

Decision on approving the  
Strategy for the development  
of public finance management 2013-2020

Government DECIDES:

1. To approve the Strategy for the development of public finance management 2013-2020 (attached)
2. MoF shall implement, annually, the Action Plan for the implementation of the Strategy for the development of public finance management 2013-2020
3. Government entities involved shall contribute to the accomplishment to the long term and short term objectives of the above mentioned Plan and Strategy.
4. Control over the execution of the current decision belongs to the MoF.

Approved  
through the Government Decision nr.573  
as of August, 6 2013

**STRATEGY  
for the development of public  
Finance Management for 2013-2020**

**Chapter 1  
Introduction**

Moldova has been pursuing rigorous reforms in Public Financial Management since independence assisted by several development partners and international financial institutions. Reform efforts have been anchored in the framework of the action plans for the implementation of the national development strategies. This shall continue to be the case for the implementation of the new National Development Strategy of “Moldova 2020”.

One of the most important recent developments in public financial management reform has been the drafting of the Law on Public Finance and Budgetary and Fiscal Accountability submitted to Parliament on the 17<sup>th</sup> of October, 2011. The basic objectives and a summary of the main changes under the law are included

in Chapter 3 of this Strategy. The draft Law is in its second reading at the Parliament and has been the subject of consultation with the International Monetary Fund and other development partners. Once adopted and implemented it will mark an important milestone in PFM and its implementation will help further modernise and strengthen PFM systems.

Moldova benefits from a broad reform agenda in all components and thematic areas of PFM. There is a wealth of reform and public sector development dedicated strategies, which provide for legislative and regulatory revision, as well as management and action plans engaging most of the critical issues with impact upon public finance. It is therefore clear that Moldova needs a strategy to improve public finance management.

The management of public finances is an integral part of economic management. PFM is therefore an important tool for the delivery of fiscal policy and the achievement of the ultimate goal of sustained growth and development.

The Government of Moldova is committed to achieving adherence to high standards of accountability and transparency in the public sector, which are essential for the delivery of public services and other activities that fall within the mandate of the Government.

The Ministry of Finance will be responsible for the PFM Strategy for 2013-2020 (hereinafter - Strategy).

The purpose of the PFM Strategy is to provide a synthesis of on-going reforms by consolidating in one document the many policy actions and dedicated strategies already under way in several critical components of PFM. The Strategy provides the opportunity for presenting the current state of affairs in PFM and summarising the high level objectives both in terms of short term targets as well as the longer term aspirations for meeting EU and international standards and practice.

It is very important to stress that putting PFM into one consolidated Strategy is a very complex and dynamic process. PFM covers a very broad and diverse range of thematic areas that interact in several ways and at different levels. PFM reform cannot be seen in a static way, which means that activities and priorities must always be viewed within the context of changing circumstances and new ideas. The PFM Strategy is therefore expected to work as an overall guide to PFM reform and be integrated, rather than duplicate, the existing dedicated strategic framework on the various PFM components.

Annex no. 1 to the Strategy includes the Summary Table of the assessment of public expenditures and financial accountability 2011.

Annex no. 2 of this Strategy include the list of normative and legislative acts relevant to the Strategy.

## **Chapter II**

### **Strategy for the Development of Public Financial Management in the macro-fiscal context**

#### **1.1. Analysis of macro-fiscal situation**

This chapter includes a summary analysis of macroeconomic and fiscal development of the Moldovan economy during the three years prior to the Strategy and a note on recent economic trends.

#### **Real sector development**

Between 2000 and 2008, after a significant decrease of the production volume associated with the onset of transition, Moldova's economy has experienced a period of sustained economic growth and poverty reduction, with an average annual real GDP growth of 5.9%. During the mentioned period, economic growth was driven by the growth in aggregate demand, which in turn was based on a significant increase in remittances from Moldovans working abroad. These remittance flows have supported income and consumption expenditures of households and contributed to a substantial reduction in poverty during the period of reference.

The international financial crisis clearly had an impact on the Moldovan economy in 2009, when the real GDP decreased by 6%. The economy recovered in 2010 with a growth in real GDP of 7.1%. This was followed by a further increase by 6.8%. Resumption of growth in the last two years was based on increasing domestic demand (fuelled by remittances, credit expansion and capital inflows) and increases in the volume of exports (reflecting increased foreign demand for export industries of the Republic of Moldova and improved market access of CIS and EU). Reform efforts were supported by a program of

the International Monetary Fund and the assistance of development partners / donors, including a grant from the EU for macro-financial assistance.

Recent macroeconomic indicators show a decrease in the economic activity in 2012. The latest GDP preliminary estimates indicate that in 2012, real GDP decreased slightly to the order of 0.8 percent versus the same period of 2011. It is expected that in 2013-2014 the GDP will grow around 3.5-4.5% annually.

### **Monetary policy**

The average inflation rate in 2011 was 7.6 percent. This indicator shows a higher level of 7.4 percent in 2010, whereas there was an average of zero inflation in 2009, accompanied by a reduction in the volume of production. Rising prices in 2011, denote increases in world food prices and increases in administered tariffs in Moldova for energy products, gas and heat.

The inflation rate fell down to 4.6 percent in 2012. The decline in inflation in 2012 reflected a slowdown in economic growth and lower international prices of key components of the consumer price index.

Monetary policy objectives in Moldova are focused on keeping inflation within the range (plus / minus) 1.5% around the inflation target of 5%. These are achieved by changes in monetary policy intervention tools, as well as sterilization operations to manage excess liquidity on the money market.

To stabilize inflation expectations and contribute to achieving the inflation target, the National Bank eased monetary conditions in 2012, there were two decreases of the interest rate of 2% each (from 8.5 to 4.5 percent ), while the mandatory reserves ratio has been maintained at the 2011 level and 14 percent at the end of 2012.

The domestic banking system is characterized by a robust capital base and adequate liquidity, it is affordable and shock resistant.

In October 2012 the share of non performing loans in total loans amounted to 14.4%, registering an increase of 3.7 percent compared to the end of 2011.

### **Fiscal and budgetary policy**

The decrease of real GDP in 2009 was accompanied by a significant deterioration of the budget deficit, which required significant support efforts to

restore fiscal stability. Budgetary policy response combines a reduction in current expenditure and namely public expenditures on salaries, goods and services, and an increase in targeted social assistance and public investment to support future economic growth. The fiscal deficit fell from 6.35% of GDP in 2009 to 2.5 percent in 2010, being further reduced to approximately 2.4 percent in 2011.

The budget for 2012 confirms a fiscal deficit of 2.1% of GDP. Changes on the revenue side increased excises and reintroduced the corporate income tax of 12 percent. However income is inadequate, reflecting diminishing economic growth and challenges in revenue collection. The budget balance in 2012 was also affected by unplanned/ unbudgeted expenditure commitments and delays in receiving foreign assistance.

The stock of public debt and guaranteed debt to GDP is modest and is followed by a downward trend in the last three years. At the end of 2012, public debt and guaranteed debt to GDP amounted to 33.2 percent versus 31.9 percent at the end of 2010.

### **International economic context**

Moldova's economy is vulnerable to adverse external shocks on major markets for its exports and / or its destination countries for migrants. The current account deficit as a share of GDP increased from 7.7 percent in 2010 to 11.3 percent of GDP in 2011 and fell to 7 percent in 2012.

The exchange rate of the national currency implements market conditions with interventions limited to uniform fluctuations, and remained stable in recent years. Gross official reserves increased in the past three years. Thus, in late 2010, the stock of gross official reserves amounted to U.S. \$ 1.718 billion, compared to U.S. \$ 1.48 billion in late 2009. At the end of 2012 the stock of gross official reserves increased by 28.0 percent over the previous year and reached a level of U.S. \$ 2515.0 million, which corresponds to about 4.9 months of imports.

### **Institutional and organizational arrangements**

Annual budget and Medium Term Budgetary Framework of Moldova operate in a common macroeconomic framework. Projections of basic macroeconomic

indicators are developed by the Ministry of Economy (refer to projections of GDP and its components), which are submitted with the contribution of the Ministry of Labour, Social Protection and Family, the National Bureau of Statistics and National Bank.

As far crisis management is concerned, the Government Decision 449 of 2 June 2010, establishes the National Committee for Financial Stability. It provides for a meeting point for a coordinated policy response in case of a shock with systemic effects on the financial sector.

## **2.2. Macro-fiscal assumptions and policy objectives**

The ultimate objective of this strategy is to maintain fiscal stability and promote economic policies conducive to efficient growth and development in the medium and long term in Moldova. The current section aims to summarize the main directions of policy, providing a statement of intent on the development and implementation of economic policy in the coming years.

### **Economic growth and development**

Moldova's vision on growth and development prospects in the medium and long term is set forth in the National Development Strategy "Moldova 2020". This strategy provides for a change related to Moldova's economic growth and development of a concept which departs from current domestic consumption financed by remittances, to a model increasingly based on attracting domestic and foreign investment, and increasing exports of goods and services to support the creation of jobs and increase economic prosperity in the coming years.

The reform program expected in the National Development Strategy "Moldova 2020" is based on the analysis of constraints for the economic growth in Moldova. This analysis identified seven priority sectors, namely education, road infrastructure, access to finance, business, energy sector reform, pension reform and justice sector reform.

It is remarkable that, compared to previous policy documents, the National Development Strategy "Moldova 2020" lacks a detailed action plan for implementation. The strategy presents a vision of growth and development of the Republic of Moldova and avoids areas of overlap with existing sectorial strategies. This, reflects the flexibility of the action plans of the Government

and ministries as a process to facilitate progress towards achieving the overall objectives of the Strategy.

### **Fiscal and budgetary policy**

Reforms with regard to the provision and conduct of fiscal policy play a key role in supporting the objectives contained in the National Development Strategy "Moldova 2020" and increasing the efficiency of economic management in the country.

The implementation of fiscal and budgetary policy is conducted in a macroeconomic framework which provides for the real GDP growth in the medium to long term from 5 percent annually. Medium Term Budgetary Framework will further promote fiscal stability, with deficits close to 2.4 - 3 percent of GDP over the medium term. In the medium term general government expenditures as a share of GDP are expected to drop from about 40.3 percent in 2012 to 38 percent by 2016. It is intended to further reduce running costs, while increasing targeted social assistance and public investment that are going to support economic growth and welfare. The medium-term program provides for a share of 36.7% of total revenues in GDP in 2014, and a reduction of up to 34.9 percent of GDP in 2016.

### **Monetary policy**

Monetary policy will be established in an inflation targeting framework. Monetary policy directions will be aimed at keeping inflation between (plus / minus) 1.5 percent around the inflation target of 5 percent.

The exchange rate of the national currency will be determined by supply and demand for foreign currency with official interventions limited to alignment of fluctuations on the foreign exchange market. Exchange rate flexibility, allows monetary policy to focus on achieving the inflation target while at the same time avoiding persistent foreign exchange market imbalances and also facilitate the absorption of shocks from external economies.

The reform efforts will increase banking and financial sector supervision, and also strengthen the corporate governance of banking and financial sectors.

### **International economic context**

External imbalances will remain a source of vulnerability in the medium term. Attracting foreign investment will be critical, but also essential to provide financing for the current account deficit to boost growth and competitiveness of the economy and to facilitate change, growth and development of Moldova's typical current consumption-based model, to another form of development increasingly based on investment and overall growth of export.

