



EVALUATION OF MOLDOVA'S ABSORPTION CAPACITY OF EXTERNAL ASSISTANCE





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INTRODUCTION

This discussion paper examines the current structure and mechanisms in the management of the Official Development Assistance in Moldova together with the analysis of its efficiency, effectiveness and impact over the development process in Moldova. Currently, even if information is widely disseminated to the public (usually at the stage when ODA is delivered or the projects/programs are finished) the subject of official development assistance is in general poorly understood and debated (especially, evaluation and monitoring aspects). In Moldova no evaluation was carried out on the efficiency and impact of the development assistance over the development targets set by the Government in its strategic planning documents – Economic Growth and Poverty Reduction Strategy (EGPRS) and the National Development Strategy (NDS). The subject is even more important given the last regional developments and Moldova's European integration efforts as the amount of ODA attracted to support the Government reforms will depend from now on how efficiently the latter will be able to manage it and whether it will have capacity to attract and absorb more. In this respect, the paper represents an invitation to discussion of how prepared Moldova is now for the absorption of substantial amount of funds to which it has access, while at this stage, the real challenge is the ability to build an adequate absorption capacity for accessing European funds.

The first chapter makes an introduction to the subject by a general analysis of the assistance delivered from 2005 till now and the way the priorities in the main strategic development policies were covered by donor's assistance.

Chapter 2 analyses the impact of aid flows on macroeconomic situation of Moldova and their

potential effects on macroeconomic indicator. An analysis of macroeconomic tolerance of aid flows and repayments is given. The chapter describes the actual macroeconomic trends and financial assistance for the period of 2006-2010. Furthermore, based on statistic trends and benchmarking tools, it illustrates the impact of aid flows on exchange rate and monetary aggregates as well as aid absorption levels.

Chapter 3 describes major factors that influence the absorption capacity of Moldova from financial point of view. The difference between financial capacities of central and local authorities to co-finance projects is shown. The dynamics of credit and repayment indicators is analyzed. Conclusions on the analysis are provided.

Chapter 4 covers the existing constraints to the administrative capacity, the analysis of the mechanism of ODA management, legal framework, donor behavior and good practices in absorption of external funds and the presentation of the main conclusions and recommendations.

The paper is an attempt to analyze and propose sustainable measures to increase the national absorption capacity of foreign assistance. As a first analytical work on this matter, the paper represents an invitation to debate over this topic and offers points of view and recommendations to inform the public on existing challenges and opportunities, rather than outline "lessons" or "solutions".

The authors are grateful for the support offered by public officials in the ministries, local public authorities, donors and independent consultants questioned, which helped us better understand the issue. We are thankful for the time spent on filling out to the questionnaires and offering interviews.

CHAPTER I.

ANALYSIS OF EXTERNAL ASSISTANCE (2006-2010)

Leonid Litra

Absorption capacity is an indicator, which corresponds to the competence of a country to spend efficiently and effectively financial resources allocated by development partners. The cycle of funds utilization involves several phases of financial flows. Each of them has its own absorption capacity. This paper will analyze particular elements of funds absorption systems and outline main constraints to be targeted in order to extend the absorption capacity of the entire system. According to Theory of Constraints, the area with minimum absorption capacity should be improved first because any other improvement will not have the projected impact on system condition.

Absorption capacity is determined across three main aspects:

1. Macro-economic absorption capacity
2. Financial absorption capacity
3. Administrative absorption capacity

The Republic of Moldova (hereinafter referred to as Moldova) has benefited from assistance since its independence. Although the amounts of external assistance are continuously increasing, the analysis of financial and technical aid is poorly matching the augmentation trends of external assistance. The current chapter is addressing the existent

challenges that are being observed in the delivery and use of aid. Within this section, the main focus will be on the Official Development Assistance¹ (ODA) use with a particular regard to the capabilities of involved stakeholders to manage assistance and the general constraints for absorption capacity in Moldova over 2006-2010 timeframe.

The year of 2006 was not chosen accidentally. In 2006 Moldova's development partners committed to provide USD 1.2 bln in the framework of Advisory Group Meeting of donors for Moldova. At the same time, in 2006 Moldova joined the 2005 Paris Declaration on Aid Efficiency that was signed by 128 states and 26 donors.

In the period of 2006-2010 the donor community's involvement in Moldova demonstrated an overall increase of the ODA, the dynamics, however, were rather shaky than stable. The main reason of these fluctuations is two sided. On the one hand, the government has not always succeeded in its relations with donors due to different constraints on implementation of the policy conditions and on the other hand, the donors have var-

¹ The ODA is divided in grants and credits for development countries directed for macroeconomic purposes (IMF), and concessional credits for Government (especially IDA) and grants - direct budget support (EU, WB, DFID), technical assistance from a large number of multinational organizations and bilateral donors.

Maia Sandu, The analysis of the evolution of foreign assistance offered for Moldova in the period 2001-2007, ADEPT <http://www.e-democracy.md/files/prioritati-guvernare-2009.pdf>

ied their support in response to their specific mandate and interests. On the other side, the position of the Government in some cases, like failure to agree with the World Bank on a project designed for rehabilitation of the roads, was hard to understand, as the financial means available on favorable terms were identified, but a common point regarding implementation procedures could not be reached.

Besides this, another constraint was the predictability of funds for the Government Medium Term Expenditures Framework (MTEF) (with some exceptions, such as the WB – through its Country Assistance Strategy), Sida (Development Cooperation's Agreement and Country Assistance Strategy), EU – but mostly as budget support (Country Assistance Paper and NIP - Annual Action Plans) measure ensured by adopting of a common development cooperation framework between the Government and donor's community (Principles Partnership Implementation Plan currently in place) and enforced by signing individual medium to long term development cooperation agreements, complemented with detailed technical memorandums supporting Government priorities identified in its main strategic development documents.

The 2005-2009 Government had different relations with the donors, ranging from honeymoon to expelling of donor's projects from the government building. The current government has a more stable and partnership oriented approach.

Over recent years, there have also been changes in the composition of the donors; some of them, like the DFID, are leaving, while others are becoming more active, like

the EU and a number of its member states, like Sweden (Sida), Germany (GIZ), Romania, Austria, Poland, Czech Republic and Slovakia. However, these changes and, most importantly, the efficiency of aid are being poorly monitored (except the OECD Monitoring Survey produced every 3 years) and a limited debate with a rather random approach is taking place on the ODA dimension in Moldova.

1.1 Guiding documents: from general planning to sector approach

In the years covered by this chapter, Moldova consolidated its attempts to shift from survival assistance to sustainable development. The main documents driving this process are the Economic Growth and Poverty Reduction Strategy (2004-2006); the EU-Moldova Action Plan (2005-2007); National Development Strategy (2008-2011); Economic Stabilization and Recovery Program (2009-2011) as well as the recent (2010) Rethink Moldova (which is not a strategic planning document, but rather a document with Government priorities derived from the latter) presented at the Donors Conference for Moldova which earmarked almost EUR 2 billion (with more than half of it having been committed to before).

The Economic Growth and Poverty Reduction Strategy (EGPRS) was drafted in 2000 following the pressure by the developing states, when the World Bank decided that the priorities for aid should be derived from the recipient state's national development documents. The EGPRS was a

relatively good document as a first attempt for such kind of approach towards delivering assistance, however, it had considerable shortcomings. The deficiencies were mostly related to quite large number of priorities, which were diffusing the efforts, as well as the lack of an action plan with specific deadlines and performance criteria. The EU-Moldova Action Plan, as in the case of the EGPRS, had a high degree of fragmentation across the ministers that caused ownership deficiencies². For a better coordination and monitoring of implementation of the EU-Moldova Action Plan, the Government of Moldova established four Inter-ministerial Commissions (IC) as follows: IC for Law and Security; IC for Socio-Economic problems; IC for Infrastructure problems and IC for Cultural-humanitarian problems³. Despite this, the European Commission Progress Reports showed clearly that the issues related to law enforcement, reform of judiciary and human rights were overlooked by the government during implementation⁴. Unlike the previous strategies, the National Development Strategy is more focused and limited in objectives, with a specific action plan and monitoring mechanism. Still, the biggest problem of the NDS was the lack of the assessment of costs for the actions included in the strategy, which makes it difficult to assess the needed resources. Currently, a new National Development Strategy is being drafted for the next years, covering 2012-2020. The good news about the drafted strategy is that, given the European integration process, it is

going to be harmonized with the EU strategies⁵, but at the same time, due to the quite big period to cover, it will be difficult to estimate the costs and make the actions more concrete with performance indicators and proper monitoring and an evaluation plan. In this regard, the new strategy will be most likely focused on 7 priorities that are impeding economic growth. Moldova does not have any experience in elaborating long term strategic planning documents nor resources to ensure that the activities will actually be implemented, while the changing political context and financial coverage scarceness is making the Government even more vulnerable and dependent on further donor's behavior. However, one of the main academic interests of this paper is to assess to what extent the aid is directed to the priorities set in the documents and not necessarily a thorough assessment of the national strategies.

In addition to the national strategies and plans, there are a number of commitments on both sides that are implemented through different action plans agreed on. For example the Justice and Home Affairs dimension is almost fully covered by the EU Visa Liberalization Action Plan for Moldova that encompasses four thematic blocs with specific tasks, which are accompanied by the National Implementation Plan of the Visa Liberalization Action Plan, which on its turn is divided in more detailed sector plans⁶. Therefore, one can mention that the general trend is that the assistance is becoming

2 Country Chapter Moldova, 2006 Survey on Monitoring of the Paris Declaration, OECD, 2006.

3 Liliana Popescu, Optimizarea practicilor si politicilor Republicii Moldova de utilizare constructiva a ofertei asistentiale a UE, ADEPT and Expert-Grup, 2006.

4 European Commission, Progress Reports (2007, 2008, 2009)

5 Secretarul General al Guvernului, Victor BODIU a prezidat astăzi ședința Comitetului de coordonare a elaborării proiectului documentului național de planificare strategică pentru anii 2012-2020, <http://cancelaria.gov.md/libview.php?l=ro&idc=277&id=983>

6 Guvernul Republicii Moldova a negociat și a contractat pînă acum proiecte în valoare de 1,2 mlrd euro, <http://www.interlic.md/2011-06-21/guvernul-republicii-moldova-a-negociat-shi-a-contractat-pina-acum-proiecte-in-valoare-de-12-mlrd-eur-21543.html>

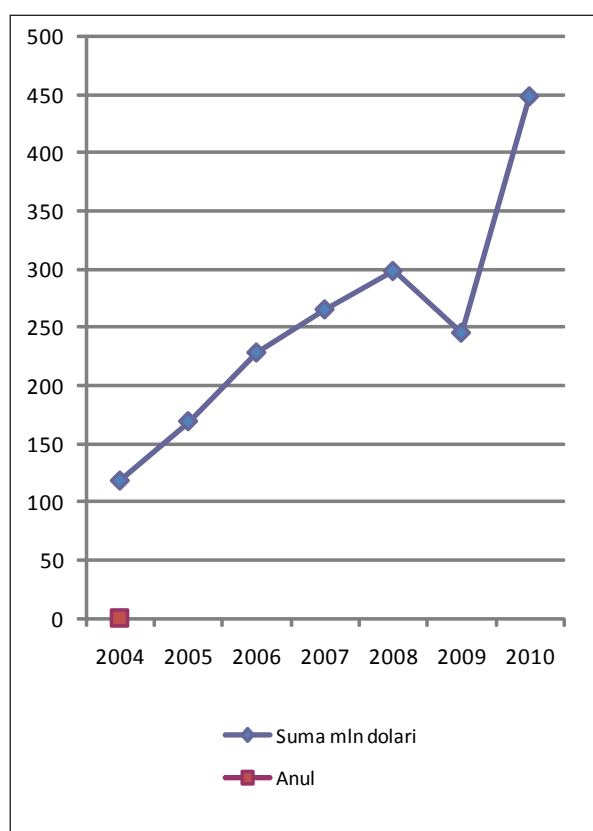
more sector oriented and less general. The increased use of sector approach is generated by the integration in the EU, even if Moldova is not officially engaged in a EU integration process (after the EU-Moldova Action Plan has expired, the EU-Moldova Partnership and Cooperation Agreement is obsolete and there is no other major political document in place to guide the EU and Moldova relations, while the Association Agreement is still being negotiated with the EU).

1.2. The ODA flows and sector fragmentation

Since the signing of the Paris Declaration, Moldova is undertaking every two years the Paris Declaration Survey that allows us, along with other existent information, to assess the relevance and the efficiency of the aid. In recent years the ODA offered to Moldova underwent a stagnation period and then a rapid growth, as shown in the Table 1. The cause of stagnation followed by a rapid growth is explained, first of all, by political changes and the effects of the crisis which hit not only Moldova, but also most developed economies (as Fareed Zakharia points out, many donor states restrain their capacities to sustain at the same level of commitments towards developing countries.⁷⁾ In general terms, the 2001-2009 cooperation of the Governments with donors, varied from a temporary suspension of the relations with the IMF and of the budgetary support of the WB to relatively good cooperation during the period of 2007-2009, and worsening at the end of the 2009 when the IMF and the

EU suspended the signing of a new Memorandum, while EU postponed the budgetary support. The government Filat-1 took office and signed the agreement with the IMF, signed the MCC agreement and re-launched the multilateral cooperation with the EU.

