



**OECD EAP Task Force Secretariat  
and the Danish Environmental Protection Agency**

**FINAL REPORT**

***Performance Review of the National Environmental Fund of Moldova  
and the Chisinau Municipal Environmental Fund***

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## ***ABBREVIATIONS AND ACRONYMS***

<b>BOD</b>	Biochemical oxygen demand
<b>CE</b>	Cost-effectiveness
<b>CEE</b>	Central and Eastern Europe
<b>EAP</b>	Environmental Action Programme for Central and Eastern Europe
<b>EAP Task Force</b>	Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe
<b>EE</b>	Environmental Effectiveness
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>IFI</b>	International Financing Institution
<b>MDL</b>	Moldovan Lei
<b>MECTD</b>	Ministry of Ecology, Construction and Territorial Development
<b>NEAP</b>	National Environmental Action Programme
<b>NGO</b>	Non-Governmental Organisation
<b>NIS</b>	New Independent States
<b>NPV</b>	Net Present Value
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>O&amp;M expenditure</b>	Operational and maintenance expenditure
<b>PPP</b>	Polluter Pays Principle
<b>TACIS</b>	Technical Assistance to the Commonwealth of Independent States
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	US Agency for International Aid
<b>USD</b>	United States Dollars

## **EXCHANGE RATES**

To convert the financial data presented in this report from Moldovan Lei into US Dollars, annual average exchange rates have been used:

<b>Year</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Exchange Rate</b>	4.8	4.8	5.4	10.5	12.5

# **EXECUTIVE SUMMARY**

## **BACKGROUND AND OBJECTIVES OF REVIEW**

In 2000, the Ministry of Ecology, Construction and Territorial Development (MECTD) of Moldova requested the OECD EAP Task Force Secretariat to conduct a performance review of the National Environmental Protection Fund of Moldova and the Chisinau Municipal Environmental Fund. The Danish Environmental Protection Agency supported financially the implementation of the project. The review was implemented in close co-operation with the MECTD.

The major objective of the Review was to conduct an independent and objective evaluation of all aspects of the performance of the Moldovan National Environmental Protection Fund and the Chisinau Municipal Environmental Fund in relation to internationally recognised standards, i.e., those contained in the "St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy". The Review is intended to help Moldovan environmental authorities in assessing the Funds' strengths and weaknesses and identifying possible measures for continued institutional strengthening.

The review involved three stages: preparatory activities, appraisal and drafting mission, and preparation of the final report. A comprehensive set of background documents concerning, and relevant to, the Funds were examined by the review team prior to the appraisal mission (See Annex II). The appraisal and drafting mission were undertaken over the period 28 October - 4 November 2001. The results of the review were further discussed at a stakeholder seminar in Chisinau on 16 April 2002. The Review also contains recommendations, both short and medium to long-term, for strengthening and improving the efficiency and effectiveness of these two Funds and the Environmental Funds system in Moldova.

## **MOLDOVAN FUNDS SYSTEM**

Moldova has a two-tiered system of extra-budgetary Funds - a National and 11 local Funds. The Funds are not legal entities. The National Fund is directly subordinated to the MECTD. The responsibilities for managing the local Funds lie with the MECTD territorial bodies at a local level - the Territorial Ecological Agencies. The financial resources at disposal to environmental funds in Moldova are low - total revenue collected by the Funds' system in 2000 was USD 800 000 of which the National Fund's revenue was USD 620 000. Only the National Fund supports environmental investments. Investment projects financed by the Fund in 2000 accounted for 18% of its expenditure.

The review of the two Funds has shown that the Funds operate in accordance with the requirements of the national legislation. However, there are a lot of disparities between what the Funds are required to do by the national authorities and good international practices for such institutions as specified, *among others*, in the St. Petersburg Guidelines on Environmental Funds.

The Funds do not focus on financing priority environmental investments and hardly operate as financing institutions, in the international understanding of this word. However, the current legal basis is sufficient to further strengthen the Funds, and particularly the National Fund, to transform it into an effective, operational mechanism that identifies and finances environmental investments. The National Fund has every opportunity to become a professional and internationally credible institution providing there is the political will to use the Fund in a strategic manner. However, before the Fund is fully prepared to manage resources successfully, the procedures and associated capacities need to be substantially upgraded in the areas of transparency, accountability, establishing priorities and project cycle management. These reforms would be a necessary condition for the Fund to be internationally recognised as a potential partner for foreign sources in financing environmental investments in Moldova.

More specific findings and conclusions, related to the two reviewed Funds, are presented below.

## THE MOLDOVAN NATIONAL ENVIRONMENTAL PROTECTION FUND

The National Fund, in its current institutional form, was created in 1993. In the early years of operation, its revenue base was quite limited and its expenditures were principally directed to the needs of the environmental agency (currently the Ministry of Ecology, Construction and Territorial Development (MECTD). In this role, the Fund has helped the MECTD build up its management capacity and has enabled the Ministry staff to participate in international activities despite limited support from the State Budget. While this effort has value from the perspective of the Ministry, such expenditures are not the core business of environmental funds envisaged in the St. Petersburg Guidelines, nor are they a sustainable source of finance for national environmental authorities.

However, since 1998, the National Fund has undergone considerable improvements that strengthen the Fund's potential to play an important strategic role in promoting environmental improvements in Moldova. The most important development has been the introduction of the levy on imported fuel as a source of revenue. This represents a stable and significant source of revenue for the Fund and provides the Fund with resources to become more involved in supporting both investment and non-investment projects. The Review Team found encouraging signs of the Fund's commitment to play a greater strategic role, based on the Fund's support for NGOs and increased expenditures on investments, including co-financing of projects financed by foreign sources.

The Review Team has proposed an extensive array of recommended actions that would significantly strengthen the National Fund. The National Fund has made significant progress but it could function even more effectively, in accordance with good international practices for such institutions.

### Options for Improvement

The Review Team has developed recommendations for seven aspects of Fund Operations. A table at the end of this section summarises the recommendations. Recommendations are divided into two categories: first order reforms and second order reforms that can be implemented after the first ones are in place.

1. ***Improve programming of expenditures.*** In order for the National Fund to play a greater strategic role in environmental policy, it needs to better link its expenditures to the environmental priorities in Moldova. To promote a greater strategic role, the National Fund should:
  - Specify narrowly targeted objectives and establish clear priorities for allocating fund expenditures;
  - In setting annual priorities, the Fund should implement a participatory process, involving the MECTD, other ministries and government agencies, NGOs, and other relevant stakeholders. The review of various policy documents suggests that improved water quality and water resource management is probably the major environmental priority in Moldova.
2. ***Restructure roles and responsibilities for management.*** The limited role and capacity of the Secretariat represent major weaknesses of the National Fund. There is no clear distinction between supervisory and management functions, with the Administrative Council having a larger management role than is typically assigned to supervisory bodies. Because of the heavy involvement of the Ministry, both in its representation on the Administrative Council and in

executing many of the management responsibilities of the Fund, the National Fund lacks an institutional identity that would make it independent from the Ministry. To strengthen the Fund's management capabilities and enhance its institutional identify, it is recommended to:

