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2010 **Nicoleta Sofianu**

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MASTER THESIS

Public Budgeting

A Case Study of the Republic of Moldova

Author: **Nicoleta Sofianu**

Supervisor: **Doc. Ing. Oldřich Dědek CSc.**

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Declaration of Authorship

The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

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Prague, June 29, 2010

Signature

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Abstract

The paper provides a comprehensive and analytical insight of the budgetary process and the existing budget practices from the international experience perspective, including a thorough analysis of the medium-term framework and of the performance budgeting. It offers a detailed review of the budget mechanisms and techniques used in designing the budget system. It then provides an analytical review of the Moldovan current budget planning system. The main findings are: 1) Budgeting is not anymore a mechanical process; it reflects priority and objective policies and obligations a state assumes. 2) Budget procedures and methods used are result-oriented and based on performance indicators. 3) Modern budgetary procedures are used in all developed countries and are being implemented in developing countries. OECD, IMF and the WB recommend the approaches. 4) Moldova makes efforts to harmonize with international standards. While MTEF is already functional, the performance budgeting still does not cover all budget sectors and it is still not entirely used in the decision making process regarding the budget planning.

The research is based on a large volume of existing relevant international literature, as well as on Moldovan approved normative and legislative acts, reports and assessments done mostly by international organizations.

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Author's e-mail:	nicoletta@prometeu.edu
Supervisor's e-mail:	dedek@fsv.cuni.cz

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Acronyms

ATU	Administrative Territorial Unit
EU	European Union
GDP	gross domestic product
GFOA	Government Finance Officers Association
IMF	International Monetary Fund
MEFP	Memorandum of Economic and Financial Policies
MOF	Ministry of Finance of Republic of Moldova
MTEF	medium-term expenditure framework
NDS	National Development Strategy
NPM	new public management
OECD	Organisation for Economic Co-operation and Development
PBB	performance-based budgeting
PDB	performance-determined budgeting
PEFA	Public Expenditure and Financial Accountability (indicators)
PER	public expenditure review
PFM	public finance management
PIB	performance-informed budgeting
PRB	performance-reported budgeting
RM	Republic of Moldova
WB	World Bank
ZBB	zero-based budgeting

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Master thesis proposal

Title of thesis: **"PUBLIC BUDGETING: THE CASE OF REPUBLIC OF MOLDOVA"**
Author of the thesis: **NICOLETA SOFIANU**
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Topic characteristics:

Budgeting in the public sector is a complex exercise. Generally, public budgeting indicates the policy of the government towards the country's economy. The budget process, by which the decisions about the use and funding of public resources are made, is an entire process that consists of political, financial, economic and planning factors. Republic of Moldova is facing a difficult period, economically and politically speaking. Nevertheless, the concern and constant effort about the development of public finance sector is a top priority. Therefore, the thesis will be focused on the public budgeting segment, including existing budget systems, standard practices and methodology, from the theoretical point of view but also from the practical experience of other countries (group of), a general understanding of budgetary and strategic planning process. The analysis will be related to the case of Republic of Moldova, by presenting the key characteristics of budgeting, the overall budget process, consisting of principles and budget elements, and an overview on the ongoing budget reforms. Finally, the thesis will try to offer some suggestions about public budgeting from the perspective of international best practices.

Hypothesis:

The main concern of this thesis is to reveal how the budget system in Republic of Moldova works, to illustrate if public budgeting is efficient or not, if it corresponds to some existing general standards and procedures and the impact of application of best practices.

Methodology:

Based on the materials that sum up the theoretical approach of the subject and the practical analysis, done mostly by OECD and World Bank, there will be presented the case of budgeting in Republic of Moldova, by revealing facts, similarities and concerns. As an important source for the thesis will be the national legislation concerning public finance and relevant materials issued by the Ministry of Finance to present and analyze the budgetary process and the efficiency of it. In addition, a very useful source will be the reports done by different international organizations related to the public budgeting issues and current public budget reforms.

Expected Content:

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2. Public Budgeting – general view
    - 2.1. Characteristic and meaning of public budget
    - 2.2. Rules, norms and principles for public budgeting
    - 2.3. Budget systems
    - 2.4. Budget practices and methods
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Legislative approval
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    - 3.4. Program budgeting
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3.6. Current challenges and best practices
4. Conclusions and recommendations

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- Materials from the Ministry of Finance of Republic of Moldova and other relevant reports

Author Supervisor

Chapter 1

1. Introduction

Public budgeting is a vast sector that comprises the entire budget system with its components. It has been a subject of various analyses and studies over the time and it still represents a vital segment in the structure of a country and its development. Due to its large spectrum, the focus of the work is strictly centered on the importance of exercising an efficient and effective budget mechanism that would ultimately lead to a healthy functioning budget system.

Budgeting represents a complex exercise that includes political, economic and financial factors and it involves the implication at all levels of public structure authorities. It is situated in the center of the public policies and the development outlook of a country. The budget is not seen anymore as a technical document but as a "mirror of the society's economic and social choices", that transposes the existing policy priorities and policy objectives into a strategic financial framework. With the help of the theoretical findings the paper presents the fact that public budget is a comprehensive document that encompasses the governmental operations, the results-oriented activities and the strategic management objectives that strengthen the government's activity and overall improve the public sector performance.

The paper provides a comprehensive and analytical insight of the budgetary process and the existing budget practices from the international experience perspective. It offers detailed practical review of the budget mechanisms and techniques used in designing the budget system. Furthermore, it provides an analytical review of the Moldovan current budget system by presenting the evolution of the budget development, the existing budget procedures used within the budgetary process cycles and the core features of the strategic budget planning and the output-oriented management system.

An important space is dedicated to the medium-term framework and to the performance budgeting, the two most important budget reforms that have been on the agenda of most European Union member states and developing countries in the last period.

Thus, the introduction of the medium-term framework and the performance technique, including in the case of Moldova, has been seen as an improvement in budget formulation and in strengthening the links between sector policies and allocations and has lead to a better evaluation of the budgetary practices.

Overall, the two concepts are considered to be essential and imperative developments for improving and modernizing the public finance management.

The thesis is structured into two large segments–the general view of public budgeting with its components and the analytical study case on Moldova's public budgeting exercise.

The first part presents the key issues that characterize the budget system, by reviewing the basic meaning and characteristics of the budget. It defines the general rules, norms and budgetary principles that stay behind a good budgeting exercise. Furthermore, the focus is directed to the budgetary cycles and the stages included in–budget formulation, approval, execution and the reporting and accountability stage. An important subsection of the chapter is centered on the budget practices and methods form the OECD member countries' experience, as well as from other international frameworks. It presents the evolution the budget procedures have made, starting from the most classical method–the incremental line-item budgeting to the new public management and MTEF approaches that are based on the performance principle. Moreover, the medium-term framework tool in budgeting approach is covered by separate subsection that provides the characteristics that would lead to a well functioning MTEF, the preconditions for the MTEF implementation and the impact it has on the overall budget process. Another important subchapter covers the performance budgeting approach and it reveals the concepts behind it and the conditions for a sustainable performance budget. It also classifies the outlined types of performance budget systems resulted form the international experience perspectives and it presents the evolution of performance budgeting in selected industrial countries. Finally the last subchapter form this section, is dedicated to the budget transparency requirements and best practices viewed from OECD member countries' practices.

The second part presents the case of public budgeting in Moldova. In light of the theoretical approaches mentioned in the first part of this paper, the case of Moldova is discussed. At first, it presents the core features of the Moldovan budget system with a focus on the general background and current economic situation. Then the emphasis moves to the core budget process by presenting a thoroughly analysis of the budgetary process. Thus, budget formulation and its components–macro-fiscal framework, expenditure ceilings and the annual budget document–as well as budget approval and execution are highlighted. In addition, similar to previous chapter, MTEF instrument is part of the budget analysis. The subchapter dedicated to MTEF presents its evolution in Moldova's public sector, the objectives and directions that stay behind the concept and also depicts the most important phases and the elements. A further subchapter provides information on the evolution of the performance budgeting reform in Moldova and its level of implementation, the elements of a program structure and the performance indicators that assess the level of its accomplishment. The final subsection is dedicated to the enumeration of the challenges Moldova has to face in achieving a performing budget process according to the author's point of view and the existing reforms at the budgeting level.

A last thing to be mentioned refers to the fact that the analysis made on the Moldovan public budgeting case is based on relevant Moldovan approved normative and legislative acts, as well as on reports and assessments done mostly by international organizations, such as the World Bank, OECD and IMF and on the author's experience in working at MOF.

Chapter 2

2. Public Budgeting – General View

The importance of public budget as an essential part of the economic system has been tackled and analyzed by various international organizations, such as WB, OECD, IMF etc. The current chapter will focus on the key issues related to the budget system characteristics, the fundamental budget principles and to the review of the budget cycles. An important space is devoted to the procedures and methods used in budgetary planning from the international practices perspective, with a particular focus on the medium-term framework planning and performance budgeting.

2.1. Key features of public budget

The budget is considered the most important governmental policy document regarding the economy, encircling and forecasting all governmental revenues and expenditures for the subsequent year. The public budget is the key instrument for the expression and execution of government economic policy and has wide implications in the national economy. By means of budgets, governments exercise their allocative, stabilization and distributive functions (Hogye).

In a more commonly perspective, the public budget is seen as a simple technical exercise but in reality, as Shah (2007) pointed out in "*Budgeting and Budgetary Institutions*", public budget is the center of public policy and the development prospects of a country. Thus, it incorporates all the policy objectives that concern the society and its entire development transposed into numerical figures. The same author identifies the budget as being "the financial mirror of society's economic and social choices at the very center of the country's governance structure".

The concept of budget or budgeting can be defined in different ways and under different perspectives but the basic idea is that it should reflect all the transactions that are financed through the medium of public financial resources.

According to some literature findings and to Gildenhuys's point of view (1997) the public budget is defined by the instrumentality of its functions. Thus, it is considered that the budget itself is a *policy statement* that resumes the explicit objectives and goals the public authorities are required to accomplish, and whose realization should be of an important priority for the political sphere. At the same time, a particular attention is directed on the *redistribution of wealth* budget's function and its role in the linkage of the two sides of the budget – revenue policy and spending policy. Another function considered to be of an importance is the role of the budget as *coordinating and control instrument* by which the executive and legislative authorities can incorporate the programs, objectives and policies into one singular document and afterwards control the execution of them. The control procedure might be done in a priori and ex post perspective. In addition, the last function identified of the public budget is the *base for informing the society* about the content of the budget act and its impact, and furthermore a source of information about the level of the execution of all measures included in.

Nevertheless, it is also an economic document, as well as a political one, because it reflects the link between the resource allocations along with policies–political choices and interests approved by the authorities.

The "*Theoretical Approaches to Public Budgeting*" (Hogue) presents some summarized ***features*** of the public budget (quoting Thornhill 1984), as follows:

- after the legislature approves the budget act, it becomes compulsory
- the budget is the tool at the legislature's disposal
- the objectives and their results comprised in the budget act are hard to be quantified
- the budget brings together a variety of considerations
- in determining the essence of the public budget, the processes are distinctive and unique

Therefore, the features of the public budget represent the basic criterions the budgetary cycles rely on.

When mentioning about a good budgeting it is necessary to do it in accordance to some useful criteria. This way, it is considered that "(i) the budget should establish a stable, sustainable fiscal position for the medium term and beyond; (ii) the budget should facilitate the shift of resources to more effective, higher priority uses; (iii) the budget should encourage spending units to operate efficiently; (iv) the budget should be accessible to citizens and responsive to their interests; (v) the budget should assure accountability in the expenditure of public money" (Schick 2004), It is also considered that budgeting, a “deadline-driven process”, is actually reflecting the beginning of democracy, even though the concern of limiting the powers of the elected politicians, in the budgetary decision-making stage, is still actuary.

The ***general budget*** or the consolidated budget, as it is entitled in other countries, is structured in some main levels of budgets, according to the categories and forms of government. Hence, the budgetary structure consists of:

(1) *central budget* that includes the budget for all the central public authorities, its subdivisions and its extensions at the regional level

(2) *local budget* that reflects the governmental units that exist as independent entities across the countries' territory

(3) *state budget* that exists in the case of some specific structure of the countries

Therefore, each level of government is responsible to have and to manage its own budget according to the necessities and requirements drawn in it.

The public budget is derived from a complex exercise–budget process, through which the financial resources are distributed to the final destination. However, the budget process is not only a foundation for elaborating the budget act and balancing the revenue and expense side one year at a time, but as well a powerful instrument that incorporates political, financial, economic and planning features. Therefore, it is a strategic exercise that consists of multi-year financial framework based on assumed goals and objectives.

Thus, the Government Finance Officers Association (1998) classifies the most important ***key characteristics*** of a good budget process as follows:

- incorporates a long-term perspective
- establishes linkages to broad organizational goals
- focuses budget decisions on results and outcomes
- provides incentives to the executive

2.2. Rules, norms and principles for public budgeting

As mentioned above, the budget is an effective tool that links the budgetary revenues and expenditures with the governmental policies. However, in order to be a viable, strategic and objective act, the budget has to comply with numerous practical rules and norms that would be reflected towards all the programs that are financed from public financial resources.

The most important ***rules*** according to Shah (2007) criteria are the following:

a) estimates of revenues and expenditures should be shown in the budget in gross terms
b) revenues and expenditures should be classified on the same basis as the overall budget in order to permit comparisons of relative efficiency and for accountability reasons
c) all accounts must be subject to regular external audit.

Important to mention is the fact that the budget is elaborated for a period of one year or twelve months, and both the revenue collection of financial resources and the spending procedure of budgetary resources is to be ended at the end of each financial year. It is important to distinguish the fact that when talking about the budget periodicity we talk in annually terms, while when referring to medium-term expenditure frameworks (MTEFs) we refer to a multiyear periodicity, hence covering multiyear forecasts. On this topic, I will refer later on.

The rules and the existing norms are used and applied in most of the countries due to fact that they are broadly accepted as effective, feasible, and essential on the financial markets and by the international organizations.

The "*Theoretical Approaches to Public Budgeting*" by Hogye cites the three most important budget related rules according to Lacasse (1996), which are *comprehensiveness, multi-year perspective* in budget elaboration and the capability for *monitoring the implementation*, and the further *accountability* and timely adjustments.

Same author brings into attention the ***classical principles*** for assessing the budgets in accordance with the budget reform techniques.

a. *Comprehensiveness*: the budget should include all revenues and expenses of the government
b. *Unity*: the spending and revenue-collecting sides should be connected to each other
c. *Exclusiveness*: only financial subjects need to be in included in the budget document
d. *Specification*: the budget should be executed as it is ratified and casual changes should not be done during the fiscal year

e. *Annuality*: the budget is elaborated on an annual basis for the subsequent year
f. *Accuracy*: the projections have to be as reasonable and the budget document has to be internally reliable and coherent
g. *Clarity*: the budget has to contain the main aim and purpose formulated in an comprehensible manner
h. *Publicity*: the budget has to be a public document in a democratic manner since it contains the governmental choices made with the public consideration

In the same context, it is necessary to mention that the budget process relies on several extensive principles that cover many functions and important elements. They reveal the fact that the budget represents a political and managerial instrument with a strong accent on the financial and technical aspects, as mention in the previous subchapter.

The functions or activities covered by these principles are generally in sequence order, but they can as well be performed at the same time. Therefore, the ***main principles*** of the budget process according to some authors, including GFOA (1998) are the subsequent ones:

I. *Establish broad goals to guide government decision making*

The executive has to have clear established objectives that would lead to a straight decision-making process. The principle refers to the expansion of the aims that the government should focus on when setting the general direction for the development of the programs and policies.

II. *Develop approaches to achieve goals*

The executive, in order to achieve the broad goals, needs to have definite policies, programs and strategies. Whilst the previous principle refers to the general trend for the development of programs and policies, this principle refers to the fact that the programs and the policies are the ones that define how the government would achieve these goals. For the government's assessment of theses objectives t is needed to develop specific measure.

III. *Develop a budget consistent with approaches to achieve goals*

The budget act should be focused on achieving goals, taking into account the permanent financial resource constraints. It is mostly important because it represents the basis for the financial planning and it leads the necessary strategies that are Throughout the financial planning stage, the long-term financial impact of the programs and proposed policies are assessed that would afterwards lead to the strategies necessary that are needed to achieve the proposed goals.

IV. Evaluate performance and make adjustments

The financial budget performance has to be assessed and adjusted on a periodical base for the achievement of the assumed governmental goals. In case of necessity, the executive might need to adjust some of those established policies and programs in such way that the ultimate goals would be relevantly accomplished.

As it can be seen, the budget process encompasses important and complex principles that represent the basis for a healthy budget mechanism. In the end it is important to keep in mind that assessing the community needs and priorities, establishing of goals and effective financial policies and the developing of efficient strategies and performance criteria are the most essential elements on which the budgetary practices rely on.

2.3. Budget cycles

As described in the previous sections, the basic idea of the public budgeting process is to allocate limited public financial resources for the public necessities in order to accomplish the community objectives and policies.

For the accomplishment of the main scope, the budgeting process is driven to a cycle. The cycles allow the budgetary system to face and react to new information, thus permitting the executive power to be responsible for its actions.

In the literature three different phases of the budget process are outlined – (1) preparation and submission, (2) approval and (3) execution. Although most of the literature has centered the attention on the first two phases, it is important to mention that there is fourth phase that closes the budgetary cycle circle – (4) audit and evaluation.

The main focus is on the planning and approval stages due to fact that during those stages the most important and vital aspects of the public budgeting are accomplished, starting with the setting of the policies and its financial implications configured into budget proposals and finishing with the approval of the budget by the legislative authority. The main actor responsible for the first stage of the budgetary process (formulating, preparing, compilation and submitting) is the executive, while for the second stage the responsibility goes to the legislature (debating, amending, voting). The schematic structure of the budgetary cycles is presented in the table below.

Table 1: Budgetary cycles

Action
Executive Planning Stage • Formulation of budget targets and guidelines • Preparation of budget bids • Compilation of budget draft • Reconciliation • Finalization of budget proposal and submission
Legislative Approval Stage • Debate, amendment of and vote on budget proposal • Approval by legislative
Implementation Stage • Execution of the budget act • In-year changes of the budget
Ex-post control and Accountability

Source: Ylaoutinen (2004)

2.3.1. Executive planning stage

The preparation and submission phase is the most difficult one because it incorporates the biggest efforts done by the authorities. The entire process is a work of numerous factors involved that is why, the responsibility for the preparation stage varies greatly among countries and their structural administrative forms. In most cases, the chief executive has exclusive responsibility for preparing a proposed budget and submitting it to the legislative body (Lee et al. 2004). Nevertheless, the close cooperation in the budget formulation process between the ministry of finance and the top leadership is required.