Figure 1: Dynamic of ODA inflows 2004-2010



IDIS calculation based on OECD and Country Chapter Survey 2010

ODA received by Moldova per year in mln. USD

2004	2005	2006	2007	2008	2009	2010
118	169	228	265	298	245	448

Source: OECD

The assistance broken down across NDS sector priorities is also showing the discrepancies. As shown in the Figure 2, the highest share of aid is offered to ensure mac-

⁷ Fareed Zakharia, The Postamerican World, May 2009.

roeconomic stability, which represents most of the IMF allocations directed at overcoming the global economic crisis effects. Also, sectors receiving high shares of ODA are the social sector, justice and home affairs (JHA) and regional development. As pointed in “Foreign Assistance and Moldova’s Economic Development”⁸ most of the ODA (48% in 2008 and 40% in 2009) is directed to social sector, JHA and good governance that leads to conclusion that the real sector of economy receives limited ODA (8-10%) and, consequently, is greatly overlooked. The conclusion of the above-mentioned paper is very pertinent in highlighting the dependence of Moldova created on survival funds from donors and lack of an adequate support for sustainable development of real economy, which is underfinanced. However, overlooking some sectors and “inflating” other sectors will definitely not solve the problem of dependency of the Government on foreign financial support. There is a wide debate regarding the effectiveness of the donor support and what should be the primary areas of intervention in this respect (for example, more emphasis on the real economy), as the assistance is traditionally offered to address social issues, treating rather the effects and not the cause of the problems..

At the same time, the good governance and human rights should not be overlooked, as it is also mentioned in the European Consensus on Development⁹, the democracy related issues are crucial for development. There is a need for a multi-speed approach by donors because the investment in the real

sector of economy needs to be complemented with measures for fighting corruption. Further, reform of the justice sector, improving the transparency of the decision making process should be priority reforms alongside the above-mentioned. So far, the Government’s approach towards the assistance, as is shown in the macro financial chapter of this study, is affected by a “consumerist” approach rather than focused on “investment” measures, like optimization of the state sector along with building capacities, justice reform and legal approximation to EU norms and standards, support for the real sector of economy and infrastructure development for export promotion. The oversized state sector (in Moldova every fourth employee is working in the budgetary sphere¹⁰) coupled with its inefficiency and high shares of social expenses (70.8% of total expenditures of the national public budget) is putting pressure on state expenditures and tightens budgetary constraints, which cannot be resolved without donor’s support. An aspect to mention in this respect is that once the Government receives the financial support (the direct budget support funds which are going into a “common basket” [the budget]) the monitoring of the programs is done on the basis of policy matrix focused on policies adoption and less on their concrete results. This does not allow assessing the extent of accomplishment of the primary objectives of the program, like efficiency of spending the funds and the real alignment to the national priorities according to obtained results¹¹ (results based accountability¹²). At

8 Valentin Lozovanu/Viorel Girbu, Foreign Assistance and Moldova’s Economic Development, IDIS Viitorul, September 2010.

9 Dovydas Vitkauskas, Stanislav Pavlovshci, Eric Svanidze; Assessment of Rule of Law and Administration of Justice for sector-wide programming (apropos, noi nu avem inca SWAP-uri sa inteleg ca e o evaluare de pregatire?), Moldova Government, April 2011.

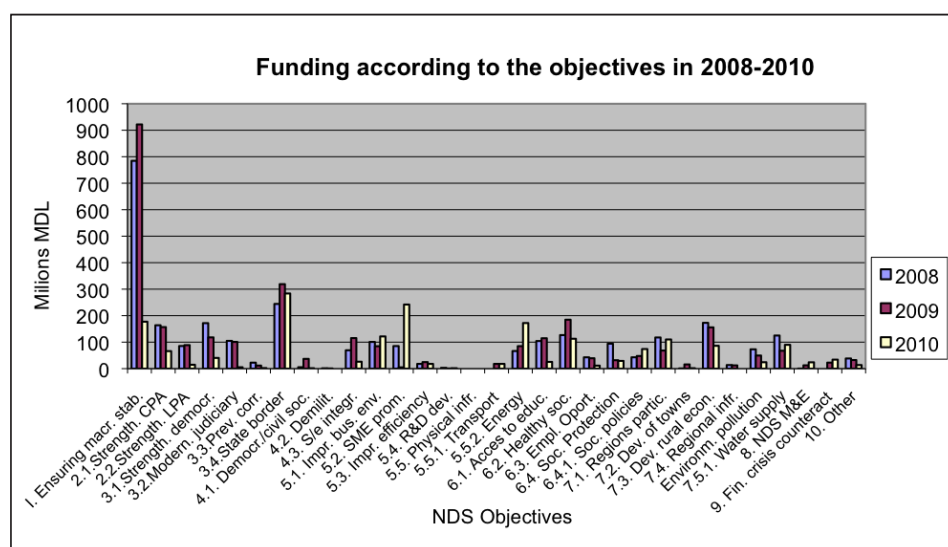
10 Alexandru Fala, Budgetary adjustments are imperative for economic transformation, Policy brief, June 2011 http://www.viitorul.org/public/3427/en/CHELTUIELI%20SOCIALE_ENG.pdf

11 http://books.google.com/books?id=onvrGcO353sC&printsec=frontcover&hl=ru&source=gbs_atb#v=onepage&q&f=false

12 <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTRE/EXTRE/0,,menuPK:7321732~pagePK:7321723~piPK:7321730~t heSitePK:7514726,00.html>

the same time, individual programs/projects continue to have poor monitoring and evaluation, as in the most cases donors and Government are making formal evaluations and are not sufficiently transparent (subject to be covered further in the administrative capacity assessment chapter).

Figure 2: Funding according to NDS Objectives in 2008-2010



Source: United Nations Development Programme

As the Paris Declaration highlights, main objectives are ownership, alignment, harmonization, managing for results and mutual accountability, and it is relevant to give a comparative view on the assessment and changes that have occurred since 2006, by using the data of the three PD surveys, which have been carried out in Moldova. The constraints that are presented in these surveys, together with other problems reported in some assessments, represent some of the impediments for the absorption capacity.

There is a common opinion that ownership is critical for development and there-

fore needs to be broadly applied. The ownership in this context is the ability of national authorities to guide donors in providing assistance by exercising leadership over policies and coordinate the efforts of the development partners.¹³ In 2006, Moldova's ownership was rated with D on a scale from A (highest) to E (lowest). The main problems being the high degree of fragmentation within the government and "lack of long-term vision, holistic,

balanced and well-sequenced strategy"¹⁴.

In 2008 the fragmentation was reduced due to the fact that the division among the actors was much clearer and, most importantly, the new NDS was a much better prioritized document than the first attempt. But despite this, Mol-

dova received C, main reason for this grade was that improvements were under way, but most of them only reached the halfway point. Compared to the previous years, not much has changed, meaning that there are still many sectors in which donors, especially those that are also heavy political players, have not been established, leading donors to coordinate with the other active actors in the sector. Additionally, a low-degree of involvement of local stakeholders is observed, at least in the phase of preparation of strategic documents. Thus, ownership remains to be a problem, also due to the fact that the priorities derived

13 Country Chapter Moldova, 2008 Survey on Monitoring of the Paris Declaration, OECD, 2008.

14 Country Chapter Moldova, 2006 Survey on Monitoring of the Paris Declaration, OECD, 2006.

from different documents are large enough to allow donors to jump in the sector that is most suitable for them, leaving other sectors “orphan” and allow engaging more formally rather than committing themselves to a long-term harmonized sector work. At the same time, local stakeholders are poorly involved in the drafting process and monitoring of the implementation of strategic documents. The political crisis is negatively influencing the Parliament in being more active in monitoring some policies, while the NGOs are still having poor expertise and low capacity to grasp complex policies, rather being focused on some narrow fields (not mentioning the trade-unions which had limited participation in drafting country’s strategic documents and refused to participate in the National Participation Council¹⁵). Despite the shortcomings, the ownership will most likely increase in the next years, as the new strategy will take into consideration former mistakes and, most importantly, will be the result of a higher participation from different stakeholders, given a higher degree of involvement of the civil society within the National Participation Council, which could serve as a platform for tight monitoring and higher participation in the decision making process. However, despite the criticism that could be addressed to NGO sector in terms of weak expertise or participation in some sector issues, one has to mention that a bigger problem is the “cosmetic” consultations of the government institutions with the civil society, especially, at the monitoring and evaluation stage. The interviews carried out with several civil society activists and civil servants are revealing the fact that the state institutions consultations’ with the

civil society sector is very inclusive and useful, but, nevertheless, the problem is that the government does not implement the issues agreed upon with the civil society, thus generating a disappointment of civil society and weak ownership. Therefore, given the above-mentioned reasons, the latter should be more participative at the level of results evaluation.

Despite difficulties in evaluating the alignment and criticisms, one has to mention that there are concrete examples when donors aligned along some dimensions, like the UNDP support package for young professionals who came from abroad to work in Moldovan administration. This program was designed at the request of the government and was fulfilled, not speaking about the fact, whether it is good or bad to have consultants paid by donors and others paid by government. However, this approach is not sustainable, as the government has no means to pay after 6 months when the scholarship expires. The problem of salaries is quite obvious in the public sector and there are difficulties in attracting professionals for a position with a salary of 100 USD per month (e. g. MFA). Good examples are the Central Public Administration Reform program¹⁶ (Multi-donor Fiduciary fund managed by the WB) and the project Support to National Development Strategy¹⁷ project financed by the DFID and Sida.

15 Report regarding the participation process at the elaboration of the National Development Strategy (2008-2011)

16 www.rapc.gov.md

17 <http://avempolitici.gov.md/>

Table 1: Donor commitments versus disbursement

	Disbursements recorded by government in 2010	Aid scheduled by donors for disbursement in 2010	2005	2007	2010 *	For reference: Aid disbursed by donors for government sector in 2010	For reference: % of scheduled aid disbursements reported as disbursed by donors in 2010 **
	(USD m)	(USD m)	(for reference)	(for reference)	(%)	(USD m)	(%)
	a	b			c = a / b c = b / a	d	e = d / b e = b / d
Austria	0	1	--	0%	0%	1	100%
CEB	0	1	--	--	29%	0	29%
Czech Republic	0	0	--	0%	0%	0	100%
Estonia	0	0	--	0%	0%	0	94%
European Commiss	93	73	98%	96%	79%	113	65%
Finland	0	0	--	--	--	0	--
France	0	0	--	--	--	0	--
GAVI Alliance	0	0	--	0%	0%	0	94%
Germany	0	3	--	87%	0%	3	97%
Global Fund	9	7	85%	100%	79%	9	79%
Hungary	--	--	--	0%	--	--	--
IFAD	6	4	--	13%	65%	4	100%
IMF	122	150	--	--	81%	122	81%
Japan	0	0	--	48%	0%	0	100%
Kuwait	0	4	--	--	2%	0	2%
Latvia	--	--	--	0%	--	--	--
Lithuania	--	--	--	0%	--	--	--
Netherlands	4	0	--	--	0%	0	--
Poland	0	0	--	--	--	0	--
Romania	0	1	--	--	0%	1	100%
Slovak Republic	0	0	--	--	0%	0	0%
Sweden	4	2	--	15%	50%	5	39%
Switzerland	0	0	--	0%	--	5	0%
Turkey	0	0	--	0%	--	4	0%
United Kingdom	10	9	7%	0%	95%	9	100%
United Nations	0	30	--	3%	0%	27	90%
United States	2	2	--	--	75%	2	100%
World Bank	83	120	87%	87%	69%	84	70%
Average donor ratio			69%	25%	31%		69%
Total	332	409	67%	77%	81%	389	95%
v.26-Apr-2011							
(*) Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).							
(**) Ratio is e=d/b except where disbursements recorded by donors are greater than aid scheduled for disbursement (e=b/d).							

A particularly interesting issue is the predictability of funds. Donors usually commit to disbursing a certain amount of funds in a certain year and are encouraged to share information on the multi-year commitment, as required by the Accra Agenda for Action 2008. As we see in Table 1 from the 2010 Survey, currently, the rate of promised funds versus actually disbursed is 81%, which is an important improvement compared to 2005 (67%) and shows an improvement in predictability and a certain absorption capacity. However, the largest part of the funds allocated was direct budget support and one can-

not know how efficiently these funds have been absorbed. It is important to mention the funds promised, but not disbursed (about 77 mln. USD), were included in the budget, and later formed a gap due to the fact that forecasted actions could not be financially covered. The constraints that exist for Moldova's absorption capacity will be described in more detail further on.

Deepening the coordination and effectiveness requires harmonization. In the context of the donor-recipient relation, the harmonization means establishing and using common arrangements within program-

based approaches, sharing information and analysis, conducting joint missions and simplifying procedures for the stakeholders. In Moldova only half (51%) of aid made use of program-based approaches and in even fewer cases (23%) joint missions were carried out. Comparing to the baseline survey and 2008 survey, there is observed an improvement of the situation, but the 2010 targets are not met. Going beyond the Paris Declaration framework, there is indeed a burden for authorities and other stakeholders (NGOs) that donors are demanding too much without taking into consideration the capacities of the beneficiaries. An enormous amount of resources is being spent on reporting and other procedures required by donors. This decreases the amount of resources directed to actual implementation, meaning that a lot of resources are spent on the form and not on the substance, not to mention that joint analytical work is decreasing, which also causes problems for ownership and mutual accountability.

On Managing for Results, Moldova's progress seems to be an important one and indeed there are dimensions which were stagnant or inexistent before - like collecting data based on the NDS and using it to monitor and assess the efficiency. However, despite the progress, the problem is that the access to data is rather limited and format of discussing the results is rather non-inclusive¹⁸.

Also, on Mutual Accountability, progress is observed between government and donors, but again, other stakeholders are not really included. There are no public reports of donors, except a few of them, like the World Bank, Sida, and thus leading to limited trans-

parency, and, even worse, it seems like Moldova is not learning enough from past mistakes, knowing that non-transparency might generate the same effects as it did before. On the other side, the civil society is not active in assessing the development programs and the activity of donors. The reasons generating limited attention to these important issue is the lack/limited capacity to carry out a complex assessment on development programs and donor activity. Also, there is a limited access to documents and meetings between the stakeholders and fear that the donors, which are also financing civil society, might react negatively (especially, the NGOs that are being dependent on donors' funds in Moldova).