- Separate supervisory from managerial roles. Supervisory and management roles played by the Secretariat, the Administrative Council, and the Ministry should be reviewed and realigned in accordance with standards established for sound public institutions as is the case in most of the CEE Environmental Funds. The composition of the Administrative Council should be adjusted to be more representative of the Fund's stakeholders;
  - Increase the number of staff dedicated to Fund management by at least two persons (technical expert, an engineer with experience in water management and a financial analysis). The most important task for new staff would be to manage project cycle activities in accordance with international standards. The government should ensure institutional autonomy and operational independence of Fund managers, subject to strong accountability for performance. For these staff and existing Secretariat staff, a training programme should be developed with particular focus on engineering, economic/financial and legal skills of the personnel.
3. ***Improve legal basis and internal management controls of the Fund.*** Internal government control of the Funds is exercised according to current legal requirements. In order to improve the system, however, the Government of Moldova may want to consider to:
- Further upgrade the legislation on the Funds to harmonise the internal (within the Government) control requirements with international standards by introducing, *among others*, legal requirements for conducting legal and performance audits of the Funds by public authorities as well as putting in place sufficient safeguards to protect the financial management of the Fund's resources;
  - Clearly specify auditing standards and explicitly refer to other "core" laws of Moldova in this regard;
  - Harmonise book-keeping, financial management and reporting of the Funds with international accounting standards by introducing a legal requirement for preparing income and cash-flow statements and financial reports by the Funds.
4. ***Increase the availability of information to the public.*** Making meaningful information available to the public is a salient characteristic of transparency. Reports are an important instrument for planning and policy formulation. For this purpose, they should provide both comprehensive and timely information on on-going programmes as well as information on main objectives and how these are met. To this end, it is recommended to:
- Update the regulations on the Funds to better reflect the requirements for reporting to the Government, the Parliament and the public, including the establishment of legally binding standards for financial reporting in line with international standards;
  - Develop clear policies on the types and mechanisms for disclosing information to the public.
5. ***Strengthen capacity to sustain or increase revenues.*** The Fund and the Ministry must strive to ensure that revenues from the levy on imported fuel continue to flow to the accounts of the Fund. The best way to achieve this goal is through a programme of disbursement that promotes environmental improvements "on the ground". In addition, improving the system of pollution charges, as revenue source of the Funds, could significantly contribute to strengthening the revenue base of the National Fund and hence, its planning process. Specifically, there is a need to:

- Eliminate or reduce discretionary elements in the process of setting the pollution charge rates, charge base and revenue collection;
  - Enforce the prohibition of individual negotiations with polluters;
  - Reduce the number of revenue raising pollution charges from 200 to less than 10. In addition, the introduction of new charges on environmentally damaging products or transactions (e.g. on used batteries, tires, etc.) should also be considered;
  - Keep the revenue collected from pollution charges and fines at a local level on Treasury accounts.
6. ***Improve disbursement policies of the National Fund.*** With the exception of guidance on the form of disbursements (e.g., grants) and the categories of expenditures (which are aligned to the 14 budget items as specified in the Law on the Budget), the National Fund lacks disbursement policies comparable to those of the well-performing CEE Funds. Principally, the National Fund is encouraged to adopt disbursement policies that accomplish the following:
- Realign expenditure budget lines so that they correspond to real priorities, decreasing their number, consolidating administrative costs of the Fund into one category, and treating expenditures to support the MECTD as a single budget line;
  - Expand the Fund's support for investment projects. Additionally, ceilings for investment projects should be set and co-financing requirements specified.
7. ***Strengthen project cycle management procedures.*** Among MECTD and National Fund officials, there is recognition of the need to strengthen project cycle management procedures. The MECTD has developed new procedures for the Fund and has decided to use independent (paid, and not Ministry employees) experts for project appraisal. This is an important first step that, if implemented, will further help improve Fund performance. However, the following additional changes can be proposed:
- Make the Fund management unit (Secretariat) responsible and accountable for project cycle management, thereby shifting some executive responsibilities from the Administrative Council and the MECTD to the Secretariat;
  - Establish and implement specific, objective and transparent appraisal and selection criteria;
  - Develop detailed operational rules for each stage of project cycle. These rules should distinguish different appraisal procedures for different types of projects and introduce 2-stage application procedures for investment projects;
  - Improve control of advance payments on investment projects supported by the Fund by paying directly to contractors against invoices after the work is done. Develop clear legal and administrative procedures to deal with beneficiaries who breach contracts with the Fund.
  - Introduce and maintain regular monitoring of investment projects implemented with support by the Fund.

## THE CHISINAU MUNICIPAL ENVIRONMENTAL FUND

The Chisinau Municipal Fund is the largest of eleven local funds in Moldova. The Review Team was asked to audit the Chisinau Fund and provide recommendations on strengthening this Fund as well as other local funds. With the exception of the Chisinau and two or three other local funds (those with the largest revenue base), the Review Team does not believe that there is scope for strengthening local funds. These smaller local funds are essentially extra-budgetary accounts that provide a modest level of support for unfunded mandates in the territory or municipality (usually as a substitute for regular

budget expenditure). Fund management functions are performed by local environmental authorities (who have a number of other significant tasks to fulfil along with the administration of the funds' resources) and their respective Administrative Councils rather than dedicated fund staff. These funds do not support investment projects and have a limited capacity to promote environmental priorities.

However, the local funds and their supporting ecological agencies play a useful role in administering the system of pollution charges, the second largest source of revenue for the National Fund. To the extent that revenues retained by local funds provide incentives for authorities to collect charges and the revenues are used to support local spending needs, there is a justification for continuing the system of local funds and the local Funds can stay.

For the Chisinau Municipal Fund, there is some scope for improving this Fund's strategic role. The following suggestions for improving the Chisinau Fund's effectiveness could be offered:

- In line with the recommendations for the National Fund related to improved programming of expenditures, the Chisinau Fund should establish local priorities in consultation with local stakeholders;
- Expand representation of the Administrative Council to include wider range of stakeholders;
- Identify opportunities for co-financing with the National Fund, particularly for environmental infrastructure projects. Align the project cycle of the Chisinau Fund with that of the National Fund thus improving the administrative efficiency of the resources spent by the two Funds.

## Summary of Recommendations for the National Fund

<b>Recommendation</b>	<b>First Order Priority</b>	<b>Second Order Priority</b>
<b><i>Improve Programming of Expenditures</i></b>		
• Specify narrowly-targeted objectives and establish real priorities through a participatory process	√	
<b><i>Roles and Responsibilities for Fund Management</i></b>		
• Distinguish institutional identity of the Funds from MECTD	√	
• Separate supervisory from management responsibilities	√	
• Increase number of staff in Secretariat by two persons	√	
<b><i>Composition of Administrative Councils</i></b>		
• Increase number of members to provide better representation of stakeholders	√	
• Consider replacing Minister on Administrative Council with Minister's appointee		√
<b><i>Internal Management Control, Auditing and Accounting</i></b>		
• Upgrade legislation to harmonise internal control requirements with international standards, while keeping the Fund subject to strict budgetary discipline		√
• Specify auditing standards	√	
• Harmonise Fund's accounting procedures to international standards		√
<b><i>Public Information and Disclosure</i></b>		
• Update Fund regulations to improve reporting requirements		√
• Develop policies on types and mechanisms for disclosing information		√
<b><i>Sources of Revenue</i></b>		
• Improve pollution charge system by reducing discretionary elements in process for setting and collecting pollution charges and reducing number of pollutants for which charges are levied from 200 to less than 10		√
• Consider introduction of charges on environmentally damaging products		√
• Keep the revenue at a local level on Treasury accounts	√	
<b><i>Fund Expenditures</i></b>		
• Realign expenditure budget lines so that they correspond to real priorities	√	
• Concentrate Fund resources on investment and develop ceilings for investment projects	√	
<b><i>Project Cycle Management</i></b>		
• Make Fund Managers responsible and accountable for project cycle management, including project identification, appraisal and selection	√	
• Establish specific, objective and transparent appraisal criteria	√	
• Develop detailed operational rules for each stage of project cycle, including different appraisal procedures for different types of projects	√	

<b>Recommendation</b>	<b>First Order Priority</b>	<b>Second Order Priority</b>
<ul style="list-style-type: none"> <li>• Improve control of advance payments on investment projects. Develop clear legal and administrative procedures to deal with beneficiaries who breach contracts with the Fund.</li> </ul>	√	
<ul style="list-style-type: none"> <li>• Introduce and maintain regular monitoring of investment projects implemented with support by the Fund.</li> </ul>		√

# 1. Introduction

## 1.1 Objectives of the Performance Review

The major objective of the Review was to conduct an independent and objective evaluation of all aspects of the performance of the Moldovan National Environmental Protection Fund and the Chisinau Municipal Environmental Fund against internationally recognised standards, i.e. those contained in the “St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy”. The Review also contains recommendations, both short and middle to long-term, for strengthening and improving the efficiency and effectiveness of these two Funds and the Environmental Funds system in Moldova.