At the same time efforts will be made on increasing market access for Moldova's export industries by improving the quality and standards of export from Moldova, signing of the Deep and Comprehensive Free Trade Area with the EU, and maintaining open access to the CIS market.

### **Institutional and organizational arrangements**

Moldova is critically dependent on the situation in agriculture and remittance flows. In addition, as a small open economy it is vulnerable to adverse external developments, shocks from the countries of key trading partners and host countries important for Moldovan migrants are likely to have a significant adverse effect on the economy. Therefore, while conducting macroeconomic management there is a need to rely on prudent assessment of the external environment and regularly monitor economic developments and economic environment to identify emerging risks to macro-fiscal sustainability, which may require policy response.

One mentions the continuous improvement of the macroeconomic framework underlying the Medium Term Budgetary Framework, by strengthening effective and timely consultation between key institutions involved in setting the fiscal, monetary and structural policies, and the reform generally and to contribute to the macroeconomic design /projection (Ministry of Finance, the National Bank and the Ministry of Economy). Efforts will be made to improve the assessment of common assumptions and risks underlying macroeconomic forecasts, to strengthen the methodology and internal consistency of macroeconomic forecasts and align the timing of the preparation of the forecast, data availability (presentation by the National Bureau of Statistics of the preliminary estimates of national accounts).

In addition to improving the efficiency and consistency of macroeconomic forecasts, such consultations are likely to improve the monitoring of recent



economic developments and early identification of internal and external risk factors which may require an adjustment of the macroeconomic policy mix.

## **Chapter III**

### **Public financial management diagnosis**

#### **- strengths and problems identification**

This chapter briefly includes the conclusions of the evaluation of public expenditures and financial accountability for 2011. Public expenditures and financial accountability framework of public finance management performance evaluation is an integrated monitoring framework for measuring the performance of public financial management in time ( PEFA Guidelines , June 2011 ). The last evaluation of public expenditures and financial accountability was conducted in the fall of 2011 and is the latest diagnostic study of public finance management in Moldova. The evaluation examined the systems and practices of fiscal years 2008, 2009 and 2010.

Public Expenditures and Financial Accountability assessment for 2011 was important for the following reasons:

- a) covers a wide range of topics in the basic components of public finance management and provides an opportunity to assess progress over time with the help of repeated assessments. Public Expenditures and Financial Accountability Assessment for 2011 was the third such exercise in Moldova, previous assessments occurred in 2006 and 2008;
- b) it provides a benchmark for continuing work to support good performance in areas where there were good scores and to improve other areas which showed deficiencies;
- c) allows for the Strategy to improve public finance management and be aligned with the structure of methodological evaluation of public expenditure and financial accountability, but it should be noted that the intention is to cover a broad subject area and discuss the more subtle qualitative elements based on detailed activities underway in the basic components of public finance management, but without creating duplication.

The summary Table of the evaluation of public expenditure and financial accountability assessment for 2011 is presented in Annex 1 to this Strategy.

Compared with the assessment of public expenditure and financial accountability in 2008, the assessment for 2011 showed a general improvement as shown by twenty-eight performance indicators:

- a total of twelve performance indicators showed improvement;

- thirteen performance indicators remained stable, of which six have gotten the maximum score of "A" ;

- two performance indicators have deteriorated: Two performance indicators have shown an increase in allocations during the year between ministerial budgets, compared to fiscal years 2005, 2006 and 2007 covered by the Public Expenditures and Financial Accountability Assessment , 2008, which led to the deterioration of performance from " A" to " B +" . Similarly, failure to comply with certain aspects of the budget calendar and delays in approving the annual budget by Parliament led to a lower score regarding performance indicators -11 from " A" to " B " ;

- the method of assessing performance indicators - 19 with regard to public procurement was significantly revised during the public expenditure and financial accountability assessment in 2008 and 2011. A change in the method does not allow for comparison.

The Government recognizes that it is equally important to strive to support performance, as it is important to make improvements in areas that need attention. Three years (2008-2010) assessed within public expenditure and financial accountability assessments for 2011 were characterized by the global economic crisis of the economy and public finances of Moldova. The crisis has revealed\, among other things the importance of planning for the improvement of both capital expenditures and current and the need to increase fiscal discipline both in the budgeting process, as well as the level of execution.

The new organic law on public finance and budgetary -fiscal accountability will improve the current system of public financial management in line with international standards and best practices Basic objectives of the new law are:

- strengthening fiscal discipline by establishing general principles and fiscal rules for all components of the general government;

strengthening the budget process and improving procedures for the preparation, approval and management of budgets at all levels;

optimizing the management of budgetary resources by establishing new rules on the formation and management of revenue collected by the authorities / state institutions;

increase the transparency in the budget process by separating competences and enlarging the powers of the participants in the budget process, while increasing the level of responsibility.

The objectives of this Strategy derive from the findings and recommendations of the Public Expenditures and Financial Accountability Assessment for 2011, although it exceeds the strict evaluation of public expenditure and financial accountability and is based on detailed aspects of planning / budgeting and fiscal management addressed in technical documents. The strategy provides an overview of existing strategies and action plans dedicated to a multitude of technical reports issued by the development partners and international financial institutions, which are under implementation in all the basic components of public finance management.

## **Chapter IV**

### **Strategy objectives**

#### **4.1. The overall objective and vision**

**The overall objective** of the 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.

#### **4.2. Specific objectives**

This strategy is divided into seven main components, representing the most important areas of public financial management. The objectives specified in each of the seven components are as follows:

***Component 1 - macro-budgetary framework:*** A good macro-budgetary framework is essential for setting fiscal targets over the medium term.

*The specific objective* of this component is to improve the quality of macroeconomic and fiscal budgeting to ensure macroeconomic framework based on a realistic and predictable budget.

***Component 2 - Budget Development and Planning:*** The budget is the main tool for the allocation of public financial resources and communication of fiscal policy objectives to Moldovan citizens.

*The specific objective* of this component is to ensure 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:*** It is necessary that public resources are used in accordance with the Law on budget and legal norms and procedures. A complete and coherent accounting system is required to support budgetary and financial reporting and to ensure transparency.

*The specific objective* of this component is to improve and modernize 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 Internal Control:*** It must operate efficiently and effectively and in full compliance with laws and standards. This requires an adequate system of internal audit to provide an objective and independent assurance, consulting activity designed to add value and improve public sector activities.

*The specific objective* of this component is to establish 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:*** tax and customs revenues administration is critical to the efficiency and effectiveness of revenue policy and the implementation of fiscal and budgetary policy.

*The specific objective* of this component is to increase revenue mobilization by enhancing authorities' capacities to administer revenues in order to collect planned tax and customs revenues.

**Component 6 – Public procurement:** The Government is obliged to ensure the procurement of goods, works or services through public funds at a competitive price and using rules, transparent processes and procedures.

The specific objective of this component is to establish a modern system of public procurement in accordance with EU standards.

**Component 7 - Financial Management Information System:** Financial Management Information System provides for the automation of process of developing and implementing the budget and increase the pace and efficiency of transactions.

**The specific objective** of this component is to establish 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.

## **Chapter V**

### **The basic components of the Strategy**

#### **5.1. Macro-budgetary framework**

This section covers the thematic areas of macro-economic forecasting (including revenue forecasting) and public debt management. Better macro-economic forecasting and revenue forecasting will improve the overall process of setting tax objectives and spending levels consistent with these objectives and the process of allocation of resources in accordance with the policies and fiscal objectives. In addition, improvements in debt management will allow the Government to avoid uncontrolled growth of debt and improve tools and techniques that the government can use to finance the deficit.

##### **5.1.1. The basic principles and expected results**

###### **a) macro-economic forecasting and revenue forecasting**

The existence of a macro-economic and medium-term financial framework to support budget planning.

Internal revenue forecast is accurate and based on macroeconomic forecasts.

###### **b) Public debt management**

Internal and external public debt must be controlled by the central fiscal authority.

There is a proper debt management system for tracking and reporting.

Linking debt management with cash forecasting.

Fiscal deficit financing at a minimum, medium and long term cost and risk.

Government and Parliament reporting on public debt, state guarantees and on lending.

### 5.1.2 Reform measures and responsible institution

Current situation	Areas of concern	Reform measures	
		Medium term targets	Long term objectives

1	2	3	4
<b>Macroeconomic forecast and revenues planning</b>			
<p>There is a medium-term budgetary framework (3 years), which serves as basis for annual budget planning. There is an IT module for the macroeconomic forecasting (Ministry of Economy)</p> <p>The Ministry of Finance has an macro financial information module for the development of revenue scenarios</p>	<p>The multitude of institutions that provide data for macroeconomic forecasting and using different assumptions and methodologies create a risk of inconsistent forecasting assumptions</p> <p>Update macroeconomic forecasting is not always associated with the budget calendar</p> <p>Quality of macroeconomic forecasts continue</p>	<p>Create a strengthened institutional and methodological framework for macroeconomic forecasting in line with the budget calendar</p> <p>Develop mechanisms for consultation and comparison with macroeconomic forecasts prepared by independent institutions</p> <p>Continuous improvement of the methodology of revenue</p>	<p>Introduce an independent mechanism for forecasts assessment</p> <p>Implement modern tools of real forecasting of revenues</p>

1	2	3	4
<p>External resources are part of the overall budgetary resources framework</p>	<p>to be an imminent risk to budget estimates</p> <p>There is a need to adjust the models and analytical procedures and ensure the monitoring of the impact of macroeconomic forecasts and fiscal policies for the purpose of revenues planning process</p> <p>As a result of unrealistic macroeconomic forecasts, revenue estimates prove to be understated or overstated, which undermines the multiannual spending programs</p> <p>Unpredictability of attracting external sources affects the quality of budget forecasts</p>	<p>estimation by implementing modern IT practices and tools</p> <p>Improving communication mechanisms and procedures with donors for an actual planning of external financial support</p>	
<b>Public debt management</b>			
<p>The Ministry of Finance is the only central authority that monitors public debt and state guarantees</p>	<p>Insufficient regulatory framework</p> <p>Local public authorities do not have sufficient capacities for</p>	<p>Adjusting the legal and methodological framework on state debt and public debt</p>	<p>Assuring a debt management in accordance with good practices</p>

1	2	3	4
<p>Local public authorities and state economic entities and those holding a share more than 50% of the statutory capital report quarterly on outstanding loans</p> <p>The system of financial analysis of debt management allows monitoring, recording, settlement and clearing of public debt and external debt at an appropriate level</p>	<p>acquiring and monitoring external debt</p> <p>There are procedural issues for reporting debt of economic entities with a majority state share</p> <p>The system of financial analysis of the debt management function does not have to analyze the risk factors and the sensitivity of the debt portfolio.</p> <p>The use of separate IT for internal state debt exposure to operational risks is high</p>	<p>Application of modern information technologies for debt management</p> <p>Strengthening the capacity of the Ministry of Finance and local authorities in terms of debt management</p>	
<p><b>Institutions responsible for component 1:</b>  Ministry of Finance;  Ministry of Economy.</p>			

## 5.2. Budget development and planning

This section covers the thematic areas of budget credibility, transparency, comprehensiveness and orderliness and policy perspectives of the budget, inter-budgetary and public investment. It is understood that improvements in the areas covered under this core component will improve fiscal discipline and ensure more efficient resource allocation, increase transparency and public access to information in the area of public financial management.