The role of the leadership is to oversee that the budget is prepared along with the policies defined, to arbitrate or smooth over conflicts between the ministry of finance and the line ministries, and to ensure that the relevant stakeholders are appropriately involved in the budget process (Schiavo-Campo 2007)

Evidently, the ministry of finance–the central budget authority, has an important role if not the most important one in planning and formulating the budget proposals.

The calendar afferent to the budget cycles differs across countries but in most cases, the budget preparation starts in spring. A more realistic and exact outlook of the budget cycles will be described in the following chapter, focused on the case of Moldovan budgetary process.

As said above, the technical sides of the budget preparation are different in every country, but in essence, the political aspect is the one that dominates the budget cycle. A good budget preparation relies on the ability of restricting the political factors at the beginning of the process when the key policy decisions are made, and at the closing stage of the process when the budget proposals are submitted and incorporated into the final document. In other words the formulation of the budget should be consistent and in harmony with the policy objectives and there should be no intrusion in the core of the budget process.

According to Schiavo-Campo (2007), there are three ***major conditions*** that are needed for the looked-for outcome of a budget–taking a medium-term perspective, making early decisions and setting a hard constraint.

The Need for a Medium-Term Perspective

It is considered that the public budget in order to be considered an effective public finance management instrument, it has to be reliable and this would be possible only when the spending programs included in the budget would be reliable, thus affordable. For that reason, the budget preparation phase must be initiated with a good estimation of the revenue side even though it may be changed several times because the process of budget planning is extended for a longer period of time.

As stated in the previous subsections, for the accomplishment of the government's policies, programs and objectives the budgeting system must provide a strong linkage between the policies and the allocations through the budget act.

Moreover, due to fact that the most of the policies are achievable and obtainable in a period of more than one year, its implementation cannot be reflected in the annual budget but in several years' perspective. That is why a medium-term framework or a multi year framework is needed to comprise a perspective of not more than four years all the governmental objectives.

With certainty, the viability of a multiyear perspective is higher when the prediction of the revenues is done correctly and the mechanism for managing the expenditure is well developed. In reality, these circumstances are not entirely met, especially in developing countries, although the projection on a medium-term level of the revenues and expenses continue to be fundamental for the annual budget framework.

A more detailed outlook on the need and necessity of a medium-term expenditure framework and its role in budget planning will be described in the subsequent subchapters.

The Need for Early Decisions

In the process of budget preparation, tough choices may be made, that is why the negotiations related to the budget concerns must be made when the budget is formulated. This way the achievement of the priority objectives will be done efficiently and will avoid further budget modification during the execution phase. The additional involvement of political factors would only disturb the budget process and would postpone the budget implementation, thus leading to a non-effectiveness of the budget.

It is important to point out how vital is the method of estimating correctly the revenues and the expenditures. In case the revenues are overestimated and the expenditures are underestimated, this will induce a later intervention when executing the budget. The overestimation might be cased by some mechanical reasons, but also by the excessive political interference to maintain as many programs as it is possible, this way making unreal the predictions.

The underestimation of expenses might be caused by unrealistic assessment of new programs' costs that would be followed by future intervention in the budget structure when executing it.

Therefore, it is very important to have good, wise, efficient and reliable decisions made by the decision-making factors in time, this way not intervening constantly in the correction of the effects of an unrealistic budget.

The Need for a Hard Constraint

The ministry of finance has to notify at the beginning of the budget planning stage the sector ministries about the expenditure limits or the ceilings they are supposed to enframe in, due to permanent existence of resource limitations, this being their easiest manner to deal with the taught limitations.

Worthwhile to mention is the fact the main stages in the budget formulation stage start with elaborating the macroeconomic and fiscal framework, continuing with budget guidelines release, preparation of budget bids and their negotiations, and it ends with the compilation of budget draft and its submission for approval by the legislative body (see table 1).

The macroeconomic framework is very important and in order to start estimating the expenditure side it is needed "a realistic assessment" of the potential financial resources and an "establishment of government's fiscal objectives" (Schiavo-Campo 2007). In both cases, the author considers that the reliance is on "a sound and consistent macroeconomic framework in pursuit of economic growth, employment, poverty reduction, and low inflation, by means of fiscal policy, exchange rate and trade policy, external debt policy, and policies affecting the real economy".

The same author considers that the macroeconomic framework relies on four interconnected modules – the balance of payments, the real economy, the fiscal accounts and the monetary sector. The process of preparing the budget is based on the repetitive procedure that would start with the initial government objectives transposed into preliminary limits scenario and would descend to the existing economy sectors and to a more detailed forecast. The process afferent for each sector, each structural level will continue and the resource limit will be revised constantly until the consistent level will be achieved for the macroeconomic estimation. An essential aspect at this stage is the possession of reliable information, such as gathered economic data, that would make the macroeconomic framework to be more realistic.

More on the preparation of overall and sectoral estimates, including expenditure ceilings will be discussed in the study case section.

2.3.2. Legislative approval stage

The distinction between the preparation and approval stages is reflected in the phrase–"the executive proposes and the legislature disposes" (Lee et al. 2004). The process of approval is not a simple and formal one. The project of the budget must be presented to the legislature in time, but the deadline is different for each country.

Evidently, when discussing and analyzing the budget, the legislature or more precisely its members have various preferences concerning the financial allocation of the budget resources. All the preferences and requests concerning the allocation of public financial resources are centralized in a systemic way, being potential subject for the budget amendment.

According to Schiavo-Campo (2007), the ***powers*** the legislative body has to amend the budget vary across countries, but three situations are possible:

1) *Unrestricted power* entitles the legislative body to modify the expenses and revenues sides, without executive's approval. It entails significant and straight legislative power on the objectives of public finance management (PFM) – expenditure allocation and fiscal discipline.
2) *Restricted power* entitles with the authority to amend the budget but only under certain limits, mostly connected to a maximum limit of increase in expenses or a minimum decrease in revenues. It involves a limited degree of legislature influence concerning resource allocation.
3) *Balanced power* entitles the legislature with the ability to increase or decrease the revenue or the expense side on condition that the budget is counterbalanced.

Since the legislative approval is based on public debates, usually they are followed by continuous increase of the expenses, thus supporting their preferences or requests.

The amendments proposed by the legislature and its committees need an assessment by the executive, implicitly by the ministry of finance that has to defend or motivate the acceptance or rejection of the proposed amendments. No doubt, there will be all the time more proposal of amendments then the real financial possibilities to cover all of them; this might lead to the weakening of the budget's credibility. The legislative body, similar to the originally approved procedure, must take the final decisions related to the amendments.

At this stage, the reallocation between budget elements may be possible and, depending on the country regulations, might not need the legislative approval. The reallocation may be seen as a wise decision concerning the financing of priority objectives, especially when the budgetary resources are scarce and limited.

On the whole, much at this stage may be solved with an efficient and effective governance as well as with constant consultations and communication between the two level of governance, the executive and legislative bodies.

2.3.3. Implementation stage

The implementation stage or more often used the concept of budget execution covers the activities related to implementation of governmental policies as well as the assignments related to the supervision of the budget. It is the phase when the resources are used to implement the policies that are included in the approved budget. The aim of this stage is to assess whether the initial estimations coincide with the current figures or the subsequent ones. A successful budget implementation relies on several important elements, mainly on the capacity to react to various macroeconomic environment changes, the capacities of the authorities to implement the planned objectives or some additional difficulties that might arise during the proceeding stage.

According to World Bank source (Tommasi 2007), the expenditure budget execution stage comprises the following ***stages***:

- Authorization and appointment of appropriations to spending units

At this stage, the approved by the legislature budget is accessible for each spending unit for the subsequent spending of budget allocations according to the approved purposes and objectives for the entire fiscal year.

- Commitment

At this stage the future obligations contractual has to be made. It is of an importance because at this stage it leads to an effective expenditure decision.

It differs in every country and it depends on the nature of the expenditure. In the case of goods and services, the commitments are drawn in form of contracts that represent the obligation to pay when the goods or services would be delivered or accomplished. In case of personnel expenditures, debt service and some other categories of expenditure the commitments to pay "come from an upstream event or outside the expenditure budget execution cycle" (Tomassi 2007).

- Acquisition and verification

At this stage, the requests and commitments are verified in order to afterwards deliver them. In the case of goods and services, the verification procedure consists of checking the compliance of the goods or services with the contractual conditions. As for the debt service, personnel expenditures the verification and the commitment procedure are combined.

- Issuance of payment order

After the goods and services are verified the specific institution/unit issues the payment order.

- Payment

The approved modalities of payment differ across countries in dependence of the organization of the existing payment systems.

The last thing worthwhile to be mentioned is the fact that the budget executions need to be kept under control by effectively and periodically monitoring of budget transactions. There are used several budget execution reports that would be tackled later on in this chapter.

2.3.4. Audit and evaluation stage

The final stage has the objectives to undergo considerable change, but mainly to guarantee the executive compliance with the provisions of appropriation bills (Lee et al. 2004). Generally, the accounting procedures are set and the auditors check the documentation maintained by spending units.

The budgetary execution requires accounting systems that would track the projected and the actual revenues and expenditures during the budget year. The main purpose is to ensure that the integrity and honesty have been maintained.

2.4. Budget practices and methods

After discussing in the previous subchapter about how the budget process is structured, the following section will be focused on the evolution and the progress the budget practices made, the difficulties that occurred all through the way of the implementation stage as well as the potential development and innovations that may arise.

The Government Finance Officers Association (1998) refers to a budget practice as to "a procedure that assists in accomplishing a principle and element of the budget process"[1] and that "a practice is not a budget practice unless it specifically contributes to the development, description, understanding, implementation and evaluation of a plan for provision of services and capital assets". Therefore, governments ought to adopt those budget practices that would bring the desired improvements to their budget process, thus the practices should be seen as recommendations and not prerequisites.

As it was discussed in previous sections the budgeting exercise is a difficult one, having involved multiple factors, starting with the ministry of finance, the line ministries, budget planners and managers and finishing with the fragmentation among them and the information asymmetry. Throughout time, various methods and practices were used by countries to redress the existing difficulties in budget systems and even nowadays the development of new mechanisms in order to provide a better approach for budgeting continues.

It is well know the constant difficulties the budget system is confronting with, the main would be the limited source of funding. Folscher (2007) argues on the fact that spending ministries will always demand higher spending because they will always have better information than those who fund–on how best to allocate resources within their sectors to achieve the desirable objectives–but they will not do that because they would get less funding. He defines this phenomenon as "the tragedy of the commons" – the conflict between central ministries and spending ministries. These types of issues would restraint on the "aggregate level of spending". Usually the budget systems dealt with these concerns by, as Wildavsky and Caiden (1997) cite, "satisficing" – that is "they satisfy and suffice", method also denoted as *incremental line-item budgeting*.

2.4.1. Incremental line-item budgeting

This budget practice is used in a traditional budget system and represents the classical method used to budget. The basic idea that stays behind incremental line-item budgeting is the fact that the funding base for a new year's budget is consisted from the previous budget figures. Within this approach, there is no mechanism to assess the priority of a program or whether it is justified or not to be financed, thus the budget items are just "rolled over from year to year as a standard" (Folscher 2007). The only "effort" that is done is the decision whether to increase or decrease the budget base, thus

[1] Principles and elements that were discussed in subchapter 2.2. *Rules, norms and principles for public budgeting*

some marginal changes. It should be mentioned that in this kind of system once a program is decided to be funded it stays in the base for the following years, without having any assessment on whether that objective is necessary to be achieved in more than one year or if it is necessary to keep it in the budget base. The only things that get to be assessed are the new spending proposals; the old programs are just considered as standardized line items and reflected in a mass. Therefore as Folscher (2007) notices, the line ministries are sure that the base they have fixed incrementally over years would be funded in the next year. Another factor that might change the base might be the inflation fluctuation that would affect the cost of providing goods and services.

Besides the negative sides of incremental line-item budgeting mentioned above, the author summarizes the weaknesses that derive from this method and concludes that it is a limited analysis, with a higher importance centered on problems to be solved than on goals to be achieved and the implication in its analysis of too many public participants.

Clearly, this method is a very primitive one and would not solve at all the existing problems, therefore countries, even the developing ones, moved away for incremental line-item budgeting to newer budget methods, and the need to overcome information asymmetry led to a new thinking on how to approach the budget process.

2.4.2. Program budgeting systems

The need to overcome the incrementalistic principle led to the need of new procedures that would be based on rationality and would bring incentives to new budget methods. Therefore, the next attempt was a procedure developed in the United States and "exported to the developing countries through the United Nations" (Folscher 2007) – the *program budget system.*

The basic idea behind program budget lays on the need "to spend more effectively and to develop better budgeting techniques" and that "budgeting is not only about planning for inputs, but also about planning for the results that governments want to achieve" (Folscher 2007). Hence, the accent was to focus on more result-oriented budgeting techniques and to move from incremental budgeting to rational approaches of decision-making.

The basic idea was to classify the proposed policies and objectives into programs, subprograms and activities, and for each of them to set apart aims and scopes.

The aims had to be measurable in final outputs and performance indicators, thus permitting to the governmental authorities to allocate resources more effectively.

Under the new methodology the spending ministries are supposed to identify straightforward objectives and the methods for achieving these objectives, but the main problem the countries were confronting with, especially developing countries, was the lack of trained personnel that would be able to work on the development of program budget classification and performance indicators.

As a solution to the classical practice, the program budgeting technique was an early approach that assumed the identification of objectives and programs with operational functions, costs and revenues and at the same time, it is the procedure that stays behind the upcoming methods that would described below.

2.4.3. Zero-based budgeting

The next attempt for a better budget planning technique was the *zero-based budgeting* that assumed that at the beginning of each budget cycle there should be taken as a basis a zero base. Thus the line ministries were supposed to make new budget decisions as if it were totally new requests based on programs, subprograms etc. Basically they were suppose to start on a fresh field every budget cycle by making new assessments and analyses on their necessities and the costs that derived from that (Folscher 2007).

It was considered a good approach except the fact that this practical exercise was almost impossible to be implemented due to the excessive time consuming process. It implied a lot of paperwork as well as human capacity, which was problematic in budgeting system.

As Folscher (2007) concludes "both program budgeting and ZBB were attempts to make public budgeting pure, comprehensive, rational undertaken" but both failed because "as Nobel Prize winner Herbert A.Simon has argued since the early 1950s there are cognitive limits to decision makers' ability to consider all possible options".

2.4.4. New public management approach

The NPM, a modern budgeting practice, is a form of program budgeting approach but with the corresponding improvements having the focal point on developing proper budgeting institutions that would respond to the necessities of a new budgeting procedure, on improving the information flow between budgeting participants and on making the decision-making process more transparent.

Except the industrial countries, developing countries are also adopting this new approach, at different stages though.

The basic idea is that the NPM focuses more on “decentralization of responsibilities to lower organizational levels” (Folscher 2007) thus leaving the discretion to the ministries to decide on how funds would be spent and the results on the funding. Therefore, the NPM in comparison to the initial incrementalism practice is heading to output-based format and to measurable targets, and it focuses on a higher discipline and resource stringency.

Thus as it can be concluded that “NPM systems permit greater flexibility of inputs and processes in return for greater emphasis on outputs and performance” (Folscher 2007).

2.4.5. Medium-term approach

As parallel development in budgeting practice, is the multi-year perspective, which evolved from an annual perspective. This approach is considered to bring an overview on a longer period, more exactly on medium-term, which usually in most of the cases is defined as a three-year framework. The necessity of a medium-term approach brings a feasible solution to incremental line-item budgeting and provides the link between the planning and budgeting. It also introduces the program classification and it has a performance orientation. This topic will be discussed more detailed in section 2.5.

2.4.6. Process-based and Information-based mechanisms

Folscher (2007) points out that in recent years, countries had evolved to several new budgeting methods and procedures and he groups them into process-based and information-based mechanisms.

The *process-based mechanism* arises from the conflict of interest between the finance ministry that seeks budget efficiency and effectiveness improvements on one side and on the other side the spending ministry that would always complain of an insufficient funding.

This approach resumes the fact that line ministries in order not to look bad in front of the decision factors would have more incentives to better prepare when they would be asked to explain and to defend the new spending proposals.

Information-based mechanism includes "using public expenditure reviews to frame budget requests, activity-based costing, and programming techniques and using the budget submissions to disentangle the components of ministerial requests" (Folscher 2007).

Three aspects must be underlined when discussing the information-based mechanism according to same author. It covers the following components:

(1) *PER*: assumes the examining of the sector programs and objectives in correspondence with their core functions. As a final result it increases the honesty and transparency in the budget process and it provides assessment of the expenditure evolution related to financial performance.

(2) *Activity-based costing and programming techniques*: the resource allocations must be established on a top-down expenditure framework base. Spending units are asked to draw their objectives in a medium-term perspective, which should be measurable, achievable and realistic and which should allow to identify activities' outputs and confront them with input costs.

(3) *Spending baselines*: the supervision of how "ministries budget and make tradeoffs through the budget submission format" (Folscher 2007).

The various levels of budgeting procedures that are applied by countries might lead to the appearance of major types of budgeting methods.

Therefore, as Schick (2002) pointed out in its paper, the new perspective might bring the following viewpoints:

(i) *Sandwiched budgeting*, when national budgets will be influenced by international rules and requirements as well as by local or regional governments.

(ii) *Normative budgeting*, when a big part of national budgets will be allocated by fixed norms.

(iii) *Exogenous budgeting,* when revenues and expenditures will be dependent on outside influences (economic and social conditions etc.).

(iv) *Balkanised government,* when national governments will be fractured into numerous independent agencies, each with its own budget and each empowered to manage its resources and being responsible for developing policies and coordinating them.

As a final point, the same paper mentions some other budgeting approaches related to the availability of the information, such as *e-budgeting*, *plebiscitary budgeting* (society's feedback on governmental decisions based on surveys, questionnaires) and *class-based budgeting* (interested groups in policy allocation).

As it can be concluded, over the past decades budgeting practices have registered significant progress, from focusing on inputs to outputs and from incremental budgets to comprehensive and rational ones. The continuing evolution is not be an easy exercise to be performed but with efficient reforms, effective institutions and strong political will it can be achieved.