### **Box 1: St. Petersburg Guidelines on Environmental Funds in a Transition to a Market Economy**

*The St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy* (OECD/GD(95)108, Paris 1995), adopted by the OECD EAP Task Force in 1995, recommend the key internationally recognised good standards for institutional set-up, management and performance of environmental funds. The criteria set forth in the St. Petersburg Guidelines have been used as a benchmark in assessing the performance of a number of environmental funds in Central and Eastern Europe. This framework was also used in the voluntary review of the National Environmental Fund of Moldova and the Chisinau Municipal Fund.

#### Main recommendations of the St. Petersburg Guidelines:

- ◆ To avoid or minimise the long-term economic inefficiencies inherent in earmarking of funds, expenditure should be targeted to environmental priorities and projects with large environmental benefits relative to their costs.
- ◆ Environmental funds should play a catalytic role in financing environmental improvements and support, not compete with, emerging capital markets.
- ◆ Environmental funds should reinforce other environmental policy instruments.
- ◆ Environmental funds should develop an overall financing strategy, follow clear procedures for selecting projects in order to ensure cost-effective use of resources, adopt effective monitoring and evaluation practices, and make effective use of internal and external expertise to enhance administrative efficiency.
- ◆ Environmental funds should leverage increased private sector resources and capital market financing for environmental investments.
- ◆ In designing and evaluating fund revenue mechanisms, environmental authorities should ensure environmental effectiveness, economic and administrative efficiency, equity and acceptability.
- ◆ Environmental funds should ensure transparency and should be accountable to government, parliaments, and the public for their actions.

## 1.2 Performance Review Process and Methodology

In 2000, the Ministry of Ecology, Construction and Territorial Development (MECTD) of Moldova requested the OECD EAP Task Force Secretariat to conduct a performance review of the National Environmental Protection Fund of Moldova and the Chisinau Municipal Environmental Fund. The Danish Environmental Protection Agency supported financially the implementation of the project. The review team consisted of the following members: Ms. Marilena Patrascu (Romania), Mr. Rafal Stanek (Poland), Mr. Glen Anderson (USA), and Ms. Nelly Petkova (OECD EAP Task Force). Local support for the team has been provided by Ms. Tatiana Pleschko (MECTD, Consultant), Mr. Andrei Isac (Head, Environmental Policy Division, MECTD) and an interpreter, Ms. Maria Marinuta.

The review was implemented in close co-operation with the MECTD. The review involved three stages: preparatory activities, appraisal and drafting mission, and preparation of the final report. A comprehensive set of background documents concerning, and relevant to, the Funds were examined by the review team prior to the appraisal mission (See Attachment 5). The appraisal and drafting mission were undertaken over the period 28 October - 4 November 2001. During that time the team engaged in extensive discussions with the Funds' staff, MECTD officials, other ministries and state institutions, the Funds' clients and other organisations, all concerned with or directly involved in shaping the country's environmental policy (See Attachment 4). The full co-operation of these parties is gratefully acknowledged.

The results from and recommendations of the report were presented and discussed at a seminar with the participation of major stakeholders held in Chisinau on 16 April 2002.

The views expressed in this report are those of the review team members and do not necessarily reflect those of the Danish Environmental Protection Agency, the OECD, the EAP Task Force or their member countries.

This paper, prepared within the framework and the guidance of the OECD Secretariat of the EAP Task Force, provides the basis for discussion on the future institutional strengthening of the funds.

#### **Box 2: The Polluter Pays Principle**

Comprehensive environmental funds (i.e. funds providing subsidies for projects across all environmental media) do not exist in OECD countries. Earmarking is discouraged as it often leads to inefficient use of resources and institutional vested interests. However, in the transition period earmarking has been recognised as a mechanism that increases the stability and predictability of resource flow to some critical social sectors. Generally, OECD environmental policy is guided by the Polluter-Pays-Principle (PPP). This principle implies that polluters should bear the full cost of compliance with the goals established by the relevant administration *without subsidies*. The PPP provides for certain exceptions to its "no subsidy" philosophy. Specifically, a subsidy may be justified if it is well targeted (i.e. the environmental objectives to be achieved by the subsidy are clearly specified), limited in size and duration and does not introduce significant distortions in markets and trade. It can also be used where considerable external benefits or provision of public goods are involved. Thus, if subsidies are to be used, their need should be clearly demonstrated.

The development of an effective environmental finance system, based on the Polluter Pays Principle, is constrained during the transition to a market economy. This is due to several factors including weak environmental management and enforcement, underdeveloped capital and financial markets, scarce private financing, uncertain political and fiscal systems and weak civil society. Though not a "first best" mechanism, funds have been internationally accepted often as a useful supplementary instrument of environmental policy in the transition period, provided they are properly designed, managed and apply certain good performance standards, e.g. those included in the St. Petersburg Guidelines.

**MAP OF REPUBLIC OF MOLDOVA  
WITH INDICATION OF THE LOCATION OF  
MOLDOVAN ENVIRONMENTAL FUNDS**



## **2. Legal and Policy Framework**

### **2.1 Legal Framework**

Over a period of approximately nine years since its establishment, the system of environmental funds in Moldova has undergone significant changes. The Funds were initially created back in 1993 on the basis of the Law on Environmental Protection No. 1515-XII of 16 June 1999 (Articles 83-87). The 1993 Law establishes Funds at three levels - municipal, regional and national. They are extra-budgetary Funds. The Funds are not legal entities. The National Fund was and is still subordinated to the Ministry of Environment. The regional and local Funds were initially subordinated to regional and local authorities.

The above Law also introduces the main sources of revenue for the Funds (See Section 4.1 for more information), the distribution of revenue among the three levels, the indication of the main types of expenditures to be financed by the Funds as well as the administrative structure of the Funds.

The system of Funds was further streamlined in the amendments to the Law on Environmental Protection introduced in 1998 (Law on Environmental Protection No 1539-XIII of 25 February 1998). The three-tiered system of Funds was replaced by Funds at two levels - a National and 11 local Funds. The Funds do not have their own legal identity. The responsibilities for managing the local Funds were transferred from local governments to the territorial bodies of the Ministry of Environment at a local level - the Territorial Ecological Agencies. The National Fund remained directly subordinated to the Ministry of Environment, now the MECTD.

The revenue base of the Funds, in the 1998 version of the Law, is additionally strengthened and some legal contradictions eliminated. Some of the revenue sources of the Funds, as stipulated in the 1993 version, such as part of the land tax, payments on the use of mineral resources, were taken out of the language of the 1998 version of the Law as these constitute revenue-raising instruments for the government and are in contradiction with the Law on the Budget. In addition, the number of members sitting on the Administrative Councils of the Funds has been increased from 3 to 5 people in the 1998 amendments to the Law as compared to the 1993 version. It is also worth mentioning that the articles on the exemption of the Funds from income tax (Article 83 (3)) and the possibility of carry-overs from one year to another (Article 83 (2)), as stipulated in the 1993 Law, were subsequently deleted in the 1998 version.

Pollution charges were first introduced as a legal source of revenue of the Funds by the 1998 Law on Environmental Protection. The subsequent Law on Environmental Pollution Charges No 1540-XIII of 25 February 1998 and its amendments of 1999 detail the modalities for paying the charges. Calculation and payment of pollution charges were further operationalised in the subsequent Instruction on the Calculation of Pollution Charge Payments, issued by the Minister of Environment on 5 November 1998. The above Law also specifies a new source of revenue for the National Fund - the levy on imported fuel which has contributed to the significant increase of the revenue of the Fund. To this end, the Law was supplemented by an Instruction Concerning the Mechanism of Collection and Transfer of Pollution Payments on Oil Products Imported to Moldova. The Law on Environmental Pollution Charges is a clear attempt by the Moldovan Government to strengthen the revenue base of the Funds and to provide them with a relatively stable revenue flow.

The Law on the Budget provides an important legal framework for the operations of the National Fund, in particular, as the planning process by which the Fund establishes its annual expenditure is closely linked to the preparation of the State Budget. Since 1999, the Fund's budget has been presented in an Annex to and approved as part of the State Budget (along with the budgets of all other national extra-budgetary funds).

The Government Decree on the Statute of Environmental Funds (No 988 of 21 September 1998) is the regulatory basis for the Funds' institutional set-up and operations. Subsequently, the regulatory basis of the Funds was further developed in a number of regulations and instructions, discussed in Sections 3 and 4 of this report in the context of Funds' administration and operations. A summary of the major laws and regulations pertaining to the system of Funds is provided in Table 2.1.