1.3 Conclusions

The overall outlook for absorption capacity is improving, nonetheless, there are some dimensions, which are overlooked and may cause substantial problems over time. The improvement of the cooperation with donors and the increase of ODA in the last year was a result of the changing politics in Moldova as well as of donors' shifting decisions, which witnessed a higher degree of openness and, most importantly, the bigger convergence on the actions to be taken.

The recorded progress is related to better prioritization in strategic documents, but also to their connection to the state budget and policy framework. The remaining task related to the strategies is to assess their cost in order to ensure that financial resources are allocated and the priorities are correlated with the mid-term expenditures. In this regard, it is noteworthy that a higher attention should be paid to past lessons that would

¹⁸ Final monitoring report on compliance with the transparency of the decision-making process, April-December 2010, Association for Participatory Democracy, 2011

bring more analysis-based approach, and also to ensure a higher degree of transparency and accountability that would increase the level of legitimacy and responsibility. Given the more sector-oriented approach, it is necessary to proceed with a fiscal and organizational decentralization, shifting the balance within the system in order to confer to the central authority the role of coordination and harmonization, rather than that of an entity that is imposing its rules. The ministries and regions (local authorities) should take the lead in their sectors, thus ensuring that they are going to implement what they have designed, and not the imposed policies.

Last but not least, it is important to answer what is the ODA absorption capacity of Moldova? According to the Inter-ministerial Committee for Strategic Planning, the Government was able to contract projects of EUR 1.2 bln out of the EUR 1.8 bln earmarked at the donors' conference on Moldova on 24th March 2010¹⁹. Percentage-wise, this is about 66% and, at first, one might say that the absorption capacity is in general around 65%, but before insisting on this, several arguments should be considered. The Country Spreadsheet of the 2010 Survey²⁰ shows

that important parts of allocations were direct budget support, therefore, one can determine that the real absorption capacity on concrete projects, which is going to be the key approach when integrating in the EU, is balancing between 40-50% (+/- 10%). The constraints to absorption of funds and new possibilities to benefit from more assistance derive mainly from building adequate administrative capacities and need to be consolidated further on, in order to prepare the institutions for the EU financial instruments, given the increasing importance of the EU as a development actor in the region and Moldova's aspirations (issue covered more detailed in the last chapter).

Considering the above, it is recommended that the authorities create inclusive formats and capacity building to state institutions, but also increase the motivation of the latter and prestige of the civil service. It is crucial to have strong institutions with skilled and motivated personnel because without them no reform will be possible. At the same time, it is advised that donors perceive authorities and civil society at large as a reliable partner that has to be consulted, and not imposing certain directions.

19 Prim-ministrul Vlad Filat a prezidat astazi sedinta Comitetului Interministerial pentru Planificare Strategica, 21/06/2011, <http://www.gov.md/libview.php?l=ro&idc=436&id=3962>

20 Country Spreadsheet Moldova 2010, Paris Declaration Survey http://www.un.md/donors/support_aid_eff/index.shtml

CHAPTER II.

MACRO-ECONOMIC ABSORPTION CAPACITY

Corina Gaibu

From macroeconomic perspective, aid flows have an essential impact related to the balance of payments, exchange rates and the behavior of the macro economy in general. This way it has a significant impact on economic growth of the recipient country. The macroeconomic framework of Development Assistance addresses issues that relate to long term perspective on aid absorption capacity such as:

- *Long term debt sustainability:* ODA inflows may be subject to debt sustainability when increased ODA inflows are in the form of loans, even if they are concessional.
- *Cautious level of aid dependence:* Effects caused by external aid inflow and additional expenses can have a significant accent on labor market. It can be tensioned by aid increases that generate premises for rising demand for skilled labor force and climbing up wages.
- *Possible appreciation of the exchange rate and its following impact on export competitiveness:* ODA is received by Moldova in foreign currency; therefore an unexpected and considerable ODA increase can cause an appreciation of the exchange rate and following damage to the export sector competitiveness,

i.e. Dutch Disease effects. This means that the amount of national currency in circulation decreases, which is a consequence that strengthens the monetary value of the Moldovan Leu. It, therefore, does not favor inflation and the growth of wages.

2.1 Current macroeconomic situation

Here are some macroeconomic indicators for 2006-2010 period shown in the table below. Generally speaking, macroeconomic indicators for 2010 are better than the projected ones. Mainly, indicators are better due to the fact that 2010 is a post crisis year reflecting the recovery of economy after a deep coma in 2009. The inflation is running hot in 2010 at 8.1%, compared to previous year when the CPI (consumer price index) increase was only 0.4%, the lowest level ever registered. The inflation in Moldova is mostly imported and is highly dependent on exchange rate. Remittances went down in 2009 and have not recovered yet to the pre-crisis level of \$1.66 billion. As a percentage of GDP, remittances go down every year, from 35.8% in 2006 to 21.6% in 2010.

Table 2. Selected macroeconomic indicators, 2006-2010 year

	2006	2007	2008	2009	2010
Real GDP growth, %	4.8	3	7.2	-6.5	6.9
Official Transfers, in % of GDP	35.8	38.6	27.4	21.9	21.6
Consumer Price Index, % end of period	113.8	113.1	107.3	100.4	108.1
Exports, mil \$	1051.6	1341.8	1591.2	1287.5	1541.5
Imports, mil \$	2693.2	3689.9	4898.9	3278.3	3855.3
Commercial Balance, mil \$	-1642	-2348	-3308	-1991	-2314
National Bank foreign reserves, mil \$	650	1050	1505	1480.3	1717.7

Sources: *Economic Statewatch, IDIS Viitorul, National Bank of Moldova, IDIS computation*

At the macroeconomic level, Moldova's economic performance has been supported by substantial amount of remittances. The most important concern in the medium term is the future decline in remittance inflows. In 2010, 32 % of imports were covered by remittances. It means a serious drop from 44% in 2006. Government revenues depends on remittances in proportion of up to 15% and about 41% of foreign currency inflow is guaranteed by these transfers. The current overall debt service burden and fiscal deficit are moderate.

In the medium term, remittance inflows could run down in about 12-15 years and it is likely that in the meantime transfers would

drop gradually. Nevertheless, in the long run, the potential of reduced transfers of funds (with transfer amounts possibly halving as a contribution to revenue by 2025) involves both an increased need for aid and expanding macroeconomic and fiscal constraints that may affect the ability to use aid effectively. Also, the decline in remittances will involve some depreciation of the Moldovan Leu in real terms.

The possible drop in Moldova's remittances over the medium term represents a following significant challenge. The shift to a non-remittance economy will probably involve some depreciation of the local currency in real effective terms.

Table3. RM Budgetary Finances, 2006-2010

	2006	2007	2008	2009	2010
GDP	44069	53430	62840	60043	71849
Total Revenues and Grants	11117	14059	15978	13568	17168
Direct Taxes	423	562	303	183	216
Indirect Taxes	8053	9832	11776	9977	12252
Grants	315	968	1068	1026	1955
Total Expenditure	11019	14257	16466	17203	18792
Current Expenditure	8382	11006	12839	14741	16194
Transfers and Subsidies	4570	6189	7369	8728	10448
Wages	2094	2551	2849	3441	3430
Goods and Services	1289	1656	1899	1738	1769
Interest Obligations	429	610	722	834	548
Development Capital Expenditure	2688	3347	3604	2488	2716

Sources: *Economic Statewatch, IDIS Viitorul, RM Government*

In Moldova it is already an established tradition that expenditures grow faster than revenues. Even when the economic situation was pretty harsh (in 2009) and revenues dropped by 15%, a 4% increase in expenditures was recorded. The sole exception is 2010 when revenues expanded by 27%, while expenditures increased by 9%. From the dynamic perspective, there is a remarkable increase in the grants' share in the revenues, by 90% in 2010 compared to 2009 year. Furthermore, the table above shows that the RM budget is dependent on indirect taxes and this situation will last for a long time.

2.2 Debt dynamics and its burden on national economy

In Moldova fiscal deficits are at least partially funded by donors in the form of external loans and grants. At the end of 2010, Moldova's total external public debt was slightly over \$1.1 billion (19% of GDP). External duties (76,7% of total external debt) are payable to multilateral creditors, mostly to the IDA and the IMF (\$386 mln and \$304 mln). The stock of the domestic debt is about 7% of the GDP.

In terms of percentage of GDP, external public debt, appearing in the period under consideration, increased to 19% of GDP by 2010. At the same time, the total debt service liability declined over the period till

almost \$90 mln in 2010, from \$125 mln in 2009 (due to internal debt service obligations reduction - about twice less if compared to \$30 mln in 2010 and \$57 mln in 2009). In the long run, in order to avoid compromising Moldova's external debt sustainability, one needs a strategy on improving grant support development and careful debt management. Besides, it is necessary to make as much use as possible of the contracted funds in the most productive way, not just to spend them on plain consumption (financing increases in wages).

2.3 Aid absorption – international comparisons

Below are shown particular international comparisons of the level of aid received by Moldova in 2008 and 2009 (for the year of 2010, information for countries other than Moldova is not available yet). The selection of countries with similar level of income per capita shows that Moldova is in the same group with some countries like Papua New Guinea or Nicaragua. Nevertheless, for comparison purposes, we included some ex-soviet and a few other countries that are considered relevant for comparison. The table below illustrates that Moldova receives moderate levels of aid per capita when compared to other countries which have similar levels of income per capita and/or are in the same region.

Table 4. Comparisons of indicators: GNI, ODA for a series of selected countries for 2008/2009 years

Country	2008			2009		
	GNI pc, \$	ODA pc, \$	ODA/GNI, %	GNI pc, \$	ODA pc, \$	ODA/GNI, %
Bolivia	1450	64.76	4.47	1630	73.59	4.51
Azerbaijan	3830	27.1	0.71	4840	26.5	0.55
Bhutan	1770	126	7.12	2020	179.9	8.91
Bosnia and Herzegovina	4520	122.7	2.71	4700	110.2	2.34
Kosovo	2950	0	0.00	3240	436.5	13.47
Macedonia	4120	100.3	2.43	4400	94.7	2.15
Serbia	5520	132.4	2.40	6000	83.1	1.39
Congo, Rep.	1980	134.16	6.78	2080	76.81	3.69
Georgia	2450	206.06	8.41	2530	213.07	8.42
Moldova	1500	81.88	5.46	1560	68	4.36
Mongolia	1670	93.29	5.59	1630	139.35	8.55
Nicaragua	1050	130.68	12.45	1000	134.78	13.48
Papua New Guinea	1090	46.28	4.25	1180	61.44	5.21
Sri Lanka	1780	36.24	2.04	1990	34.66	1.74
Ukraine	3210	13.35	0.42	2800	14.52	0.52
Armenia	3350	98.32	2.93	3100	171.13	5.52
Albania	3880	114.97	2.96	4000	113.42	2.84

GNI - Gross National Income per capita, ODA - Net Official Development Assistance Disbursements per capita

Source: *worldbank.org*, *IDIS Computations*

As noticed in the table above, Moldova is among those countries which have a low to middle level of aid, compared to other countries (as attested by the share of ODA to GNI). From macroeconomic point of view, there is room for improvement. The estimated aid absorption rate, without reaching the level of aid dependence that is generally considered the upper limit for aid to be effective, is placed between 15% and 30% of GDP²¹. Increasing aid above this level begins to have a negative impact on growth. So, in principle, Moldova could increase the amount of aid to be absorbed without reaching the level of aid dependence that is generally considered the upper limit for aid to be effective. The ab-

sorption capacity is quite high for this factor as Moldova's dependence degree is low.

The optimal limit for yearly aid absorption is considered to be up to 5% of GDP²². At this rate, for the following 3 years, Moldova would not face significant problems on macroeconomic level related to aid absorption. Local Forex market would be slightly affected as the volume of about \$300 million would produce effects which can be easily controlled by the National Bank. Of course, the exchange rate can appreciate, but the supply of foreign currency can be certainly balanced through the National Bank's instruments.

Even if there is potential of expanding the financing capacity, authorities should

21 OECD: Official Development Assistance Flows To Fragile And Conflict-Affected States

22 European Union funding requirements

consider that rapid increases in aid may face institutional and management capacity limitations, even if the aggregate aid levels remain within bounds that are thought to be normal according to international organizations. So, the increase in aid should be done carefully as to avoid institutional and management constraints. Moldova is unlikely to face significant macroeconomic constraints in increasing the level of aid substantially, while a large and rapid increase in aid may encounter difficulties. International experience shows there might appear challenges to monetary and exchange rate management, resulting not only in high burden, but also in the instability of the exchange and interest rates.

2.4 Monetary Aggregates

Monetary authorities in Moldova use inflation targeting as a framework for monetary policy. The National Bank of Moldova (NBM) is constantly involved in a combination of open market type operations and foreign exchange sales to manage liquidity in order to keep inflation at 5% (2010). We should mention that the monetary policy instruments have a limited or no impact on the scope of monetary authority: inflation targeting. To avoid inflationary pressures, the authorities attempt to reduce the resultant local currency injections by sterilizing national currency liquidity of anything up to 6% of GDP. Sterilizing process is required in order to prevent the injections of liquidity translating into inflationary increases. Moreover, if money demand does not rise as fast as money supply, interest rates become lower and more unstable than they might otherwise be. This can happen in case when national authority

does not apply sterilization at a high cost, which already happened during the period analyzed of 2006-2010 years. In these conditions, commercial banks are likely to be tempted into taking larger quantities of treasury bills.

However, on account of thin financial markets and limited range of monetary policy instruments, upward pressure is applied on prices of the few instruments available, like interest and exchange rate. The lesson clearly underlined is that the large-scale sterilization in thin financial markets is detrimental for the economy in terms of competitiveness.