2.5. Medium-term budgetary frameworks

Having mentioned in the previous subchapters the basic aspects, principles and rules that stay behind the budgeting concept and the way the budget process is structured in order to offer a reliable view on the budget management; and most important how the budget practices evolved along time, the following subchapter will give a comprehensive review of the most important medium planning instrument that brings a high degree of rigorousness to the budget planning process.

As mentioned in section 2.4, the medium-term expenditure framework is considered to be the one of the most effective procedure that stays behind a good budget estimation and planning, offering a valuable and vital connection between the effective budget allocation and the policy priorities assumed by the political decisional factors.

This perspective is considered to be essential in connecting efficiently and effectively the policy, planning and budgeting. The connection of the three elements is crucial when talking about efficiency in budget management and therefore it is the aim of all public finance authorities to accomplish it.

The literature reveals the first application of a “coherent system of forward budgeting” (Folscher 2007) in Australia where in the 1980s the MTEF was introduced by the government as a way of proving that the “existing policy mix would become unaffordable and result in higher taxes over the medium time”.

Worth to mention is the fact, as the World Bank concluded in its reports, the establishment of the medium-term expenditure framework perspective is an element present in most advanced public expenditure reforms. It also mentions that even though the implementation of medium-term expenditure framework is quite new to emerging Europe[2], constituents or traces of medium-term financial planning existed “for more than a decade” (Kasek and Webber 2009).

The medium-term expenditure framework, main instrument in medium planning, is considered a complete and new approach to international development of the budget sector. Holmes and Evans (2003) generalize the role of MTEFs as potential tools that “link the often competing short term requirements of macroeconomic stabilization with the medium term demands on the budget to contribute to improved policy making and planning, and to efficiency and effectiveness of service delivery”.

Basically, the medium-term expenditure frameworks provide a linkage between the budget allocations and the existing or planned governmental policy priorities for a three-year planning horizon (the next budget year and the subsequent two years) , this way assuring the effective achievement of the “fiscal discipline required by budget realities” (Lasek and Webber 2009).

As Matheson (2002) in OECD Journal on Budgeting observes, the majority of its member countries that have adopted the medium-term budgetary plans have done that in order to tackle the problematic of deficiencies that occur in the annual budgets. A more practical way of explaining the necessity of the medium-term framework is that it “provides a guide or a target for the spending” (Matheson 2002) over a medium period, in most of the cases considered to be a three years period. Thus, the necessity for such measures derives from the fact that once the medium-term projections are elaborated and made publicly, the political factors will have to accomplish the stated targets, consequently disciplining decision-making.

[2] According to World Bank and International Monetary Fond, Emerging Europe consists of Central-Eastern , South-Eastern Europe and the Baltic states

In the same context, Blondal (2003) in its paper brings into light some other problems the OECD member countries[3] confronted with, and groups them into three sets. Therefore, the problem with overestimating the potential growth of the economy sector when forecasting for a medium-term that leads to an excessive resource availability and a pressure on the expenses side. Another issue is connected to the forecasted figures that were taken as a right by line ministries and created problems when the allocation figures had to be revised due to incorrect estimation. The last main difficulty is related to the distress the revenue side suffered when, due to inflation acceleration, the expenditure estimations had to be adjusted, therefore budget estimation was made on real terms and not on nominal terms.

Besides these reasons, from the practical point of view, the medium-term frameworks are considered to outreach the following ***difficulties*** (Matheson 2002):

- The overestimation of potential growth in the economy
- The possibility for the units to view the goals as entitlements to future funding
- The estimation of the resource framework in real rather than nominal terms

Moreover, according to Holmes and Evans (2003) and Matheson (2002) it has been pointed out that the medium-term expenditure framework consists of "a top-down resource envelope, consistent with macroeconomic stability, and a bottom-up estimation of current and medium term costs of existing policies and activities", and that practically it involves an "iterative process of decision-making" that matches the costs with the existing financial resources. Basically, the medium framework approach is an exercise of settling the forecasted figures in an annual perspective according to the budget process.

To be more precise, Blondal (2003) discusses in his paper that traditionally the bottom-up estimation principle was defining the budgeting exercise. It emphasized that the line ministries were sending their requests for allocation to the ministry of finance, requests that in most of the cases were exaggerated, and it was a matter of negotiation between the two parts until some common point was found. The author explains that this kind of system was not an effective one due to time consuming and being in essence a game–the participants knew form the beginning that the requests were not realistic.

[3] OECD member countries are listed on www.oecd.org

Therefore, the need for a new budget method was applied–top-down approach that contributed to the achieving of fiscal consolidation. Basically it consisted of the idea that the government would have to "make a binding political decision as to the total level of expenditures and to divide them among individual spending ministries" (Blondal 2003).

This fact was possible due to the baseline expenditure projections the MTEF contained. So the main focus was only on the decision whether to increase expenditures for a high-priority area on not, having already predetermined the limit on how much it can be spend, and the only concern the line ministries would have would be the internal objectives' prioritization within the pre-set financial framework. This way the Ministry of Finance would be focused only on "the level of aggregate expenditure for each ministry not the internal allocations", thus "each minister would be his own finance minister" (Blondal 2003).

The World Bank's report (Kasek 2009a) points out that the budget allocation of expenditures comprised in the medium-term expenditure framework totally depends on the "forecast revenue constraints" (as quoted in Taliercio 2007). It also refers to the below-mentioned three ***pillars*** that the medium-term expenditure relies on:

- top-down multi-year projections of the resource envelope–how much resources are available;
- bottom-up multi-year cost estimates of sector programs–what has to be financed based on the priorities and objectives;
- institutional decision-making–integrates the above two pillars.

Although it might seem an easy exercise to implement it, in reality, it is the most difficult step in the budgetary practice due to fact that the key budget actors must analyze and enforce the unlimited political requirements with the stringent and limited resources of the public finance system. The final result of this complicated process is a complete medium-term view that will help to oversee the costs of every policy and measure included in the annual budget (for the next year) and its impact on the next following two years. In this context, it is significant to relate the importance of the medium-term expenditure exercise with the evaluation of the budget performance.

Thus, the medium-term perspective constitutes the base for the assessments of the how well the budget is being performed and how effective are all the measures included in the annual budget and the MTEF from the implementation point of view. In consequence, the medium-term expenditure framework is considered an ordinary counterpart to the performance budgeting framework due to the fact that "it provides a limited, but realistic, timeframe within which most programs can be properly implemented and have some of their impacts measured" (Sangines 2009). At the same time, the MTEFs operate best when budgets are developed using a program budgeting methodology (Folscher 2007).

Therefore, the linkage between the planning and budgeting through the MTEF, as the same source reveals, ensures that over time a higher proportion of public funds will be spent on priority funds. This will happen only if: (i) within the resource limited framework marginal "changes in resource availability are maximized and used to force tradeoffs between and within spending areas" (Folscher 2007) and (ii) the medium-term approach is used to remove the least important spending programs and activities. More on this topic will be discussed in the subchapter that follows.

A more practical perspective of how the medium-term framework is reflected on the budget executors is discussed as well in the World Bank report. Thus, Sangines (2009) briefly explains that after setting the medium term policy objectives and their related determined "aggregated costs", each line ministry[4] receives an allocation limit (ceiling) for the period of the medium-term perspective as well as the "agreed expected outputs and/or outcomes for their sector". Therefore, the line ministry would have to adjust all the established measures and priorities according to the determined financial limits and consequently prepare its annual budget under the resource envelope and observe the performance indicators that were approved.

In fact, the line ministries–institutions ensuring the effectiveness of MTEF system are important actors because they have to coordinate activities and assist in planning exercise, and once there is an inadequate corresponding support it might lead to a failure of the MTEF and its potential benefits might be jeopardized.

According to OECD experience, Holmes and Evans (2003) synthesize and identify the ***major characteristics*** of a complete functioning of the medium-term expenditure framework, which are the following ones:

- the policy suggestions are based on a medium to long-term perspective;
- the decisions taken represent the objectives that may be achieved and implemented over the medium to longer term;

[4] Line ministry, also denoted as sector ministry is the central public authority that is responsible for the policy of each sector of the economy

- the policy and program implementation costs are estimated for a medium perspective;
- the fiscal policy objectives are comprehensible and trustworthy, and the fiscal deficit and the debt level are centered on a medium perspective;
- the policy and objective priorities are based on a existing financial resource constraint decided within the governmental political process;
- the policies and their financial covering are more foreseeable in a medium perspective;
- policy priorities drive funding, not the other way round;
- the annual budget act enframed within a medium-term context reveals what is affordable within a short term;
- there exists a obvious link between the forecasted estimates and the figures form the annual budget document;
- the main idea behind a medium perspective framework is the focus on outcomes and results.

It can be emphasized that the above mentioned attributes constitute the ideal "recipe" for a well functioning medium-term expenditure framework in a well functioning public sector, though the assessments done over the past years across various groups of countries reveal that the characteristics vary and depend on the reform programs each country is involved in. This definitely does not mean that these deviations are signs of a bad functioning of a medium-term expenditure framework; it just represents a specific and individual adjustment of each country's position. Sometimes the medium-term framework, as World Bank (Sangines 2009) points out, is used as a label to incorporate many other unnecessary basic reform programs, thus creating the wrong impression that the medium-term expenditure framework must become a necessary condition for budget reform. Nevertheless, once the medium-term expenditure framework is adopted as a budgetary planning component, it should not be seen as a technical exercise, but as an institutional and procedural component, part of the annual budgetary process.

When referring to the MTEF, it can be emphasized that even though the format and the level of details of the medium-term frameworks varies across countries, it generally reflects, as a mirror, the classical format of the annual budget. The only aspect that differentiates it is the time framework, as mentioned before the most common is the three years period beyond the current financial year.

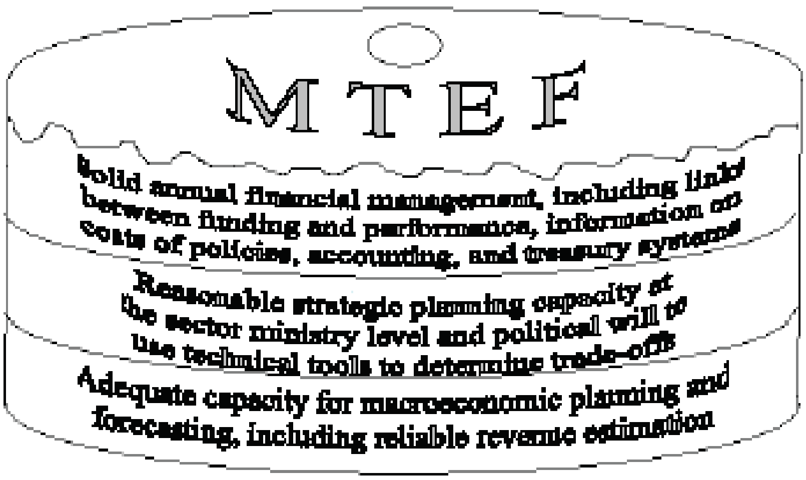
In this context, it is worthwhile to mention that the World Bank (Sangines 2009) citing IMF, presents the ***preconditions*** that are necessary to be present before the implementation of the medium-term expenditure strategy:

- consistent macroeconomic estimations interconnected with fiscal targets within a economic stability;
- precise accounting system and a suitable budget reclassification according to international standards;
- budgetary discipline and capable policy decision-making actors;
- public fiscal management with a political discipline;

Therefore before adopting the medium-term expenditure framework concept it is necessary to assess the country's public financial management background in order to offer the best use of the medium-term planning instrument.

The same report done by the World Bank configures the above preconditions for the medium-term expenditure framework implementation in a schematic way, by presenting it in the form of the "icing on cake".

Figure 1: Preconditions for the medium-term expenditure framework



Source: Sangines (2009)

Hence, once again it can be noticed that MTEF is an exercise that is placed on the top of a solid public finance management platform. Therefore, one of the reasons the MTEFs would fail would be the insufficient attention to the preconditions and their corresponding reforms that are necessary for the successful implementation. The reforms are considered sometimes too narrow, being more focused on financial planning and technical aspects although, as Folscher (2007) ascertains, "an effective MTEF system is as much about the structures, institutions, and rules of the budget process as it is about the multiplier plans that result".

In the same context, Folscher (2007) discusses that the MTEFs are considered vital structures that offer compatibility in the budgeting systems. It presents three main reasons that follow this idea, which are: (i) the MTEFs allow the ministry of finance to build a budget process based on the principle of resource allocation decision thus the line ministries are more likely to realize and respect the limit constraint; (ii) by proving the ex ante envelopes (limits) to the spending ministries, MTEFs focus more to where there is a better information; and (iii) the MTEF approach provides a medium-term planning horizon and includes "a system for comparing the medium-term costs of competing policies".

Another important thing to be mentioned is the role of the early engaging in the political decision making process. As Holmes and Evans (2003) reflect in their review on medium-term expenditure framework, if governments do not engage the political process, then the MTEF is likely to cast a pale shadow on public sector performance.

Finally, it can be summarized that the output of an effective implementation of the MTEF, as the World Bank report (Kasek 2009b) concludes, may fulfill the following ***fiscal policy targets*** by:

a) keeping expenditure within average limits;
b) establish links between policy, planning and budgeting;
c) increasing operational efficiency;

After a thoroughly presentation of the medium-term framework approach, in order to conclude, I would like to present the most important evidence from several country studies.

The World Bank's report on performance-based budgeting and medium-term expenditure frameworks (Kasek and Webber 2009), focused on emerging European countries, reveals that even if having an effective MTEF it might appear many challenges to existing capabilities and systems, including ***requirements*** that are grouped as follows:

- the forecasted spending should correspond to the available resource framework;

- flexible fiscal policy and fiscal instruments;
- the medium framework has to improve the link between budget policies and budget resources;
- the budget allocations need to be established within the tough aggregate budget constraint;
- the medium framework has to be seen as a structure within which the overall governmental decisions are taken;
- the medium term framework must consist of the aggregate spending, the relationship between sectoral needs and the government's organizational basis for appropriation and the content of expenditure envelopes that will be ultimately included in the annual budget exercise;
- the transparency principle is primordial;

In broad terms, the findings and recommendations that result from the experience of various countries might differ, indicating MTEFs progress, but what is important to stress is the continuous focus and need on the "developing of a coherent and integrated process of policy making, planning and budgeting" (Holmes and Evans 2003).

2.6. Performance budgeting

The necessity for a performance budget, as discussed in section 2.4, arose from the need of having a comprehensive and rational budget based on effective and efficient "results-oriented managerial approach" (Kasek 2009a). It was a natural transition from the incremental line-item that reflected only the inputs to program and zero-based budgeting and finally to the methodology that links the inputs to outputs and focuses on efficiency and effectiveness.

2.6.1. Concepts and considerations behind performance budgeting

Performance budgeting as Shah and Shen (2007) explain is a system of budgeting that contains the needed programs and objectives and their afferent costs of implementation and centers on results that must be obtained. It is also considered to be a systemic approach towards efficiency and effectiveness in public service delivery that "implies substantial reform to most aspects of public expenditure management, including the way the budget is classified, the type of information that needs to be gathered and analyzed, the accountability structures for results, the accounting framework" (OECD 2002).

Practically the performance budgeting approach is the one "in which each increment in expenditure is expressly linked with an increment in output or performance" (Schick 2002). This exercise requires government support and capability to identify the "reliable data on the unit of cost of services" (Schick 2002)

Therefore, a successful performance budgeting framework consists of the following ***basic elements*** according to Shah and Shen (2007):

- Inputs and intermediate inputs are the resources that produce outputs
- Outputs are represented by quantity and quality of goods and services
- Outcome is showing the progress registered while reaching the objectives
- Impact encompasses the program goals, and
- Reach or the target people that might be affected by the programs.

The figure below, based on the mentioned elements, provides an example of a typical performance budget program from the education sector that illustrates how in reality the chain is assembled.

Figure 2: Performance budgeting results chain (education)

Program objectives →	**Inputs** →	**Intermediate inputs**
Improve quantity, quality and access to education services	Educational spending by age, gender, urban/rural; spending by grade level and number of teachers, staff, facilities, tools, books	Enrollment, student-teacher ratio, class size

Outputs →	**Outcomes** →	**Impact** →	**Reach**
Achievement scores, graduation rates, drop-out rates	Literacy rates, supply of skilled professionals	Informed citizenry, civic engagement, enhanced international competitiveness	Winners and losers from government programs

Source: Shah and Shen (2007), quoting Shah (2005)

So it can be clearly seen the difference between the traditional line-item budgeting and the performance budget that shifts to results orientation and efficiency indicators.

2.6.2. Conditions for a sustainable performance budgeting

Further, Shah and Shen (2007) synthesize the main considerations that stay behind the implementation of a successful performance budget.

Budget classification plays an important role in the transition to performance due to fact that, as mentioned above, the focus of budget funding will not be anymore on detailed line itemization of the spending ministry's budget but on objectives and resource allocation, thus on classified programs and subprograms

Performance capacity and reporting is necessary for an effective performance budget system. It is considered a measurement that does not affect directly the budget funding but that provides "a channel for public officials to reach agreement on program goals and objectives, to discuss on the selection of performance measures and address their questions and concerns" (Shah and Shen 2007).

Informed budgetary decision-making assumes that the performance budgeting creates a more valuable significance to the budgetary decision-making and forwards an information-based process that in the end plays a considerable weight to performance information.

Besides these considerations, the World Bank report (Kasek and Webber 2009) emphasizes that successful implementation of performance budgeting also depends and starts with a "logical, robust and transparent program architecture for budget expenditures to setting realistic and managerially-relevant performance measure". Therefore, the well-designed programs will constitute the basis for a successful performance budget by offering the fundamental linkage between policy, planning and budgeting.

In the same context, it is worthwhile to mention, as Shah and Shen (2007) have noted, the advantages of performance budgeting assembled from recent experiences:

- *Improved communication between budget actors and citizens*–performance budgeting elucidates the program goals and objectives and finds performance targets, thus giving spending ministries a clear view of the expectations for their performance, and helps the public management to communicate more successfully. Having a detailed description of each program–measures and indicators, the society will understand better their meaning and necessity thus will offer understanding and support for their future implementation.