**Table 2.1 Laws and Regulations Related to Moldovan Funds**

Name of the Law/Regulation
Law on Environmental Protection No. 1515-XII/1993 – 16 June 1993
Law No. 1539-XIII/1998 – 25 February 1998 – Amends Law on Environmental Protection
Law on Environmental Pollution Charges No. 1540-XIII/1998 – 25 February 1998
Law No. 732-XIV/1999 – 16 December 1999 – Amends the Law on Environmental Pollution Charges
Decree of the Government of the Republic of Moldova No. 988 – 21 September 1998 – Decree on the Statute of Environmental Funds
Regulations on the Functions of Administrative Councils of Environmental Funds, approved by the Minister of Environment – 5 November 1998
Regulations on the Environmental and Economic Services Provided by the Territorial Units of the Ministry of Environment, approved by the Minister of Environment – 5 November 1998
Instruction on the Calculation of Pollution Charge Payment, approved by the Minister of Environment and Territorial Development – 17 April 2000
Instruction Concerning the Mechanism of Collection and Transfer of Pollution Payments on Oil Products Imported into the Republic of Moldova, approved by the Ministry of Environment and Territorial Development (No. 01-13/509 – 25 November 1998), Ministry of Finance (No. 0311-02-182 – 20 November 1998) and agreed with Customs Control Department (No. 3033 – 10 November 1998)
Regulations on Procedures for Approval, Co-ordination and Implementation of Projects Funded by the National Environmental Fund, approved by the Minister of Environment and Territorial Development – 29 March 2001
Law on the Budget (annual)

### **Analysis of the Legal Framework**

Legally, environmental Funds of Moldova are established through a Parliamentary Act, which is a more solid basis than a Government Decree alone. In addition, the revenue side of the Funds was further strengthened through a series of laws and regulations. This is a commendable effort by the Moldovan Government. However, the clarity of the legal basis would be further improved, if the Law on Environmental Protection or other regulations on the Funds, made specific references to other "core" laws of Moldova, such as the Civil Code or the Law on the Budgetary System. Such references would make environmental funds more firmly rooted in the existing legislative order of the country and more transparent and predictable to potential foreign partners. For example, potential foreign partners need to know clearly what the legal basis for contractual relations with the Fund is, as they need to fully understand the standards of accounting and financial management (for example, standards pertaining to budgetary entities).

Unlike most of the CEE Funds which are legal entities, the Moldovan Funds do not have a legal identity. This does not allow them to enter into contractual obligations with third parties when it comes to financing projects. At a local level, given the small level of revenue of some of the Funds and the current predominant function of the local Funds (revenue collection), this may not really be an issue. However, if the National Fund and a few bigger local Funds are to fulfil their mandate (mostly neglected so far) of managing public environmental expenditure and supporting investments, it is important to clearly specify the legal basis of contractual relations of the Funds - is it the Civil Code or the Administrative Code or others. It is usually the Minister or the Directors of the Territorial Ecological Agencies who sign contracts. While such an arrangement is fully acceptable, it is worth noting that the Minister or the Agency Director should have the right to sign only contracts for projects financed from the Funds that have been appraised and selected by the Fund managers on the basis of well-defined and rigorous criteria. The Minister or the Director could refuse signing a contract if he or she has concerns on the legality of the contract.

While some of the Funds function as institutions managing extra-budgetary resources, most of the local Funds are effectively extra-budgetary accounts subordinated to the Territorial Ecological Agencies. Their salient features as extra-budgetary funds are their ability to collect revenue outside of the fiscal system, carry over unspent balances at the end of the fiscal year and earmark all revenues for fund expenditures. Although, Funds are still allowed to carry-over resources from one year to another and they are exempt from income tax, this does not seem to be legally provided for in any of the legislation related to the Funds. This seems to be a serious legal omission.

On the one hand, the fact that since 1999, the National Fund budget has been subjected to review and approval by the Parliament is yet another attempt by the Government to further increase control over and transparency of Funds' financial operations. On the other hand, it might be indicative of a more general world-wide trend towards consolidation of extra-budgetary Funds into the state budget, particularly when the resources of these Funds are used for expenditures similar to those in the state budget. In this light, the above-mentioned legal omissions can acquire a different interpretation (particularly with regard to the carry-overs by Funds).

Thus, to the extent that Fund expenditures are additional, supporting beneficial projects that would not otherwise receive funding, a stronger case can be made for their existence. In order to be able to defend this case before the Ministry of Finance, the Funds need to become real managers of public environmental expenditure, select and finance real projects which bring real results.

### ***Conclusions and Recommendations***

The two reviewed Funds have a relatively strong legal basis (compared to other NIS environmental funds but not to CEE environmental funds some of which are independent legal entities). There is a clear trend towards improving the legislation on the Funds over the past years which is a positive sign showing certain maturity and commitment on the part of the Moldovan Government to strengthen public environmental management. While there are certain achievements on the revenue side, the expenditure management part needs to be further improved. These two functions need to be separated and the responsibility for revenue collection and public procurement should be gradually shifted to the administration, which is better equipped to deal with them while the Funds should be made solely responsible for project selection and financing.

The clarity of the legal basis and elimination of any legal ambiguities is all the more important, if a donor or an IFI decides to channel resources through the Funds. The National Fund is obviously a potential candidate for such an arrangement providing its expenditure management capacity is strengthened in accordance with international good practices. The Fund could play the role of a co-financier or service-provider to foreign sources of finance. This would be yet another possibility to further leverage the scarce resources of the Fund.

## **2.2 Strategic Role and Objectives of the Moldovan Funds in Environmental Policy**

Moldova's environmental policies are elaborated in the National Environmental Action Plan (NEAP), the Law on Environmental Protection and a number of other policy documents produced since 1995 (See Table 2.2). The NEAP is the most comprehensive of these policy documents, focusing on short-term (five years) environmental priorities and addressing needed changes in institutions and policy instruments. A substantial portion of the NEAP concerns the problem of water pollution from municipal, industrial, and agricultural sources and identifies numerous investments to address these problems. The NEAP is currently being revised and is expected to be finalised soon. The Concept of Environmental Policy of Republic of Moldova was elaborated over the period 2000-2001 and approved by the Parliament on 2 November 2001. This policy document identifies environmental policy priorities as well as potential sources of finance that could be used to fund the implementation of the priorities. The National Environmental Fund is among these sources of finance.

**Table 2.2 Environmental Policy Documents**

The Concept of Environmental Protection of the Republic of Moldova (1995)
National Strategic Environmental Action Programme (1995)
National Environmental Action Plan (1995)
National Strategy for Sustainable Development (2000)
Environmental Financing Strategy for the Municipal Water and Wastewater Sector in Moldova (2000)
Biodiversity Conservation Strategy and Action Plan (2000-2001)
National Environmental and Health Action Plan (2000-2001)
National Programme for Waste Management (2000-2001)
Parliamentary Decree on the Concept of Environmental Policy of the Republic of Moldova (November 2001)

The role of Moldovan funds in supporting environmental activities is elaborated in Articles 83 and 85 of the Law on Environmental Protection. Article 83 states that the goal for establishing environmental funds at the national and local levels is to increase the financial resources available to support environmental protection and restoration of damaged ecosystems while Article 85 provides additional elaboration on the use of Fund resources. The approved uses of Fund resources are broad covering a range of activities related to almost any form of environmental improvement measures, including management needs of the Ministry and local agencies. This goal is not supported by any specific, measurable and realistic objectives or targets. The Funds have no clear guidance as to what their real priorities are and what they should focus their scarce resources on. This is one of the major reasons for the lack of well-developed and well-targeted spending programmes of the Funds. Thus, without clear objectives and targets, it is difficult to evaluate the environmental effectiveness of the Funds and their value-added as a tool of the national environmental policy.

It is worth mentioning that the Funds, through their grant support for NGOs, have definitively helped raise public attention and awareness towards environmental issues, support the provision of monitoring and information systems for the environmental administration.