The burden on the exchange rate and high interest rates are incompatible with the government's development objectives of increasing exports and increasing the role of the private sector in economic growth. In order to solve this policy divergence, in the short run, the NBM can follow a more balanced approach to treasury bills and foreign exchange sales. Although, getting the right balance can be very challenging. But the long term solution stays in a gradual fiscal strengthening. Improvements in liquidity management together with the introduction of longer dated government bonds can be successful in reducing interest rate volatility in the money market.

2.5 Conclusions on Macroeconomic Aspects

At present, the level of aid inflow to Moldova is relatively low. Moldova's current debt levels are sustainable and repayment is not an issue. At the same time, it is considerably below the bound where further increases in aid would produce modest results. Conse-

quently, the problem of the macroeconomic impact of increased aid should not be considered a first-order problem. Nevertheless, Moldova's authorities should take into account the following issues:

- For debt sustainability improvement, grants should be preferred over loans. An exception could be cases when loans are taken at a highly convenient interest rate and used to finance directly growth creating investments.
- In case of a loan agreement, lower interest rates and longer grace periods for repayments should be considered.
- In the short run, Moldova should get only aid amounts that would not force the sterilization capacity of the monetary authorities and compromise export and private sector growth.
- There is a substantial challenge representing the possible drop in Moldova's remittances over the medium and long term. Consequently, a new macroeconomic model should be developed for Moldova based on the shift to a non-remittance economy.
- Due to institutional and management capacity limitations - institution's absorption capacity should be strengthened.
- Moldova should keep the stability of the exchange and interest rates.
- Large-scale sterilization of the national currency in case of Moldova is detrimental for the economy in terms of competitiveness, consequently, it is highly recommended to avoid applying monetary policy instruments that have as a consequence massive sterilization of liquidity.
- Additional increases in aid, if needed, should be done carefully as to avoid institutional and management constraints. Moldova is unlikely to face significant macroeconomic constraints in increasing the level of aid substantially. Nevertheless, a too large and rapid increase in aid (more than 5% of GDP per year) may encounter some difficulties.

CHAPTER III.

FINANCIAL ABSORPTION CAPACITY

Corina Gaibu

Financial absorption capacity stands for the capacity of central, regional and local authorities (depending on the territorial set-up of the country) to co-finance programs and projects assisted by donors, to plan and guarantee these domestic contributions in multi-annual budgets and to collect them from the various partners involved in a project or program (Horvat 2004, Šumpíková, Pavel and Klazar 2004).

Thus the major factors that influence the financial absorption capacity are:

1. Co-finance requirements of the donors
2. Co-finance ability of central and local authorities
3. Multiannual contributions capacity required to repay finances
4. Co-finance ability of the private sector that can be attracted in public private partnership (PPP)

3.1 Co-finance requirements of the donors

An important condition in financial support policy of main donors is the co-participation of the receiving country in the project or program. This factor is usually described poorly or even dropped when the financial absorption capacity is studied and is described as given static information. Yet, this

is a crucial element that determines the total financial absorption capacity of the authorities, as it acts as a financial leverage for the available resources of the central or local authorities. Thus, an increase in co-finance requirements of donors from 10% to 30% will decrease the absorption capacity by 3 times. This factor has to be taken in consideration especially when co-finance abilities of the authorities are very limited and become the bottleneck of the entire system. As a rule, in the context of pre-accession funds, 15 to 30% of the total costs had to be made available by the authorities. Especially, in rural areas it proved to be impossible for (local) public authorities to finance this share of the program at times. Moldova definitely will not be an exception.

3.2 Co-finance ability of authorities – major factor that influences the financial absorption capacity

Frequently, authorities are tempted to focus public expenditure on short term social needs and provide basic services in the short run. Thus, it solves the problem related to effects and not to causes that led to the socio-economic discrepancies. Therefore, the policies of the donor aim to reorient national expenditures to areas where results can be better in medium term and also to develop

a sense of consciousness of the beneficiaries regarding the projects promoted.

Naturally, beneficiary is responsible for co-financing the external assistance, and in some cases will support some of the costs of development and execution of projects proposed. Authorities must, however, be careful not to use up funds as soon as possible, but to make the most efficient of it.

The co-finance ability has to be analyzed separately for central authorities and for local authorities. Yet, one criterion is crucial for distributing this capacity between them: the state fiscal and taxation policy that determines the distribution criteria at central and local levels. Moldova's policies determines a high level of concentration of revenues at central level and most of the local authorities lacks financial autonomy and are dependent on the centralized distribution of revenues. Except this factor, the distribution criteria are very volatile and unstable, thus

generating too high uncertainty for potential multiannual post-accessing co-financing requirements. Only a deep reform of revenue distribution can improve the extremely poor position of local authorities in gathering funds for co-financing purposes. Donor community can stimulate the redistribution of revenues by requiring a differentiated contribution for local authorities versus central authorities, keeping the required average for the country. This tool will significantly improve the financial capacity leverage for the local authorities, increasing their total financial absorption capacity. Donor community can apply this tool at least till the decentralization reform will be implemented and functional.

The table below contains the list of regions which receive financial support on a permanent basis from the central authority, thus having a very limited or close to zero capacity of co-financing projects:

Table 5. Financial Revenues by Source and Expenses of Regions for 2010 year, thousands lei

Region (rayon or municipality)	Taxes collected locally	Total expenses (region budget)	Total support from central authorities (transfers from state budget)	Rate of the support of central authorities, %
mun.Chisinau	1,329,385	2,074,197	349,840	16.9%
mun. Balti	119,425	263,960	109,726	41.6%
Anenii Noi	28,074	163,913	124,451	75.9%
Basarabeasca	9,919	58,935	49,875	84.6%
Briceni	27,099	142,571	117,497	82.4%
Cahul	51,130	251,815	186,236	74.0%
Cantemir	15,813	134,547	117,331	87.2%
Călărași	20,906	158,513	136,527	86.1%
Caușeni	29,290	186,833	153,460	82.1%
UTA Găgăuzia	60,082	348,962	210,195	60.2%
Cimișlia	19,082	118,720	99,178	83.5%
Criuleni	22,446	161,060	132,783	82.4%
Dondușeni	18,035	82,988	65,889	79.4%
Drochia	34,166	166,367	123,513	74.2%

Dubăsari	9,517	97,408	81,286	83.4%
Edineț	31,183	150,999	119,428	79.1%
Fălești	27,924	182,306	154,880	85.0%
Florești	35,564	172,489	132,676	76.9%
Glodeni	19,602	117,938	103,235	87.5%
Hîncești	36,992	255,009	215,998	84.7%
Ialoveni	27,155	205,127	159,715	77.9%
Leova	14,358	108,823	90,341	83.0%
Nisporeni	13,450	140,045	127,265	90.9%
Ocnîța	18,028	100,243	79,479	79.3%
Orhei	38,942	221,733	172,241	77.7%
Rezina	22,186	121,767	77,546	63.7%
Rîșcani	30,587	142,845	110,265	77.2%
Sîngerei	23,085	187,176	156,612	83.7%
Soroca	37,347	191,865	154,120	80.3%
Strășeni	22,878	177,133	149,621	84.5%
Șoldănești	11,103	91,654	80,803	88.2%
Ștefan Vodă	26,213	151,336	126,265	83.4%
Taraclia	16,628	80,872	62,133	76.8%
Telenești	16,024	157,325	143,916	91.5%
Ungheni	39,340	241,797	196,466	81.3%
TOTAL	2,302,957	7,609,266	4,670,793	61.4%

Source: Budget Law, Ministry of Finance

As can be noticed in the table above, majority of regions, except Chisinau and Balti municipalities, have a dependence of more than 75 % on financial support from central authorities. Some of them, like Nisporeni and Telenesti, rely on centralized financial assistance to an extent of over 90 %. Consequently, only Chisinau municipality and Balti can be considered to have potential for co-financing projects.

As can be seen above, the financial capacity of co-financing is concentrated at the central level authority; the evaluation of this factor should be done at the level of the entire country.

3.3 Co-finance effort estimation at macroeconomic level

Moldova had reduced access to external financial support and as we can see from the table below, it was not exceeding 3% of GDP, except 2010 when the country received a more significant assistance to support the reduction of crisis consequences.

Table 6. Moldova's External Financial Support²³

	2006	2007	2008	2009	2010
External Assistance , Received by RM, including	55.22	125.96	141.84	140.55	365.41
Grants, million USD	23.95	78.67	98.59	99.36	153.37
Credits, million USD	31.27	47.29	43.25	41.19	212.04
External assistance rate in GDP, %	1.6%	2.9%	2.3%	2.6%	6.3%

Source: Ministry of Finance

Co-finance effort during the same period of moderate assistance is tiny. Almost all assistance projects were entirely covered by donors' finances. The table below shows the percentage of the Moldova co-financing effort compared to a variety of macroeconomic indicators.

Table 7. Co-financing Effort of RM and Macroeconomic Indicators

	2006	2007	2008	2009	2010
Governmental co-financing related to External Assistance, mil. lei	50.7	35.4	14.2	20	20.8
Co-finance share from external assistance, %	6.99%	2.32%	0.96%	1.28%	0.46%
Co-finance share from state budget, %	0.46%	0.25%	0.09%	0.12%	0.11%
Co-finance share from GDP, %	0.12%	0.07%	0.02%	0.03%	0.03%

Source: Ministry of Finance

The above figures emphasize the fact that Moldova almost lacks experience of co-financing projects. Co-financing historical trends of Moldova can hardly serve as a reference for capacity evaluation in this field, but this can help to understand that requirements of significant financial co-participation can become a limitation for projects realization or at least lead to significant delays.

A different approach should be con-

sidered for co-financing capacity estimation. The state budget and the flexibility of expenses categories represent the key factor of analysis. It must be mentioned that the state budget is significantly oriented to social expenses, which in the context of actual political situation and the overall quality of life of the population, cannot be decreased. Almost

10,5 billion lei (56%) represent the state budget support to the social expenditures, healthcare, population and local administration. Wages is another category that cannot be decreased, as the level of salaries is very low for the majority of state employees. More than 76% of the budget represents categories that cannot be optimized in the short run, so that substantial funds could be redirected to co-financing projects. The remaining categories cannot afford a flexibility of more than

²³ Data recorded by MoF are mainly aid for Government sector

15%, which represents a total maximum limit of 3.6% of the budget. Below is presented the structure of the budget for 2010.

Table 8. Budget Structure of RM for 2010 year, million lei

	Budget 2010	
	Budget amount	Budget structure
Total Expenditure and Net Lending	18792	100%
<i>Current Expenditure</i>	16194	86%
Transfers and Subsidies (subsidies, social support and support to local authorities)	10448	56%
Wages	3430	18%
Goods and Services	1769	9%
Interest Obligations	548	3%
<i>Development Capital Expenditure</i>	2716	14%

Source: Ministry of Finance

3.4 Multiannual repayment capacity

Only few projects represent full grants and most of them require repayments to be done on a multiannual basis. Funds can be allocated in one of the following way: full grant support, full credit financing or partial credit – partial grant support.

There are two sources for funds repayment:

1. Existing revenues of the accessing-funds authority
2. Revenue generated by the project

Being limited in revenues, the unique beneficiary of external funds is the central authority. Thus repayment history exists only with central authorities.

Table 9. Credit and Repayment Indicators of RM in dynamics

	2006	2007	2008	2009	2010
Governmental Credit Balance, year end, million USD	718.23	765.8	778.3	773.67	1116.18
Principal Repayment of Governmental Credits, million USD	48.58	36.86	39.31	50.95	45.91
Annual Service of Governmental Debt, million USD	17.55	16.34	15.59	18.58	14.6
Total Repaid Amount, million USD	66.13	53.2	54.9	69.53	60.51
Repaid Amount, share of the budget, %	7.9%	4.5%	3.5%	4.5%	4.0%

Source: Ministry of Finance

Due to high inflexibility of the major state budget expense positions, as explained above, the repayment capacity is highly limited and it has to be analyzed in conjunction with the co-financing capacity.

An unexplored and promising source of repayment is the implementation of projects that are able to generate revenues to repay partially or entirely accessed funds. For this purpose it is necessary to increase the knowledge and administrative capacity of local and central authorities to be able to identify such opportunities and build sound financial analysis and projections to ensure availability of revenue. A prerequisite would be to ensure a thorough regulatory framework that will secure these revenues to be directed exclusively to the repayment of accessed funds, so that political changes do not influence these capacities.

3.5 Co-finance ability of the private sector that can be attracted to public private partnership (PPP)

The basic concept of Public Private Partnership (PPP) is to combine the individual strength of a public and a private partner to contribute to obtain better products and services that are profitable and have a development-policy benefit. The partnership between public and private sectors is in a very early phase in Moldova. Public-private partnership schemes (PPP) are agreements between actors in the public sector and private sector, for a project implementation or providing some services that are traditionally provided by public sector. Both partakers, public and private, share in-

vestments, risks, benefits and responsibilities in implementing PPP projects. The most common types of PPP are:

- **Design-Built-Operate (DBO)** - Consist of phases of planning, construction and operation of a facility that is made by private sector for some time and then returned to the public sector. The facility is publicly funded and public authority remains the owner throughout the project, but the private sector has to bear the risks of planning, construction and operation. Combining all three stages into a DBO approach maintains the continuity of private sector involvement and can facilitate private-sector financing of public projects supported by user fees generated during the operations phase.
- **Design-Build-Operate-Finance-Maintain (DBOFM)** - With the DBOFM approach, the responsibilities for designing, building, financing, operating and maintaining are bundled together and transferred to private sector partners. Planning, construction, operation and financing facilities are made by private sector for a while and then returned to the public sector. Private investors own the facility in this period, bear the risks of planning, construction, operation, maintenance and recover the costs from public subsidies.
- **Concession** (similar to the one before, but private sector recovers costs from fees paid by users).