## **5.2.1. Basic principles and expected results**

### **a) Budget credibility**

Integrity of the Budget: Budget is executed as planned within the parameters of fiscal policy in a disciplined fashion, which ensures that deviations between actual and original budgets are kept to a minimum.

The Budget serves as an effective tool for coordinating activities of the Government and its entities.

Budget planning ensures the principles of resources allocation efficiency by seeking prioritisation of expenditures and reallocation among the sectors from lower to higher expenditure priorities.

Budget planning ensures operational efficiency by ensuring that Government entities are encouraged to produce goods, works and services at the lowest possible cost and highest possible value.

There are no expenditure arrears and the stock of the arrears is low; and there are systems to monitor these arrears.

Budgetary decisions include fiscal risk analysis, including risks generated by public enterprises and commercial undertakings with a majority state share and risks generated by administrative territorial units.

Budgetary decisions include measurement, monitoring and evaluation of performance against the original plan.

### **b) Transparency and comprehensiveness**

Existence of a robust budget classification system that allows for planning and reporting of spending on administrative, economic and functional areas, and is compliant with international standards (IMF-GFS, COFOG);

Annual Budget documentation provides complete information on central government operations, including the outcome of previous years;

Budget coverage includes reporting of all government operations;

Extra-budgetary operations are insignificant, or included in the fiscal reports if significant;

Central government has an oversight role over all public sector entities, including administrative territorial units, public enterprises and quasi-fiscal operations;

Public access to budget and fiscal information is ensured.

### **c) Orderliness (accuracy) and Policy Perspectives in the Budget**

Existence of and adherence to the budget calendar;

Existence of a single and integrated budget process, involving central government and administrative territorial units;

Existence of, and adherence to guidelines for medium-term expenditure and annual Budget formulation;

Linking policy to Budget on an annual and multi-annual basis;

Sector strategies are based on multi-year projections of recurrent expenditures and investment plans.

#### **d ) inter-budgetary relations**

Systems exist to ensure vertical and horizontal balance/equalisation;

Existence of clear criteria to determine the transfer of fiscal support to administrative territorial units in a transparent and predictable mode to enable the timely preparation of administrative territorial units' budgets.

#### **e) Capital public investment**

The public investment programme and the capital budget are planned within the overall medium fiscal and expenditure projections;

Selection and approval of investment projects is consistent with national and sector policies;

Investment projects are planned on the basis of assured sources and fiscal impact analysis, while relevant information on future costs is made available.

### **5.2.2 Reform measures and responsible institution**

<b>Current situation</b>	<b>Areas of concern</b>	<b>Reform measures</b>	
		<b>Medium term targets</b>	<b>Long term objectives</b>

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Budget credibility</b>			
Budgetary and fiscal discipline is satisfactory. Budget deficit and public debt are managed prudently and, there is no risk to	Arrangements for monitoring and control of general budgetary indicators should be developed and adjusted to international	The adoption of the new law on public finance and budgetary and fiscal accountability  Strengthening the	Full implementation of the new law on public finance and budgetary and fiscal accountability: restricting in year

1	2	3	4
<p>budget stability in the short term.</p> <p>The annual budget has recently become more secure, stable and predictable</p>	<p>practices</p> <p>Strategic planning and analysis capabilities, as well budgetary and fiscal risk analysis must be improved.</p>	<p>capacities for budgetary and fiscal risk analysis and monitoring of self-financed public authorities / institutions and economic entities where the state has a majority of capital</p>	<p>budgetary changes, application of budgetary and fiscal rules established by the legislation, eliminating the practice of adopting strategies and sectoral programs without financial coverage</p>
<b>Transparency &amp; Comprehensiveness</b>			
<p>The national public budget is comprehensive and includes all the resources of budget institutions, including the means from paid services, special funds and foreign-financed projects</p> <p>Budget documentation is comprehensive and includes information on the dynamic evolution of national public budget and reflects the financial and non-financial performance of programs.</p>	<p>Fragmented management of budget spending for the main component, special means and special funds, and foreign-financed projects jeopardize the principle of universality and the pivotal role of the government budget in prioritizing spending</p> <p>The quality of discussions regarding the budget could be improved, focusing on program performance</p>	<p>Review of the process of management of resources collected by authorities / state institutions to exclude earmarking certain resources to certain expenses</p> <p>Setting the minimum requirements for information included in the budget documentation</p> <p>Implementation of the new budget classification and of the new chart of accounts in the budget system in</p>	<p>The allocation and management of resources in the budget process according to single rules</p> <p>Achieving a more efficient budget presentation level and reporting of budget information</p> <p>The implementation of new methods for disseminating information on the budget by raising awareness of citizens with clear, uncomplicated and systematic information on the budget, with a</p>

1	2	3	4
<p>Existing budget classification system contains the main elements of international standards</p> <p>Sufficient public access to budgetary and fiscal information base</p>	<p>Classification is not in full compliance with international standards</p> <p>There are some inconsistencies between the presentation of expenses in the Medium Term Budget Framework (by sector and local authorities) and the annual budget (the central authorities and programs)</p> <p>The structure and amount of information available on the website requires diversification and improvement</p> <p>Existing consultation mechanisms with the civil society should be improved</p>	<p>line with international standards</p> <p>Implementation of the new financial management information system</p> <p>Ensuring consistency in the presentation of expenses in the Medium Term Budget Framework and annual budget</p> <p>Developing and updating web pages with quality and timely information on the formulation and execution of the budget</p> <p>Public authorities publishing strategies / medium term sectoral programs, annual budgets and relevant reports on the web pages</p> <p>Develop mechanisms for consultation of budget forecasts</p>	<p>focus on results, using websites and – e Government portal and using other relevant means</p> <p>Strengthening the press services capacities of the public authorities to ensure the correct and updated information</p>

1	2	3	4
		and medium-term policy priorities with the civil society	
<b>Orderliness (accuracy) and Policy Perspectives in the Budget</b>			
<p>There is a timetable for developing the Medium Term Budget Framework and the annual budget</p> <p>The calendar, roles and responsibilities in the budget process are regulated by law</p> <p>Development of the Medium Term Budgetary Framework is a phase of the annual cycle of budget planning and serves as a tool to ensure the correlation between policy priorities and budget</p> <p>Performance information is included in budget documentation for more than 70% of state budget expenditures and</p>	<p>In recent years the budget calendar periods were not always complied with.</p> <p>Strategic Analysis of the Medium Term Budget Framework should be extended to all sectors</p> <p>The consistency between the policy framework, the Medium Term Budget Framework and annual budgets must be improved</p> <p>There is a systemic and capacity risks to implement a nationwide performance based budgeting</p>	<p>Revision of the budget calendar to determine optimal time in the budget process</p> <p>Expanding the coverage of Medium Term Budget Framework for a total coverage of spending strategies</p> <p>Strengthening public authorities capacities regarding the strategic planning and analysis</p> <p>Developing Institutional capacity required to implement a nationwide performance based budgeting</p>	<p>Compliance with the budget calendar by all authorities involved in the budget process</p> <p>Delegating central authorities with responsibilities for setting sector priorities and promotion of budgets drafts and reporting results regarding areas of competence</p> <p>Implementation of large-scale performance-based budgeting method</p>

1	2	3	4
creates the topic of discussions about the budget			
<b>Budgetary relations</b>			
<p>The current legislative framework governs the sharing of government taxes and state fees between levels of public administration</p> <p>There is a transfers system and clear rules between the state budget and the budgets of administrative-territorial units of the second level and transfers between budgets of administrative-territorial units of second level and budgets of administrative-territorial units of first level</p>	<p>There is a budgetary dependence of each level of public administration to the immediately superior one</p> <p>Existing transfers system is inefficient and does not stimulate the fiscal effort of local authorities</p> <p>High volatility of the local public finance system from year to year</p>	<p>Reforming the system of transfers and shared taxes, setting those on an objective and predictable basis, with budget separation of local government of first and second levels to ensure a minimum level of services, provided that the system does not discourage own fiscal efforts and reasonable use of resources</p> <p>Strengthening the local revenue base of local governments and the autonomy to decide on those.</p>	<p>Strengthening financial management at local government level to ensure financial discipline, increase transparency and public participation</p>
<b>Public capital investments</b>			
Expenditures for capital investments are integrated in the Medium Term Budget Framework and	<p>The existence of a large number of uncompleted projects</p> <p>The framework for the</p>	Adopting the methodological framework for capital planning and investment management, defining the	Capacity building of the Ministry of Finance and public authorities in monitoring, evaluation and reporting the

1	2	3	4
<p>are correlated with sectoral expenditures strategies</p> <p>Dispersed methodological framework contains no clear criteria for evaluation and selection of capital investment projects</p>	<p>management of capital investments needs to be improved: project cycle, the evaluation and selection of investment projects</p> <p>Establishment of project post-implementation reporting</p> <p>The existing capacities is a constraint for strengthening the planning and management of capital investments</p>	<p>selection and evaluation of projects, prioritization criteria subject to policy priorities, financial and economic benefits and implementation capacities of project beneficiaries</p>	<p>impact of the implementation of capital investment projects</p>
<p><b>Institutions responsible for component 2:</b> Ministry of Finance</p>			

### 5.3. Budget execution, accounting and reporting

This section covers the thematic areas of budget execution, cash management, budgetary accounting and reporting, as well as financial accounting and reporting. Improvements to this component will increase efficiency and control over expenditures.

#### 5.3.1. Basic principles and expected results

##### a) Budget execution process

Clearly defined budget execution procedures.

There is ex- ante control of public expenditure from the state budget and the budgets of local public authorities.

Effective execution of current expenses (expenses for payment of salaries and non-wage costs ) and capital expenditures .

**b ) Cash flow management**

Centralization of balances in the "Single Treasury Account".

Efficient cash management system, which includes the development of annual forecasts of liquidity with a monthly distribution, which is updated monthly / weekly / daily and provides control of expenditure allocations within the approved budget and the balance of available funds.

The system for recording and monitoring of commitments (contracts, guarantees, commitments).

**c ) The accounting and reporting in the budget system**

Chart of accounts for budget execution in accordance with the budget classification.

Periodicity of budget execution reports and annual reports during budget execution.

Coverage of reports on budget execution.

**d ) Accounting and financial reporting**

There are well-defined national accounting procedures.

Unified Chart of Accounts is to be used for the planning, execution and recording in the accounts of the budget.