In theory, at least, the funds have the potential to provide investment support for environmental priorities. According to the Statute of the Fund (Article 7), at least 70% of the annual budget of the National Fund should be allocated to expenditures for environmental priorities enumerated in the NEAP. This requirement reflects the recommendation in the NEAP calling for the environmental

funds to finance environmental priorities as well as the cost of efficient operation of the environmental management system (p.27). It is interesting to note that this recommendation was formulated before the National Fund's revenue base increased dramatically with the introduction of the levy on imported oil (see Section 4.1). The above-mentioned Financing Strategy also suggests a more strategic role for environmental funds noting that one option for increasing the supply of finance is the use of the revenues of the National Environmental Fund in a focused way on a few key water supply projects (p.10).

In order to play a greater catalytic role in financing investments, Moldovan Funds would need to devote a larger share of fund expenditures to investments. At present, local funds do not support investments and the National Fund supports only a small volume of investment projects (See Section 4.2). The Water Financing Strategy has found that the main share of environmental expenditure in the country is allocated for improving the wastewater treatment facilities in Moldova. This reflects a clear policy priority. However, until 1999, environmental funds (mainly the National Fund) contributed very little to the supply of finance in the water sector - only 0.04% of total investment in the country<sup>1</sup>.

The policy objective for the municipal water sector over the next 20 years, as spelled out in the Strategy, is to "maintain the existing level of services and to prevent the system from further deterioration" which is further specified in terms of targets related to service coverage, water quality and service level. To achieve this objective, Moldova needs to spend an average of USD 56 million per year (fixed 1999 prices) just to cover O&M expenditures. No "greenfield" investments or major rehabilitation works are envisaged. Different sources of finance are envisaged to contribute (public budget, private sector finance, utilities' own sources (from water tariffs) as well as foreign sources of finance). The Financing Strategy has developed and proposed several scenarios for covering the financing gap.

While the revenues of all Moldovan Funds, collected in 2000, only amounted to about USD 800 000 (of which USD 620 000 is the revenue of the National Fund), they seem to be almost negligible in relation to the expenditure needed for this sector. Experts' calculations, based on a grant provided by the Danish government to Moldova, have shown that an additional MD Lei 1 mln (USD 80 000) of public capital expenditure generates MD Lei 3 mln (USD 240 000) of concessional foreign financing for the sector. In this light, the resources of the National Fund (along with resources allocated from the state budget), if well targeted, could significantly contribute and provide support to few critical projects in the sector. The Financing Strategy envisages that 70% of the Funds' revenues will be spent on urban water and wastewater treatment projects. This is a realistic scenario with well-defined targets and is particularly feasible for the National Fund.

In addition, Moldovan funds would need to leverage their resources by setting co-financing policies that limit the share of project costs the funds support. The funds would also need to take a more proactive approach in identifying opportunities for co-financing with other financing institutions. There may be co-financing opportunities with bilateral donors, IFIs, and IFI-financed institutions such as the World-Bank supported Social Investment Fund in Moldova. For example, the National Fund is currently co-financing investment projects supported by the Danish Government through grant financing (about USD 4.5 mln over a period of three years). Co-financing from domestic sources is a usual requirement by donors and IFIs and they always look for reliable partners in the countries that could play such a role. One factor that will need to be overcome to explore these opportunities is the perception among donors that the environment is not a priority in the Moldovan government. The Review Team learned that two major donors – USAID and the EU TACIS programme – as well as the World Bank are not actively looking for opportunities to support investments in the environmental sector. Therefore, it is crucial that the Government clearly demonstrate that environmental expenditure is really a national priority.

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<sup>1</sup> Source: MECTD and Tacis Moldovan Economic Trends report, quarterly issue, July-September 2001

### ***Conclusions and Recommendations***

Overall, there appears to be substantial opportunity for the Moldovan funds to play a greater strategic role in supporting environmental policy. The major step in fostering this strategic role is to specify narrowly targeted objectives for the Funds and establish a few real priorities in accordance with environmental priorities. Eligible projects and beneficiaries should be limited to those only that critically need subsidies without which the projects will not be implemented. To this end, Funds are encouraged to develop a more participatory process designed to establish spending priorities during the annual budgeting process.

Investment financing is the business of most CEE environmental funds. The Review Team recognises that the financing needs in Moldova are great and sources limited; the funds' support for the MECTD and local agencies is critical to their ability to perform their management functions. However, the Review Team believes that greater support for investment will make Funds' results more visible, their performance better understood and appreciated by the Government and the public at large. This development could also serve to signal the government's commitment to the environment sector.

In addition, Funds are encouraged to require co-financing on investment projects, thereby increasing the funds' ability to leverage additional resources and support more projects. Such changes would also promote additionality: one of the important features of international good practices. Co-financing policies should be combined with a more proactive approach to project identification and more strategic use of fund resources to close deals on donor and IFI-funded investment projects.

### **3. Fund Administration - Institutional and Management Set-up**

Environmental Funds' resources are formally property of the State Treasury (Ministry of Finance). Formally, the Funds have a two-tier management structure. Each Fund has its own Administrative Council (a supervisory body) and an executive body that in the case of the National Fund is the Executive Secretariat. The executive functions for the local Funds are carried out by the Ecological and Economic Services of the Territorial Ecological Agencies of the Ministry of Ecology, Construction and Territorial Development (MECTD).

#### **3.1 National Fund**

The National Fund is institutionally situated in and directly subordinated to the MECTD. Currently, MECTD's Environmental Policy Division coordinates the activities of the National Fund and the local Funds, prepares the budget and statistical reports of the National Fund, and provides technical support to the local funds.

The supervisory body of the National Fund is the Administrative Council. The Council was established on the basis of the 1993 Law on Environmental Protection (amended in 1998) and subsequent Statute of the Funds (Article 14) and the Regulations of the Functions of the Administrative Councils of Environmental Funds (November 1998). The Council consists of five members, each appointed for terms of 4 years by the Minister of Ecology, Construction and Territorial Development:

- (1) Chair - Minister, MECTD;
- (2) Deputy Chair - Deputy Minister, MECTD;
- (3) Representative of the State Chancellery (the body which prepares documentation for the sessions of the Government);
- (4) Representative of the Trade Unions; and,
- (5) Representative of the NGO community (elected at a general NGOs meeting).

The Council members do not receive any remuneration for their participation on the Administrative Council. Attendance at meetings by members of the Council is essential to the operations of the Fund, as a number of quorums are stipulated in legislation:

- More than 50% of members must participate in meetings of the Council;
- Decisions cannot be taken by the Council unless at least two-thirds of the members are in attendance;
- Decisions require approval by a simple majority;
- Only members in attendance may vote. Votes may not be made by proxy.

According to the legislation, the Administrative Council should meet at least 3 times a year. In practice, the Council holds monthly or bimonthly meetings. The Administrative Council members are notified of the meeting at least 7 days in advance. In addition, special meetings can be convened if requested by the Council Chair or by at least two members of the Council. The organisation and notification procedures for such special meetings are the same as for regular meetings held by the Council.

The **responsibilities of the Administrative Council** are further specified in the Regulations of the Functions of the Administrative Councils of Environmental Funds. They are as follows:

- Approving the annual budget of the Fund;
- Establishing the spending priorities of the Fund;

- Selecting environmental projects of national and local significance, making decisions on the amount of resources each project will receive from the Fund;
- Considering legislative acts and regulations concerning the revenue sources and expenditure management of environmental funds (including local funds);
- Approving regulations and internal instructions on various issues;
- Signing contracts for implementation of projects financed by the National Fund;
- Exercising control on the generation of revenue and ensuring disbursements are made in accordance with legislation;
- Approving reports of beneficiaries (both legal entities and natural persons) who have received funding from the National Fund;
- Approving reports on accumulation of resources and financial transactions made by the National Fund;
- Reviewing and approving reports submitted by the Administrative Councils of the local Funds;
- Reviewing and making decisions with regard to violations by Fund officials of principles and conditions for spending of local Funds' resources;
- Ensuring transparency of the activities of the Funds;
- Appealing to superior state authorities and the Court when economic agents or other legal entities and natural persons fail to pay their pollution charges as stipulated in the legislation and making requests / claims for actions and finding solutions to the specific case.