- *Enhanced management in government structures*–performance budgeting represents a support for the program executives in determining the goals, in monitoring the program performance and in improving internal control.
- *More informed budgetary decision-making*–performance information plays a role when deciding the level of funding by making politicians to understand better the issues involved in and improve them.
- *Higher degree of transparency*–the budget document represents an important instrument for transparency and accountability to the public and legislature due to categorization of financial resources by programs and performance indicators that in the end will reflect the major government activities and their accomplishments.

To conclude, it can be remarked that performance budgeting is not a simple process to implement; it involves a rational system, a political motivation and a very new environment that will facilitate its integration.

2.6.3. Performance budgeting evolution in industrial countries

Throughout the implementing period, in accordance with the level of performance information used, the level of development of performance budgeting varies in each country, thus leading to several types of performance budgets as noticed by Shah and Shen (2007):

1) ***Performance-reported budgeting*** (PRB) presents "performance information as part of the budget documentation" but it is not used by budgetary decision-making factors when allocating financial resources.
2) ***Performance-informed budgeting*** (PIB) refers to a budgeting process that considers program performance but uses it as an information detail in some insignificant decisions.

3) ***Performance-based budgeting*** (PBB) assumes performance information plays a significant role in allocating resources but “does not necessarily determine the amount of resources allocated”.
4) ***Performance-determined budgeting*** (PDB) implies that resource allocation is directly correlated “to units of performance”.

This is a very important aspect to be mentioned as often it causes confusions in terms when discussing the type of the performance budgeting use in budget process.

Most of the countries that have adopted the performance budgeting mechanism have focused on providing “more performance data and better program evaluations” (Shah and Shen 2007) and on offering results along with financial information present in budget documents.

The same authors offer a picture of how selected countries have evolved in performance budgeting reform and synthesize that they are still in experimental stages and there is no mature case that can be taken as a model. However, they present the evolution of the three countries that are considered to be in top of implementing the performance budget reform – Australia, New Zealand and the United States.

The technique used by *New Zealand* is performance-based budgeting (PBB) and it shifted the budget reform from inputs to outputs budgeting. This strategy used by New Zealand is considered to have considerably improved the country’s fiscal position by encouraging the government and legislative body “to focus on the goods and services to be delivered” (Shah and Shen 2007).

Australia has focused and oriented on outcome budgeting and on results to be achieved. It uses the performance-informed budgeting (PIB) event though the legislature brought criticisms concerning “the output information in the portfolio budget statements and annual reports as being too aggregated” (Shah and Shen 2007). Nevertheless, it did not constitute a big problem due to fact that there were little facts that would confirm that the output information would be used in political decision-making process.

And finally, the *United Stated* approach used is performance-reported budgeting (PRB) and it has the scope “to improve the federal government’s efficiency and effectiveness and to provide greater accountability for results by transforming the federal budgetary process form input-oriented system to a results-oriented system” (Shah and Shen 2007).

In the same context Schick (2002) concludes that the major management reform the OECD member countries went through, is the shifting form inputs to results thus allowing "greater managerial autonomy and flexibility".

OECD (2008) guide confirms that most of its member countries continue to struggle to integrate performance into the budget process. Over two-third of OECD countries include non-financial performance information in their budget documents, but do not use it in budget decisions, therefore the performance information has been integrated into the budget process. Hence, the common challenges the countries face, regardless of the approach used brought to light by the same guide are (a) the improvement measurement; (b) the appropriate ways to integrate performance information into the budget process; (c) the gain the attention of key decision makers; and (d) improvement of the information quality.

Despite the difficulties and the challenges mentioned, countries report benefits from the use of performance information in the budget process, among them providing a more informed and explicit governmental goals and objectives, and higher highlighting on budget planning.

As a final point, it has to be highlighted that there is no easy road for the performance budget reform to be implemented, countries, as it could be seen, are still struggling to adopt the best approach that would suit better to their situation. It is an individual decision in what matter the performance budgeting will influence the budgetary process. What is important and is equally available for all reforming budget systems is the necessity for a motivation to make a change, for the support from the legislative and citizens, as well as some for other internal budget factors, such as staff training, accounting system, information technology etc.

2.7. Budget transparency

As it was emphasized throughout the entire chapter, the need for transparency is imperative for a final effective budgetary system. This section will be more focused on the experience of OECD member countries and the practices adopted by OECD in this matter.

Transparency, as defined by OECD (2002) represents the "openness about policy intentions, formulation and implementation", therefore the foundation for a good governance. The implementation of new budgetary procedures goes along with transparency principle, thus being indispensable for an effective budget reform.

Blondal (2003) explains the origins of budget transparency and it states that the significant progress was registered in the late 1980s and early 1990s, period associated with critical budget conditions in most OECD countries (high annual deficits and outstanding debt). So as an effective method to implement a number of fiscal consolidation programs was simply to inform the public in the most straightly manner in order to achieve understanding in taking the best decisions and actions.

OECD (2002) has elaborated a set of *Best Practices for Budget Transparency* and it presents a list of practices its member countries uses in order to achieve its budget goals. The list comprises of budget reports that governments should elaborate, specific disclosures to be included in the reports and finally, practices for guaranteeing quality and integrity of the reports (figure 3). In the following part, these aspects will be discussed in more detail.

Figure 3: OECD best practices for budget transparency

The OECD Best Practices for Budget Transparency

1. **Budget Reports**
   1.1. The Budget
   1.2. Pre-budget Report
   1.3. Monthly Report
   1.4. Mid-year Report
   1.5. Year-end Report
   1.6. Pre-election Report
   1.7. Long-term Report
2. **Specific Disclosures**
   2.1. Economic Assumptions
   2.2. Tax Expenditures
   2.3. Financial Liabilities and Financial Assets
   2.4. Non-financial Assets
   2.5. Employee Pension Obligations
   2.6. Contingent Liabilities
3. **Integrity**
   3.1. Accounting Policies
   3.2. Systems and Responsibility
   3.3. Audit
   3.4. Public and Parliamentary Scrutiny

Source: Blondal (2003)

The first part of the classification comprises all the budget report, starting with the *budget* itself, the *pre-report* that will explicitly state the fiscal policy objectives assumed by the government for the next fiscal year and the following two ones. Then the *monthly report* that will show the progress made in implementing the budget, followed by *mid-year* and *year-end reports* that will comprise a "comprehensive update on the budget implementation and the forecasted budget outcome" and the latter represents the "government's key accountability document"(OECD 2002). Two more reports are necessary for an effective budget transparency–the *pre-election report* that informs the general state of the financial governmental framework before the elctions and the *long-term report* that measures the long-term sustainability.

The next section contains the practices considered to be essential for an efficient transparency reporting. The *economic assumptions* that would reveal the exact key fiscal elements undertaken by government (forecasted GDP growth, employment and unemployment rates etc). The estimated cost of key *tax expenditures*, financial *liabilities and financial assets* and *non-financial assets* that should be disclosed in the budget every mid-year and year. There should be as well disclosed in the budget the employee pension obligation and contingent liabilities that are "liabilities whose budgetary impact is dependent on future events which may or may not occur" (OECD 2002).

The final section of procedures includes practices such as *accounting policies*–summarizing the basis of accounting applied when executing reports; *systems and responsibility*–an active system of internal financial controls that would assure the integrity of the reports; the *audit* procedure and the *public and parliamentary scrutiny* that will give the opportunity to effectively examine any fiscal report that would be considered necessary.

The practices suggested by OECD in order to achieve a better budget transparency have been developed, as said before, from the perspective of different countries' experiences. Undoubtedly, the mentioned practices should not be taken as strict rules or standards because every country has its own reporting regime but might constitute alternative or optional guidelines in achieving best budget transparency results.

Chapter 3

3. Public Budgeting in Moldova

As it was emphasized in previous chapter, the public budgeting sector is a complex segment that comprises political, economic, financial and planning factors that ultimately provide the functionality of a healthy budget system. All the aspects discussed in detail, starting from the general notion of the budget, existing rules, norms and principles, the budget cycles to the evolution of budget procedures and methods throughout time, offered a view from the theoretical approach, most of it as a result of various groups of countries' experience.

In the following chapter I would like to analyze from the perspective of all the aspects tackled previously the case of Republic of Moldova (further to be referred as Moldova). Thus, I will describe the main issues related to the budget system, the current economic situation that is reflected on the budget system and the functioning of the budgeting exercise. I will then analyze the performance of the most important tool in budgeting – the medium-term expenditure framework and the procedures that are used to perform the budgeting exercise. Finally, I would present the current ongoing reforms that are performed at the level of MOF, their upcoming impact on the functionality of the budget system and the existing challenges that the budget authority has still to face.

The analysis is based on the current normative and legislative acts, including internal regulations, reports done by various international financial organizations (WB, IMF etc) and on the OECD survey done on its member and non-member countries, including Moldova, concerning the budget practices and procedures.

3.1. Core features of the budget system

The budget system in Moldova undergoes through a continuous and fundamental fiscal reform and keeps struggling with the challenges that appear on the road to achieving them.

3.1.1. General background

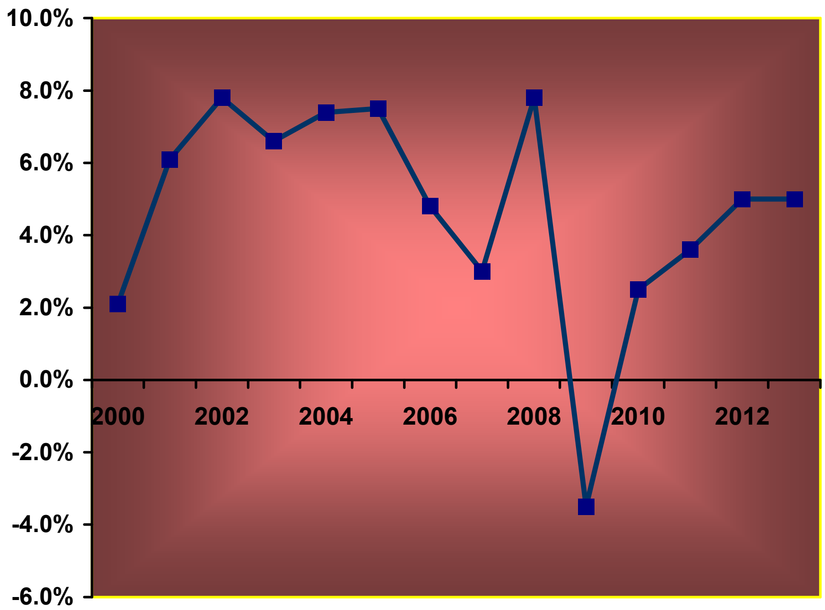
The growth performance Moldova registered since 2000 to 2008 was primarily a result of "the expansion of domestic household consumption and construction fueled by massive inflows of workers' remittances" (World Bank 2007). In spite of the progress, as it can be noticed in the table and figure below, the economic management has been struggled with various external factors, such as "external price shocks–energy prices have increased rapidly with natural gas prices doubling since the beginning of 2006" (World Bank 2007) etc.

Table 2: GDP growth (annual %)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Prelim.	Estimated		
										2010	2011	2012	2013
2.1	6.1	7.8	6.6	7.4	7.5	4.8	3	7.8	-3.5	2.5	3.6	5	5

Source: National Bureau of Statistics (http://www.statistica.md/category.php?l=ro&idc=191&) and MOF

Figure 4: GDP growth (annual %)



Source: author based on data from NBS and MOF

Due to these factors and to the global economic crisis, Moldova's economy is in recession as the World Bank observes. Thus, the global financial and economic crisis destabilized "all of the main sources of growth in previous years–remittances, private consumption, exports, and private investment, resulting in weaker domestic and external demand, fiscal imbalance, limited financial intermediation, and an increase in poverty" (World Bank 2010). As a result, due to the financial global crisis the remittances and the GDP registered a decrease that consequently reversed the gains.

Another aspect that needs to be mentioned is the political instability caused by two rounds of parliamentary elections that led to a distress towards the country's economy. Failed elections in April 2009 and then repeated election in July 2009, did affect the entire economy, starting with the decrease of budget revenue accumulation, continuing with the increase of fiscal deficit and the severe external financing difficulties, as it can be seen in figure 4. These consequences had certainly an effect on the budget system, affecting directly the budget process and the activities that derived from. Therefore, the budget calendar for 2009 was not respected and the deadlines were moved way. In consequence, the financing of the entire budget system was putted under danger, since there was no political factor in charge of the budgetary policy. Nevertheless, the new political change came with a new governmental program that included strategic objectives and medium perspective reforms.

Therefore, as a response to the existing problems, the government has set for the period 2010-2012 a strategic Economic Stabilization and Recovery Plan for revival of the economy with the main "aim to stabilize public finances, restart economic growth, and protect vulnerable households" (MEFP 2010).

The government of Moldova has agreed a Memorandum of Economic and Financial Policies with the IMF under a three-year. This agreement is consistent with the existing policy documents, as well the action plan agreed between the European Union and Moldova. Under the agreement, fiscal policy will remain tight, given continuing high inflation and the need to ensure macroeconomic stability (Short and Mackie 2009)

The MEFP lays out the economic objectives, policies, and measures of the government of Moldova for 2010–2012. Specifically, the ***objectives*** include (IMF 2010):

(i) Reorder the structural fiscal deterioration that took place in 2008–2009 while maintaining funds for public investment and priority social spending

(ii) Maintain the inflation under control whilst rebuilding foreign reserves to protect the economy from external shocks

(iii) Guaranteeing financial stability by detecting early traces of problems and strengthening the framework for bank rehabilitation and resolution

(iv) Increasing the economy's potential by means of structural reforms.

Getting back to the real concern of this paper, it has to be mentioned that as a basis for public budgeting sector functioning represents the policy documents the government has approved. As mentioned in previous chapter the budgeting exercise relies on the settled policies and strategies approved by authorities, representing the "center of public policy and the development prospects of country" (Schiavo-Campo 2007).

Previously "sustaining economic growth and poverty reduction strategy were used as primary key policies" (World Bank 2007).

In 2007, the parliament has approved the National Development Strategy for 2008-2011, which is the "main internal medium-term strategic planning paper*,* which defines the development objectives up to 2011 and identifies the priority measures and actions for their achievement" (Short and Mackie 2009).

The strategy has the purpose to integrate "the current strategic framework, alignment between the budgeting process and the policy framework, and absorption of external technical and financial assistance" (NDS 2008-2011). Thus, in order to achieve the settled objectives within the restricted financial framework but with a great impact on economic and social development, the NDS centers on a limited number of strategic priorities. Taken as a whole, the "strategy aims at continuing the successful reforms initiated in the past and promotes new and coherent policies that would ultimately lead to a better life for the country's citizens" (Short and Mackie 2009).

Heading for the real purpose of this work, it has to be emphasized that the government over the past few years started to implement an "ambitious public finance management reform with support of the donor partners" (Short and Mackie 2009). The reform is implemented under the finance minister's auspice and has an implementing unit within MOF since 2006. The project's main concerns are the "efficiency and transparency in management of public finances through strengthening national public budget planning and execution methodologies, introducing a modern integrated financial management information system, supporting the establishment of the government internal audit function, developing sustainable in-country training capacity in PFM related thematic areas" (Short and Mackie 2009).

Moreover, the long-term objectives that are matching the European standards, according to same source, are focused on improvement of budgetary allocation through modern budget preparation practices, on improvement of the financial discipline and of the public debt management, and on the harmonization of the budget regulatory framework with the EU standards and requirements.

These being said we can proceed in discussing the structure of the budget system in Moldova and its characteristics.

3.1.2. Characteristics of budget system

As defined in the law on budgetary system and budgetary process of Moldova, the budget system is a unitary system of budgets and funds that comprise the ***national public budget***. It consists of:

(a) state budget
(b) state social insurance budget
(c) compulsory insurance funds for medical assistance

During the entire analysis and for the purpose of this work, I will focus only on the state budget segment – central government, excluding the ATUs..

As stated above, the main component in the budget system is the state budget. From juridical point of view, the state budget is defined as an act in which the state revenues and expenditures are incorporated for a period of one year. From economic point of view, the state budget expresses the economic relations that appear in the process of repartition of the GDP, and from material point of view, the state budget is defined as a centralized fund with financial resources in which the revenues are collected and from which spending are financed. Therefore, as discussed in previous chapter, the state budget is not anymore a simple document that incorporates the revenues and expenditures, but it is a strategic document reflecting the state financial resources allocated to the country's economy sectors.

As stipulated in the law on budgetary system and budgetary process, the state budget ***goals*** are:

1) Implementation of economic, social and other types of strategies and objectives set by the government
2) Creation of financial resources for funding of the government's actions
3) Provision of budgetary equilibrium necessary for maintaining a stable macroeconomic situation

4) Guarantee of effective, efficient and responsible administration of public financial resources

5) Stating the governmental strategies and objectives.

The Moldovan budget and the treasury system resembles to the continental systems. Therefore it is characterized by a two-level of credit ordinateurs, in internal regulation acts defined as budget executors, where the primary budget executor is the head of central public authority (most cases the ministry) that has under its subordination public institutions, and the secondary budget executor is represented by the head of the public institution (Ordin nr. 472/1.02.2007).

The budget system and rules are set under the organic budget law and under the annual budget execution laws. The law on budget system and budgetary process governs the budget process (formulation, examination and approval, execution and reporting) as well as it reconfirms the existence of the medium-term fiscal framework. In addition, the roles and responsibility of the legislature and the executive in the budget system are established by constitution, legislation and internal rules (World Bank/OECD 2008)

Thus, in accordance with the law on budgetary system and budgetary process, the ministry of finance, the government and the parliament have to provide for a stable budgetary fiscal policy the:

a. *Budget formulation*: national currency stability, price and wage stability, and stable economic develop
b. *Equilibrium* during the revenue collection and execution of spending

The function of central budget authority is located at the ministry of finance but the actors that formulate the economic assumptions used in budget are ministry of economy, National Bureau of Statistics and the central bank. Moreover, MOF, as a central budget authority plays a key role in the budget process, being responsible for:

- Issuing guidelines and instructions for every stage of the budgetary process
- Developing and implementing the medium-term budget framework;
- Preparing the state budget law
- Reviewing the budget proposals done by sector ministries etc.

The annual budget is the law through which the parliament approves the state budget that consists of revenue sources and spending destination for a budgetary period. The law comes into effect from the 1st of January of each year or different date if stipulated by law. The annual budget and the MTEF are the primary budget documents that include the budgetary allocations according to the current commitments and policies the government has assumed. The annual budget documentation submitted to the legislature, besides the annual estimated figures, contains as well the three-years expenditure estimates that are updated on an annual base.