Comprehensiveness and frequency of submission of financial reports, including reporting of commitments

**5.3.2. Reform measures and responsible institution**

Current situation	Areas of concern	Reform measures	
		Medium term targets	Long term objectives

1	2	3	4
<b>Budget execution process</b>			
Control over	Some internal	Changing the	Full



1	2	3	4
<p>expenditures execution in the Treasury is transparent. The existing FMIS of the MoF covers all treasury operations, providing for proper authorisation processes and expenditure control at the level of State Treasury and Territorial Treasuries</p> <p>Contracts cannot be signed by budget organisations unless authorised by the relevant TT and registered within the existing Treasury system.</p> <p>This ensures that the relevant budgeted allocation is decreased in line with the commitment made.</p> <p>The existing payroll monitoring system allows the MoF to control the</p>	<p>control procedures are excessive (e.g. duplication of approvals) and reduce efficiency.</p> <p>There is no obligation for a budget organisation to register information on commitments which are not based on a contract.</p> <p>There is no centralised IT system for payroll processing. Personnel data and payroll data are not directly linked.</p> <p>Internal control deficiencies for payroll exist at the local level.</p> <p>Capacity constraints exist in smaller budget organisations regarding salary</p>	<p>legal framework for budget execution to align it with the new law on public finance and fiscal and budgetary accountability.</p> <p>Testing and introducing the new methodology for implementing the new Financial Management Information System</p> <p>Increasing the capacity of territorial treasuries and State Treasury to allow full use of the new Financial Management Information System in the budget execution process</p> <p>Develop training programs for government officials to use the new Financial Management Information System</p>	<p>implementation of the new legislation on budget execution</p>

1	2	3	4
<p>number of civil servants and related costs against budget limits</p> <p>Internal ex-ante controls within budget organisations ensure that every transaction with a financial implication requires two signatures: by the head of the institution and by the chief accountant</p>	<p>calculation and proper application of legislative changes.</p>		
<b>Cash flow management</b>			
<p>Cash flows are forecasted and monitored. Weekly aggregate cash forecasts are updated daily.</p> <p>The Treasury Single Account (TSA) system maintained in the National Bank of Moldova is fully operational;</p> <p>The existing Financial</p>	<p>Cash flow forecasts are not always accurate due to liquidity shortages resulting from adverse fiscal circumstances;</p> <p>Although the Single Treasury Account is fully operational the implementation of projects financed from external sources is carried</p>	<p>With the implementation of the Financial Management Information System of the Ministry of Finance one will improve the skills for forecasting and monitoring cash flow by recording and monitoring commitments at the invoice level and other supporting documents</p>	<p>Include all sources of donor funding in the treasury system</p>

1	2	3	4
<p>Management Information System (FMIS) to a great extent prevents from making commitments in the absence of an available budget allocation. Although this is not a fully developed commitment management system, it is effective in preventing overspending as evidenced also by the low stock of arrears.</p>	<p>out through commercial banks</p> <p>The registration of a contract with TT does not have the effect of putting aside funds for a specific date</p>	<p>Ensuring the development of a module on commitments as part of the Financial Management Information System</p>	
<b>Budgetary accounting and reporting</b>			
<p>Budgets are executed following the same classification under which they were prepared, currently based on GFS 1986. New classification compliant with GFS 2001 is approved</p> <p>MoF prepares monthly and</p>	<p>Budget execution reports generated by the existing FMIS do not include information on the budget implementation rate for the corresponding period of the previous year. Comparative information for previous year is inputted</p>	<p>Testing and application of the Unified Chart of Accounts in accordance with International Financial Statistics 2001 for budget execution</p> <p>Restructuring budget execution reports to include information on budget execution rate for the corresponding period of the previous year</p>	<p>Strengthening central government responsibility in terms of direct reporting to Parliament on the indicators achieved in the area of their accountability.</p>

1	2	3	4
<p>annual consolidated budget execution reports on the National Public Budget covering the State Budget, the administrative Territorial Units (ATU) as well as the State Social Insurance Fund (SSIF) and the Compulsory Insurance Funds for Medical Assistance (CIFMA) which are published on the MoF website;</p> <p>Budget execution reports are produced timely with an adequate quality;</p> <p>Monthly budget execution reports are cumulative and contain planned figures for the year and for the period, executed amounts, deviations in</p>	<p>manually.</p> <p>Budget execution reports do not include information on commitments.</p>	<p>Introducing commitments reporting</p>	

1	2	3	4
<p>amount and percentage</p> <p>Reports are provided in aggregated form with the main headings, as well as on the detail level by administrative, economic and functional classification</p> <p>Reports on the State Budget and on the administrative territorial units budgets are generated from the FMS</p> <p>Accounting records on budget execution is kept in the TTs, which prepare daily account statements and monthly budget execution reports for each budget organisation</p> <p>The stock of arrears is low and</p>			

1	2	3	4
<p>there is a suitable monitoring system. (PEFA 2011, PI-4).</p>			
<b>Accounting and financial and reporting</b>			
<p>Financial accounting is done using national accounting standards for the public sector</p> <p>The complete report on budget execution published by the MoF is broadly in line with international standards for cash based accounting</p> <p>All budget organisations (at central and local level) as well as SSIF and CIFMA, maintain accounting systems on modified accrual basis. Budget organisations prepare quarterly and annual financial statements, which</p>	<p>The national accounting standards are not aligned with international practices</p> <p>Six different charts of accounts are used:</p> <ul style="list-style-type: none"> <li>- One for cash accounting by the State Treasury and Territorial Treasuries;</li> <li>- One for cash accounting for Financial Departments of second level administrative territorial units;</li> </ul>	<p>Testing and implementation of the Unified Chart of Accounts in compliance with the financial statistics 2001 for financial accounting, with the implementation of the Financial Management Information System</p> <p>Testing Methodological Norms regarding the implementation of the chart of accounts, accounting and financial reporting, once the Financial Management Information System is implemented</p>	<p>Integrating the new Financial Management Information System with the 'C' application used by the budgetary authorities for accounting purposes</p> <p>Ensure the publication of consolidated financial statements for the central government</p> <p>Develop and implement national accounting standards for the public sector in line with international practices</p>

1	2	3	4
<p>also include a balance sheet, and send them to central public authorities. Central public authorities consolidate the financial statements and send to the MoF</p>	<ul style="list-style-type: none"> <li>- Two for modified accrual accounting for public institutions and first level local government s budgets</li> <li>- Two for accrual accounting for National Social Insurance Fund and National Health Insurance Company.</li> </ul> <p>The complete report on budget execution published by the MoF does not include all specific information.</p> <p>The annual financial statements, including a balance sheet, presented by</p>		

1	2	3	4
	budget organisations to the MoF are not consolidated but not published by the MoF.		
<b>Institutions responsible for component 3:</b> Ministry of Finance; State Treasury			

## 5.4. Financial management and internal control

This section covers the thematic areas of financial management and control, internal audit (PIFC in EU terminology), financial inspection and investigation on committed fraud. Improvements to this component will increase efficiency and control over costs.

### 5.4.1. The basic principles and expected results

#### a) Public Internal Financial Control including:

##### *Internal Audit*

Ensuring internal audit coverage for the central and local authorities of level II.

Reorientation of internal audit function from compliance audit to system audit / performance audit.

Immediate and comprehensive actions taken by managers following internal audit reports.

##### *Financial Management and Control*

Strengthening capacities and responsibilities of finance and economy departments within public entities.

Public entities implement / develop financial management and control systems based on the following components:

control environment;



performance and risk management;

control activities;

information and communication;

monitoring and evaluation.

Increasing managerial responsibility by them issuing the statement on good governance.

### ***Central harmonization***

Standards and procedures for internal audit, financial management and control in accordance with international standards.

The primary role of the Ministry of Finance to disseminate methodological standards and guidelines.

### **Financial Inspection and fraud investigations**

There is a financial inspection and investigation of fraud function.

Financial inspection is carried out based on risk of fraud, corruption and major financial abuse.

The principles of transparency and legality included in the legislation of the Republic of Moldova.

#### **5.4.2. Reform measures and responsible institution**

<b>Current situation</b>	<b>Areas of concern</b>	<b>Reform measures</b>	
		<b>Medium term targets</b>	<b>Long term objectives</b>

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Public Internal Financial Control</b>			
Public Financial (PIFC) have been introduced since 2010	Internal Control provisions with the	Recent MoF evaluation for 2011 revealed that out 38 IA units (52 is the	Adequate financial management principles of good governance

1	2	3	4
<p>amendments in the Law on Budget System and Budget Process</p> <p>Law on Public Internal Financial Control is in force since November 2011</p> <p>Existence of PIFC Strategy</p> <p>A Central Harmonisation Unit (CHU) exists in the MoF</p> <p>Its responsibilities include legal framework development, methodology for PIFC, monitoring decentralised internal audit units, training and certification</p> <p>Internal Audit (IA) Units have been established in central public authorities, with the exception of</p>	<p>number of existing ones) 14 IA units were unstaffed) found 24 were operational, i.e. operating according to the standards;</p> <p>There are 7 IA units established to date at local level; Most IA units are understaffed;</p> <p>Although the PIFC Law foresees the implementation of system audit, compliance audit, financial audit, performance audit and IT audit, in practice the majority of the audits carried</p>	<p>n of internal financial management</p> <p>Develop methodological guidelines and procedures to facilitate the implementation of the regulatory framework for internal financial management and publication on the website of the Internal Financial Management Manual on the Ministry of Finance website</p> <p>Template Regulation for finance and economy departments developed</p> <p>Initiate and review the current system of self-assessment, financial management and internal reporting issue</p>	<p>Control environment conducive to promoting a culture of appropriate control</p> <p>The effective management of risk</p> <p>Efficient and effective control activities</p> <p>Quality information products and effective communication systems in place</p> <p>Robust monitoring and evaluation mechanisms</p> <p>Modern operational system evaluation and internal financial management reporting, as well as issuing the statement on good governance</p>

1	2	3	4
<p>the Ministry of Justice. 103 internal auditors have been appointed in total.</p> <p>The methodological framework for FMC includes:</p> <ul style="list-style-type: none"> <li>- National Standards for Internal Control in the Public Sector;</li> <li>- Regulation on assessment, reporting of FMC system and issuance of good governance declaration.</li> </ul> <ul style="list-style-type: none"> <li>• The methodological framework for internal audit includes: <ul style="list-style-type: none"> <li>- National Internal Audit Standards</li> <li>- A Code of Ethics for Internal Auditors,</li> <li>- A Charter of Internal Audit</li> <li>- Methodological Norms for Internal Audit in the Public Sector</li> <li>- Regulation on</li> </ul> </li> </ul>	<p>out to date are compliance audits</p> <p>Limited conceptual understanding of the essence of internal audit and the role of the internal auditor by management and internal auditors alike</p> <p>Limited capacity in carrying out risk assessments</p> <p>There is evidence on follow-up of internal audit reports, but the scope is limited also because there are few well developed IA units across the</p>	<p>statement on good governance</p> <p>Establishing and staffing internal audit units in all central authorities and local authorities of level II</p> <p>Further strengthening of capacities of internal auditors through training and pilot audits</p> <p>Develop mechanisms for certification of internal auditors</p>	<p>Full implementation of the systems audit and performance audit</p> <p>Developing mechanisms for ongoing professional development of internal auditors</p>

1	2	3	4
<p>reporting the internal audit unit activity</p> <p>- Regulation on certifying the public sector internal auditors</p> <p>An annual report is presented to the management of the audited entity, MoF and upon request, to the Court of Accounts.</p>	<p>public sector</p> <p>Limited capacities and skills in implementing FMC</p> <p>according to the National Standards and legislation</p>		