The **Chair of the Administrative Council** has the following responsibilities:

- To convene and chair regular and special meetings of the Council;
- To establish the procedures and the agenda for the Council's meetings;
- To approve decisions and documents developed by the Council;
- To approve plans, programmes and projects to be financed by the Fund, approved by the Council;
- To sign banking documents;
- To submit reports and information (as required) to the superior state authorities with regard to the Council's activities;
- To maintain and ensure cooperation with similar foreign institutions and environmental funds on issues of common interest;
- To submit proposals for improving the Councils' organisational structure and methods of work;
- To ensure participation and procedural and functional discipline of all Council members.

In the absence of the Chair, the Deputy Chair takes over her/his responsibilities. The banks, where the accounts of the National Fund are open, keep a sample of the signatures of both the Chair and the Deputy Chair of the Administrative Council.

In addition, the rights and **responsibilities of the Administrative Council members** of all Funds are further specified in the above Regulations. The rights of the members are as follows:

- To make proposals concerning the Council's agenda;
- To require information on the implementation of decisions made during the Councils' meetings as well as information on the work of Ministry's divisions which have the responsibility to report on and control the resources of environmental funds;
- To demand sanctioning of persons who have committed violations in the management of environmental funds or have made mistakes in the process of making decisions regardless

of their position and of whether they are or are not members of the Administrative Councils;

- To require any information from beneficiaries of the Funds with regard to the way the money provided by the Funds has been spent;
- To propose and directly participate in the development and implementation of legislation and regulation on the Funds.

**Members of the Administrative Councils of the Funds**, regardless of their positions and in accordance with existing legislation of the Republic of Moldova, are accountable for decisions adopted by the Councils, ensuring targeted and rational use of Funds' resources, fulfilling their legal responsibilities and complying with deadlines and procedures of the Administrative Councils.

The day-to-day business of the National Fund is managed by a Secretariat. The Secretariat has been established through the Regulations on the Procedures for Approval, Coordination and Implementation of Projects Financed by the National Environmental Fund, approved by the Minister of Environment and Territorial Development (29 March 2001). These Regulations aim, *inter alia*, to establish the terms and modalities of evaluating projects as well as the administrative procedures to be applied by the Secretariat in handling applications.

The Secretariat consists of 2 people - an Executive Secretary<sup>2</sup> and a Secretary. The Executive Secretary of the National Fund is also a regular Ministry staff member and works as a State Secretary for the Ministry. The Executive Secretary's salary is paid by the Ministry. The Secretary's position is funded out of the budget of the National Fund<sup>3</sup>. The Secretariat is responsible for carrying out administrative and logistical functions of the Fund related to the process of applying for financial support from the National Fund, organising meetings of the Administrative Council, and preparation of reports by the Fund. More specifically, the **Secretariat is responsible for:**

- Receipt and registration of application forms;
- Providing interested persons with relevant information as to the requirements on and the format in which applications should be submitted;
- Making available all relevant information on the National Fund in the mass media and at the premises of the Fund;
- Checking application forms for conformity with requirements;
- Submitting the registered projects to the Ministry's leadership;
- Arranging for review and evaluation of registered projects by non-appointed experts selected by the Administrative Council;
- Preparing a list of projects to be submitted to the Administrative Council for consideration and decision;
- Keeping applicants informed on the decisions of the Administrative Council with regard to their applications;
- Keeping records of meetings, contracts, maintaining applicants' database, invoices, bank documents;
- Keeping reports of beneficiaries after project completion as well as reports by other state bodies which are authorised to check that the Fund's resources are disbursed according to requirements;
- Monitoring the project implementation by visiting sites (this task can be performed jointly with members of the Administrative Council);

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<sup>2</sup> The Review Team has been informed that as of 1 January 2002, the Secretariat consists of two people - Secretary (a regular MECTD staff member) and a Coordinator (Head of the Environmental Policy Division)

<sup>3</sup> As of 1 January, Secretary's salary is paid by the Ministry's budget.

- Maintaining communication with all parties involved, including providing the Administrative Council members with relevant and timely information on issues to be discussed at the following Council's meeting;
- Providing the Council members with any additional information on the projects proposed for financing, as they may require;
- Preparing reports/Minutes of the Council's meetings;
- Preparing quarterly and annual reports on projects approved for financing and arranging publishing of this information in the mass media and the Ministry's Bulletin;
- Preparing annual reports on the National Fund's activities in Romanian and Russian.

### **3.2 Chisinau Municipal Fund**

The main set of legal and regulatory documents that apply to the National Fund, govern the administration of the local Funds as well. Like the National Fund, decision making authorities for the Local Funds are vested with a 5-member Administrative Council. All members are appointed for four-year terms by the Minister of Ecology, Construction and Territorial Development. The Statute of the Funds stipulates that the Administrative Councils of local Funds will include the following members:

- Chair - The Chair of the local public administration (the Prefect) or the mayor of the municipality on whose territory the Fund has been established;
- Deputy Chair - Director of the Territorial Ecological Agency;
- Representative of the territorial hygienic and epidemiological center;
- Deputy - Director of the Territorial Ecological Agency;
- Representative of the NGO community (elected at a general NGOs meeting).

In the case of the Chisinau Municipal Fund - the Chair of the Administrative Council is the Mayor of Chisinau City and a Deputy Chair - the Director of the Chisinau Ecological Agency.

**The responsibilities of the Administrative Councils of the local Funds** are to:

- Organise and guide the work on the management of the local environmental Fund;
- Approve the budget of the local environmental Fund;
- Establish the Fund's spending priorities;
- Approve the list of economic agents that should pay environmental pollution charges and other payments that constitute sources of revenue for the local Funds;
- Coordinate activities concerning implementation of economic mechanisms for environmental protection within the respective territory;
- Review and approve the territorial environmental protection plans, projects and programmes, the sources and volume of their financing;
- Review and approve reports submitted by beneficiaries for spending of the resources provided by the Fund;
- Review and approve reports submitted by different subdivisions of the Territorial Ecological Agencies, which are responsible for reporting on and control of revenues and expenditure of the local Funds;
- Submit to the Administrative Council of the National Fund, quarterly and annual reports on revenues and expenditure of the local Funds;
- Make proposals concerning improvement of the sources that generate revenue of the local Funds and rational use of these resources;
- Councils can fulfil other responsibilities, providing these responsibilities do not violate the existing legislation and regulations.

The **Chair of the Administrative Council of the local Fund** has the following functions:

- Chairing regular and special meetings of the Council;
- Ensuring that Council members attend the meetings of the Council and providing them with information on the timing and the agenda of the next meeting;
- Approving working documents, adopted by the Council and signing banking documents;
- Can delegate some of the functions to the Deputy-Chairman.

The Ecological and Economic Services of the Territorial Environmental Agencies provide secretarial support for the management of the local Funds. The Territorial Ecological Agencies are subordinate to both the State Environmental Inspectorate and the Prefecture (representative of the Government at a local level headed by the Prefect). The Services were created on the basis of Government Decree No 988 of 21 September 1998. Subsequently, on 5 November 1998 the Minister of Environment approved the Regulations of the Ecological and Economic Services of the Territorial Units of the Ministry of Environment which provide the legal basis for their establishment. In accordance with the above Regulations, the Ecological and Economic Service can consist of up to 5 staff maximum. The Director of the Territorial Ecological Agency appoints the staff of the Service.

In practice, the Ecological and Economic Services have three major roles in terms of the local Funds: (1) collection of revenues generated by pollution charges and fines at a local level, (2) evaluation of projects to be financed from the resources of the local Funds, and (3) financial management of the Funds.

The main **responsibilities of the Ecological and Economic Services**, as specified in these Regulations, are to:

- Develop a list of economic agents obligated to pay environmental pollution charges and submit the list to the local public authorities for approval. A copy of the approved list is submitted to the territorial Fiscal Inspection for information;
- Control and check the accuracy of the calculation of the pollution charge payments as prepared by polluters themselves;
- Manage the accounts and the statistical reporting on revenues and expenditures of the local Funds;
- Prepare the budget of the local Fund;
- Collect project proposals and programmes for financing from the local fund which have to be submitted in accordance with established application forms;
- Manage the project cycle: identification, preparation, appraisal, negotiation and financial award, implementation and monitoring and evaluation of project results;
- Appraise and select projects and programmes and provide recommendations on these proposals to the Administrative Council of the local Fund for final decision;
- Prepare a contract for implementation of the selected project, programme and monitor its implementation;
- Prepare quarterly and annual reports on the revenue and expenditure of the local Fund and submit them for approval to the Administrative Council;
- Provide methodological support to economic agents with regard to issues related to the introduction of economic instruments for pollution control;
- Develop socio-economic projections for the development of the respective territory related to the section on "Environmental Protection";
- Coordinate the work with the local public administration authorities, tax service, road police, etc. on issues related to economic instruments for pollution control.