Private investments in structural operations depend on a strong national political commitment to undertake sustainable reforms needed. PPP implementation may be hampered by

lack of legal regulations, the knowledge and experience of countries and administrative barriers.

In different regions of Moldova, local population support entire or partial costs for different social and infrastructure projects, like gasification, water and sanitation projects, support for local schools and kindergartens. Unfortunately, the framework is underdeveloped and ownership, responsibilities, guarantees over the processes and the results of such partnerships are unclear for the private sector as well as for the authorities.

Taking into consideration that local authorities has extremely limited co-finance and repayment capacities, the PPP expertise and framework are highly needed in Moldova, as only such a partnership can bring real results in development of different economic sectors and meet demands of the public.

The advantage of PPP is that a well developed project may attract private partnership not only from the region that is subject of the funds, but also bring nation-wide companies to participate in the implementation of selected projects.

3.6 Conclusions on Financial Aspects

- Although co-funding effort from the state budget is an important one, the greatest pressure could be felt by local authorities. The ability of local authorities to co-finance programs and projects supported by external donors is close to nil. Predominantly, central authorities have the opportunity to contribute with financial means to the projects assisted externally.
- Co-finance requirements of the donors are a powerful leverage factor and a cru-

cial element that determines the total financial absorption capacity of the authorities.

- Donor community can stimulate the redistribution of revenues by requiring a differentiated contribution for local authorities versus central authorities, keeping the required average for the country, if this is required. This tool will significantly improve the financial capacity leverage for the local authorities increasing their total financial absorption capacity. Donor community can apply this tool at least till decentralization reform will be implemented and functional.
- Requirements of significant financial co-participation should be avoided as it can become a limitation for projects realization or at least generate significant delays.
- An increase in knowledge and administrative capacity of local and central authorities should be done in order to identify opportunities of starting more projects capable to generate revenues to repay borrowed funds.
- A regulatory framework that will secure revenues would be a guarantee for project generated returns to be directed exclusively to the repayment of accessed-funds, so that political changes do not influence these capacities.
- Public private partnership needs to be developed as it has a greater capacity of co-financing and will allow local authority potentially to attract partners at the nationwide level. It is an unexplored tool and in order to stimulate the collaboration between public and private partners, more analysis of the opportunities and obstacles should be done.

CHAPTER IV.

ADMINISTRATIVE ABSORPTION CAPACITY

Valentin Lozovanu, Viorel Gîrbu

The administrative absorption capacity of the foreign assistance is important from the perspective of Moldova's aspirations for the accession to EU, as well as for the general process of social and economic development of the country. The analysis of the administrative absorption capacity can be carried out on two dimensions. The first dimension is concerned with institutional framework of the management of the foreign assistance. Three aspects need to be considered at this stage.

1. *Institutional arrangements*
2. *Human resources*
3. *Procedures and instruments*

The second dimension is focused on the aspects related to the implementation of the foreign assistance projects, including:

1. *Preparation, elaboration, and implementation of the projects*
2. *Performance in public service, financial management and public procurement*

4.1 The institutional framework of the management of the foreign assistance

4.1.1 institutional arrangements

The institutional framework determines how efficient and optimal in time national authorities implement projects financed from

foreign assistance. In this sense an efficient management system of the Official Development Assistance (ODA) is important for the final success of the projects. The divisions of responsibilities between institutions that form mentioned system in a systematic approach to setting development priorities, represent factors that determine the overall efficiency of the foreign assistance allocation.

In Moldova, the foreign assistance is coordinated at the central level in 3 stages²⁴.

Co-relation of the foreign assistance's major allocation directions with country's national social and economic development priorities is carried out by the Inter-ministerial Committee for Strategic Planning (ICSP), led by Prime Minister of Moldova, who acts as the national coordinator of the foreign assistance. This committee is also responsible for efficient utilization of the ODA at the national level. ,.

Program design, monitoring, operational and methodological evaluation are carried out by the State Chancellery, which is the national coordination authority, also responsible for keeping the record and ensuring transparency of the foreign assistance allocated to Moldova by the donors community.

At the sectoral level, the design and monitoring of the foreign assistance pro-

24 Government Decision Nr. 12 of 19.01.2010 the Regulation on the institutional framework and mechanism for coordinating the external assistance provided to Moldova by the international organizations and donor countries.

grams and projects are carried out by the Sectoral Council for Foreign Assistance that is a consultative body chaired by the Sectoral Coordinator of Foreign Assistance - represented by the head, or his/her deputy, of the central public authority responsible for policy in the given sector.

The local or regional level of foreign assistance management emerged in Moldova in particular due to the Government's efforts to implement in 2010 regional development policy. Ministry of Regional Development and Constructions is the administration body in charge of elaboration and implementation of the regional development policy. Thus, within a relatively short period of time, a system of regional development was set operational. Regional Development Agencies were established (North, Center, South, with more to be set up in Chisinau, ATU Gagauzia, and Transnistria) with the purpose of managing regional development at the local level. Financing of the regional development activities is carried out using the resources provided by the National Fund for Regional Development (NFRD), formed from 1% of the state budget revenues and funds provided by some donors, like DFID, GIZ. In accordance with the National Strategy for Regional Development, development strategies for the regions North, Center, and South were adopted. As a result of the first national regional projects call, Unique Program Document²⁵, containing 56 regional projects (of a total of 128, amounting to 2,2 billion lei) and Operational Regional Plans for North, Center, and South regions development was adopted.

Transparency in the field of foreign assistance is ensured by free access to all in-

terested persons to the database containing foreign assistance projects implemented or in the process of implementation in Moldova, available at www.ncu.moldova.md²⁶. This database offers various opportunities for selecting information, according to the number, name of the project, data about donors or sector of implementation. As of June 29, 2011, according to the information from the above-mentioned website, 1167 projects have been registered in the data base. However, it should be mentioned that, when searched for active projects that are currently implemented, the search engine did not return any result. This situation points to some dysfunctions in the algorithm used by this instrument. Also, it should be mentioned that data offered by the authorities on the mentioned web site do not allow the possibility to monitor projects implementation, or to carry out generalizations that would help in preparing some analytical information. It is necessary to familiarize interested public or civil society with the sectoral developments, by providing on above mentioned address some operational information or reports of general character prepared.

4.1.2 Human Resources

A critical aspect related to the absorption capacity of foreign assistance is the availability of human resources with appropriate level of qualification. In order to provide a comprehensive picture, the situation in this area will be analyzed in three dimensions:

- *availability of human resources*
- *professional preparedness*
- *level of motivation*

In order to ensure successful imple-

²⁵ GD Nr. 772 of 26.08.2010 regarding approval of the Unique Program Document for 2010-2012

²⁶ <http://www.ncu.moldova.md/ro/search-project>

mentation of foreign assistance projects, the administrative system must be capable of recruiting and maintaining highly qualified personnel, properly motivated to perform their tasks. Relevant institutions must have a well-qualified Human Resources service, capable of ensuring identification and hiring of well-trained professionals, in order to optimally implement projects carried out within the ODA activities. Human resources services of public administration must have detailed

of foreign assistance projects. The national education system is widely criticized for the quality of trained specialists and its inability to adapt itself to the demand trends prevailing on the labor market. However, to support the claim mentioned above, one can argue that the adaptation to the specific requirements of various public institutions could be carried out within professional development/training courses, these aspects being described below.

Table 10. Graduates across general fields of study and cycles, 2005-2010

	2009		2010	
	Cycle I	Cycle II	Cycle I	Cycle II
Total	26 049	-	23 264	4 536
Humanities	1 281	-	848	321
Political sciences	730	-	612	286
Social sciences	502	-	391	166
Communication	390	-	384	72
Economics	9 014	-	7 319	1 828
Law	4 026	-	3 737	706
Agricultural studies	274	-	287	32
Public services	682	-	797	59

Source: NBS

job descriptions, while the level of compensation must be competitive with economy-wide and regional averages.

· *availability of human resources*

Annually a large number of specialists in various fields graduate from the higher education establishments in Moldova. In 2009 the number of graduates was over 26 thousand, while in 2010 over 23 thousand students finished cycle 1, and over 4500 students completed cycle 2. Specialists are trained in various fields, although one can observe a clear preference for economics and law. This data allows us to claim that there is a significant supply of specialists capable of being engaged in implementation

· *Professional development courses*

Implementation of foreign assistance projects requires in most cases highly qualified personnel, with high degree of specialization in narrowly defined fields, which calls for the necessity to organize continuous development courses for specialists that already possess a certain skill level.

The legal framework in Moldova determines the right and obligation of public servants to improve their professional skills and abilities on a continuous basis. To this end, public authorities ensure organization of a systematic and planned process of continuous professional development of public servants.

Continuing professional development of civil servants in Moldova is carried by the

Academy of Public Administration (APA).

Since the foundation of Academy, over 4000 graduates received higher education degrees, including master's and postgraduate. As of this moment, about 21000 public servants have completed initial and continuing professional development courses. APA offers training courses for the personnel employed by the local (LPA) and central public authorities (CPA) that comprise a wide range of subjects relevant for the foreign assistance sector, including:

- ✓ **Management and strategic planning**, aimed at developing abilities related to the strategic planning at the national and institutional levels, operational and project planning, budgeting, administrative tools of ensuring implementation. Monitoring, evaluation and reporting of the results;
- ✓ **Public procurement**, aimed at familiarization with state regulations in the domain of public procurement, such as: public procurement procedures, tender documentation, publicity, etc., organization and management of public procurement. Development practical skills in the field of public procurement include: providing tender notices, preparation of relevant documents, negotiations, selection and/or qualifications criteria, contract award, procurement contracts, identification of sources of risk, fraud and corruption, dispute resolution and legal liability;
- ✓ **Developing skills for the exercise of duties for civil servants**, such as: activity regulations, rights and obligations, the Code of conduct for civil

servants, self-management skills and ability to work with documents, communication skills, requirements for public services quality;

- ✓ **Management of public service and civil servants**, such as: regulation of activities carried out by civil servant, regulatory framework, personnel procedures;
- ✓ **Organizational management**: internal communication, forming and leading teams.

A special role in enhancing of professional expertise of the public authorities personnel is played by Central Public Administration Reform, which has been carried out with the support of donor community since 2005²⁷. According to the reported data, in the course of 2010 the personnel capacity of the public authorities was enhanced within this project through the use of various forms of professional development: professional training courses, English courses, and information sessions for public servants, visits abroad with the purpose of familiarization with the experience of the European countries.

Within these forms of trainings that have also been carried out with contribution of APA about 2780 civil servants received professional training: 66.7% of them from CPA, and 33.3% from LPA.

The above mentioned courses contributed to development of professional abilities of public servants in such areas as: human resource management, financial management, audit and internal control, English language skills for 400 civil servants in central public administration.

Seminars/workshops and quarterly sessions dedicated to different topics were orga-

²⁷ <http://rapc.gov.md/md/rapcrez/>

nized for public servants employed in CPA and LPA.

· *Level of motivation*

According to the NBS data for the period 2008-2010²⁸, the level of compensation in public administration was above the average recorded for the overall economy. Thus, in 2010 the average salary in public administration was 3204.8 lei, while the national economy average constituted 2971.7 lei. This situation involve less risks for the public authorities related with outflow of skilled personnel towards the private sector. At the same time, it must be mentioned that, in absolute value, the income received by the public administration employees in Moldova does not motivate civil servants to pursue a career development in the chosen domain, as it falls well below the regional average. Moldova is facing significant exodus of labor force, some of which are highly qualified. For instance, according to the statistic data, just in the period 2000-2008 labor force reduced in Moldova by one quarter.

A particular aspect is that of the donor agencies with established representations in Moldova, that allow them to carry out management and implementation of either their own projects or those of other donors. While there is no precise data in this respect, it should be mentioned that the compensation level offered by these institutions is well above the averages for the national economy and public administration, being about 4-5 times higher. Thus, in Moldova public administration in their effort to attract qualified personnel have to compete on the labor market not with the private sector, as it would be natural, but rather with the donor

community who can offer much better terms for their employees.

Table 11. Compensation level, yearly average.

	2008	2009	2010
Economic activities - total	2529,7	2747,6	2971,7
Public administration	2802,4	3209	3204,8

Source: NBS

4.1.3 Procedures and instruments

Sustainability of foreign assistance projects implementation activities is provided by existence of efficient procedures and instruments. These procedures and instruments are related to relevant instructions, methods, manuals, and forms. The system of procedures and instruments, in order to be efficient, must guarantee accumulation and transmission of knowledge.

The existence of such systems and instruments reduces vulnerability of implementing institutions, allowing for attenuation of the negative effect generated by the personnel fluctuations and guaranties their efficient operation.

Overall operational management of foreign assistance projects is one essential element that determines the administrative absorption capacity of funds provided by the donor community. The main role in fulfilling this function in Moldova is attributed to the National Coordinating Authority for Foreign Aid (NCAFA) represented by the State Chancellery. The NCAFA duties lies in the field of providing necessary support for efficient operation of the Inter-ministerial Committee for Foreign Assistance Coordination; holding negotiations with the donor community; par-

28 <http://statbank.statistica.md/pxweb/Database/RO/03%20MUN/MUN10/SAL01/SAL01.asp>

ticipation in elaboration and negotiations of the sectoral government contracts; ensuring diversity and efficiency in cooperation with donors present in the country; monitoring and coordinating implementation of ongoing project activities; ensuring record keeping and transparency of the relevant activities.

Coordination mechanism of foreign assistance in Moldova²⁹ is divided into 3 steps:

- *Program design*
- *Implementation*
- *Monitoring*

The program design includes: determining assistance priorities, identifying and formulating project proposals, negotiating and concluding the state contract.