In developing the budget, there are numerical fiscal rules that place limits on fiscal policy, which according to OECD standards are the expenditure rule, revenue rule, budget balance (surplus/deficit) rule and debt rule. These rules are intended to be a permanent constraint on fiscal policy, thus representing an indicator of general fiscal performance. In accordance with the World Bank/OECD (2008) survey, Moldovan authorities identified the following fiscal rules – the expenditure ceiling, budget balancing and government debt that are approved in the annual budget law and cannot be exceeded.

The *expenditure rule* targets a nominal expenditure ceiling that covers one year and the entire governmental sector is covered by it. CBA is in charge of monitoring compliance with the expenditure rule and, in case of non-compliance with the fiscal rule, a proposal with corrective measures must be presented to the legislature, as an enforcement procedure.

The *budget balance rule* targets a specific budget balance in nominal terms for a period of one year, also covering the entire governmental sector. As in the previous case, the CBA is responsible for the fulfillment of the rule and, in case of non-fulfillment with the rule, a proposal with corrective measures must be presented to the legislature and the government or ministry responsible for the overrun.

And finally the *debt rule* covers a specific amount of debt in nominal terms, as an one year imposed target covering the governmental sector. In case of non-compliance with the target, the CBA is the authority that is in charge of monitoring compliance with the fiscal rule.

In comparison with most OECD member countries (more than 60 percent) that rely on long-term fiscal projection, in case of Moldova the annual budget law estimates and the fiscal analysis are based only on the medium-term expenditure framework. Thus, the MTEF is considered a necessary and important development that improves the quality of macroeconomic forecasting and fiscal planning and overall the public finance management.

3.2. Budgetary process

The budget process is an aggregate of activities and operations that are succeeding annually, coherently integrated and convergent oriented, stage rolled that includes the formulation of the draft budget, its approval, the budget execution and budget control.

The budgetary process consists of prioritizing priorities and resource allocation necessary for the established objectives according to the approved governmental policies that are incorporated in the strategic national documents.

The budgetary process is predominantly political because the decision of resource allocation is not based on public necessities criteria but on the objectives assumed by governmental programs, established by the majority political party. Consequently, the final decision materialized in form of an annual budgetary law is adopted through the representation and voting mechanism.

Even though it is a complex exercise, the budgetary process, a cyclic process, is executed in strict correspondence with rigorous requirements – legislative and normative acts.

A very last thing to be pointed out is the ***principles*** that guide the budget formulation process (Ministry of Finance of RM 2009 and Law on budgetary system and budgetary process):

Principle 1 – *the universality principle*, which means that all the budgetary revenues and expenditure shall be included in gross amounts, thus the total revenue must cover the total expenditure and the figures must be entered in full amounts without any adjustment against each other.

Principle 2 – *the publicity principle*, that must ensure an open and transparent budget system, achieved through public debates on the draft budget, on the annual report of the budget implementation, as well as the publication of legal regulation that concern the budget and annual reports.

Principle 3 – *the annularity principle*, which means that budget revenues and expenditure are approved by law for a period of one fiscal year and that all operations of accumulation and payments undertaken within one fiscal year on the budget account shall belong to the corresponding execution period.

Principle 4 – *the principle of budget classification*, which means that budget revenues and expenditure are registered and approved in the budget according to the source of origin and category of expenditure, grouped by their economic destination and nature as the budget regulation stipulates.

Principle 5 – *the monetary unity principle* that indicates that the entire budget is recorded in the national currency (Moldovan lei).

Principle 6 – *the unity principle* that assumes that in order to ensure efficiency in public funds use, all parts of the budgetary system (state budget, state social insurance fund budget, mandatory health insurance fund budget and ATUs' budgets) must be consolidated into a unique budget, named the national public budget of RM.

3.2.1. Budget formulation

The budget formulation stage is considered to be the most difficult and complicate exercise in the budget process. Not only it involves actively the most important actors from the budget system but also is represents the most decisive phase that would have an effect on the society's welfare.

The ministry of finance as stated in section 3.1.2 is responsible for the formulation of the budget draft law. The state budget formulation has to be done according to the goals established (mentioned before), to the revenue sources and expenditure destinations, and to the proposals from the central public authorities (Law on budgetary system and budgetary process). The preliminary estimation of the revenue and expenditure side is developed by the MOF based on the macroeconomic projections framework for the next fiscal year elaborated by the ministry of economy.

Based on the estimations done, the government has to establish the budget-fiscal policy objectives for the next fiscal year as well as for the next two following years, including the public resource and spending framework and the baselines/ceilings. The ministry of finance elaborates the detailed methodological notes every year for the central public authorities concerning the elaboration of the draft state budget. Based on that, the central public authorities submit to the MOF the draft annual budget, afterwards the hearings and reviewing procedures are initiated at the level of MOF. At this stage the line ministries have to present together with the estimation for the next fiscal year and the following two ones, the explanatory notes that would include the requirements' justification and the estimated results. After reaching an agreement, concerning the overall projections, MOF submits the annual budget to the government for negotiations and approval containing the estimated revenue and expenditure together with the explanatory note that contains the social-economic development strategies, fiscal policy strategies and state debt strategies.

Overall, the main steps in the budget formulation are outlined in the table below. The steps mentioned include not strictly the budget formulation segment but also the MTEF formulation segment, which is part of the entire formulation process.

Table 3: Main steps in budget formulation process

	Steps
1	Elaboration and approval of the document on policy priorities of the Government of Moldova in the medium term
2	Elaboration of preliminary macro-fiscal projections for estimating the overall resource framework
3	Development and approval of MTEF concept paper
4	Elaboration of sector strategic expenditure plans
5	Analysis of Sector Strategic Expenditure Plans and setting of expenditure ceilings
6	Drafting and approval of document on MTEF forecasts
7	Issuance of budget framework circulars
8	Submission of draft Annual Budget to the ministry of finance
9	Review by the ministry of finance and hearings
10	Submission of the draft Budget Memorandum and Annual Budget to the government
11	Submission of the draft Budget Memorandum and the Annual State Budget to Parliament

Source: Ministry of Finance of RM (2009)

As mentioned above the budget preparation process contains MTEF preparation steps (1 to 6) as well as the stages that refer strictly to the annual budget formulation (7 to 11). Thus, schematically these steps are represented as follows:

Figure 5: Main steps in budget formulation process

Source: Ministry of Finance of RM (2009)

The budget formulation steps are enframed into a calendar–budget calendar that presents the deadlines the CBA and related authorities have to respect. As it can be noted in table 4, the budget process calendar includes all the afferent deadlines including the MTEF deadlines that represent the core for a successful budget planning. However, a more comprehensive description of the MTEF elaboration/planning document will follow in the next subchapter.

Table 4: Main deadlines within MTEF/ state budget preparation cycle

Deadline	Main action
Until December 20	The ministry of economy prepares and presents the preliminary macro-fiscal framework
Until January 1	The government office presents the document on medium term policy priorities
Until January 15	The ministry of finance submits the MTEF concept paper for approval to the government
Until February 5	The ministry of finance issues the MTEF circular and preliminary expenditure ceilings
Until February 25	The ministry of finance jointly with other relevant institutions updates and assesses the general resources framework of the national public budget
Until February 25	Central public authorities submit drafts of sector expenditure strategies
Until March 20	The ministry of finance sets the final expenditure ceilings by sectors and central public authorities
Until March 31	Central public authorities complete the sector expenditure sector strategies in line with final expenditure ceilings
Until April 15	The ministry of finance submits to the government the document on MTEF forecasts
Until May 1	The government approves the document on MTEF forecasts
Until May 1	The ministry of finance issues circulars on the State Budget
Until June 1	The ministry of economy submits updated macroeconomic forecasts
Until July 1	Central public authorities submit to the ministry of finance budget submissions and estimates for the next two years
Until August 5	The ministry of finance updates the general resources framework and expenditure ceilings by sectors and central public authorities for the next year and estimates for the following two years
During August 5-15 (according to a special schedule)	The ministry of finance organises discussions with central public authorities, and social partners regarding the results of the analysis of budget submissions, and on the draft state budget
Until August 25	The ministry of finance submits to the government the draft budget memorandum and the draft Annual State Budget Law including updated estimates for the next 2 years
Until October 1	The government submits the budget memorandum and the draft annual budget law for the State Budget to the parliament
Until December 5	Parliament approves the annual budget law for the state budget,
Until December 20	The Ministry of Finance publishes the annual budget law for the state budget and posts it on the website.

Source: Ministry of Finance of RM (2009)

The last two terms refer to the second stage of the budget process–the budget approval.

A more detailed calendar for the preparation of the MTEF and the state budget is enclosed in the appendix A. There besides the detailed activities, actions related to budget formulation and the deadlines, it can be seen the central public authorities that are responsible and a section with the beneficiaries of those activities. The plan for MTEF and state budget formulation together with the composition of the MTEF Coordination Group is approved through governmental decision. Worthwhile to mention is the fact that in order to fulfill the obligations and the deadlines set by the budget planning calendar, the line ministries have to develop their own internal budget calendars (Ministry of Finance of RM 2009)

3.2.1.1 Macro-fiscal framework

The budget formulation is derived form several budgetary stages, as it can be observed from the previous figures and tables. One of the most important and initial phase that represents the foundation of an efficient budget planning is the macro-fiscal framework that is comprised in the first two steps depicted in table 4 and is depicted in summary in section II from appendix A.

The macro-financial framework is the establishment in which the medium-term projections of the state budget are prepared and includes the following elements (Ministry of Finance of RM 2009):

- medium-term macroeconomic projection
- public revenues projection
- projection of the deficit and its source of financing
- medium term global financial framework

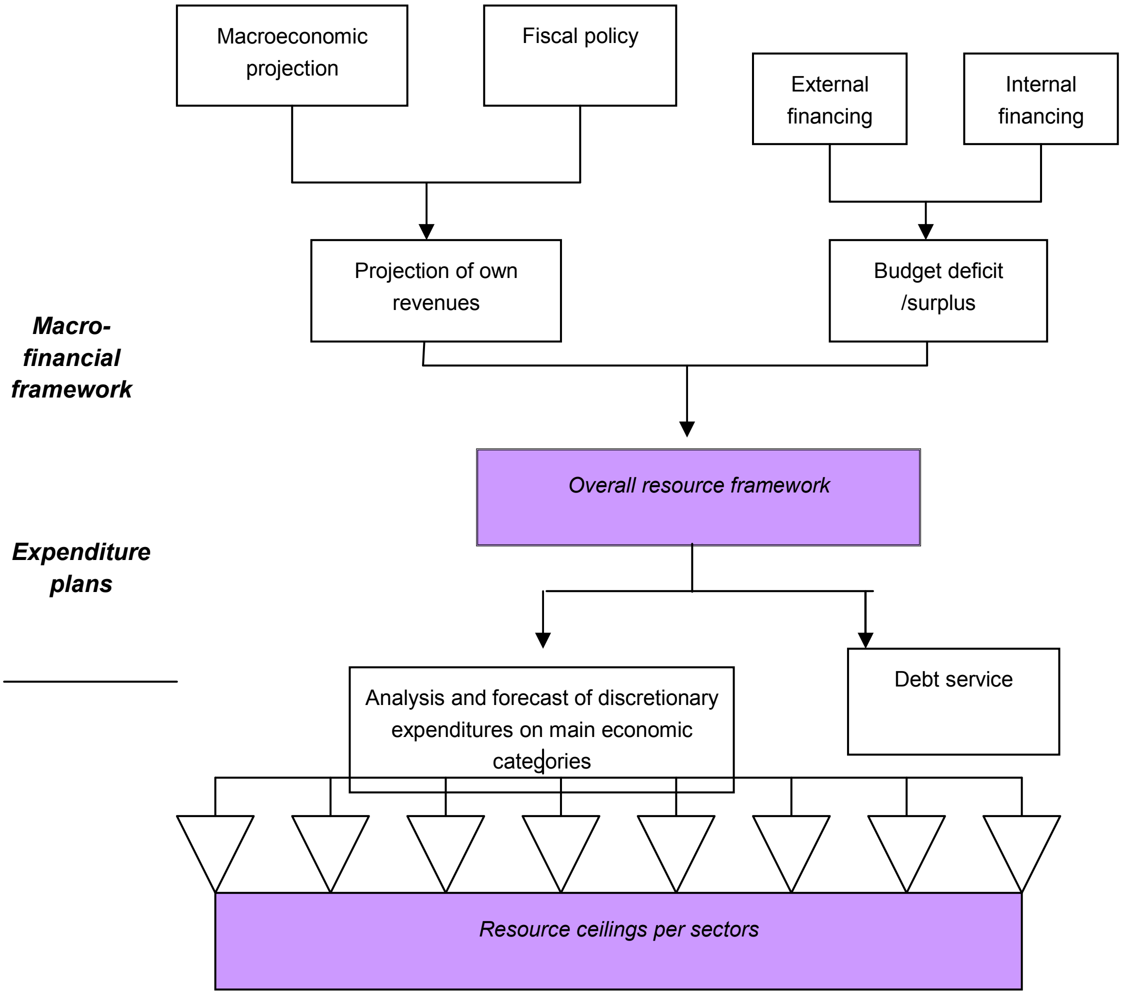
The schematic form of the core elements of the macro-financial framework is presented in figure 6 and each of them will be explained in depth in the following part.

The ministry of economy elaborates *the macroeconomic projection* that includes a brief description of recent macroeconomic performance in the country, a brief analysis of world economic developments and their impact on Moldova's economy, the policy objectives and the main macroeconomic aggregates (Ministry of Finance of RM 2009). The format of the main macroeconomic indicators is presented in appendix B.

The same report done by the ministry of finance, states that *public revenue projection* depends on the fiscal objectives set by authorities and the medium-term macroeconomic projections. Based on that public revenue projection includes the following: tax revenues, non-tax revenues, special means and funds and external grants (appendix C).

The *projection of the deficit and its source of financing*, in form of maximum level that can be reached, is determined by the governmental goal towards the macroeconomic policy. The level of budget deficit is influenced by "the level of external financing", "level of financing from the internal market" and "the resources available from the sale/privatization of public assets" (Ministry of Finance of RM 2009).

Figure 6: Core elements of the macro-financial framework



Source: Ministry of Finance of RM (2009)

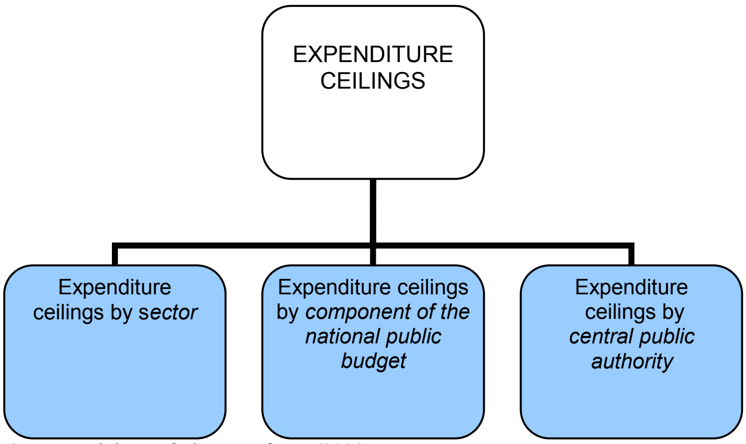
The *medium-term global financial framework* is the three years framework that contains the projection of revenues, expenditures and budget deficit, and its financing.

Overall, the ministry of economy and other relevant institutions develop the macroeconomic projection together with the National Bank of Moldova and the National Bureau of Statistics, but the final accountability for preparation of the macro-financial framework redounds to the ministry of finance.

3.2.1.2 Expenditure ceilings

The expenditure ceilings refer to the maximum level of budget allocation directed for financing the current and new public expenditure programs and policies. The expenditure ceilings are developed by the ministry of finance for the following fiscal year and projected for the subsequent two fiscal years (Ministry of Finance of RM 2009). The ceilings established for the first year are to be considered the base for the preparation of the annual budget, but the estimates for the following two ones are informative are updated annually at the stage of the MTEF elaboration. The figure below shows the specifications of the expenditure ceiling and its break-up according to sectors, national public budget components and central public authorities.

Figure 7: Design of expenditure ceiling



Source: Ministry of Finance of RM (2009)

Another aspect to be remarked is the fact that expenditures forecasted for the future years are based on current legislation as well as on anticipated legislative changes (World Bank/OECD 2008).

The Ministry of Finance of RM (2009) distinguishes several ***stages*** while establishing the expenditure ceilings. Thus:

(1) Estimate the general resource framework, as mentioned in point 3.2.1.1

(2) Set the baseline of the ceiling for each sector that are necessary for the assessment of the possibility of policy implementation

(3) Evaluate the amount of additional resources that results from the difference between the total available resource framework and the baseline for all sectors. (the baseline represents the additional resources needed for financing the expenditure programs)

(4) Identify the additional expenditure priorities according to new policy initiatives proposals

(5) Set ceilings on sectors in accordance with the baseline of each sector with the additional resources identified in point (3).
(6) Break down sector ceilings by budgets and by central public authorities
(7) Governmental approval of the ceilings as part of the MTEF projections

When talking about the baseline, it has to be mentioned that every year at the stage of setting the limit for the expenditure chapter, the ministry of finance is confronting with the problem of prioritization. Thus, as a rule, all the sectors provide more financial necessities requests for achieving their objectives or programs than the revenue framework can support. Therefore, it is the MOF's job to deal with the financial request by thoroughly analyzing and estimating the proposals. In this sense, it requests, if necessary, additional justifications and information from the line ministries. The analysis is also based on the "proposals for updating the baseline, savings from more efficient use of resources and on the new policy initiatives at the sector level" (Ministry of Finance of RM 2009).

Consequently, MOF determines the amount of available resources and after adjusting it according to the new policy priorities, it makes prioritizations. The prioritization is a process that orders the policy proposals and connects them to the real possibilities and to the existing budget constraints (Ministry of Finance of RM 2009). Same report concludes that it is also based on several other indicators: (a) the mandatory expenditures that cannot be excluded due to their crucial role (debt services, indexation etc); (b) direct impact on policy priorities that are necessary to achieve the policy priorities assumed my the government; (c) cost effectiveness that includes the spending programs that can be achieved with the minimum amount of resources; (d) time period; (e) implementation capacity etc.

After the discussions and the decisions taken within the ministry of finance and the sector ministries, the central budget authority updates the expenditure ceilings for sectors.