**Financial inspection and fraud investigation**

<p>Reorganisation of the Financial Control and Revision Service from the MoF subordination with the Financial Inspection (currently). The PIFC Strategy describes the future roles for the Financial Inspection emphasising the function of investigation and fraud detection</p> <p>Financial Inspection structure is made of 17 departments of inspection, including 11 in the central office and six regional directorates. By changing the structure there was started the process of</p>	<p>Delayed examination of inspection materials and failure of law enforcement institutions to apply measures on compensation for damages to State</p> <p>Insufficient legal framework to ensure the coverage of damages identified</p> <p>Interference of the political factor in the financial inspection activity</p>	<p>Development of the strategic development plan for financial Inspection</p> <p>Deepening the knowledge that is specific to the inspection activity by external professional training</p> <p>Identify tools for the recovery of damages observed by the manager, prosecutor, assigning competence to</p>	<p>Reorganization of the institution into an authority for inspection and effective investigation of fraud</p> <p>Working with specialized divisions to develop information technologies and creation of a database for conducting investigations, analysis and verification for efficiency</p>
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1	2	3	4
<p>regional consolidation</p> <p>Inspection activity under the new structure of the central apparatus was organized by areas of activity</p> <p>Financial inspections focus on entities with areas of public finance management and public assets with high risk by conducting thematic inspections, taking into account other forms of internal and external control</p> <p>One aspect of the inspection activity is to timely identify any irregularities and fraud signalled through petitions and other requests and ensuring the operational and unannounced inspection in order to prevent embezzlement of property and funds</p> <p>The large number of requests for controls in criminal cases within entities from the real sector, as a result of reorganization of the Centre for Combating Economic Crimes and Corruption into the Central Anticorruption</p>		<p>repair damages to the Financial Inspection.</p> <p>Modernizing procedures, practices and methods of financial inspection</p> <p>Improving external communication in order to ensure the finality of inspection results to hold liable those responsible by the relevant bodies in order to educate financial discipline and prevent fraud and irregularities and repair the damage caused to the state</p>	<p>purpose and reduction of the time necessary for inspections</p> <p>Increase in the amount of damages covered</p> <p>Decrease irregularities in the financial activity of entities subject to inspection</p>

1	2	3	4
<p>body which has no right to carry out financial controls.</p> <p>Insufficient transparency Financial Inspection is working under Articles 13 and 55 of the Law No . 847 of 24 May 1996 on the budgetary system and budgetary process , article 10 of Law No. 845 -XII of 3 January 1992 on Entrepreneurship and Business , Law No. 231 of 23 September 2010 on internal trade and the Regulation on organization and functioning of financial inspection under the Ministry of Finance, approved by Government Decision nr.1026 of 2 November 2010 "On the organization of financial inspection</p>	<p>Lack of a legal framework regarding the competence to verify of private entities and personnel, insufficient to perform inspection in this sector</p>	<p>Change the legal framework necessary for the inspection of conferral private sector entities and increase staffing</p> <p>Creating Financial</p>	

1	2	3	4
	Ensuring transparency	Inspection web page	
<b>Institutions responsible for component 4:</b> Ministry of Finance; Financial Inspection			

## 5.5. Management of revenues

This section contains issues related to ensuring an adequate level of budget revenue collection, by implementing modern, fair and consistent tax and customs administration.

Improvements under this component are aimed at providing convenience to taxpayers, minimizing the costs of tax reporting for business, solving fiscal problems facing taxpayers, all having the general purpose fiscal education of the general public.

### 5.5.1. Basic principles and expected results

#### 1) Tax Administration

##### a) Legislation

Tax legislation has a comprehensive, clear and transparent nature.

Tax legislation consists of national tax legislation, international treaties and international tax agreements to which Moldova is party.

Tax legislation clearly defines the rights and obligations of taxpayers and their commitments.

Tax legislation provides adequate powers to enable the tax administration to fully implement and enforce its laws.

Tax legislation contains strictly limited discretionary powers.

##### b) Collection of taxes, compliance and enforcement

Tax legislation, sanctions, systems and procedures ensure that taxpayers pay the correct amount of tax in due course.

Robust and effective policies on collecting overdue payments to the budget, systems and procedures are in place and fully functional.

Tax fraud and evasion are identified systematically and rigorously investigated and prosecuted in order to increase the overall level of tax compliance.

### **c) Fiscal Control**

Tax controls plan is drawn up based on risk factors such as general risks, specific risks regarding VAT compliance is in place and fully functional.

### **d) Management of the taxpayer**

Effective systems for taxpayer registration and detailed recording of tax revenues and payments of taxpayers are in place and fully functional.

Effective systems for recording of taxable transactions, activities, or supplies are in place and fully functional.

Effective systems for monitoring taxpayer compliance are in place and fully functional.

### **e) Taxpayer rights, obligations and commitments**

The rights, obligations and commitments of taxpayers are clearly defined.

Taxpayers have access to information about their rights, obligations and their commitments.

A fair, equitable and efficient tax claims process is in place and fully functional.

### **f) Voluntary Compliance**

Voluntary compliance is promoted actively, systematically and regularly.

Compliance of administrative burdens on taxpayers are kept to a minimum.

Recommendations/consultations provided for taxpayers can be easily understood and accessed.



Registration and tax accounting system is simple to use and efficient to administer.

## **2) Customs Administration**

### **a) Legislation**

Customs legislation has a comprehensive, clear and transparent nature.

Customs legislation is compatible with the international legislation and standards in the area of customs.

Customs legislation clearly defines the rights, duties and responsibilities of officials, businesses and citizens.

Customs legislation provides adequate powers to allow the customs administration to fully implement the provisions.

Customs legislation strictly limited powers of control.

### **b) Management of businesses**

Effective systems to track data from customs declarations and the payments are implemented and fully functional.

Effective systems for recording obligations on businesses with regard to customs payments are fully implemented and functional.

Appropriate IT system for electronic data exchange with operators based on a single point of access is in place and fully functional.

Effective systems for monitoring compliance are implemented and fully functional.

### **c) Revenue collection**

There is a strategy developed for the collection and management of revenue, which is being designed in order to ensure that all customs revenues are properly collected, recorded, reported and audited.

### **d) Transit, border control and post clearance audit**

Efficient and effective customs controls carried out on the basis of risk analysis in airports, border crossings for cars and internal control points that facilitate the flow of goods and transport, ensures revenue collection and protection of citizens, are implemented and fully functional.

A customs transit system, provided by a reliable guarantee mechanism and implementation of identification measures, and the obligation to use authorised means of transport and customs seals is in place and fully functional.

A further control and post-clearance audit which is effective and efficient and which offers customs administration sufficient legal powers for planning the audit and use of risk management is in place and fully functional.

### **e) Trade Facilitation**

Customs controls are organized in such a way as to minimize costs to the business community, documentation and information requirements and the time required for compliance with customs and other border authorities and ensuring supply chain security.

Simplified customs procedures for economic operators complying with the legislation.

Cooperation between customs and the business community is developed by applying effective tools and mechanisms.

### **f) Law enforcement and investigations**

Efficient and effective systems for the detection, prevention and investigation of customs fraud, are implemented and fully functional.

Operations for law enforcement and investigation are correlated with an intelligence strategy based on the current risk analysis methods to safeguard revenues and society.

### **g) Supply Chain Security**

Efficient and effective measures to secure the international supply chain are aligned to the framework –standards on global trade security and facilitation of the WCO and EU requirements are implemented and fully operational.

## h) Rights, obligations and responsibilities of businesses

Rights, duties and responsibilities of businesses are clearly defined.

Businesses have access to information about their rights, obligations and responsibilities.

A fair, equitable and efficient process to challenge Customs decisions is in place and fully functional.

### 5.5.2. Reform measures and responsible institution

Current situation	Areas of concern	Reform measures	
		Medium term targets	Long term objectives

1	2	3	4
<b>1) Tax administration</b>			
<b>Legislation</b>		Further development of the overall strategy for compliance by developing and implementing annual tax compliance programs	Expanding the range of services provided to taxpayers through the development and implementation of effective and operational automated information systems that will ensure the exchange of information between tax authorities and taxpayers
Tax law defines the rights, obligations and commitments of taxpayers	Changing the law by excluding nonfiscal activities currently administered by the State Tax Service		
Tax legislation provides for clearly formulated fiscal control competences, and penalties for non-compliance, deemed adequate		Improving the management process of large taxpayers by enhancing the functional capacity and the control of the Department of large taxpayers and establishing clear criteria for determination and division of large taxpayers by areas of activity	
<b>Collection of taxes and fees, compliance and enforcement</b>		Establishment of a modern internal control and internal audit	Amendments to the legislation in order to exclude nonfiscal activities currently managed by the State Tax Service
Tax payments are made through banks into the treasury single	Reconciliation of tax assessment to improve revenue forecasting and managing cash		

1	2	3	4
<p>account</p> <p>Reconciliation of revenues between the State Tax Service and the State Treasury is made daily, monthly and annually at the central and local level, although limited to taxes levied, not taking into account the tax assessments</p> <p>Arrears management and recovery of arrears is facing problems because of difficulties related to analysis and transfer of due amounts at maturity</p> <p>State Tax Service has made progress in implementing a risk compliance model</p>	<p>flow in the short term</p> <p>Introducing measures to offset the taxes payable to the taxpayer against reimbursement of payments due in respect of other taxes / customs duties</p> <p>Implementation of the automated information system "Current Account and certification of the taxpayer" which aims to ensure taxpayer access to his current account, providing real time information on tax liabilities of taxpayers</p> <p>Suspension (for further collection or write off) of arrears in a reduced amount / or old, so as to focus on: a) recent and substantial arrears collection and b) the introduction of preventive</p>	<p>function and updating the existing system</p> <p>Developing a compliance strategy based on a comprehensive system of assessment and risk management for individuals with very high incomes</p> <p>Develop comprehensive policies to prevent and combat tax evasion and fraud by strengthening fraud investigation and development of risk identification for tax evasion</p> <p>Analysis of current processes and procedures of tax administration ( collection of income tax audit process , institutional processes ) to increase their effectiveness, identify and eliminate deficiencies</p> <p>Develop annual plans to reduce debts by local tax authorities in order to improve the recovery of arrears</p> <p>Promoting</p>	<p>Modernizing the approach to taxpayers compliance</p> <p>Confident relations with taxpayers, based on proper service provision tools to taxpayers, assistance policies to facilitate and support improved compliance, create feedback mechanisms and promote a high level of voluntary compliance of taxpayers with tax law</p> <p>Creating an integrated information system that supports the process of collecting all the data needed for a proper risk assessment of tax arrears, and establish debtors profiles, based on objective criteria</p> <p>Educating State Tax Service employees through</p>

1	2	3	4
<p>Amendments were made to the tax laws that allow estimating the taxable income of individuals by indirect methods, using multiple sources of information</p>	<p>measures to avoid new arrears (liabilities / debts)</p> <p>Creating a risk management department to update and maintain the current compliance strategy</p> <p>Establish a compliance board to provide strategic guidance at a high level in terms of compliance efforts</p> <p>Developing a process for documentation and analysis of interventions and outcomes of tax compliance</p> <p>Services provided to the taxpayer should be strengthened and used to promote voluntary compliance in paying taxes</p> <p>Functional capacity building and control of the</p>	<p>amendments regarding legalization of rescheduling/cancelling payments for the contributions to the state's social insurances budget.</p> <p>Development, implementation of a taxpayer service strategy as part of the overall strategy of minimizing compliance costs , widening the range of services , simplification of tax administration and providing comprehensive and affordable consultancy to taxpayers</p> <p>Simplifying procedures for calculating , reporting and paying the tax liabilities and increasing the satisfaction of the taxpayer by developing and implementing a system to assess the level of satisfaction of taxpayers that would allow identification of gaps in tax administration</p> <p>Development and unification of the Intergrated Information System</p>	<p>diversified and continuous internal and external training, according to approved plans</p>