Assistance priorities are formulated by the NCAFA and approved by the ICSP, based on the proposals approved at the sectoral level and in accordance with the major national policy documents. The circuit of foreign assistance projects is similar to the mechanism of formulation of assistance priorities. Project proposals are elaborated in accordance with some predetermined forms by the sectoral coordinator and, following their approval by the sectoral council, are submitted to the NCAFA to be approved by ICSP.

Subsequently, after being accepted by the ICSP, the national coordinator submits the project proposal to the donor and negotiates the state contract.

The second stage of carrying out a foreign assistance project, the implementation phase, is characterized by a high degree of coherence and is generally conducted by the sector coordinator.

The third part refers to the monitoring

of foreign assistance projects. Monitoring is implemented by the NCAFA, according to the following reports prepared by the beneficiaries of the foreign assistance projects and approved by the sectoral council:

- *monitoring report on the initial phase of the project/program*
- *progress monitoring report*
- *final monitoring report*

In addition to this, the sectoral coordinator prepares an annual report on progress in implementation of projects and programs of foreign assistance in the given sector and presents it to the National coordinator. The NCAFA prepares a consolidated annual report on progress in implementation of foreign assistance projects and programs and presents to ICSP. The NCAFA can also participate in evaluation of projects and programs of foreign assistance implemented in Moldova.

Another aspect related to the procedures and instruments of foreign assistance management has to do with the internal organization of activities of the public authorities.

The norms governing the secretariat activities, elaboration and implementation of legislative provisions, as well as financial management of the public entities in Moldova are regulated by the relevant legal provisions.

Qualified assessment of financial management procedures applied in Moldova is contained by the Public Expenditure and Financial Accountability Assessment report, prepared with the support of the WB³⁰. According to this report, in 2008, as far as the system of accounting, record keeping and reporting is concerned, Moldova showed positive results in ensuring regularity and com-

29 Government Decision Nr. 12 of 19.01.2010 the Regulation on the institutional framework and mechanism for coordinating the external assistance provided to Moldova by the international organizations and donor countries.

30 Republic of Moldova Public Expenditure and Financial Accountability Assessment Public Financial Management Performance Report July 2008

pliance with the timing requirements in accounts reconciliation; in what concerns availability of information on resources received by service delivery units, on an A to D scale, Moldova received a B grade; quality and timeliness of in-year budgets reports and annual financial statements received a grade of C+.

In the part related to external control and audit, it should be mentioned that the highest grade was that for the legislative scrutiny of the annual budget law, B+, while the scope, nature and follow-up of external audit received C+. The worst grade in this respect was received for the legislative control of the external audit reports, graded with D.

As a whole, integrated assessment of public finance management performance in Moldova received 9 marks A, B, and B+, 8 marks C and C+, and 5 marks D and D+. In comparison to 2006 data, 15 criteria followed an upward trend, while 2 criteria recorded a downward trend.

The system of public procurement implemented in Moldova, according to a report prepared by the World Bank in 2010³¹, was evaluated as presenting moderate risks and complying with the basic criteria of an efficient public procurement system³². However, there are also certain shortcomings that need to be solved in order to attain a desirable level of efficiency, but these aspects will be discussed in more detail in the second part of this chapter.

4.2 How well are prepared national authorities for the implementation of foreign assistance projects?

4.2.1 Preparation, elaboration, and implementation of projects

During the period May-June 2011, the IDSI Viitorul team carried out a survey regarding the problems that the CPA and the LPA face while implementing projects and programs financed from foreign assistance funds. Thirty nine localities, 16 bodies of the CPA, and a relevant number of active donors operating in Moldova took part in this survey.

At the LPA level, the survey results showed that 17.9 of the respondents stated that they had applied either for a single project, or for more than 5 projects, while the majority of the participants, 41% of the total, had submitted 2 to 5 project applications. Also, 23.1 per cent of the respondents did not apply for any project financed by foreign assistance funds.

From the above mentioned data can be made general conclusion that, once the skills related to application for external funds are acquired, the LPA uses this instrument to solve problems faced at the local level increasingly often. This shows that there is a need to strengthen information campaigns regarding LPA's opportunities to apply for funds provided within the foreign assistance framework, as well as the need to train potential beneficiaries in order to develop project elaboration skills. It is also desirable to design certain instruments or simplify procedures for those who apply for the first time for this kind of funds.

31 Document of The World Bank Report No. 61829 MOLDOVA COUNTRY PROCUREMENT ASSESSMENT REPORT (CPAR), June 2010

32 According to the conclusions of the self-evaluation report and the World Bank report, the procurement system in Moldova corresponds to the „C” level.

The situation is somewhat similar when looking at the number of successful project applications that shows that the respondents who indicated 3 to 5 successful applications represent the largest share, accounting for 33.3% of the total. The number of participants who stated that they had won one or two projects is, correspondingly, 10.3% and 15.4%, while only 7.7% indicated they awarded more than 6 projects.

Thus, if we are to compare data presented for these two questions, we can observe that out of 17.9% applications for one project, 10.3% were successful, while out of 58.9% applications for at least 2 projects, 48.7% represent those who managed to win 2 to 5 projects. At the same time, out of 17.9% of applications for more than 6 projects, only 7.7% of the total turned out to be successful. This last fact possibly points to existence of some administrative barriers faced by those who apply for more than 5 projects, because given the large number of applications, the argument regarding lack of experience or low quality of the application documents appears to be less plausible.

An interesting situation can be observed when looking at those who participated in project elaboration. Thus, most of responses refer to either employees who besides elaboration of project proposals, are also involved in other activities within the framework of their employing institutions, or either to the active representatives of local communities, with the sum of both accounting for 23.1% of the total. Also, a high share is referring to local NGOs (20.5%). This situation points to importance of those who have local expertise and are directly involved in resolution of day to day problems faced by their communities,

in preparation of the application documents. At the opposite pole one can find employees who are only involved in project elaboration activities, such as consulting companies, international organizations, and national or international NGOs, who make up 33.4% of the total number of responses.

One can also find suggestive the responses of the surveyed who have not previously applied for externally funded projects, about their intention to apply in the future, with 89.7% responding positively. This denotes popularity enjoyed by this instrument of resolving problems at the local level. In this sense, it is necessary to increase the amount of funds channeled towards the LPA. It could be taken in the consideration the examination of the possibility to channel using this system at least a part of allocations of the state budget that are in present directly transferred from the state budget and form over 60% of the LPA's revenues .

Lack of qualified personnel and material resources are the most important reasons making up two thirds of the problems faced by the LPA when applying for external funds. Other important problems encountered by the LPA are access to information, passivity of the local NGOs, or lack of experience. This description denotes importance of strengthening the LPA's potential, including through raising salary bar, at least for the public servants in the given domain, as well as expanding information campaigns aimed at familiarizing the LPA with the opportunities to apply for funds allocated within foreign assistance programs.

Lack of well-trained personnel and of the initiative at the local level are also major problems that affect the quality of the process

of implementation of the foreign assistance projects by the LPA. We consider that undertaking above-mentioned actions with the purpose of eliminating deficiencies encountered in the process of applying for the projects financed by donors will also contribute to elimination of the major causes revealed in the process of their implementation.

Deficiencies in attracting funds at the local level, as well as lack of interest with the population, are the major causes that render difficult implementation of the projects funded by the donor community that also need to be co-financed by the beneficiaries. Although the LPA stands ready to identify additional funding sources in order to successfully implement projects carried out with the donor support: 84.6% of respondents. One should also note the low degree of cooperation among communities in Moldova as far as launching of some projects of common interest at the level of these communities is concerned. In this

sense, it is necessary to increase the number of financing instruments at the regional level that would make cooperation among two or more community a compulsory requirement.

While limited capacity of implementation of the externally funded projects represent an important cause for the success of this process, the surveyed respondents expressed optimism with regard to their capacity to ensure efficient management of the projects funded by the donor community, without hiring any additional staff: 45.7% of the participants said they were ready to manage four or more projects.

In this sense, one can find suggestive the opinions expressed by the respondents in connection with the major challenges faced by Moldova in the process of European integration: these are corruption (21.4%), conflict in Transnistria (17.9%), but also limited administrative capacity (14.5%) and deficit of financial resources (14.5%).

Table 12

	Nr.		% of cases
1. 1. Low administrative capacity (central and local public administration)	17	14.5%	43.6%
2. 2. Lack of political will in the government's side	10	8.5%	25.6%
3. 3. Deficit of financial resources	17	14.5%	43.6%
4. 4. Shortage of qualified personnel	6	5.1%	15.4%
5. 5. Lack of foreign investment in the economy	10	8.5%	25.6%
6. 6. Conflict in Transnistria	21	17.9%	53.8%
7. 7. Corruption	25	21.4%	64.1%
8. 8. High number of cases at ECHR	3	2.6%	7.7%
9. 9. Russia's foreign policy	7	6.0%	17.9%
10. 10. Others	1	0.9%	2.6%
Total	117	100.0%	300.0%

However, the respondents expressed somewhat different opinions with regard to the capacity of the local administrations to elaborate strategies and policies relevant to local economic development that was appreciated as being positive by the majority of the respondents.

Table 13

To what extent do you agree with the following statements?	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree	Don't know/No answer
Local administration in Moldova has capacity for elaboration of strategies and policies of local economic development	4	28	5	2	39
	10.3	71.8	12.8	5.1	100%
Local administration in Moldova has capacity and resources for implementation of strategies and policies of local economic development	2	20	13	4	39
	5.1	51.3	33.3	10.3	100%

Local public authorities encounter technical and management problems while implementing ODA projects. Opinions in this respect were expressed during the roundtable organized on May 18, 2011 by the Working group on agriculture and regional development³³ within the National Convention for European Integration. Problems that need to be resolved are the following:

- simplification and reduction of administrative constraints;
- increase the number of employees engaged in the field of regional development;
- elaboration of job descriptions with the purpose of setting up a stable, functional, and operational structure;
- providing training to personnel in-

volved in management of the regional development programs;

- organizing study visits to both EU member states and EU partner states with the purpose of good practices and experience exchange;
- setting up an efficient mechanism of

communication between government institutions, as well between government institutions and private and non-government sectors;

- creating web pages that would contain detailed information related to the concept of regional development, institutional and legal framework on both national and international scale, situation in Moldova, instruments of cooperation and regional development, application opportunities, eligibility criteria, etc.;
- development of national mechanism of monitoring and evaluation of projects carried out using foreign assistance.

At the CPA level, as a result of a survey carried out at 16 central authorities, it was

33 <http://www.conventia.md/petru-a-atrage-c%C3%A2t-mai-multe-fonduri-europene-pentru-dezvoltarea-sa-regional%C4%83-republica-moldova-trebuie-s%C4%83-%C3%AE%C5%9Fi-fortifice-capacitatea-institu%C5%A3ional%C4%83-%C5%9Fi-uman%C4%83/>

shown that the most acute problems related to the project proposal elaboration are:

- Lack of well-trained personnel;
- Inefficient inter-institutional/intra-institutional collaboration;
- Inefficiencies in providing financial coverage;
- Project design is imposed by the donor organization;
- Lack of information (statistics, relevant qualitative data, etc.).

At the implementation stage, challenges faced by the CPA are:

- Lack of well-trained personnel;
- Bureaucracy;
- Lack of initiative and difficulties of collaboration among institutions.

The following problems were specifically reported in connection with elaboration of the projects related to EU topics:

- Difficulties in finding co-financing;
- Problems of inter-institution collaboration (with other institutions).

Thus, at the CPA level similar to LPA, the major problems that impede implementation of the foreign assistance projects are lack of qualified personnel, deficient inter-ministerial cooperation, as well as insufficient co-financing.

This situation is also reported by the donor community which were also surveyed as part of the mentioned opinion poll. Thus, in opinion of donors, elaboration of bilateral cooperation programs is hindered by lack of qualified personnel, as well as lack of initiative and weak collaboration among institutions. These problems are more prominent at the CPA level.

As far as project implementation is concerned, the range of the problems at the

CPA level is similar to that reported in the program elaboration part, while at *the local level* the reported problems were: complicated procedures/systems of reporting, as well as high level of corruption.

4.2.2 Efficiency of public service, financial management, and public procurement

Public procurement system is an important link in the process of public funds utilization. A transparent and competitive public procurement system is important for ensuring the efficient use of public funds. Deficiencies in this domain can be traced to a wide range of problems, from determination of the needs, elaboration of the documents, lack of transparency or competition to contract awarding or low-quality supervision of contract execution. The donors are held accountable for allocated funds and often opt for their own systems of public procurement. In case of Moldova, according to the data on the current year's survey on indicators of the Paris declaration, the vast majority of funds managed within the projects financed by external technical assistance are implemented using donors' own public procurement systems. The use of national systems is found only when funds are channeled using the mechanism of direct budgetary support (this type of assistance significantly increased compared to the previous monitoring in 2008). While as far as technical assistance is concerned the situation has not changed much, projects being usually implemented outside the national systems.

How justified is this situation? In order to provide an answer to this question, one needs to refer to the assessment of the national procurement system contained in the Coun-

try Procurement Assessment Report (CPAR), carried out in June 2010 by the World Bank.

In this report it is specified that the normative framework applied in this domain in Moldova is similar to that of the EU, meeting a significant number of basic criteria of efficient public procurement system. Upon adopting the new law on public procurement in 2007, organization of the public procurement in Moldova underwent significant changes. Procurement processes were decentralized at the public entities level and a procurement agency, subordinated to the Ministry of Finance, was founded, which ensures more efficient cooperation within the entire financial management system.

However, one can also observe problems in this domain:

- The agency's staff size is too small relative to the amount of work that has to be carried out within the range of activities that fall under its competency;
- The report mentioned above identified the need to improve the normative framework in the domain, particularly through preparing and adopting secondary normative acts.

In conclusion, the national public procurement system was found by the authors of the report to present moderate risks.