3.2.1.3 Annual budget

After establishing the macro-fiscal framework along with its components and setting the expenditure ceilings, according to the budget calendar, the ministry of finance is ready for accomplishing steps 7-11 from figure 5.

Thus as World Bank/OECD (2008) reflects in the database concerning Moldova case on budgeting and financial practices, the ***type of information*** contained in the annual budget circular/memorandum issued by the central budget authority to guide the preparations of budget is the following:

a) set of rules for the budget process and the main forms to be used in the estimates submission;

b) the macroeconomic assumptions to be used in the process;

c) the information on government priorities and spending ceilings.

Several steps and procedures guide the central budget authority in elaborating and preparing the annual budget documentation to the parliament. In the following part, these steps will be described (Ministry of Finance of RM 2009).

I. Issuance of budget circulars

As described in the budget calendar, in May, MOF distributes budget framework circulars for the elaboration and submission of the budget proposals and sends them to all central public authorities. The budget circulars contain the forecasted figures from the MTEF planning procedure (the macroeconomic estimations, the policy priorities and the spending targets) and some extra instructions concerning some procedural requirements.

In this matter, a more precise look over the budget circular is given by the methodological notes concerning the state budget elaboration for 2011, approved by the ministry of finance. Thus, it contains the followings: the macroeconomic indicators, the fiscal policies and the spending limits, the instructions how to elaborate the budget proposals for the revenue segment and for the expenditure segment, including the normative and legislative framework and the modification of the budget classification. It also includes some particularities concerning the expenditure side and it stresses on the salary spending limits (fixed and unchangeable), also some particularities concerning the program based budgeting. It also includes all the templates necessary for a proper presentation of the sector budget proposals (Note Metodologice 2010).

II. Submission of budget proposals and budgets to the ministry of finance

Central budget authority together with their subordinated institutions should submit their budget proposals in strict correspondence with the requirements set in the methodological notes. All the proposals must be accompanied with necessary explanations, calculations and justification, and with the performance information derived from their objectives

III. Review of budget submissions and budget hearings within the ministry of finance

The line divisions of the ministry of finance verify and assess the submitted proposals and compare them with the information contained in the MTEF forecasts and identifying any differences. In case of inconsistency, it may require further explanations and subsequently hearings between MOF and the sector ministries. The procedure of hearings is guided by several rules and principles and it ends up by reflecting the outcome of into the draft annual law and in the explanatory notes (Ministry of Finance 2009).

IV. Development and submission of draft budget law to the government

The budget documentation includes two major items – the budget memorandum and the draft annual budget law.

The *budget memorandum* presents the medium-term perspective of the public budget elaborated by the central budget authority together with other relevant central public authorities.

The *draft annual budget law* provides "specific rules for managing each component of the national public budget" and "includes the state draft budget for the following year" (Ministry of Finance of RM 2009). More precisely, it contains the legal text of the law, the informative note (descriptive structure and evolution of the state budget) and the annexes to the law (please see attached appendix D). In case of disputes, the cabinet solves them (World Bank/OECD 2008).

V. Submission of draft budget law to the Parliament for approval

The government submits the budget documentation to the parliament in accordance with the established deadlines from the budget calendar.

3.2.2. Legislative approval

As it was emphasized in table 4, the government has to submit until October 1st of each year the budget memorandum and the draft annual state budget to the parliament.

The legislative approval is another complicated stage in the budget process due to the direct involvement of the political factors. The legislature in Moldova is unicameral and the structure responsible for dealing with the budget is the single budget committee that formally considers budget aggregates (committee on budget and finances), and the sectoral committees that consider spending for sector specific appropriations (World Bank/OECD 2008).

Thus, the sectoral committees after examining the draft budget law present the notification on the draft budget law to the committee for budget and finances. Based on their notification and on its own analysis it then presents to the parliament the list of recommendation.

As a general rule, the parliament discusses within its sessions the draft of state budget law in three hearings. Before the legislature formally debates the overall budget policy there is a formal pre-budget policy debate in the legislature, i.e. prior to the introduction of the executive's budget proposal and there is a formal debate on overall budget policy following the introduction of the executive's budget proposal (World Bank/OECD 2008).

In each of the three hearings, the parliament examines the draft of the budget law as well as the afferent informative note. In the first hearing, the parliament examines the report done by the government and the co-reporter of the committee on budget and finances and analyzes the overall fiscal-budgetary directions and the basic concepts of the draft budget law. Usually, the parliament after the first hearing approves the draft on budget law immediately, without any problems.

During the second hearing, the parliament examines more thoroughly the structure and the estimations of the revenue and spending side and the budget deficit or surplus. At this stage the legislature first votes on the total amount of expenditure before it votes on specific appropriations. The analysis is remitted to the committee on budget and finances with the objections included, for a further improvement. According to the law on budgetary system and budgetary process, the parliament may approve the budget law after the second hearing, but only if all the issues related to its examinations were solved and approved. Nevertheless, in practice it never happened for the budget to be approved that soon.

All the objections, also known as amendments, submitted to the committee and the government have to be analyzed thoroughly through various aspects, such us the existing budget constraints, the approved national priorities, the justification and necessity of the amendments etc. Overall, the budget amendments have to be authorized by parliament by means of supplementary budget laws.

An important issue to mention is the fact that the formal power of the legislature to amend the budget proposed by the executive is limited to the fact that it may make amendments but only if it does not change the total deficit/surplus proposed by the executive. In addition, every amendment proposed by the parliament to the budget law implies the government acceptance (World Bank/OECD 2008).

During the parliamentary hearings, the ministry of finance has to make sure that any changes and updates to the state budget law will be incorporated in the final version of the state budget law (Ministry of Finance of RM 2009).

And in the third hearing the parliament examines in detail the budget appropriations allocated to the public authorities, sets the priorities that need to be financed and studies other details included in the draft budget law. The problem Moldova has encountered during the budget approval stage from 2000 to 2008 was related to fact that only the members of one political party, which represented the majority in the parliament, voted the budget law. Due to that, the consequences of this type of budget approval brought quarrels and disagreements during the approval stage as well as during the entire budget year, because the policies adopted did not represent the choices of all political parties.

The parliament has to approve the annual budget law for the state budget until December 5^{th}.

In case, that the budget law is not approved by the legislature before the start of the fiscal year – December 31, 1/12 of the previous year is applied (World Bank/OECD 2008).

The final step for the budget law to be enforced is when the ministry of finance publishes until December 20^{th} the annual budget law for the state budget and places it on the website.

As a final conclusion at this stage, is that the approval exercise is a complex one and it should provide more rigorous engagements from the legislature in ensuring correctness and realism of the budget estimation.

3.2.3. Budget execution

Budget execution procedure is, as well, very significant because it practically presents how well and efficient the estimated figures at the planning and formulation budget stage were made. The global responsibility for the budget execution, according to the law, belongs to the government and the central public authorities are responsible for budget execution of their subordinated public institutions.

The procedure that follows immediately after the law on budget is adopted is the following: the ministry of finance in term of 10 days has to request from the central public authorities the so-called financial plans for the next year that consist of monthly distribution of budget estimates–revenues and expenditures, according to the ones approved by the budget law. Subsequently, in term of 45 days from the publication of the budgetary law, the ministry of finance has to approve the monthly distribution of budgetary allocations.

The ministry of finance through its treasury performs the proper cash based budget execution. Thus, the ministry of finance is responsible for the strict evidence of the revenue appropriation, the expenditure execution, the revenue and expenditure management through the specific budgetary accounts according to the budget classification. On December 31st of each fiscal year, the ministry of finance closes the accounts opened during the budgetary year and draws up an annual report (Law on budgetary system and budgetary process). Thus, the ministers cannot carry-over unused funds or appropriations from one year to another and at the end of the budget year the unused budget allocation are zero balanced. Only the money collected from special means, special founds and investment financed from grants and external credits are accessible for the next year (World Bank/OECD 2008).

When referring to the revenue collection, it necessary to mention the fact that the revenues collected at the budget are only those approved by law or other normative acts.

In the case of expenditure execution side, the central public authorities are allowed to spend on the governmental programs but only in the frame of their budget allocations approved. The law prohibits the redistribution of budget allocations between recipients (central public authorities) but it allows the redistribution of allocation within the same authority from one destination to another only with the approval of the ministry of finance (law on budgetary system and budgetary process)

In case that during the fiscal year the level of the budget deficit increases, the ministry of finance is entitled to cease the expenditure execution until the proper level is achieved.

In case the budget needs to be corrected–modification in obligatory revenue and spending estimations or additional budget allocations, the ministry of finance is entitled to initiate a budget amendment procedure that is presented for approval to the government and in the end to the parliament for the final approve of the corrected law of budget. According to the survey on budget practices and procedures (World Bank/OECD 2008) in the period of two years 3 supplementary budgets have been submitted annually and the major factors that required supplementary budgets were–legal requirement for supplementary budget, natural disaster, ad hoc emergency needs, change in the economic previsions and as a result of increased incomes.

In this context, the government has the authority to increase spending once the budget has been approved by the legislature. It only concerns the mandatory spending–the expenses for executive orders, expenses financed from collected grants and external credits, expenses from revenues colleted due to rent, and it requires central budget authority approval prior to the fact (World Bank/OECD 2008).

The ministers are allowed to reallocate funds between line items within their responsibility but with the following restrictions – the approval of the legislature or the approval of the finance minister. In addition, the ministries can "throw" the allocations from one budget line to other, with two exceptions–the expenditure for wages and capital investments (World Bank/OECD 2008).

3.2.4. Budget reporting

At the stage of reporting, according to the law, the ministry of finance reports monthly to the government about the budget execution and publishes the information on actual revenues and expenditures during the fiscal year. At least once a year the government reports to the parliament about the budget execution.

Thus, the most important budget report is the annual report that must be submitted by the ministry of finance to the government before May 1st and by June 1st that has to approve it and then submit it to the parliament. The annual report is analyzed in the sectoral parliamentary committees and in the end has to approved by the parliament.

If comparison with OECD best practices for budget transparency, presented in point 2.7, figure 3, Moldova at the budget report section practically covers almost all the mentioned reports–the budget, the monthly report, the year-end report, the long-term report.

Thus, it can be concluded that Moldova is making all the necessary steps in order to comply with the existing standards concerning the budgetary reporting.

3.3. Medium-term expenditure framework

After discussing in the previous section the structure and the steps of the budgetary process, in the section that follows I will refer to the MTEF, one of the most important instruments in the budget planning and formulation process. The general assessment and the overview about the aim and role of the MTEF in the budget system was made in subchapter 2.5 and the procedure of budget formulation together with the MTEF formulation for Moldova was presented in section 3.2.1

In this part, I will focus more on a detailed view of how the MTEF evolved, its main elements and phases when preparing it and the structures responsible for the MTEF elaboration and the interaction between the MTEF and the public financial framework.

MTEF is considered an essential element of modern budget practice. MTEFs need to be well integrated as stated in previous sections with, and complemented by, improvements in other public policy and management processes.

The medium term expenditure framework is a perspective budgetary planning tool. Commencing with 2002, the Government of Republic of Moldova started to plan the annual budget on a medium-term perspective basis. The concept of MTEF evolved in the context of the public finance management reform in the EU countries and other western European countries in the '80s and '90s. Subsequently it was spread to the countries with economy in transition, where it is considered the main instrument of supporting and implementation of the budgetary reforms.

The area of interest and analysis of MTEF is vast and differs from one country to another, but the principles and main key elements are the same through all countries.

The basic ***MTEF objectives*** in Moldova are the following ones (Ministry of Finance of RM 2006):

i) present the realistic and comprehensive framework of resources for public expenditures planning and management;

ii) increase the foresight of the budget planning process, thus providing long-lasting implementation of the governmental programs;

iii) improve the way of allocating the financial resources, ensuring a better linkage between the expenditure programs and the governmental priority policies;

iv) offer larger competencies to ministries and public authorities in the process of allocation and use of the public resources.

The legal framework of the MTEF is established by the law on budgetary system and budgetary process that sets up the obligation of MTEF to be elaborated by the ministry of Finance and to be approved by the government; and by governmental decision that stipulates the organizational issues concerning the MTEF elaboration.

The MTEF has evolved in Moldova in four ***main directions*** as mentioned before (Ministry of Finance of RM 2006):

a) *the macro-fiscal framework*, which examines the way the macroeconomic evolution might affect the public revenue and expenditure side and offers a medium-term forecast of the revenues, expenditures, the budget deficit and the sources of financing it;
b) *the analysis of the expenditure priorities*, by examining the mode how the governmental policies and strategies have to influence the resource allocation;
c) *the analysis of the key aspects* of the budgetary planning and management;
d) *the expenditure plans*, which represent a division of the resources framework according to expenditure priority policies.

Whilst the MTEF is well established at the macro level–setting out the resource envelop and sector ceilings, it only now begins to tackle the more demanding issues such as linking resource allocation to policy at the ministerial and sector level (Short & Mackie 2009).

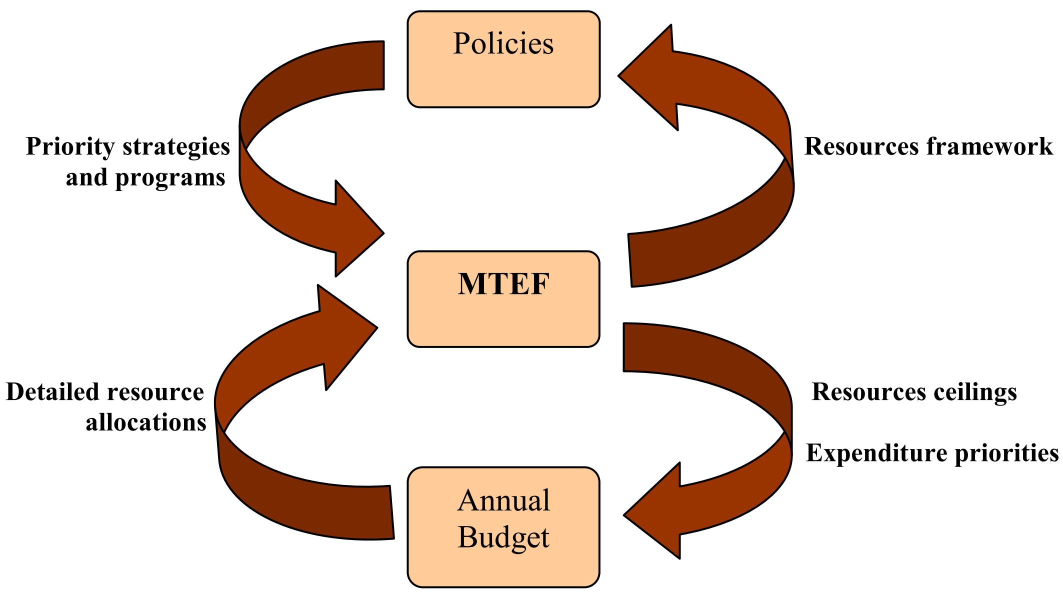
Starting with the general objectives the public financial management has established, the main characteristics of the MTEF methodology can be derived. Therefore, the public finance management is focused on (Ministry of Finance of RM 2006):

- *global financial discipline* that corresponds to controlling the budgetary aggregates (revenues, expenditures, budget deficit and its financing);
- *efficient allocation of resources* that converges to allocating financial resources between and inside sectors based on governmental priority policies;
- *technical efficiency* which gives incentive to public agencies to use more efficiently the resources at the lower cost of the public services.

Having mentioned these important attributes, it can be inferred that the main characteristics of the MTEF method are (i) medium-term perspective in budget planning; (ii) the link between priority policies and allocation of resources and (iii) emphasis on efficient use of limited public resources (MTEF 2009-2011).

During the entire paper, it has been highlighted that MTEF is the instrument that aligns the resource allocation dimension with the policies priorities. The following figure represents the scheme of relations between the process of formulation of policies and the annual budget policies in Moldovan case (Ministry of Finance of RM 2009).

Figure 8: Budgetary planning cycles



Source: author's representation and MOF (2006)

Worthwhile to mention is that in order to fortify "the process of policies formulation and the linkage to the budget, at the end of 2007 the government has introduced the procedure of annual update of policies by means of the annual update of the National Development Strategy" (Ministry of Finance of RM 2009).

At the strategic stage of the budgetary planning cycle, the ministry of finance, elaborates the MTEF document that contains the budgetary-fiscal policy and strategy of the state for the medium term, the expenditure planning and also the resources ceilings for the public central authorities for the particular period of time.

The government approves the MTEF act and afterwards it is presents it to the parliament with an informative purpose.

The comprehensive view on how the MTEF preparation is executed, is accentuated in the main three MTEF phases (Ministry of Finance of RM 2009), also depicted in figure 8:

I. *Preparation of the MTEF concept*: the preliminary macroeconomic framework is set according to the governmental priorities. The result of this phase is materialized in a document - MTEF concept paper.

II. *Preparation of MTEF projections*: the elaboration of mid term macroeconomic framework along with the analysis of the main issues related to expenditure ceilings and budgetary policies. The result are incorporated in the Document on MTEF projections.

III. *Adjustment of MTEF projections*: the final adjustments of macroeconomic and expenditures framework for the next budget year as well as for the subsequent two years are fulfilled and the output resulted is the draft budget for the next year and estimates for the next two years.

The concept paper mentioned in phase I is a document approved every year and represents the base for the MTEF and annual budget estimation, including the succinct analysis of the macroeconomic projections, the new changes for the fiscal policy and the expenditure priorities for the MTEF framework (Ministry of Finance of RM 2009).

Once the MTEF methodology was introduced, consequently some important changes intervened in the process of budget elaborating and preparation stage. In the case of the line ministries, there was a change of approach–accent was highlighted not on supplementary allocations requests, but on justification of the rational and efficient usage of the available resources.

In the case of the ministry of finance, the approach as well changed. Thus, the focus from the identification process of budget allocation reduction was directed more to the concept of ensuring that the budgetary proposals would lead to the accomplishment of the ministry's priority policies and programs (Ministry of Finance of RM 2006)

As a result of MTEF initiation, the process of budgetary planning became more transparent and the process of examination done by the government and the parliament, more informative.

Figure 9 shows the main phases for the MTEF preparation and the elements mentioned above.

Worthwhile to mention is the fact that at the stage of the MTEF approval, the Government does not approve the budget project itself. The general resources framework and the allocations for each ministry and sector can be modified according to afterwards macro-fiscal prognosis updating. What is important is the fact that the policies and strategies established in the MTEF act need to be consistent and consequent to those that represent the basis for the annual budget elaboration.