1	2	3	4
	<p>large taxpayers department</p> <p>Removing all restrictions related to the right of persons to benefit from VAT refunds, allowing a full reimbursement of value added tax to all businesses who have paid surplus taxes on the purchases for the current and future period, applying controls based on the risk assessment, which may require changes in legislation</p>	<p>through the uniform and effective organization of the architecture of information technologies and their management</p> <p>Periodic review of IT solutions ( both external as well as internal management ) regarding compliance , security, data access and data protection</p> <p>Extending IT resources by creating a comprehensive database of taxpayers and operational use of information from third parties ( public institutions) to increase the level of satisfaction of internal and external users</p>	
<b>Fiscal control</b>			
<p>State Tax Service focuses its efforts for planning and selecting objectives for the fiscal audit by specific elements and/or comprehensive fiscal audit.</p>	<p>One needs to improve the tax skills and capabilities of staff working in the tax area by organizing trainings and cooperation with foreign experts in improving tax administration</p>	<p>Modernization of technical equipment in relation to technological advances and information system requirements , development of a secure communication network</p>	
<p>State Tax Service has identified new</p>	<p>Within the State Tax Service one should develop audit skills,</p>	<p>Ensuring adequate working conditions for the staff of the State Tax Service</p>	

1	2	3	4
<p>risk criteria, facilitating more effective selection of taxpayer groups who are at high risk of tax evasion</p>	<p>especially regarding control of VAT</p> <p>VAT control will also benefit from improved risk analysis</p>		
<p><b>Tax payer management</b></p>			
<p>Taxpayer registration system requires mandatory registration of new taxpayers and re-registration of existing entities to obtain a unique identification tax number. Entities which exceed the established threshold must register specifically for inclusion in the VAT and separately for the trading of goods subject to excise taxes</p> <p>All natural persons have assigned a numeric identifier ID for tax</p>	<p>One needs a new procedural document that will help improve the insolvency process and increase transparency of the entity in the process of insolvency</p> <p>Procedures governing insolvency of entities are expensive, set out in several laws and rules and there are no well published rules to help deal with this complex issue. Lack of transparency and clarity of these procedures may also contribute substantially to the registration of a growing number of companies inactive in the</p>		

1	2	3	4
<p>purposes The Tax number is mandatory in order to open any bank account in the Republic of Moldova</p> <p>State Tax Service activities directed against "ghost companies" have increased " VAT pre-registrations, control activities" and VAT registration threshold</p>	<p>State Register</p>		
<p><b>Taxpayer rights, obligations and commitments</b></p>			
<p>State Tax Service operations are established in a largely transparent legal framework, the information for contributors is available in the media, the official website of the State Tax Service <a href="http://www.fisc.md">www.fisc.md</a></p>	<p>Establishment of a Court specialized in complaints and independent from civil courts. This could substantially contribute to the efficiency, in general, and improve transparency of decisions of the Court (also a subject of judicial</p>		



1	2	3	4
<p>and other sources.</p> <p>Taxpayer obligations and commitments are stipulated in the Tax Code 1163-XIII of 1997, as amended and supplemented:</p> <p>State Tax Service organizes information campaigns on selected topics aimed at new or amended legislation. The information is also published in the Official Monitor Newspaper of the Republic of Moldova</p> <p>The Tax Code contains for provisions and procedures for lodging appeals, which at the first level are assessed by the tax authority, but it may be</p>	<p>reform in progress)</p>		

1	2	3	4
<p>referred to the courts in cases of disagreement</p> <p>Decision No. 4 (December 2010) the Supreme Court provides clarity in the application of tax legislation and administrative actions</p>			
<b>Voluntary compliance</b>			
<p>Promoting voluntary compliance by taxpayers is a stated goal of the State Tax Service</p> <p>State Tax Service stated publicly that tax administration should be conducted in a transparent manner so as to provide sufficient legal certainty to taxpayers and strictly respect the private rights</p>	<p>State Tax Service needs to work more effectively with professionals / experts in the field of taxation and business groups to promote compliance</p> <p>Developing and implementing a set of policies and voluntary measures allows accomplishing the intentions of the State Tax Service</p>		

1	2	3	4
<p>State Tax Service recognizes that the tax administration is too focused on fiscal control, and is increasingly focusing its efforts on improving taxpayer service options, developing fiscal management oriented towards taxpayer</p>			
<b>2) Customs administration</b>			
<b>Legislation</b>		Harmonization of	Effective
<p>Customs legislation defines rights, duties and responsibilities of businesses involved in customs activity</p>	<p>Implementation of the revised legislation governing post-clearance control</p> <p>The process of drafting and adopting new customs legislation needs to be improved and accelerated</p>	<p>national customs legislation with that of the EU</p> <p>Implementing simplified customs electronic procedures in accordance with EU</p> <p>Simplification of customs procedures to reduce costs and time for customs clearance.</p>	<p>implementation of programs to promote voluntary compliance with the law</p> <p>The development of the Authorized Economic Operator</p>
<p>Customs legislation gives clear powers for surveillance and customs inspection and</p>		<p>Development of risk management system that incorporates selective customs</p>	<p>Develop quality standards for customs services</p> <p>Continue to implement</p>

1	2	3	4
sanctions for non-compliance		inspections in accordance with EU norms.	modern techniques and tools for determining the customs value
<b>Management of businesses</b>			
<p>Businesses are identified through the identification number of the business for the purpose of customs procedures and customs payments. Exchange of information on customs payments occurs between the Customs Information System, the State Treasury and Savings Bank of Moldova</p> <p>Economic agents shall indicate the identification number on all commercial documents</p>		Improving access to information for businesses	
<b>Collection of revenues</b>			
Customs payments are made through the	Reconciliation of obligation estimation to improve		

1	2	3	4
<p>Single Treasury Account</p> <p>Reconciliation of income between the Customs Service and the State Treasury is made daily, monthly and annually to the central and local level, although limited to customs payments levied, without taking into account the obligation estimate</p>	<p>forecast of revenues and cash flow management in the short term</p> <p>Introducing measures to offset payments due to the taxpayer against the reimbursement of payments due in respect of other taxes</p>		
<p><b>Transit, customs control and post clearance audit</b></p>			
<p>Customs Service has selectivity developed parameters and developed risk profiles covering all regimes, except for transit.</p>	<p>It is necessary to develop appropriate parameters and selectivity profiles in order to select businesses for post clearance audit and transit regime</p>		
<p>Post clearance audit is operational</p>	<p>It is necessary to develop a risk-based system for selecting</p>		

1	2	3	4
<p>The plan for post-clearance audit is designed 3 months in advance and approved by the management of the Customs Service and customs offices. The plan specifies the total verification for a certain period of time, or thematic control and identifies possible deficiencies, but without the estimation of the economic effect.</p> <p>Customs Service has the capacity to implement the new computerized transit information system.</p>	<p>operators for post-clearance audit</p> <p>Implementation of a program based on the "trader-centric" post-clearance control</p> <p>The implementation plan for the introduction of the new computerized transit information system should be accelerated</p>		
<b>Trade facilitation</b>			
<p>Customs Reform Agenda focuses on</p>	<p>Increased involvement of civil society and the</p>		

1	2	3	4
<p>improving transparency and communication so as to improve its dialogue with the private sector. Establishment of simplified customs procedures for trustworthy businesses and increasing customs control for compliant businesses is prioritized.</p>	<p>business community in the decision-making process introducing simplified procedures to a higher percentage of compliant businesses</p>		
<p><b>Law enforcement and investigations</b></p>			
<p>Operations of mobile teams are organized throughout the whole area</p> <p>There are implemented agreements on mutual administrative assistance in customs matters</p> <p>There are</p>	<p>Adjusting the general concept of law enforcement to Customs</p> <p>The legal framework should be reviewed to ensure appropriate skills within Customs</p>		

1	2	3	4
signed MoUs with business environment			
<b>Safety of supply chain</b>			
<p>Moldovan authorities and customs authorities in Romania have signed a collaboration agreement governing border crossing points and customs information exchange</p> <p>An exchange of customs data prior to the Customs Service of Ukraine is operational</p>	<p>The development of the Authorised Economic Operator program</p>		
<b>Rights, obligations and responsibilities of businesses</b>			
<p>Customs Operations are generally set in a transparent legal framework and relevant information is available for businesses and taxpayers in</p>	<p>Increasing awareness of the public and businesses about customs regulations</p>		



1	2	3	4
<p>the media and other sources</p> <p>Customs Service organizes information campaigns with selected topics on new or amended legislation, the modified procedures and other topics of interest and general importance. The "Customs" publication provides information on updating legislation formalities and procedures. Customs Code incorporates provisions and procedures for filing an appeal. At first they are examined by customs, but in case of disagreement it goes to courts</p> <p>Decision No. 4 (December 2010) the</p>			

1	2	3	4
Supreme Court provides clarity on the application of customs legislation in case of administrative procedures			
<b>Institutions responsible for component 5:</b> Ministry of Finance; State Tax Service; Customs Service			

## 5.6. Public Procurement

This section covers the aspects in the area of public procurement. The management of activities in the area is carried out by the respective Department in the Ministry of Finance (policy level) and the Public Procurement Agency (policy implementation level). A primary objective of this section is to create conditions for the legal and institutional contracting authorities for the efficient use of public resources and ensure the best conditions for the provision of high quality public services.

### 5.6.1. Basic principles and expected results

**a) Transparency, completeness and competition in the legal and regulatory framework;**

**b) Use of competitive procurement methods:**

Promoting participation in procurement of suppliers and contractors of international origin (non-operators), thus promoting international trade.

Ensure fair and equitable treatment of all suppliers and contractors.

**c) Public access to information on procurement:**

Providing public access to full, reliable and timely information related to procurement.

Creating an independent process to review complaints.

## 5.6.2 Measures of reform and responsible institution

Current situation	Areas of concern	Reform measures	
		Medium term targets	Long term objectives
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Transparency, completeness and competition in legislative and regulatory framework</b>			
The legislative framework has a hierarchical structure with clearly defined priorities and is easily accessible to the public – it is generally in line with EU Directive 2004/18 EC but further elaboration is necessary to ensure full compliance.	The legal framework should provide for all public procurement events;  It is necessary to foresee a framework of penalties for violation of the legal framework.	Development and application of sanctions for violation of legislation governing public procurement  Public Procurement Law and Contravention Code of the Republic of Moldova will have to be modified to include the sanctions framework	Complete alignment of the legal framework to the EU acquis  Accession to the Agreement on Public Procurement of the World Trade Organization
<b>The use of competitive procurement methods</b>			
There is a system of procurement methods under conditions of open competition, which is used to a satisfactory level	Particular attention should be on limiting the practice of artificially splitting contracts to avoid competitive procurement methods	Implementation of the new automated information system "State Register of Public Procurement"	Develop and implement e-auctions  All purchases implemented through the automated information system Public Procurement State

1	2	3	4
	It is necessary to foresee a framework of penalties for practice mentioned above		Register
<b>Public access to information on public procurement</b>			
<p>There are adequate means by which information on procurement procedures is being made public</p> <p>There is a data collection system for concluded public procurement contracts</p> <p>There is a complaints settlement mechanism, thorough the control and complaints Unit of the Public Procurement Agency</p> <p>Although this is not an independent complaints mechanism</p>	<p>It is necessary to develop a mechanism for forecasting the estimated value of the public procurement and make this value public.</p> <p>It is necessary to ensure the independence of the administrative body that reviews complaints</p>	<p>Develop an e-statistical component within the automated information system "State Register of Public Procurement"</p> <p>Establish and ensure effective functioning of an independent administrative body to review complaints / appeals</p> <p>Public Procurement Law should be amended to include the mandate, responsibilities and authority of the independent body for the evaluation of complaints</p>	
<b>Institutions responsible for component 6:</b>			

1	2	3	4
Ministry of Finance; Agency for Public Procurements			

## **5.7. Financial Management Information System**

This section covers the area of development and introduction of the integrated financial management information system (FMIS).