The report also specifies that most of the projects that are financed by the World Bank are implemented by the Parallel implementation units (PIU), created by the donor, and not through the government agencies. The main reason for this lies in limited capacity and lack of qualified personnel within the government agencies. On the other hand, the PIU are able to hire well-trained personnel, better qualified for procurement, finan-

cial management and other relevant activities within the projects financed by the World Bank. Also, the PIU are able to hire required personnel on the individual contract basis for the duration of the project, in exchange for a compensation that is well above the average salary level of public servants in Moldova.

The assessment of the national system of public finance management is contained in the report on efficiency of the public finance management prepared in 2008 with the support of the World Bank. This report comprises several parts that appear important for this study. In the part dedicated to the credibility of the national budget the authors of the report mention that in Moldova there is a good relation between the budgeted funds and actual expenditures. Also, it is mentioned that the framework within which the preparation of the national public budget takes place and the way the information is disseminated to interested public are optimal. In the part that describes the correlation between the budget allocations and the national strategic priorities and policies, taking into consideration the long-term impact of the adopted decisions, it is mentioned that adequate and comprehensive reflecting of the national strategies in the medium-term financial planning documents still needs to be improved.

The quality of financial reporting differs greatly across authorities at the local level due to the lack of a unique accounting program for budget authorities approved by the government.

The independent audit of the activities of public entities is carried out by the Court of Accounts that has the ability to verify any public entity or institution, including special funds. Starting with 2005, the Court of Ac-

counts achieved significant progress in developing an approach that is in accordance with the international best practices. However, on the official website of the institution, as for June 2011, can not be found any report more newer than 2009 on the public expenditures auditing carried out, including for the programs financed within the ODA framework. This situation shows some incoherencies with the principles of transparency and ensuring mutual responsibility through disseminating of the information on the analysis of public expenditures.

Also to mention, the aspect that drew the most criticism in the report is the degree of integration of the financial support rendered by the donors into the budgeting process. In this respect, the authors of the report specify that only funds allocated directly to the budget within the framework of the support instrument meets this requirement.

4.3 Institutional constraints that reduce absorption capacity

4.3.1 Constraints generated by donor behavior

The behavior of donor agencies can be a source of absorptive capacity constraint. As the 2010 OECD Country report on monitoring indicators of the Paris Declaration regarding the efficiency of the Official Development Assistance suggests while there are significant constraints regarding the institutional capacities of GoM, in general, majority of the targets concerning country systems which are mostly responsibility of the Government have

been met or a significant progress was made and there are “unmet targets in areas of primarily donor responsibility in Alignment and Harmonization such as PIUs, untying, predictability common arrangements and joint working”³⁴ which means that further efforts must be made by donors in use of country systems, common arrangements and less fragmentation of efforts. Fragmented interventions, such as project approach, can represent an impediment for the country’s authorities, which must deal with a large number of donors’ uncoordinated systems imposed through small, dispersed projects. Even if in the last period a large part of assistance was offered on a program based approach (PBA’s) (mostly direct budget support delivered by 3-4 major donors), technical assistance remained predominantly fragmented. Such fragmentation imposes heavy transaction costs on limited government capacity, taking time and resources away from the core government tasks. Recent shifts towards program modalities, such as sector and general budget support, have started to address these concerns, albeit so far with unclear impact (no programs evaluations available). The predictability of aid flows increases, but still it has lacked a proper coordination, as it is the cases of technical assistance, while in some circumstances the anticipated budget support tranches were not provided, exerting pressure on Government’s efforts to provide resources for implementation of programs and public investment. Another aspect to mention is the current great pressure on the Governments of the countries that aspire to join the EU to adopt rules and practices in a very short time. Often, as the OECD Country Chapter report

³⁴ OECD Moldova Country Chapter report http://www.un.md/donors/support_aid_eff/index.shtml

2010 suggests, the disbursement of funds is linked to policy conditionalities, which are sometimes imposed without an evaluation of the national capacities and financial possibilities for implementation³⁵. The Government has managed to ensure a common list of conditionalities, which are in line with the National Development Strategy objectives, but as a rule, the funds are still accompanied by high administrative costs per unit due to different management constraints and/or being implemented by parallel implementation units. Therefore, it is even more important for Moldova to administer ODA in the most efficient way possible in order to use this window of opportunity to support reform implementation.

4.3.2 Administrative constraints of CPA's and LPA's

Although the framework of the foreign assistance management in Moldova is generally well structured, it is not devoid of shortcomings. Thus, the Government Regulation regarding the institutional framework and coordination mechanism of foreign assistance received by Moldova from the international organizations and donor countries³⁶ makes a referral to the notion of state contract, but not to that of the sectoral state contracts (it is mentioned in the text of the Regulations, paragraph 20, point „c”, but without providing a distinct and clear definition). For this reason, the text of this decision represents a dichotomy that triggers certain lack of coherence and inefficiency in the given domain.

While in Moldova, in virtue of the structure of the government, the totality of social and economic areas are coordinated by the authorities created for this purpose that are responsible for promotion and implementation of sectoral policies, introduction of the mentioned notion of state contract creates a new dimension, that lies above the sector-specific fields. This state of affairs reduces importance of the ownership principle of the sectoral authorities, and implicitly their autonomy in the sectoral activities management. In this way risk of interference of the national authority for foreign assistance coordination with the decision-making process at the sectoral level is created, transforming its coordination role into the implementation one, which is not desirable. In order to eliminate this drawback, it is considered necessary to transfer the responsibility for carrying out negotiations of the state contracts and promoting national interests to the sectoral authority. This activity can be carried out with the support of the national authority for foreign assistance coordination, if this is the case, as a part of the negotiating team, but not in charge of it. The role of the national authority for foreign assistance coordination should be, in this respect, as it actually follows from its title, to provide methodological support for elaboration of the standard format of the state contracts and providing necessary consultancy support for negotiation and contracting processes, leaving the right to take decisions with the sectoral authorities who are naturally responsible for the performance in their sector and who will submit these proposals for final approval within the Inter-ministerial committee for strategic planning.

In what concerns the sustainability of

³⁵ Even if there are some evaluations made they are often mostly for donor's use and the authorities and public are not aware about the conclusions which could be otherwise used for making the necessary improvements of the country systems.

³⁶ <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=333522>

the foreign assistance coordination activities carried out by the authorities through a system of procedures and instruments, it should be mentioned that this could only be implemented in Moldova under condition of compliance of the donor community members with the procedures of financial management and activity coordination applied at the national level by the public authorities in Moldova.

Application of some specific procedures by the donor community, procedures that vary across donors, sometimes significantly, introduces an element of instability for the national authorities that, despite their limited capacities, must comply with these requirements. In accordance with the data on monitoring indicators of the Paris Declaration regarding the efficiency of the Official Development Assistance (ODA), at this moment, approximately one half of the assistance granted to the country is implemented using national procedures of public finance management and procurement. If we are to exclude from the total amount funds transferred using the instrument of direct budgetary support, which by its very nature does not presuppose utilization of some individual procedures for donors, one can observe that the overwhelming majority of foreign assistance received by Moldova within the framework of individual projects is managed applying donors' own procedures of financial management and public procurement. This is further confirmed by the significant number of implementing donors present in Moldova, which can be found in the foreign assistance database at www.ncu.moldova.md. These implementing donors represent parallel project implementation units, declared within the above-mentioned monitoring report in a

number of 18 for the year 2010.

In this part, one should also mention that the programming phase is heavily centralized. The NCAFA has the right to establish the extent to which the proposed project will contribute to resolving major problems in the sector, or this duty falls within the competency of the authority responsible for this sector and can only be adjusted within the ICSP framework.

The second part of carrying out foreign assistance projects, called implementation, is characterized by a high degree of coherence and is generally managed by the sector coordinator. However, it must be noted that due to the existence of differentiated approaches towards the state contract and the sectoral contracts types in the programming part, there can be certain deficiencies in the implementation part, because the sector coordinator is assigned responsibility for coordinating implementation of the foreign assistance project and is held fully accountable for its efficient and effective implementation, although at the elaboration and approval phases of the project, including development and approval of the terms of reference³⁷, the sector coordinator had only limited participation.

In order to ensure efficient operation of an evaluation and monitoring system, it is important to determine what aspects exactly need to be monitored and evaluated and what is the final goal of this monitoring activity. It should be noted that the foreign assistance coordination activity in Moldova mostly consists in monitoring, and less in evaluation, which would imply not only interventions during the implementation period of the project/program, but also an evaluation of its effective-

37 Paragraph #29 point „b” of the Regulation presupposes „formulation of the terms of reference for the project”

ness/efficiency at the sector level, as well as the analysis of the mistakes committed during the implementation period, in order to avoid their repetition in the future (an example in this respect is set by the projects aimed at building capacity of ministries/government agencies MIEPO, MMPSE, MF, etc., where some of the new projects had the same objectives as the previous ones, thus casting doubt upon the efficiency of the previous interventions). It is sometimes believed that the impact of foreign assistance can be measured by a simple summing-up of the results obtained within the framework of separate projects. However, this is not true. There can be situations where the results of different projects can be mutually exclusive. In Moldova there is no practice of a common evaluation exercise of the foreign assistance projects by relating their outcomes to the national development strategy, as well as to a set of internationally relevant indicators, such as Millennium Development Goals or Human Development Index, which is the most suitable in this context. Thus, de facto in Moldova the quality assessment of the projects implemented by the donors is not carried out, instead there is just an evaluation of accomplishment of the objectives set by the donors at the moment when they decided to provide assistance to the country. The impact of the received assistance, which should be of primary interest for the government of Moldova, is not analyzed. Starting from the moment when Moldova began to benefit from ODA to this moment there has not been a single annual global evaluation report of the implemented projects and their final impact and accomplishments of the priorities set in the strategic planning documents. Moreover, not all sectors have their sectoral strategies elaborated,

as the activity of the sectoral councils in most ministries varies in its degree of operability. While some began their operation in the beginning of 2010 (councils established even before the adoption of the Regulations, e.g., Ministry of Health), others had only their first meeting conducted in 2011³⁸. An eloquent example is provided by one of the first elaborated sectoral reports³⁹, which displays continuing superficial treatment with regard to the monitoring and evaluation. This report only contains a list of activities/outcomes of various projects according to the priorities of different sectoral programs/National Development Strategy without trying to estimate what was their contribution to attaining sectoral goals. On the other side, evaluation reports for most of the projects implemented by the donors were not made public (with some exceptions, like in the case of the World Bank) or were not submitted to the relevant administrative bodies in order to make possible an evaluation of their effects by the state authorities and/or civil society and, thus, strengthen ownership and capacity at the national/local level, as far as the framework of the sectoral policies is concerned. Moreover, although the government committed itself to ensuring transparency of the governance process, as one can infer from the provisions contained in the Regulation regarding the activity of the sectoral councils, in the part related to the council membership, invitation of the representatives of the civil society and of the representatives of the private sector to its meetings is done “in cases when it is relevant”⁴⁰, which leaves a large room for interpretation and allows for unilateral application of the transparency principle at one’s

38 <http://www.mcdr.gov.md/index.php?pag=news&opa=view&id=405&start=20>

39 http://ms.gov.md/_files/8139-RAPORT%2520ANUAL%2520ASISTENTA%2520EXTERNA%25202010.pdf

40 Paragraph 24, points “b” and “e”

liking and which does not contribute to establishing of the mutual accountability practices.

This, along with other factors, eventually made it impossible to carry out an in depth evaluation of the outcomes of the first substantial tranche in amount of USD 1.2 billion received by Moldova in 2006, as a result of the Donor Meeting in Brussels, and of the actual contribution of the assistance funds to implementation of the Economic Growth and Poverty Reduction Strategy (EGPRS) and the National Development Strategy (NDS).

At the same time, as concerning the regional level there were identified the following factors that are related to the institutional constraints identified at the LPA level and that limit the opportunity to attract and utilize external funds for development purposes:

- ✓ Lack of a real fiscal decentralization at the local level and, therefore, existence of constraints that negatively affect the capacity at the local level and accumulation of the relevant experience by the involved personnel,
- ✓ Inadequate legal and regulatory framework that does not fit the actual context of the regional development (for example, lack of legal framework with regard to provision of common services by local administration in multiple locations) regionalization of public services
- ✓ Weak inter-ministerial and regional coordination of the regional development problems and insufficient inter-connection of the sectoral strategies and regional development priorities (deficient coordination of the LPA proposals at the regional level and sectoral priorities lead to a chaotic character of

the projects. Investment proposals are weakly coordinated between levels 1 and 2, there are no common criteria for project prioritization, the quality of the projects is unsatisfactory, many of them are inadequately planned and do not envisage durability upon projection completion).

- ✓ Lack of coherent vision with regard to the consolidation of capacity of the LPA at the local level (interventions through projects are spontaneous and of local character, and due to the lack of sufficient funds at the local level, their sustainability cannot be maintained) and of the Council for Regional Development necessary for monitoring and evaluation of the project at the regional
- ✓ Other factors include: improvement of financial management, such as internal audit, improvement of regional statistics, etc.

4.4 Best practices in foreign assistance absorption

The examples of foreign assistance absorption can be found by looking at two countries, each being a leader in the group of countries it is customarily attributed to: Poland⁴¹, the biggest country in the eastern block of the European Union and the only one to have recorded positive growth, 1.8%, in times of economic crisis (2009) (and expected to attain the growth rate of about 4% in 2011), and Estonia, the leader of the post-Soviet country block.

41 http://www.mrr.gov.pl/english/Documents/Broszura%20MRR_ENG_PREVIEW_OST.pdf

The key element that contributed to the success achieved by *Poland*⁴² in attracting and absorbing funds consists in a high degree of decentralization and strengthening of the local/regional capacities. At the same time, the main institution at the central level responsible for coordination and taking final decisions is the Ministry of Regional Development.