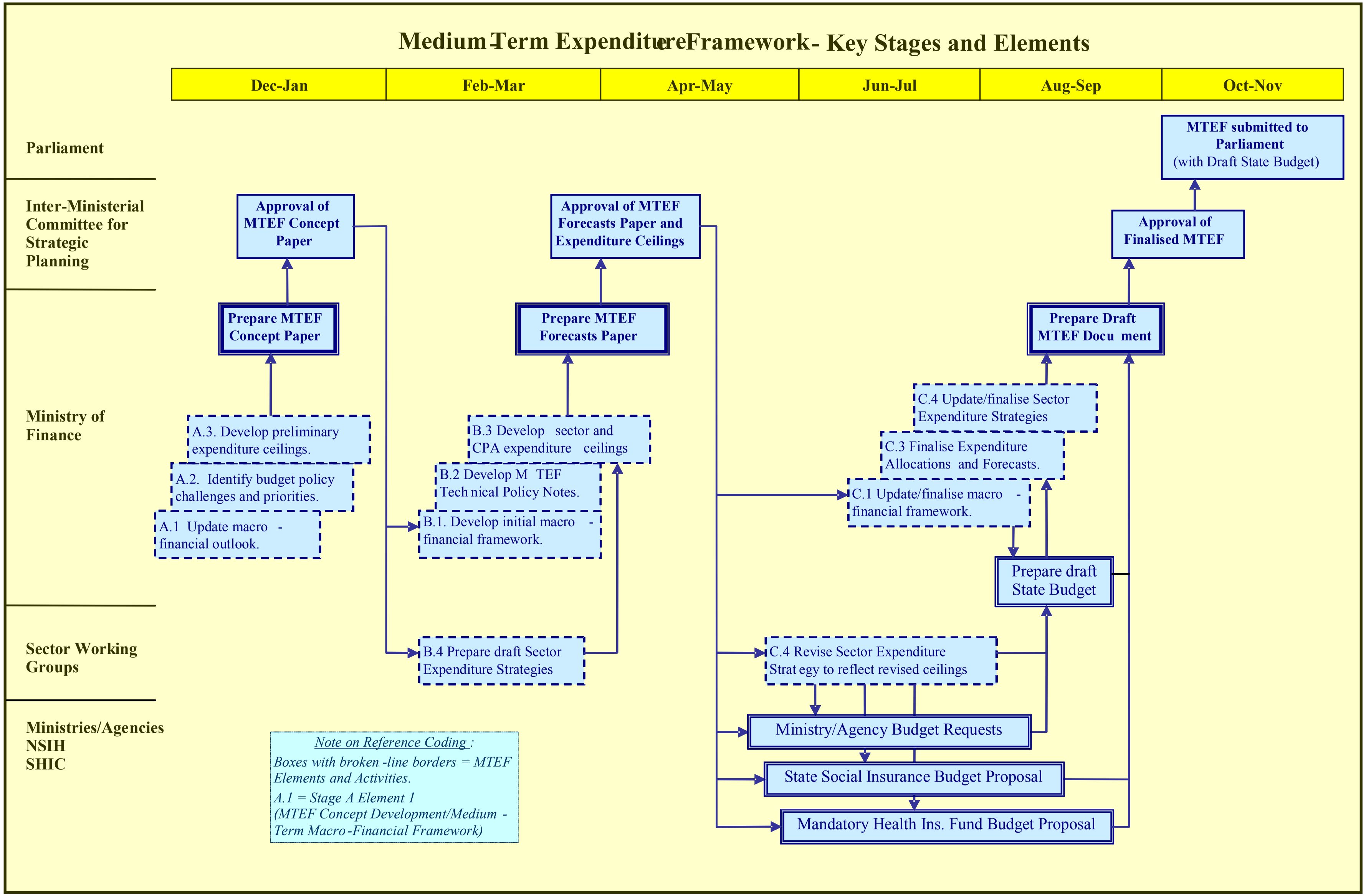
Another important aspect is the fact that even though the MTEF act establishes the budgetary-fiscal governmental policy and the forecast of the national public budget for a medium-term, it is necessary that the act to be revised and updated every year. This is explained by the fact that the government, at the stage of budgetary planning for the next year needs to know the implications of the proposed policies and the evolution of the budget from the three-year perspective (Ministry of Finance of RM 2006).

At the same time the annual MTEF revision allows for the changes to be analyzed, changes caused by the evolution of the macroeconomic framework, thus to be updated to the previous prognoses. Of course, the prognoses will never be the exact ones, but the resource framework and the expenditure plans need to be periodically updated for ensuring the relevance.

Another issue that needs to be mentioned in this section is the role the MTEF has in the public finance management system.

The introduction of the MTEF concept improves the budgetary planning process, as well as the general context of the public finance management system. In recent years, the government has initiated an extensive program of reforming and modernization of the public finance management system. The overall idea is that the document aspires to improve the efficiency of the public expenditures, aspect that implies also the development of other elements from the public finance management system.

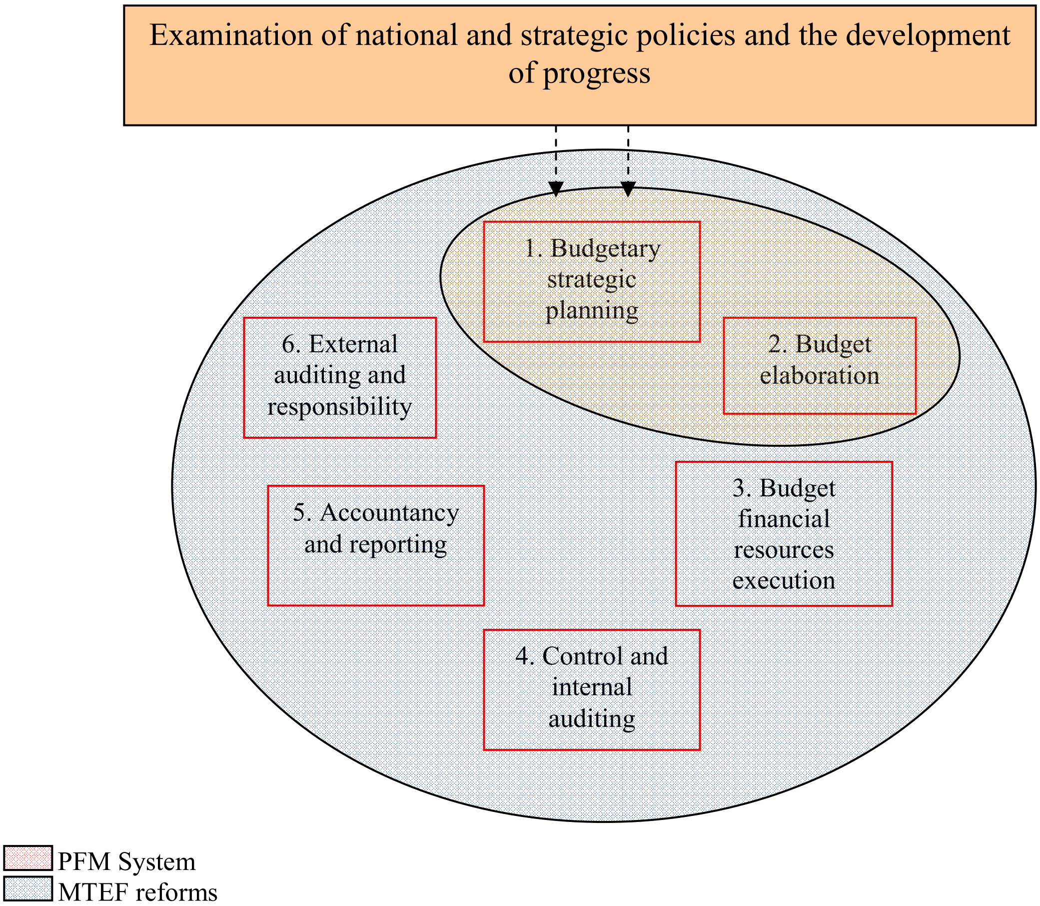
Figure 9: Phases and elements of MTEF



Source: Ministry of finance of RM (2009)

The MTEF incorporation in the budgetary planning process represents one of the best practices of the public finance management. This fact is represented in the figure below.

Figure 10: MTEF and public financial management system

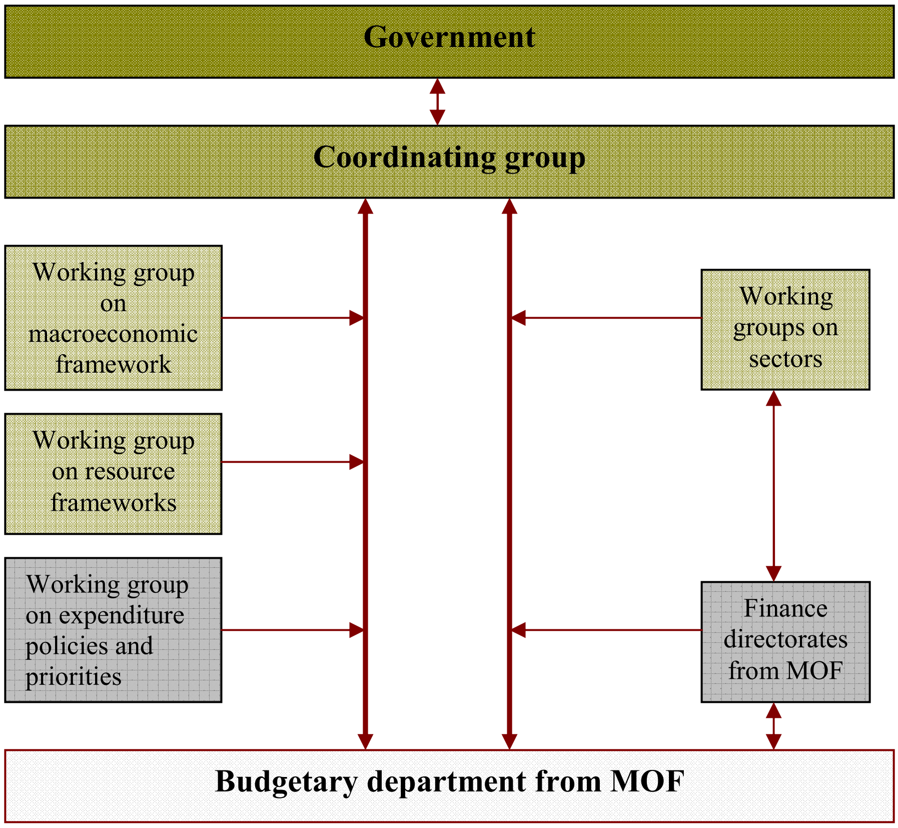


Source: author's representation and MOF (2006)

The very last thing to be pointed out is the organizational structure of the key actors that are responsible for the MTEF elaboration.

The figure 11 presents in a scheme the MTEF coordinating structure, where as members of the coordinating group are the representatives from the office of president, parliament, government, central and local public authorities, social partners and from the scientific and business medium. Thus, MTEF is a transparent and participative process, provided through the coordinating group and a number of other working groups.

Figure 11: MTEF coordinating structures



Source: author's representation and MOF (2006)

3.4. *Performance budget*

As it was pointed out during the entire paper, the need for overcoming the incrementalistic principle, used as a budget practice throughout the entire budgetary process, was one of the most desired goals to be achieved by most of the countries.

Moldova, on its way to implement the public finance reform, has significantly emphasized on performance as a budgeting procedure.

Performance budget has been implemented since 2003 but it was only in the form of a pilot initiative, which was supported by the World Bank through the Public Finance Management project.

Since then, performance budgeting has notably extended, being considered an important part of the budget process mechanism.

Together with MTEF, the program budgeting system was introduced in order to provide a rational framework and linkage between policies, financial resources and expected results. Though in many reports and documents elaborated by the central budget authority or other relevant authorities the term program budgeting is used when referring to performance, it should not be confused with the procedure described in section 2.4.2. The program budgeting in Moldova case is strictly related to performance budgeting methodology and the system that is used by Moldovan authorities is more likely to be PBB. I affirm this because the performance information and the program performance, part of the budget documentation, are considered in the allocating resources procedure but still not completely or sometimes are used just for some insignificant decision. This may be also due to fact that the budget is still not covered entirely with program classification, and they are still on the pilot stage.

As the World Bank/OECD (2008) revealed in their survey only 20 percent of the expenditure is specifically linked to performance targets that represents 64 performance targets in the budget.

The same survey reveals that the proportion of the performance information used by the leading actors in decision-making is, as well, very low. Thus, the president is classified in the group of "almost never" (0-20%), the prime-minister and its cabinet uses the performance information "rarely" (21-40%), the members of the parliamentary budget committee and the sectoral committees use it "sometimes" (41-60%) and the ministry of finance uses the performance information decision-making process the most - "often" (61-80%).

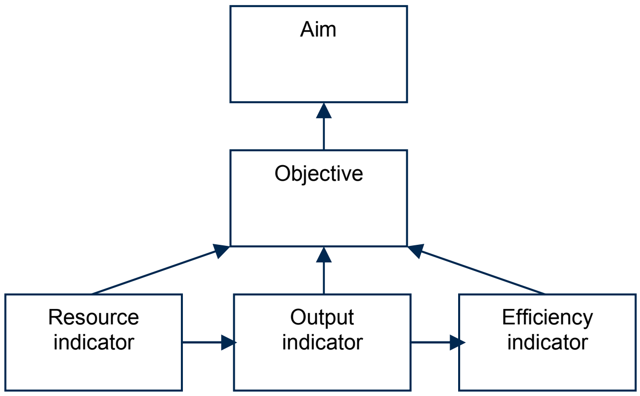
It is indeed a very poor and critical proportion of performance information usage, but it can only be interfered that the authorities still need time to implement and adjust to the performance philosophy and that this concern constitutes the top priority in the challenges list the Moldovan authorities would have to achieve.

The ministry of finance through its internal normative acts establishes the mechanism and the procedures concerning the elaboration, supervision and reporting of budgets based on programs (Ordin nr.19/16.02.2008). Basically, the regulation on program budgeting refers to planned results that need to be fulfilled by the central pubic authorities and their public institutions.

The key idea behind constructing a budget based on programs is to follow three questions – "what to achieve?, how to achieve?, how much will it cost?" (Ministry of Finance of RM 2009). Answering to these questions it will give an insight how to set priorities along with allocation of budgetary resources and achieving the governmental priorities programs.

When referred previously to the confusion between program budget and performance budget terms, I would like to clarify it more. The performance budgeting concept is not just a simple exercise; it includes primarily the program budget that sets the spending programs with straight objectives, "well-defined performance indicators to measure progress in achieving these objectives" (Ministry of Finance of RM 2009), as well as several other elements. It represents the final effect of the program budgeting and is quantified in performance indicators. Therefore, according to the same source program budget should contain several elements, charted in a schematic form and presented in the figure below.

Figure 12: Relations between the different elements of a program



Source: Ordin nr. 19/16.02.2008 and Ministry of Finance of RM (2009)

(a) ***The programs*** that represent the direction of the development the line ministry wants to adopt in the long-term perspective. It has to reflect "an aggregation of services or goods supplied to external parties by the ministry and by its subordinate institutions that receive their funds through the ministry's budget". In order to develop the programs, the ministries have to follow several rules that start with a good formulation of the policy objectives, an effective prioritization of the policy objectives and finishing with the fact that it should be feasible from the resource allocation perspective. An example of how a program and subprogram is formulated is presented below:

Table 5: Examples of programs and subprograms

Examples of programmes:	• Transportation • Social Protection • Public Finance Management
Examples of sub-programmes:	• Road Development • Family and Child Protection • Administration of the Revenues of the National Public Budget

Source: Ordin nr. 19/16.02.2008 and Ministry of Finance of RM(2009)

(b) ***The aims*** reflect the desired final result the ministry wants to achieve and it consists of long-term priorities of the government. It is needed mostly for structuring the political debate. The following table presents some examples of formulating the aim**.**

Table 6: Examples of program aims

Examples of aims	❖ **Efficient collection revenues in the National Public Budget** ❖ **Optimisation and diversification of sport among the citizens** ❖ **Prevention and combating of corruption and economic fraud**
Examples of aims that reflects a state that is wished and that must be maximised or an undesired effect that must be minimised	❖ **Improvement of life expectancy** ❖ **Reduction of infant mortality rate**

Source: Ordin nr. 19/16.02.2008 and Ministry of Finance of RM (2009)

(c) ***The objectives*** are basically detailed and specific forms of the formulated aims that would help understanding better the activities related to the specific programs and some examples how the objectives are formulated is presented below.

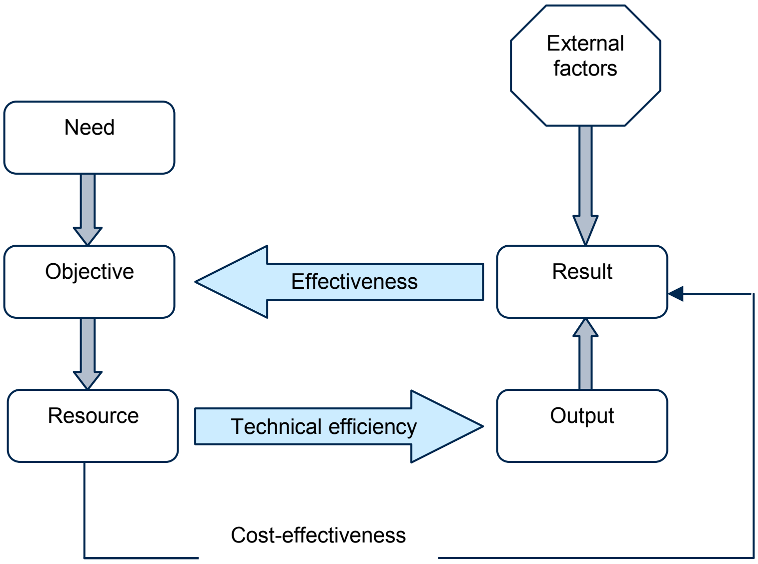
Table 7: Examples of program objectives

Examples of objectives:	❖ **Building 300 km of highway by 2010** ❖ **5% Reduction of early school leaving in 2008** ❖ **60% Reduction in the number of cases to be examined and determined by 2010**
Examples of intermediary objective	❖ **2008: Building 100 kilometres of highway** ❖ **2009: Building 150 kilometres of highway** ❖ **2010: Building 50 kilometres of highway**

Source: Ordin nr. 19/16.02.2008 and Ministry of Finance of RM (2009)

(d) ***The performance indicators*** encompass the results and the performances of the programs, thus indicating the progress and the level of achievement of a specific program. The indicators will quantify the "input, activity, output, efficiency or outcome" of the public programs. There are several types of indicators and according to the methodological notes on program budgeting issues by MOF (Ordin nr. 19/16.02.2008) these are: resource indicators, output indicators, result indicators and efficiency indicators. The interconnection between the above mentioned indicators is sketched in the figure below.