### **5.7.1. Basic concepts and expected results**

FMIS in the context of this Strategy refers to the automation of public financial management processes including budget formulation, budget execution, and accounting and reporting. One also expects to improve the financial management processes, efficiency, transparency, and control over public expenditures.

#### **a) Maintenance of the existing System**

#### **b) Implementation of FMIS**

##### **Features of FMIS:**

Integrated and capable of progressive upgrading to adapt to future needs;

Common platform and user interface to the stakeholders in different agencies responsible for financial management;

Administers operations made within the Single Treasury Account

Ensuring the main functions of public finance management, namely: budget preparation and approval, management of budget allocations, management of commitments, management payments and receipts, cash flow management, financial reporting, storage and analysis of information.

Supporting the development of multi-annual budgetary framework and the annual budget, developing macro-fiscal scenario based on macroeconomic forecasts.

Support for policy impact analysis and development of spending limits.

Providing tools for planning, management and performance reporting of spending programs of the budgetary authorities.

Built-in analytical tools to offer trend analysis of various elements of fiscal operations to permit a forward look;

Ability to generate historical database of budget and expenditure plans; transaction data at the highest level of detail; cash flows and bank account operations;

Enables real-time transactions;

Flexibility to provide user-defined management information, aggregated at the desired level of detail, from the database.

Audit and control authorities have easy access to financial transaction data for auditing and control purposes.

### 5.7.2. Reform measures and responsible institution

Current situation	Areas of concern	Reform measures	
		Medium term targets	Long term objectives

1	2	3	4
<b>Maintenance of the FMIS</b>			
Existing information system provides for the automation of the processes for the formulation and execution of the budget, collection of financial statements State debt management is ensured by the Information System for the analysis of debt management  Existing	Existing information system has a problem of incompatibility of data and database fragmentation Hardware and network systems are outdated  The need for complete customization and configuration of the system	Maintaining existing information system functional, extending the functionalities up to implementation of the new Financial Management Information System  Adjusting accounting information system of public	Implementation of accounting information system of public authorities  Participation in the Government's initiative to strengthen information systems (Digital Moldova 2020)

1	2	3	4
<p>information system is connected to the automated interbank payment system of the National Bank of Moldova, as well as to other information systems and ensures the interface with the revenues units</p> <p>Existing information system users are employees of the Ministry of Finance, Treasury (including territorial treasuries) and General Finance Departments</p> <p>Budgetary institutions communicate with the Financial Management Information System through file exchange (receiving / sending information packages)</p> <p>Maintaining information system of accounting of</p>	<p>in accordance with the business process of the Ministry of Finance, the new budget classification, new unified chart of accounts</p> <p>The system architecture is distributed and does not provide analysis tools and reports in real time</p> <p>Information technologies used do not allow access of budgetary institutions to the system.</p> <p>The need to adjust the accounting system under the new chart of accounts and budget classification</p>	<p>authorities under the new chart of accounts and budget classification</p> <p>Updating the Information System for the analysis of debt management (switching to version 6.2)</p> <p>Continuous modernization of the hardware and network equipment</p>	

1	2	3	4
public authorities			
<b>Implementing FMIS</b>			
<p>Developed the concept of the new financial management information system, including institutional and organizational assessment</p> <p>Tender documents have been developed, including functional and technical specifications of the system</p> <p>Bidding was conducted, the contract was awarded to the provider to create, install and implement the Financial Management Information System</p> <p>A modern server room was implemented that meets international standards</p> <p>There was established own</p>	<p>Supplier Compliance with the implementation deadlines</p> <p>The technical preparation level of budgetary institutions using the Financial Management Information System</p> <p>Training by the supplier of the financial management information system will be made only for a limited number of users / trainers</p> <p>Training needs for the Ministry of Finance's staff and staff of central and local financial departments of level II</p>	<p>Perform all phases of testing of the Financial Management Information System (experimental testing, pilot testing of locations, test system performance) and removing errors identified</p> <p>The implementation of the new financial management information system in the Ministry of Finance, State Treasury with its 38 territorial units, central public authorities, 35 financial divisions and 35 first level budgetary institutions</p> <p>Creating the Call center</p>	<p>Full implementation of the new financial management information system in budgetary institutions financed from the state budget and local budgets;</p> <p>Ongoing training of users of the Financial Management Information System, integration of Financial Management Information System with the e-procurement system</p>



1	2	3	4
<p>telecommunications infrastructure. Financial Management Information System will include modules for the formulation and approval of budget, allocations management, management of commitments, payments and collections management, cash flow management, accounting and financial reporting, data storage devices, including the construction of analytical reports, various series, etc..</p> <p>Financial Management Information System will provide a support system for auditors and interface software used by budget institutions</p> <p>Users of the new</p>		<p>that will provide user support of the Financial Management Information System</p> <p>Determine training needs and conducting training of staff of the Ministry of Finance, State Treasury with its 38 territorial units, central public authorities, and 35 financial divisions at all levels of budget</p> <p>Training users of Financial Management Information System</p>	

1	2	3	4
Financial Management Information System will be the Ministry of Finance, including the State Treasury and local treasuries, central public authorities and 35 financial departments of the administrative and financial units of the second level (direct users) first level administrative-territorial units, public institutions and individuals (indirect users)			
<b>Institutions responsible for component 7:</b> Ministry of Finance; State Company, „Fintehinform”			

## Chapter VI. Reviewing, monitoring and evaluation of the Strategy

As highlighted in previous chapters, the current Strategy should be seen as a synthesis of on-going reforms in all core areas of public finance management - core components. Implementation of the Strategy depends on the effort devoted to the thematic area of each basic component. Review, monitoring and evaluation are therefore designed in such a way as to facilitate the above process.

The overall responsibility for the implementation of public finance management reforms lies with the Ministry of Finance. Ministry of Finance will coordinate implementation of actions dedicated by the services and competent authorities of each component of the Strategy, and will also lead the review and monitoring mechanisms and be responsible for regular evaluation of performance of reform objectives set out in the Strategy.

Implementation of this Strategy will be based on an iterative approach with two fundamental elements:

A bottom-down process, which will identify critical issues of high level policy to inform or adjust some strategy or action plan of a key component, and

A bottom-up process whereby the review and monitoring processes in each strategy or action plan in a certain basic component will inform and update the objectives set out in this Strategy.

In order to ensure a systematic approach mentioned previously, the Ministry of Finance will appoint a technical team that will be responsible for follow-up actions. The technical team will be composed of professionals from all relevant thematic areas of each basic component. The method to be used is a consultation, rather than a bureaucratic inflexible arrangement. Following the approval of the strategy and after a substantial period of implementation of the approach one will explore the possibility to create a permanent monitoring mechanism.

In addition to the iterative reviewing process of monitoring and updating, the Strategy will benefit from an independent evaluation at regular intervals. The objective of the evaluation is to improve the efficiency process of the strategy and provide some guarantees (or propose corrective measures) to ensure that there is no duplication of effort devoted to strategies of the basic components. It is essential that the management of public finances remains a summary of the issues of high-level political discussions, rather than doubling and using the limited resources of the Ministry of Finance and competent bodies.

The Government also recognizes the importance to keep citizens abreast of important developments in public financial management policies and practices through simple and easily accessible information. There will be appointed a communications officer in the technical team to coordinate interaction and consultation with the public and other stakeholders.

In addition to public stakeholders, key stakeholders for the strategy to improve public financial management will be:

development partners - Strategy consultation process is aimed at enhancing a more meaningful dialogue;

Parliamentary Commission for Economy, Finance and Budget and the supreme audit institution (Court of Accounts) - These institutions have an institutional role in the chain of supervision and accountability in public finance

management and their contribution should strengthen its strategy to improve public finance management both in the process, as well as quality.

This Strategy is expected to benefit from continued counselling and interaction with the institutions mentioned above, which would strengthen the consultative process and policy discussions on public finance management.

Annex nr. 1  
to the Strategy for  
public finance management 2013-2020

### Summary table with the assessment of public expenditures and financial accountability

Code	Indicator	Scoring 2011	Scoring 2008
1	2	3	4
<b>A. PERFORMANCE RESULT: Budget credibility</b>			
PI-1	Actual aggregate expenditures performed compared to approved original budget	B	C
PI-2	Composition of actual expenditures performed compared to original approved budget	B+	A
	Degree of variation of expenditures composition over the last three years, excluding unforeseen elements	B	A
	Average value of expenditures allocated to unforeseen situations	A	-
PI-3	Aggregate revenue collected compared to approved original budget	B	A/C
PI-4	Balance and monitoring of arrears while making payments	A	A
	Amount of arrears while making payments (as a percentage of total actual expenditures for fiscal year) and any recent change in the total amount	A	A
	Availability of data for monitoring the arrears when making payments	A	A
<b>B. CROSS CUTTING ASPECTS: Complexity and transparency</b>			
PI-5	Budget Classification	B	C↑
PI-6	Comprehensiveness of information included in the budget documentation	A	A
PI-7	The level of unreported government operations	A	B+

Code	Indicator	Scoring 2011	Scoring 2008
1	2	3	4
	The extra-budgetary expenditures level (other than donor funded projects) that are not reported, ie not included in fiscal reports	A	A
	Information on income / expenditures on donor-funded projects is included in fiscal reports	A	B
PI-8	Transparency of fiscal relations between different levels of government	A	A
	Systems that are transparent and based on rules of horizontal allocation among subnational governments (administrative and territorial units) of the unconditional and conditional transfers from central authorities (both budgetary allocations as well as actual ones)	A	A
	The degree to which fiscal data for central public authorities (at least on revenues and expenditures) are consolidated and reported according to sectorial categories	A	A
	Timeliness of reliable information to subnational governments (administrative units) on their allocations from central authorities for the following year	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	B+	C+↑
	The degree of monitoring by the central authorities of the General Assembly of Shareholders, state enterprises and corporations	B	C↑
	The degree of monitoring by the central authorities of the fiscal position of subnational governments (administrative units)	A	A
PI-10	Public access to key fiscal information	A	A
<b>C. BUDGETARY CYCLE</b>			
<b>a) Policy based budgeting</b>			
PI-11	Orderliness and participation in the annual budget process.	B	A
	Existence of and adherence to a fixed budget calendar	B	B
	Clarity / comprehensiveness and political involvement in the preparation of budget submissions (budget circular or equivalent)	B	A
	Timely budget approval by the legislature or similarly mandated body (within the last three years)	C	A
PI-12	Multi-year perspective in fiscal planning, expenditure and budgetary policy		B↑
	Preparation of multi-year fiscal forecasts and functional allocations	B	C↑
	Scope and frequency of debt sustainability analysis	A	A
	Existence of sector strategies with multi-annual expenditures and investment expenditures	A	B
	Linkages between investment budgets and forward expenditure estimates	B	B
<b>b) Predictability and control over budget execution</b>			
PI-13	Transparency of taxpayer obligations and liabilities	A	A
	Clarity and comprehensiveness of tax liabilities	A	A
	Taxpayer access to information on tax liabilities and administrative procedures	A	A
	The existence and functioning of a tax appeals mechanism	B	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	A	B+↑