In case of *Estonia*⁴³ (a country that faced roughly the same challenges at the local level⁴⁴ as Moldova), a different scheme was used, as in 2000, even before the country's accession to the EU, there was created a specific institution, Enterprise Estonia (285 employees and a budget of 201.5 million Euros for 2011), with a large network represented in the regions and internationally that participates in the program implementation. In this case, the Ministry of Finance plays the main role in coordination and financial management of the structural funds. During the European Union's financial period of 2007-2013 approximately 796.1 million Euros, out of over 3.25 billion Euros of structural assistance (about 20%), will be attracted and implemented in Estonia through Enterprise Estonia. In both Estonia and Poland the utilization of structural funds is looked at through the prism of the support rendered at the national level for the private sector development and assistance in the regions, supplying financial assistance, consultancy and opportunities of cooperation and instruction for entrepreneurs, funding certain research and development platforms, development of the regional infrastructure, and exports promotion.

42 http://www.adevarul.ro/actualitate/Elzbieta_Bienkowska-ministrul_polonez_al_Dezvoltarii_Regionale-Cum_a_cheltuit_Polonia_toti_banii_de_la_UE_0_498550514.html

43 <http://www.eas.ee/index.php/about-enterprise-estonia/overview>

44 Estonian Local Government Absorption Capacity of European Structural Funds, Merit Tartar, University of Tartu, 2010 <http://dspace.utlib.ee/dspace/bitstream/handle/10062/719/tatarmerit.pdf;jsessionid=96FBD84C2D1098D6139976B4C035B00B?sequence=5>

Enterprise Estonia carries out following activities:

- Raising durability and stimulating higher growth rates of the start up companies;
- Improvement of exports and development of the production capacities of Estonian companies.
- Ensuring a stronger impact of the foreign investment in Estonian economy;
- Tourism development
- Promoting regional development and civil society

Poland has at its disposal 68 billion Euros supplied by the EU, but the entire package, including the co-financing part, exceeds 100 billion Euros. The large share of funds is redirected towards innovation, IT, higher education (60%), but also towards infrastructure, roads or railways. 25% of the total amount of 68 billion Euros are directly distributed among regions. Autonomous administrations of voievodeships (regions) manage programs on their own, decide upon what kind of investments will be funded, and negotiate directly with the European Commission. The Ministry of Regional Development participates in these discussions, but does not dictate to the regions what they have to do. At the same time, in order to maintain capacities developed by the central and local public administration, a system of competitive remuneration was provided for the employees' stability.

As a result, most of the European funds were already contracted, so that virtually all of the European money was used.

CONCLUSIONS

With the rising GDP per capita Moldova will soon graduate from the IDA⁴⁵ borrowing conditions and will pass under the IBRD conditions, where the share of loans in total ODA and the interest rate are higher. The European Union has already become one of the biggest donors for Moldova and in the near future will constitute the leading development partner for Moldova. The perspective of stepping in the process of European integration will be correlated with the critical need to access funds to support the needed reforms - pre accession funds and hopefully later structural funds which will be directly proportional to its absorption capacity. In this respect, at this moment, the real stake for Moldova is the capacity to absorb as much as possible from the funds which were already allocated or will be provided in the future. At the same time, it should be noticed that these two different types of assistance provided by the WB and the EU will imply further changes in the composition of the ODA in Moldova. While first is financing a certain type of projects/programs (mainly focused on economic growth/poverty reduction programs) and has a certain expertise and field capacities, the EU is offering its assistance largely through direct budget support. In this respect, before “graduating” from the WB’s IDA Moldova should use both possibilities in order to prepare itself for the more sophisticated and diversified EU financial instruments by:

1. Further strengthening of the na-

tional systems and more efficient use of direct budget support from the EU for the implementation of the Government priorities, mechanism which is usually conditioned by improvement of control over the efficiency of funds spending (M&E) and transparency/mutual accountability. More assertive negotiation over the priorities to be covered by this instrument and use of the “more for more” principle guiding some of the instruments of the EU development assistance.

2. At the same time, to address current weak administrative capacities, Government could use the existing national expertise (currently employed staff within the different WB and other donors’ PIUs, civil society etc.) by gradually raising the standards of the civil service and prestige and trying to integrate in civil service or either using them as local consultancy for externalized specific technical tasks.

One thing is obvious that no one will push you from behind when it comes to attracting and spending (in an efficient way) funds made available at a favorable rate for developing countries or in the longer perspective, funds which could be available for the EU candidate/member countries. Despite this, in Moldova the current political management of the institutions seems to be barely involved and interested in this issue at all, which needs not only rhetoric, but also developing specific technical knowledge and capacities. Foreign assistance is seen as an opportunity to cover the existing budget deficit “consumerist approach” rather than a

45 <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20051270~menuPK:83991~pagePK:51236175~piPK:437394~theSitePK:73154,00.html>

conscious strategy of gradually building up the national economy capacity, in order to be able to cover persisting fiscal deficits and to keep up pace of reforms⁴⁶. In this respect, it is of utmost importance that the contracted credits be used for more productive purposes, while grants can be used to cover social or other current expenditures (like technical assistance for strengthening the administrative capacities, etc.).

1. The institutional framework has positive background for ensuring an adequate level of absorption of the foreign assistance in Moldova, but the noncompetitive compensation levels greatly reduce the national public authorities' capacity to administer this process. It is imperative to improve attractiveness of positions related to the process of coordination and implementation of foreign assistance, in order to attract staff with high qualifications relevant for this domain.

2. The excessive centralization of the current model of foreign assistance coordination is prone to inefficiencies caused by incoherent distribution of competences in the decision-making process and of accountabilities for final implementation of those decisions. It is also necessary to accelerate the process of decentralization of the public procurement system with the purpose of strengthening confidence of the donor community in its capacity to operate efficiently.

3. The practice of implementation of the foreign assistance development projects by the donor organizations reduces the administrative capacity of public authorities, as the highly qualified personnel is attracted from the labor market by better opportunities offered within the framework of these in-

stitutions that partially duplicate public administration and some of the segments of the budgetary system. The capacity of the donor organizations to offer much higher compensation in comparison with the average salary in public administration and the overall economy gives them a clear advantage in attracting the most qualified personnel on the labor market. At the same time, this situation negatively affects the administrative capacity of the national public administration that has above all to ensure efficient communication with the entire donor community by using each donor's own "financial language". In this respect, it is necessary to eliminate practices that are oriented towards pursuing the particular interest of each individual donor in successful implementation of its own projects, in favor of the situation where the goal would be strengthening of the overall capacity of the national authorities and, consequently, their capacity to efficiently implement projects funded by the ODA. Thus, it is necessary to find some ways of continuing consolidation of the capacity of the national public authorities, including through offering additional compensation to their personnel that is involved in implementation of the foreign assistance projects by using donor-provided funds. Thus, one can eliminate pressure exerted by donors over the national public authorities, and re-create, as it is natural, the competition between the public and private sector on the labor market.

4. The highly limited financial autonomy of the LPA reduces their capacity to implement foreign assistance projects that require co-financing as most of the funds at their disposal are transferred from the state budget and do not come from their own rev-

46 Foreign Assistance and Moldova's Economic development, Foreign Policy State watch 2010, IDIS Viitorul http://www.viitorul.org/public/3006/en/Policy_Statewatch11_en.pdf

enues. Therefore, it is necessary to transfer to the LPA certain categories of the fiscal revenues that are currently being collected by the state budget. This will stimulate competition between the LPAs, including in the domain of the foreign assistance implementation, which will have a positive impact over their absorption capacities.

5. An important factor that reduces the foreign assistance absorption capacity, reported by all parties involved, is the lack of cooperation among authorities. The growing number of projects, as well as development of some new projects that would encourage cooperation at both regional and inter-institutional level, will contribute to limiting of this disadvantage and will encourage the exchange of experience and best practices among the authorities.

6. Lack of any evaluation that would assess the impact on the national level of the totality of the foreign assistance projects carried out in Moldova by correlating their outcomes to the internationally used performance indicators, such as HDI or MDG, reduces the relevance of foreign assistance projects and makes it impossible to follow their implementation with the purpose of identifying major causes that lie at the basis of possible inefficiencies in this domain.

7. Employing qualified human resources and their training remains a critical problem in the process of the management of the programs/projects. This issue is partially solved in the case of CPA and the regional development agencies that benefit from different technical assistance projects/programs which involve a certain exposure of the personnel to the experiences and requirements of the donors. On the other hand, in case of

LPA, the process is very slow. One needs specific programs for training the personnel in the aspects concerning the EU funds at the level of the implementing units of the ministries/government agencies and regional development agencies/local authorities. Even if majority of them have already benefited from different trainings, the constantly high personnel turnover is posing a problem and, thus, the process of capacity building cannot be addressed without the further reforming of the public service and proper system of motivation of the civil servants. The public servants could be positively motivated through corporate style incentives and by offering bonuses tied to performance in their activity. Additionally, a tracking system is needed to be established in order to follow the carrier of the public servants to have periodically the certainty that employees feel the importance of their work for the public and to avoid possible loss. Another recommendation would aim at building institutional memory, so that each document or discussion could be archived, preferably in electronic form, to circulate information and not to go from a zero point when people would leave the institution.

8. Currently, most of the technical assistance programs implemented are Twinning, TAIEX instruments, while the newly launched Comprehensive Institution Building Program is expected to address this issue on a larger scale⁴⁷. There are some aspects to mention regarding the technical assistance offered for building public administration capacities. Firstly, in many situations the real implication of the institutions from the EU is insufficient due to a more formal stance of

⁴⁷ http://eeas.europa.eu/delegations/moldova/press_corner/all_news/news/2010/20101124_01_en.htm

the national authorities when the projects/programs are at the elaboration stage (design) and/or because of weak capacities of the authorities to promote their views and lack of bargaining power on negotiation over the agreements regarding the technical assistance to be provided. This is amplified by the lack of transparency in making public the project/programs evaluation reports, while the beneficiaries usually do not want to go too deep and show possible deficiencies in required quality of assistance they are receiving and also deteriorate their relations with the donor. Secondly, the technical assistance is elaborated usually by the foreign partner, which barely has the knowledge of the local environment and needs. Thirdly, oftentimes the content of the training courses is determined by the qualifications of the foreign experts which can be mobilized to come to Moldova at that specific time. In conclusion, the efficiency of the twinning programs is not up to par because of the communication problems both parts might have, as the assistance offered is not always provided in the most efficient way.

In this respect, an analysis of the efficiency of the Twinning/TAIEX programs would be necessary. An active involvement in these programs is necessary for building the absorption capacity of the institutions in Moldova. In other words, if we benefit from these programs, we need to do it properly. A major challenge is the internalization in the next period of evaluation and monitoring capacity in order to reduce dependence on the external technical assistance, which is very expensive, and which prevents more extensive accumulation of institutional memory. The first step is that of learning by doing “at work”, and not only at the theoretical level, which otherwise is also needed. The second step is the gradual outsourcing to local monitoring and evaluation research institutions. This step should not be seen as compromising the quality of its own capacities, but should be thought of as a natural progress towards independent monitoring and evaluation capacities, located in the private and nongovernmental sector.

RECOMMENDATIONS

Actions to increase absorption capacity

This study has analyzed a number of factors influencing the absorption capacity of Moldova and key elements of a strategy which will increase aid absorption and effectiveness needed to concentrate on addressing the bottlenecks in institutional and policy arrangements, technical and managerial capacity constraints and sufficient coordination between donors. Where institutional arrangements have been developed these proved to be effective in using aid (and where aid could be scaled up further). The main elements of a strategy to increase absorption capacity for aid should therefore contain the following elements:

1. Adopt a credible macroeconomic adjustment and microeconomic restructuring strategy to address the steep decline in long run of the remittances.
2. Urge fiscal decentralization reform
3. Step up progress in the reform of the civil service and increase wages for civil servants (one option could be the funds from ODA)
4. Make further progress in coordinating donor activities and increasing the information base on the activities regarding attraction and absorption of funds
5. Develop coherent and prioritized sector strategies around which donors can align their activities.
6. Assess the extent to which the positive lessons can be integrated into and replicated across other areas of government, making more use of the Sector Wide Approach Programs (SWAPs) and rationalize the existing structure of Project Implementation Units to maximize their positive impact and reduce the threat

that such arrangements might fragment aid or take capacity out of government.

7. Continue PFM reform implementation in order to improve transparency and comprehensiveness of budgetary processes.
8. Address the problems encountered in the national procurement systems
9. Address inconsistencies in the Law on Local Authorities and sector strategies in order to put conditions in place for increased aid absorption capacity at the local level.
10. Deepen anti-corruption efforts already undertaken by adoption and implementation of the anti-corruption law, like:
 - ✓ the establishing and making operational the Commission of Ethics to deal with the cases of conflict of interests and dealing with the declaration of incomes of the civil servants and state officials.
 - ✓ To formulate strategies for fighting corruption in donor-funded project to enhance confidence of donors in GoM reform programs.
11. Signing of development cooperation agreements with the donors (to which will be also added more technical Memorandums) for a period corresponding with the national development strategy, whenever possible, will contribute for a better predictability, division of labor, harmonization and alignment.
12. Even if EU is the main development partner, for which Moldova needs to prepare instruments, simultaneous exploring of new “opportunities” can complement the work in those sectors where the presence of the donors is weaker⁴⁸.

⁴⁸ Valentin Lozovanu/Viorel Girbu, Foreign Assistance and Moldova's Economic Development, IDIS Viitorul, September 2010.

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NOTE

The Institute for Development and Social Initiatives (IDIS) “Viitorul” is a research, education and outreach organization which activates in the field of economic analysis, governance, law, political sciences, strategic and organizational science. IDIS is also a common platform that brings together young intellectuals who are concerned with the models of transition towards the free market and the open society in the Republic of Moldova

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