Figure 13: Interconnection of performance indicators



Source: Ordin nr. 19/16.02.2008 and Ministry of Finance of RM (2009)

The *result indicators* are revealing the resources, which might be financial or of other nature that are used in order to achieve the aims and the objectives set up within a program. The indicators shall be in that way established by the sectoral ministries that would "ensure maximum relevance of the resources needed by the nature of the objective" (Ordin nr. 19/16.02.2008 and Ministry of Finance of RM 2009).

The *output indicators* are designed to describe the "aspect of the output" and "shall assess the quantify of the outputs accompanying the achievement of objectives during program implementation" (Ordin nr. 19/16.02.2008 and Ministry of Finance of RM 2009).

The *efficiency indicators* are designed to characterize the efficiency of the actions and objectives assumed and the resources used to achieve them.

Finally, the *result indicators* are intended to "determine the aspect of the results and shall characterize the effect or the quality of the program" (Ordin nr. 19/16.02.2008 and Ministry of Finance of RM 2009).

An important aspect to be mentioned is the fact that all the indicators should be strictly based on the aims and the objectives set in the public program that would give a reliable insight of the development and fulfillment of the program.

Heading back to the general view of performance budget, it needs to be noticed that the performance targets are integrated into the main budget document, when presenting it to the legislature (as an annex to the draft budget law), and the line ministries or the government are required to report on performance against targets to the prime-minister's Office and cabinet (World Bank/OECD 2008).

Conclusively, to be mentioned that even though the performance-based budget procedure is not completely integrated into the Moldovan budgetary system and it appears that it does not play a complete and absolute role in budget preparation, the authorities are giving a significant importance to the development and extension of it.

3.5. Current challenges and ongoing reforms

Due to the global economic situation, Moldova is not kept away from the disagreeable consequences the crisis brings along with it. Thus, at the macroeconomic level, Moldova has to face a number of challenges and the most important identified by the World Bank (2010) are:

- The deterioration of Moldova’s immediate economic outlook caused by the global economic crisis
- As a result of the financial crisis the increase in 2010 of potential poverty
- The amplification of the fiscal deficit due to recession
- The credit crunch Moldova is experiencing
- Budget consolidation and a tighter fiscal policy are expected in the coming years and are the cornerstones of IMF and World Bank-supported program.

Obviously, the difficulties at the macroeconomic level will be reflected as well on the budget system functioning and consequently on the budget process. The challenges the budget process would have to face ahead will be related definitely to the current budget practices that are implemented at the level of the central budget authority.

Starting with the budget process cycles, an existing problematic will be located in the budget planning and formulation. Thus the public authorities would have to concentrate more on the strategic and rational planning of the policies and integrate them into the budget framework, based on efficient performance criteria. The political actors should not concentrate only on the incrementalistic principle when planning the budget, on the contrary the emphasis should be directed to the output and to the results-oriented management.

As of the execution stage, from the experience of the Ministry of Finance, every fiscal year it confronts with unreal projections and estimations that consequently lead to the inadequate execution of the budget and to a distress of the budgetary structure. The unreal projections of the revenues done at the macroeconomic level, as well as by the central public authorities lead to the impossibility of expenditure to be executed, thus the public institutions are not able to respect the obligations they engaged in at the beginning of the budgetary year. Consequently, the line ministries start operating various modification in the annual budget plans of the subordinated institutions and intervene in different ways to cover the existing resource demands–by operating changes from one article of expense to another, or from one month to another or other technical changes. These procedures do not affect the overall level of the budgetary framework approved by law; however, it implies a lot of time and effort in executing theme, and it proves that the planning mechanism was inadequately done. Thus instead of concentrating on the real and adequate budget planning procedures, the central public authorities are focused on some technical and irrelevant actions. This is also because the central public authorities do not realize the importance of planning based on performance and results and do not focus on strategic sight, which in long run will provide an efficient and effective budget execution.

Therefore, the line ministries have to be more involved in the process of formulation and elaboration of strategic priority plans in order to facilitate a higher commitment when preparing the analysis and the estimation of the medium-term expenditure framework

Another aspect the system may confront with is the lack of trained personnel in developing strategic policies and designing program structures with afferent performance indicators. Thus, the need of good institutional framework together with skilled personnel plays an important role in developing and improving budgetary procedures and mechanisms. Therefore, as Gleich (2003) pointed out in his working paper, based on empirical evidence, the "institutional design of budget process can have an impact on fiscal outcomes" and that "budget institutions have a significant effect on capability of governments to gain control over public finances during transition period". For that reason, he suggests that it is important to pay attention to the creation of good budget institutions.

Nevertheless, the greatest challenge, as mentioned above, for Moldovan budget system is the performance-based budgeting reform to work and to be perfectly integrated into the budget structure. Thus, the essential factor is to manage integrating the performance indicators into the existing budget system and strategies and to be functional in the overall financial management framework.

As it was described during the entire work, in the last years governments in many countries have approved various public financial reforms “to make fiscal policies more consistent and effective over the medium-term and emphasize the impact of policies and spending” (Kasek and Webber 2009). Moldova, on the road to budget reforms, has made significant steps to align the procedures, techniques and budget methods to the existing international practices. The two main reforms the World Bank (Kasek and Webber 2009) considers to be “the central elements in improving the management of public reforms” are the *performance budgeting* and the *medium-term expenditure framework*. Both of these reforms were implemented in the case of Moldova and there has been made a significant progress regarding its development.

The implementation of the two main reforms is on the agenda of the Moldovan budget authorities that try to further improve them taking into account the experiences of other countries, consultations and discussions with international structures specialized in public finance field, and on the new insights that appear.

Without no doubt, performance budgeting is one of the biggest and realistic ambition the authorities have take in order to modernize Moldova’s budgeting practices (Ecorys 2010).

In the same context, to be noted that the government has initiated in 2006 the public financial management project (PFM) that over a period will have to improve the development of budget process. The most important components to be executed according to Short and Mackie (2009) are:

- to improve budget planning and execution system by institutionalising the medium-term expenditure planning and modernizing budget classification;
- to develop a system of internal control and internal audit in the central government bodies;
- to establish the training capacity, develop and deliver training to civil servants in financial management.

As it can be seen, Moldova has made significant steps in budget process improvement and still has to face ongoing challenges and reforms.

Chapter 4

4. Conclusions

Public budgeting is indeed a complex exercise and nowadays is not anymore a technical document reflecting only figures, on the contrary it represents a comprehensible and analytical insight of the budgetary process and its procedures, incorporating the governmental policies and priorities. As it was emphasized, the general trend concerning the budget methods and procedure is directed to the achievement of results, performance indicators and performance information. In this sense, from the analysis done mostly by OECD, IMF and WB, the developed countries are using successfully these methods when elaborating and planning the budget and the developing countries are at the stage of implementing them.

As of the presented study case, it can be concluded that Moldova makes efforts to harmonize the existing budget techniques with the international standards and procedures, though it is not an easy task to be achieved. The two most important budget reforms–MTEF and performance budgeting, are being implemented by the Moldovan authorities within the public finance management framework, under the recommendations of IMF and WB. Their final objective in budget planning process is to redirect the focus towards the results-oriented managerial system. However, in order to achieve this it is necessary to reconsider the entire budget planning philosophy and to come with political will, involvement and efforts. The final result would lead to a unique and performing budget process that would reflect the governmental policies and needs.

Although the MTEF is implemented successfully, being an important participatory element at the budget planning stage, the performance budgeting procedure is still not functional. First of all not all the budget sectors are being covered by the performance programs and indicators. The second issue concerns the fact that even when the sectors are covered by the performance principle, the authorities, overall, do not take into account the performance information available while making adequate and primordial decisions. In this sense the central budget authority, which uses the most the performance information (61-80%), is doing all efforts in achieving the performance budget implementation at all levels.

The inferred idea is that the road in achieving these public financial reforms is a long one and that the Moldovan authorities still need time to succeed in fulfilling it. Nevertheless, with good budget institutions and structures, with a successful linkage between financial resources and policy priorities and with a strong political program for improving the public sector performance, the final target the Moldovan authorities have will be achieved. Ultimately, the successful functioning of these budget procedures and mechanisms will signify an essential contribution to the development of the public management structure and to the overall budget performance.

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6. Appendices

Appendix A: Detailed calendar for the preparation of the MTEF and State Budget

Actions	Responsible authority	Deadline	Beneficiary
I. Start of MTEF process			
1.1. Assessment of previous MTEF process and launching of the next MTEF process.	Ministry of Finance MTEF Coordination Group	20 December	Government Office Ministry of Economy Other interested Central Public Authorities
1.2. Submission of preliminary macroeconomic forecasts for the development of the MTEF Concept Document	Ministry of Economy	20 December	Ministry of Finance Government office
1.3. Development and presentation of the Document containing medium term policy priorities	Government Office in coordination with the Strategic Planning Committee	1 January	Ministry of Finance
1.4. Development and submission of the MTEF Concept Paper	Ministry of Finance	25 January	Government and Central Public Authorities
II. Development of the macro-financial framework			
2.1. Presentation of preliminary statistical data regarding macro-economic and social indicators	National Bureau of Statistics	20 January	Ministry of Economy
2.2. Preparation of the preliminary forecast of internal and external resource flows, as well as the stock of internal and external debt	Ministry of Finance	25 January	National Bank of Moldova Ministry of Economy
2.3. Presentation of the preliminary objectives of policy in the area of state social insurance	Ministry of Social Protection	25 January	Ministry of Finance National House for Social Insurance
2.4. Presentation of the policy in the area of employment and payroll	Ministry of Economy and Trade	25 January	Ministry of Finance National House for Social Insurance
2.5. Submission of the objectives in the area of fiscal policy and fiscal administration	Ministry of Finance	31 January	Ministry of Economy Ministry of Health, Ministry of Social Protection, Family and Child National House for Social Insurance National Health Insurance Company
2.6. Estimation of resources from the sale and privatisation of state property	Ministry of Economy	5 February	Ministry of Finance National Bank of Moldova
2.7. Presentation of updated macroeconomic forecasts for the elaboration of the Document on MTEF forecasts	Ministry of Economy National Bank of Moldova	5 February	Ministry of Finance Ministry of Social Protection, Family and Child

Actions	Responsible authority	Deadline	Beneficiary
			(National House for Social Insurance) Ministry of Health (National Health Insurance Company) Other interested public authorities
2.8. Presentation of the objectives of fiscal policy and macroeconomic forecast within the MTEF Coordination Group	Ministry of Finance Ministry of Economy	10 February	MTEF Coordination Group
2.9. Presentation of forecasts of external resources for public investment projects	Government Office	15 February	Ministry of Finance Ministry of Economy
2.10. Assessment of the general resources envelope, including total public revenues and expenditures, budget deficit (surplus) and sources of financing	Ministry of Finance	25 February	x
2.11. Presentation of the general resources framework during the session of the MTEF Coordination Group.	Ministry of Finance	28 February	MTEF Coordination Group
III. Analysis of priority expenditures and establishment of the resources ceilings			
3.1. Determination of preliminary base lines by sectors	Ministry of Finance	31 January	Specialised central public authorities
3.2. Preparation of technical notes regarding analysis and expenditure forecasts concerning intersectoral issues	Ministry of Finance Ministry of Economy Jointly with other central public authorities	1 March	MTEF Coordination Group
3.3. Updating of baselines as a result of examining draft expenditure strategies	Ministry of Finance Specialised central public authorities	15 March	MTEF Coordination Group
3.4. Determination of expenditures priorities for the allocation of additional funds	Ministry of Finance Government Office Specialised central public authorities	15 March	MTEF Coordination Group
3.5. Finalisation of expenditures ceilings by sectors, types of budgets and central public authorities, and estimation of interbudgetary relations	Ministry of Finance	20 March	Central Public Authorities
IV. Sector analysis and development of expenditure sector strategies			
4.1. Issuance of the circular on MTEF formulation	Ministry of Finance	5 February	Central specialized bodies
4.2. Submission of reports on the analysis of the implementation of sector expenditure strategies and identification of future priority actions	Central specialised bodies	5 February	Ministry of Finance Government Office
4.3. Development and presentation of draft sector expenditure strategies. Updating the baseline and assessing the policy priorities	Central specialised bodies	25 February	Ministry of Finance Government Office
4.4. Analysis of draft sector expenditure strategies	Ministry of Finance Government Office	10 March	Central specialised bodies

Actions	Responsible authority	Deadline	Beneficiary
4.5. Finalisation of the sector expenditure strategies	Central specialised bodies	31 March	Ministry of Finance Government Office
4.5. Presentation of sector expenditure strategies within the MTEF Coordination Group meeting	Central specialised bodies	31 March	MTEF Coordination group Interministerial Committee for strategic planning
V. Finalization and approval of MTEF forecasts document			
5.1. Preparation of the document on MTEF forecast and presentation within the meeting of the MTEF coordination group	Ministry of Finance	10 April	MTEF Coordination Group Interministerial Committee for strategic planning
5.2. Presentation of the document on MTEF forecasts to the Government for approval	Ministry of Finance	15 April	Government
VI. Preparation of the draft annual State budget for the next fiscal year and the Budget memorandum			
6.1. Issuance of the circulars regarding the development and submission of budget proposals/draft budget for next year and estimates for the next two years	Ministry of Finance	1 May	Central and local public authorities
6.2. Submissions of updated social economic indicators	National Statistics Bureau	5 May	Ministry of Economy
6.3. Submission of forecasts for the development of sectors in line with the requirements of the Ministry of Economy	Specialised central bodies	5 May	Ministry of Economy
6.4. Submission of forecasts for the development of territories in line with the requirements of the Ministry of Local Public Administration	Local public administration authorities	5 May	Ministry of Local Public Administration
6.5. Submission of updated forecasts of main macroeconomic indicators coordinated with the Government	Ministry of Economy	1 June	Ministry of Finance National Bank of Moldova Ministry of Social Protection Ministry of Health National House for Social Insurance National Health Insurance Company
6.6. Presentation of budget submissions and estimates for the following two years	Central public authorities	1 July	Ministry of Finance
6.7. Organisation of discussions on budget proposals of central public authorities, draft ATU budgets and inter-budgetary relations	Ministry of Finance	1 – 15 August	x
6.8. Update of the general resources framework by national public budget components	Ministry of Finance	5 August	x
6.9. Update of expenditure ceilings by sectors and central public authorities	Ministry of Finance	10 August	Central specialised authorities
6.10. Updating of sector expenditures strategies in line with the updated expenditure ceilings	Central specialised authorities	10 August	Ministry of Finance
6.11. Development and coordination of the	Ministry of Finance	15 August	x

Actions	Responsible authority	Deadline	Beneficiary
state draft budget law and of the budget memorandum with central public authorities as well as social partners.			
6.12. Presentation of the draft state budget law for the following year and estimates for the next two years within the MTEF Coordination group meeting	Ministry of Finance	25 August	Government
6.13 Presentation of the draft state budget law and estimates for the next two years to the Government	Ministry of Finance	25 August	Government
VII. Examination, approval and publication of the State Budget Law and Budget Memorandum			
7.1. Examination and approval of the draft state budget law and the budget memorandum by the Government	Government	1 October	Parliament
7.2. Discussion and approval of the annual state budget law for the following year	Parliament	5 December	x
7.3. Publication of the annual state budget law and the budget memorandum in the Official Monitor and posting of these on the website	Ministry of Finance	20 December	x

Appendix B: Main macroeconomic indicators in the medium-term

		FY-2	FY-1	FY	FY+1	FY+2	FY+3
	Unit of measurement	effective	effective	estimate	Projected	Projected	Projected
Gross Domestic Product							
nominal	mild. lei						
real growth	%						
Consumption Price Index							
average annually	%						
end of the year	%						
Exchange rate							
average per year	MDL/USD						
end of the year	MDL/USD						
Foreign trade							
Exports	mil. USD						
growth rates	%						
Imports	mil. USD						
growth rates	%						
Trade balance	mil. USD						
Industrial production in current prices	mild. lei						
comparable prices against the previous year	%						
Agricultural production in current prices	mild. lei						
comparable prices against the previous year	%						
Fixed capital investments	mild. lei						
comparable prices against the previous year	%						
Average nominal salary per month	lei						
nominal growth rates	%						
real growth rates	%						
Wage bill	mild. lei						
nominal growth rates	%						
real growth rates	%						

Appendix C: Revenue projection for the national public budget

	Code	Y-1	Y		Y+1	Y+2	Y+3
		Actual	Approved	Estimate	Budget	Projection	Projection
Global Revenues							
1. Tax revenues							
2. Non-tax revenues							
2. Grants							

Appendix D: Annexes to the annual state budget law and tables in the informative note

	Annexes to the Annual State Budget Law
Annex 1	General indicators on the state budget for the fiscal year _______
Annex 2	Revenues in the state budget for the fiscal year _______
Annex 3	Expenditures in the state budget by central public authority conform the program and economic classifications
Annex 4	Expenditure in the state budget by central public authority according to funding sources
Annex 5	Capital investment in the state budget by central public authority for the fiscal year_____
Annex 6	Capital investment projects financed from the state budget through budgets of local public authorities for the fiscal year_____
Annex 7	Budgets of autonomous institutions included in the state budget for the fiscal year _______
Annex 8	Transfers from the financial support fund to ATUs for the fiscal year _____
	Tables in the Informative Note
Table 1	Structure of the state budget
Table 2	Structure of revenues in the state budget conform economic classification
Table 3	Structure of expenditures in the state budget conform functional classification
Table 4	Structure of expenditures in the state budget conform economic classification
Table 5	Budgets of central public authorities in terms of programs and performance
Table 6	Summary of project funded from external sources, included in the state budget
Table 7	Capital investment by central public authority
Table 8	Capital investment by local public authority
Table 9	Estimate of transfers from the state budget to the budgets of ATUs

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