Code	Indicator	Scoring 2011	Scoring 2008
1	2	3	4
	Control measures for taxpayer registration system	A	A
	Effectiveness of penalties for non-compliance with obligations for registration and declaration	A	A
	Planning and monitoring of tax audit and fraud investigation programs	B	C↑
PI-15	The effectiveness of tax collection	D+	D+
	The collection rate for gross tax arrears, the percentage of tax arrears at the beginning of a fiscal year that were collected during the fiscal year ( average of the last two fiscal years )	D	D
	Effectiveness of transfer of collected taxes to the Treasury by the revenue administration	A	A
	Frequency of complete reconciliation reports between tax assessments, collections, arrears records and receipts by the Treasury	B	A
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+
	Extent to which cash flows are forecasted and monitored	A	C
	Reliability and horizon of periodic in- year information to MR on ceilings for expenditures	C	C
	Frequency and transparency of adjustments to budget allocations, which are above the level of management of MDA	A	A
PI-17	Recording and management of cash balances, debt and guarantees	A	B+
	Quality of recording and reporting of data on debt	A	A
	The consolidation of the government's cash balance	A	B
	Systems for contracting loans and issuance of guarantees	A	B
PI-18	Effectiveness of payroll controls	B+	B+/ D+
	The data integration and reconciliation between personnel and payroll	B	B/(D)
	Timeliness of changes to personnel records and the payroll	A	A
	Internal controls of changes to personnel records and the payroll	B	A/(C)
	Existence of payroll audits to identify weaknesses in control measures and / or "ghosts" staff	B	B
PI-19	Transparency, competition and procurement complaints mechanism	B	B
	Transparency, fullness and competition in the legislative and regulatory framework	B	-
	The use of competitive procurement methods	B	-
	Public access to comprehensive, reliable and timely information on public procurement	A	-
	The existence of an independent administrative system for challenging procurement	D	-
PI-20	Effectiveness of internal controls for non-wage costs	B+	B
	Effectiveness of control over spending commitments	B	B
	Comprehensiveness, relevance and understanding of other rules / internal control procedures	B	B
	Compliance with rules for processing and recording transactions	A	B
PI-21	Effectiveness of internal audit	C+	C+↑
	Coverage and quality of the internal audit function	C	C↑
	The frequency and distribution of reports	B	C

Code	Indicator	Scoring 2011	Scoring 2008
1	2	3	4
	Degree of management response to internal audit findings	B	A
<b>c) Accounting, record keeping and reporting</b>			
PI-22	Timeliness and regularity of accounts reconciliation	A	A
	Regularity of bank reconciliations	A	A
	Regularity of reconciliation and clearance of transit accounts and advances	A	A
PI-23	Availability of information on resources received by service delivery units	A	B
PI-24	Quality and timeliness of in-year budget	C+	C+
	Scope of reports in terms of coverage and compatibility with budget estimates	C	C
	Timeliness of reports issuance	A	A
	Quality of information	A	A
PI-25	Quality and timeliness of annual financial statements	C+	C+
	Complexity of financial reports	A	C
	Timeliness of submission of financial reports	A	A
	Accounting standards used	C	C
<b>d) External examination and audit</b>			
PI-26	Scope, nature and following the recommendations of external audit	B+	C+
	Scope / nature of performed audit (incl. adherence to auditing standards)	B	C
	Timeliness of submission of audit reports to legislature	A	A
	Evidence of follow up on audit recommendations	A	A
PI-27	Legislative scrutiny of the annual budget law	B+	B+
	Scope of the legislature's scrutiny	B	B
	The degree to which the legislature's procedures are well established and respected	B	B
	Sufficient time for the legislature to provide a response to budget proposals and detailed estimates and, where necessary, to submit proposals on macro-fiscal aggregates earlier in the budget preparation cycle	A	A
	Rules related to amendments to the budget during the year without ex-ante approval by the legislature	B	B
PI-28	Legislative scrutiny of external audit reports	C+	D
	Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	A	D
	Degree of hearings on key findings undertaken by the legislature	C	D
	Issuance of recommended actions by the legislature and their implementation by the executive	B	D

Annex nr.2  
to the Strategy for  
public finance management 2013-2020

**LIST**  
**of legislative and normative acts relevant to the Strategy**

1. Law no. 845- XII of 3 January 1992 on entrepreneurship and enterprises.
2. Law no. 146 -XIII of 16 June 1994 on the state enterprise.
3. Law no. 847- XIII of 24 May 1996 on budgetary system and budgetary process.
4. Law no. 1134 -XIII of 2 April 1997 on joint stock companies.
5. Tax Code no. 1163- XIII of 24 April 1997.
6. Law no. 1380 -XIII of 20 November 1997 regarding the customs tariff.
7. Law nr.820 -XIV of 17 February 2000 on anti-dumping, countervailing and safeguard measures.
8. Customs Code of the Republic of Moldova no. 1149- XIV of 20 July 2000.
9. Law on state regulation of foreign trade activity nr.1031 -XIV of June 8, 2000.
10. Law No. 440 -XV of 27 July 2001 on free economic zones.



11. Law no. 1569 -XV of 20 December 2002 on the import and export of goods from the territory of Moldova by natural persons.
12. Law no. 397 -XV of 16 October 2003 on local public finances.
13. Law no. 467 -XV of 21 November 2003 on the Computerization and State Information Resources.
14. Law no. 264 -XV of 15 July 2004 on electronic document and digital signature.
15. Law no. 419 -XVI of 22 December 2006 on the public debt, state guarantees and state lending.
16. Law no. 435 -XVI of 28 December 2006 on administrative decentralization.
17. Law no. 436 -XVI of 28 December 2006 on local government.
18. Law no. 96 -XVI of 13 April 2007 on public procurement.
19. Law no. 121 -XVI of 4 May 2007 on the management and privatization of public property.
20. Annual budget laws.
21. Medium -term budgetary frameworks for 3 years.
22. Laws implementing Titles I - IX of the Tax Code.
23. Draft law on public finances and fiscal responsibility.
24. Presidential Decree no. 39 of 10 March 1993 "On the State Treasury ."
25. Presidential Decree no. 1743 -III of 19 March 2004 " On the Information Society in the Republic of Moldova" .
26. Government Decision no. 770 of October 20, 1994 "On approval of regulatory acts regarding operation of legislation regarding the state enterprise".
27. Government Decision no. 603 of July 2, 1997 "On approval of the Regulation on drug pricing and other pharmaceutical products."
28. Government Decision no. 632 of 8 June 2004 "On approval of the Policy on Information Society in the Republic of Moldova" .
29. Government Decision No 757 of 5 July 2004 "On approval of the standard of General Department of Finance of administrative-territorial unit."

30. Government Decision no. 108 of 3 February 2005 "On Approval of the Regulation on the conditions of establishment, calculation and payment of allowances for temporary disability and other social insurance."
31. Government Decision no. 255 of 9 March 2005 " National Strategy on Information Society - " Electronic Moldova " .
32. Government Decision no. 82 of 24 January 2006 "On the development of the Medium Term Expenditure Framework and the draft budget."
33. Government Decision no. 562 of 22 May 2006 " On the creation of automated systems and resources by state."
34. Government Decision no. 733 of 28 June 2006 "On the Concept of Governance" .
35. Government Decision no. 929 of August 15, 2006 " On approval of Regulations on the payment of retirement benefits established in the public social insurance and state social allowances " .
36. Government Decision no. 945 of 20 August 2007 " On measures to implement the Law No. 121 -XVI of 4 May 2007 on the management and privatization of public property ."
37. Government Decision no. 1136 of 18 October 2007 "On measures for implementation of the Law no.419 -XVI of 22 December 2006 on the public debt, state guarantees and state on lending."
38. Government Decision No. 45 of 24 January 2008 " To prove the Regulations on Elaboration and recording of the list of prohibited businesses ."
39. Government Decision no. 148 of 14 February 2008 "On approval of the procurement of small value ."
40. Government Decision no. 178 of 18 February 2008 " On approval of the Regulation on how to prepare, update and record the qualified businesses list " .
41. Government Decision no. 245 of 4 March 2008 "On approval of the Regulation on procurement of goods and services by means of requesting price offers."
42. Government Decision no. 580 of 8 May 2008 "On approval of the Regulation on financial monitoring of state / municipal companies and public owned companies or public majority."

43. Government Decision no. 1404 of 10 December 2008 " On approval of the Regulation on the calculation of the estimated value of public contracts and planning those."
44. Government Decision no. 1407 of 10 December 2008 " On approval of the Regulation on public procurements from a single source ."
45. Government Decision no. 355 of 8 May 2009 " On approval of technical concept of Information System" State Register of procurement . "
46. Government Decision no. 640 of 19 July 2010 "On approval of the periodic adjustment of the value of public contracts with a continuous execution, concluded for a period exceeding one year."
47. Government Decision no. 597 of 2 July 2010 "On approval of the Program for the development of public internal financial control ."
48. Government Decision no. 834 of 13 September 2010 " On approval of the Regulation on public works ."
49. Nr.1026 Government Decision of 2 November 2010 "On the organization of financial inspection " .
50. Nr.1121 Government Decision of 10 December 2010 "On approval of documentation for the realization of public works ."
51. Government Decision Nr.1141 of 16 December 2010 "On approval of the State Tax Service Development for 2011-2015 " .
52. Government Decision no. 110 of 23 February 2011 " On some aspects of the distribution of annual net profit of joint stock companies with state participation and share of state enterprises ."
53. Government Decision No. 837 of 11 November 2011 " On approval of the Regulation on the Common Procurement Vocabulary (CPV) " .
54. Government Decision no. 763 of 11 October 2012 " On approval of documentation standard for public procurements of goods and services ."
55. Order of the Minister of Finance No. 98 of 28 November 2005 " On approval of the Methodological Norms regarding cash execution of the national public budget through the Ministry of Finance treasury system" .
56. Order of the Minister of Finance No. 91 of 20 October 2008 "On budget classification."

57. Order of the Minister of Finance no. 51 of 23 June 2009 "On approval of the National Standards for Internal Control in the Public Sector".
58. Order No. 139 of 20 October 2010 "On approval of the Code of Ethics for the Internal Auditor and Internal Audit Charter (Model Rules of operation of the internal audit unit) " .
59. Order of the Minister of Finance no. 132 of 1 November 2011 " On approval of the Code of Conduct for employees responsible for inspection (control) financial inspections ."
60. Order of the Minister of Finance no. 40 of 2 April 2012 " On budget classification and chart of accounts in the budget system ."
61. Order of the Minister of Finance No. 49 of 26 April 2012 " On approval of the Regulation on assessment, reporting of financial management system and control and issuance of declarations of good government."
62. Customs Service Order No. 46 of 7 February 2012 " On approval of the Customs Service Strategic Development Program for the years 2012-2014 " .