decline over the period. According to the 2019 Public Investment Management Assessment report of the IMF, the stock of public capital as a share of GDP in 2018 stood at 58 % down from 75 % in 2000.

Increasing the level of productive investments will be critical to the successful upgrade of the Moldovan economy's capital stock and the attainment of sustained growth and socio-economic development in the years to come.

In order to achieve this goal, reforms are required in the area of Public Investment Management (PIM) in Moldova. These reforms should aim for improvements in three inter-related areas:

Improving the linkages between strategic priorities, investment projects and available financing. This will ensure that Moldova's Public Investment Programme is derived from the strategic framework of the country and takes into explicit account the financing constraints.

Strengthening the efficient design and conduct of investment policy. This will address the persistent and chronic overoptimistic budgeting and under-execution of investment budgets in Moldova.

Extending the coverage of the regulatory framework for PIM and simplifying its content to make it operational and user-friendly. At present the coverage of the regulatory framework for PIM is very limited accounting for less than 20% of total public investment expenditures and the regulation setting out the screening, selection and monitoring of public capital investment projects in Moldova is overly complex.

Strengthening the linkages between priorities, projects and financing

With regard to the first area, it is notable that the National Development Strategy Moldova 2030, which provides the overall strategic orientation for the country, does not include estimates for the investment required to reach the Strategy's targets. The Strategy is based on the Sustainable Development Goals and takes into account Moldova's international obligations, including those under the Association Agreement. It is supposed to be made operational through a number of sectoral strategies, which are in the process of being drafted or updated.

Of key importance for improving the linkages between strategic priorities, investment projects and the available financing will be the timely finalisation of a

National Development Plan, based on the strategy. The Plan will be a rolling three-year document drafted by the State Chancellery, which incorporates the strategic priorities of the Government and the policy actions to attain them over the period. The National Development Plan should take into account the available financing constraints and Moldova's international obligations, and will be updated annually prior to the finalisation and approval of the Medium-Term Budget Framework by the Ministry of Finance. Unfortunately, at present there is only a preliminary draft of the first National Development Plan, which is expected to be finalised by the new Government. This means that it will not contribute to medium-term budgetary planning this year. Looking forward, it is of paramount importance that the 2022 update of the National Development Plan is completed in time to inform the next Medium-Term Budget Framework (2023-2025).

Investment policy

With regard to investment policy, there is considerable potential to both strengthen its design and to increase the efficiency of its implementation in Moldova. One strong indicator of weaknesses in the design and implementation of investment in Moldova is the persistent and chronic overoptimistic budgeting and under-execution of investment budgets. The design and conduct of investment policy in Moldova should explicitly take into account Moldova's absorption capacity, as well as available funding, in order to ensure the implementation of investment projects within the time foreseen. As noted in the 2019 IMF Public Investment Management Assessment report, the road and energy sectors dominate public investment in Moldova, while there are also sizeable investments in water supply and sanitation, justice, education, health and local authorities investments.

The regulatory framework for Public Investment Management

Finally of significant importance for the efficiency of public investment is facilitating the emergence of an appropriate regulatory framework for PIM in Moldova. At present there is incomplete coverage of the regulatory framework. Furthermore, the existing regulatory framework is cumbersome and difficult to apply in practice.

Specifically Regulation 1029 of 2013 on public capital investment regulates the screening, selection and monitoring of public capital investment projects exceeding MDL 5 million. However, the regulation does not apply to the bulk of capital investment in Moldova, which means it doesn't cover investments by agencies governed by their own laws, such as the Environmental Fund, the Road Fund, The Agricultural Fund and the Regional Development Fund. Furthermore Regulation 1029 does not cover the capital investment projects provided through external funding under agreements between Moldova and its development partners. In addition the regulation is cumbersome and very difficult to apply in practice.

As a component towards fulfilling the Project's general objective to strengthen the capacity of the Moldovan authorities to plan, prepare and manage public investment projects, the Project Team has made concrete proposals to the Ministry of Finance to simplify Regulation 1029 and render it operational and user-friendly. The Project Team has also proposed the broadening of the coverage of the revised PIM regulatory framework to cover all the investment in Moldova's Public Investment Programme.