### 3.3 Analysis of the Management Structure and Practices of the Funds

The analysis of the management structure and practices of the Funds in this section are divided into five topics: (1) roles and responsibilities for fund management; (2) composition of the administrative councils; (3) personnel management; (4) control and auditing; and (5) transparency, public disclosure, and access to information.

#### 3.3.1 Roles and Responsibilities for Fund Management

Most environmental funds consist of two governing bodies: a **management (executive) unit** responsible for the day-to-day operations of the fund: project cycle management, financial management and external relations; and a **supervisory body** that is responsible, *inter alia*, for establishing spending priorities, setting internal policies, approving the annual plan and budget, internal operating procedures and project portfolios.

Table 3.1 summarises roles and responsibilities in the National Fund for various functions as well as international good practices.

**Table 3.1 Comparative Overview  
of Roles and Responsibilities in the National Fund  
in Relation to International Practices**

<b>Role/Responsibility</b>	<b>National Fund</b>	<b>International Good Practice</b>
<b>Internal Policies:</b>		
• Preparation	Secretariat, MECTD	Management Unit, external consultants
• Approval	<i>Administrative Council</i>	<i>Supervisory Body</i>
<b>Establishing spending priorities</b>	<i>Administrative Council</i>	<i>Supervisory Body</i>
<b>Budget:</b>		
• Preparation	MECTD	Management unit
• Approval	Administrative Council (and further by the Parliament as part of the State Budget)	Supervisory Body
<b>Internal documents and external reports:</b>		
• Preparation	Secretariat, MECTD	Management unit
• Approval	<i>Administrative Council</i>	<i>Supervisory Body</i>
<b>External communications</b>	Limited, MECTD	Fund Director, Fund's Communications Department
<b>Project cycle management:</b>		
• Identification	Secretariat, MECTD	Management unit
• <i>Processing of applications</i>	<i>Secretariat</i>	<i>Management unit</i>
• Appraisal	MECTD, consultants	Management unit, consultants
• Ranking of projects	None at present	Management unit

<ul style="list-style-type: none"> <li>• Selection of projects</li> <li>• <i>Contract preparation</i></li> <li>• Signing of contracts</li> <li>• Implementation / monitoring of projects</li> </ul>	<p>Administrative Council  <i>Secretariat</i> Administrative Council (all members)  Secretariat tracks expenditures, Territorial Ecological Agencies check projects</p>	<p>Fund ranks and selects projects for financing and provides recommendations, Supervisory Body takes final decision  <i>Management unit</i> Fund Director, Chair of Supervisory Body, Minister (only in special cases of strategic importance)  Management unit</p>
<b>Financial Activities:</b> <ul style="list-style-type: none"> <li>• Approval of expenditures (signing of banking documents and invoices)</li> <li>• Financial monitoring and record-keeping</li> </ul>	<p>Chair of Administrative Council (Minister)  Secretariat, Accounting Department in MECTD</p>	<p>Fund Director, Chair of Supervisory Body  Fund's Financial Department</p>

**Note:** Where the roles and responsibilities in the National Fund are equivalent to international practices, the text is in italics.

The table above presents a comparative overview of the practices of the National Fund versus international good practices. The main observation is that typical Fund roles and responsibilities are carried out by a combination of the Secretariat, the Administrative Council, and the MECTD. The Administrative Council fulfils many of the responsibilities that are commonly vested with supervisory bodies in environmental funds. The Administrative Council has some responsibilities that might be reassigned or eliminated. Some of the functions of the Secretariat need to be improved and strengthened. More observations on the assignment of these roles and responsibilities in comparison to international best practices are further detailed in the analysis below.

### Administrative Councils of the Funds

The Administrative Council fulfils many of the main tasks characteristic of a Supervisory body, such as: establishing the spending priorities of the Fund, approving its annual budget, approving operational and internal documents of the Fund, approving reports of the National and local Funds. However, some of the critical functions of a supervisory and control body seem to be missing in the current legislation. The Government also has an indispensable role and obligation to provide the framework for operational integrity of the Fund management, meaning ensuring freedom from ad hoc political interference in the process of appraisal and selection of individual projects. It should also set performance standards against which to monitor and evaluate the performance of the Fund.

The core tasks of financing institutions are selection, appraisal and financing of projects, which are carried out in accordance with clearly specified eligibility and selection criteria, thus ensuring their operational independence. Unlike programming and supervising of public bodies which, by law, are an obligation of Government agencies, appraisal and financing of individual projects is conducted by a professional management body which is strongly held accountable for performance. However, at present, there is no real management structure within the Fund which can deal with appraisal and selection of projects.

The current regulations on the Funds are not clear as to who exactly should be held accountable and liable for decisions on the selection of individual projects for financing. The practice suggests that it is

the Administrative Council of the National Fund that does the selection, based on opinions on the projects prepared by experts of the Ministry as well as non-appointed experts requested to give opinions on specific projects on an as needed basis. The Ministry seems to play a crucial role in this process, particularly given the fact that it is also responsible for preparing the budget of the National Fund. All project proposals submitted to the Fund that have received both positive and negative opinions, are submitted to the Council for consideration and decisions. The list of projects submitted to the Council of the National Fund usually contains up to 30 projects. These lists do not provide the Council members with any sense of priority and projects are not ranked.

The international practice is that the supervisory body can approve an entire project portfolio and veto individual projects but its members should refrain from selecting and proposing individual projects. The supervisory body can retain a final decision-making authority on the approval of financing of, for example, very large and strategically important projects. The Council could be administratively liable for ensuring overall transparency and appropriate use of the Fund's resources in accordance with the rules and procedures set for the Fund. But it is very difficult to hold the Council liable for decisions on individual projects in the meaning of the Civil Law. The reason is that Council members could not possibly have sufficient information on all 20 or 30 projects they have to consider in order to make fully informed decisions on a case-by-case basis.

At a local level, the practice seems to be similar. The major difference is that the Ecological and Economic Services of the Territorial Ecological Agencies are explicitly charged with the appraisal of projects. But the rest of the process remains the same and the final decision-making on the selection of individual projects for financing seems to lie with the Administrative Councils. This may be not such a big problem given the extremely low resources at disposal to the local Funds and the lack of any experience whatsoever with financing or co-financing of investment projects, as is the case of the Chisinau Fund. But if the disposable income of the Funds increases, these issues will have to be addressed. Formally, the Ministry or the local administration cannot influence the decisions of the Administrative Councils of the local Funds. However, the local authorities seem to be in a position to influence the decisions to a high extent through the Chair of the local Fund's Administrative Council who is the Mayor or the Prefect of the Region. Looking at the Chisinau Fund, this situation is also confirmed by the fact that the recipient of 72% (in 1999) and 51% (in 2000) of total expenditure of the Fund was the local administration. A better and more balanced representation on the Councils at a local level (to also avoid domination of one stakeholder) could help improve the decision-making process.

The Statute on the Funds also requires that the members of the Council of the National Fund sign all contracts with beneficiaries. On the one hand, while it is true that the Fund is not a legal entity and that it is effectively the Ministry that selects the projects through the Minister and Deputy Minister, the Fund is not legally allowed to sign contracts with clients. On the other hand, to make all Council members collectively liable for signing each contract does not ensure accountability. This is a way to dilute accountability for decisions. It also is unfair because Council members may not have enough information to make sound judgements in all cases. In reality, it is the Minister or Deputy Minister of Environment that sign contracts. In addition, the Chair of the Administrative Council should sign all banking documents and invoices. This is a very heavy workload for a Minister. A possible option will be to delegate this responsibility to the Executive Secretary, as a Ministry official, providing s/he is fully involved in the work of the Fund while strengthening the internal control, thus also improving the operational efficiency of the Fund. Delegation of these functions to lower levels of management is very important but the Minister should retain her/his political and civil responsibility. It should be made clear for what and to whom the Executive Secretary will be held accountable and what the consequences of non-performing will be. These consequences should be firmly rooted in the existing core laws of Moldova (Administrative Code, Civil Code or Criminal Code). In principle, contracting and invoicing are usual functions of the executive units of public funds, where the Funds are legal entities.

At a local level, the members of the Administrative Councils of all Funds have the right "to demand sanctioning of persons who have committed violations in the management of environmental funds or have made mistakes in the process of making decisions regardless of their position and of whether they are or are not members of the Administrative Councils". This seems to mean that the Administrative Councils have the right to control themselves as well which potentially involves a conflict of interests.

In addition, if the Funds are to co-operate with bilateral donors and international financing institutions in the future, it is essential that responsibilities regarding appraisal and selection of individual projects should be clearly defined. Hence, there is a need for a clearly identified body within the Funds' structure to deal with the project cycle management, while the responsibility of the Administrative Councils could be reduced to formal endorsement of the projects appraised and selected by professionals. In practical terms, this means that the Council may have the right to veto individual projects (e.g. if the information prepared by the Executive Secretariat is not precise) but should not have the discretionary right to modify the sequence of projects on the ranking list or add new projects (when a proper project cycle management is applied, for more information see the Section on Project Cycle Management).

### Executive Bodies of the Funds

In most environmental funds, there is an executive board headed by the director of the fund and composed of the fund's managers. The executive board is responsible for managing Fund staff and executing the day-to-day operations related to project cycle management, financial management, and external communications. The existence of an operational executive unit also gives the Fund an institutional persona that is distinct from the Ministry, even if the Fund is subordinate to the Ministry rather than being truly (legally) independent.

Under current arrangements, it is difficult to speak of an executive (management) unit of the National Fund, as internationally understood. Effectively, the usual tasks of an executive unit of the Fund are split among the Ministry's Division of Environmental Policy, the Secretary of the Fund, the different Ministry's divisions that are asked to provide opinions on individual projects and the Division of Finance and Accounting of the Ministry. Currently, the Fund does not have any staff positions and cannot fulfil the responsibilities typical of the management units of such institutions.

Some of the responsibilities assigned to the Secretariat by law, such as checking application forms for conformity with requirements, and monitoring project implementation, require technical skills that are currently not available at the Fund. The Executive Secretary is part of the regular staff of the Ministry and he is only partially involved in the work on the Fund. The responsibilities of the Executive Secretary vis-à-vis the Administrative Council and the Secretariat are not specified anywhere in the legislation on the Funds. With no effective management structure and no operational independence, it is difficult for the Fund to conduct the routine operations typical of financing institutions.

At a local level, the decision-making authority of the Fund managers is highly limited, too. Although the staff of the Ecological and Economic Services of the Territorial Ecological Agencies are formally charged with the responsibility of project appraisal and selection, they do not apply routine project cycle management procedures. The lack of proper cycle management of the Moldovan Funds, including the Chisinau Fund, can be explained by the fact that local funds' resources are extremely small and that the Funds do not finance or co-finance any investment projects. The Fund's staff are also part of the Agency and have responsibilities other than the work on the Funds. The local funds are primarily concerned with developing and maintaining polluters' registers and collection of revenues generated from pollution charges and fines. These are functions that are better carried out by other institutions (see more on this issue in Section 4.1 Fund Revenues). None of the CEE environmental funds is involved in the collection of revenue. CEE Funds are simply recipients of the

revenues allocated to them by the law. Thus, they can focus on the core functions for such institutions, namely appraisal, selection and financing of projects.

### ***Conclusions and Recommendations***

It seems that the Administrative Councils of the National and the Chisinau Funds as well as their executive units fulfil their responsibilities as well as they can under the present regulatory framework. However, the Funds do not manage, they simply administer the public environmental expenditure. As long as the Funds do not finance significant investment projects, these ambiguities may not be of a major concern. However, if the Funds, and the National Fund, in particular, are to become real managers of significant domestic resources and to co-operate with donors and international institutions (as the current situation already suggests for the National Fund), there will be a need to reconsider and clarify the roles and responsibilities of the Executive units and the Administrative Councils with respect to project appraisal and selection.

- Distinguish the National Fund's institutional identity and management system from that of the Ministry and the Chisinau Fund's institutional identity and management system from that of the Chisinau Ecological Agency. Ensure operational independence of Fund Managers, subject to strong accountability for performance and transparency. Ensure that project cycle management is professional and that political processes are focused on programming and control (supervision).
- Clearly define the structure and distinguish the separate responsibilities and liabilities of the MECTD, Administrative Councils and management bodies, in accordance with standards established for other similar, internationally recognised public organisations. Specify the appointment procedures of the Administrative Councils and management bodies and performance criteria, against which they can be evaluated.
- Separate supervisory from management functions, programming from project selection.
- At a national level - increase the number of staff of the Secretariat by at least 2 people (for example, an engineer with experience in water management and a finance/economic analysis expert) who will deal exclusively with the identification and preparation of Ministry's projects to be co-financed by the Fund's budget, state and local budgets or from foreign sources. Ensure that the Executive Secretary's responsibilities are clearly defined and brought in line with international practices and s/he works full time on the Fund. Given the lack of enough staff, the Secretary's position can be further strengthened to fulfil more substantive tasks (e.g. including monitoring, review of reports, etc.).

#### **3.3.2 Composition of Administrative Councils**

The Administrative Council of the National Fund is dominated (in terms of key positions held) by representatives of the MECTD. This does not promote the Fund's credibility among stakeholders or the general public. The Fund could be perceived as an "internal pot of money" serving interests of the Ministry. This lack of actual and perceived separation of the National Fund from the MECTD can hinder its ability to "market" the benefits that the Fund provides. In order to make the Fund better understood and appreciated by the Government and the public at large, it is necessary that the Administrative Council should be restructured to include other essential stakeholders as well. Based on international experience of similar well-functioning institutions in the CEE and OECD countries and according to the principles of basic organisational theory, as well as considering the size of revenues of the Fund, the Administrative Council may consist of 7-9 people. This is a feasible number by international standards, providing it is uneven (a proposal for a Council consisting of 7 people has already been made). They could include representatives of the Ministry of Finance, Ministry of

Economy, the Parliament, local governments and non-government organisations. Foreign stakeholders can be invited as well, if the National Fund would be considered to manage some foreign finance. It is not clear what exactly the contribution of the representative of the Trade Unions on the Administrative Councils is. It would be better to have a representative of the clients - municipalities or business associations, if such exist in Moldova. This is the usual practice in CEE Funds. The most successful environmental funds have their supervisory bodies constituted on the basis of a wide, carefully balanced representation without any single stakeholders group dominating. The same observations hold true for the local Funds' Administrative Councils.

The fact that the Minister of Ecology sits on the Council is also controversial. Given the frequency of the meetings as well as the number of projects that are considered at each meeting (between 20 and 30) it is unrealistic to expect that a Minister will have enough time to diligently and effectively perform the tasks. The alternative is to give the Minister the right to nominate and dismiss the Chairman of the Council. Most importantly, however, the MECTD as the responsible ministry of the Fund should exercise control and supervision over the Fund's operations. The arrangement, as it is now, violates the principle that those who control should be separated from those who are controlled.

#### ***Conclusions and Recommendations***

- The Review Team's major recommendation concerning the Administrative Councils is to change the composition to be more representative of the Funds' clients. Although there are examples from CEE countries where the Minister chairs the decision-making unit, the more common practice is for the Minister's appointee to chair this unit.

#### **3.3.3 Personnel Management**

No special personnel management procedures for recruiting and appointing Fund staff were envisioned in the regulations on the Funds because of the existing management structure of the Funds. However, all professional staff are required to have a university degree or equivalent certification. The remuneration of the staff working in the Funds is governed by the Law on Public Servants and salary levels approved by the Ministry of Finance. There are no formal procedures for the training and development of staff, or for regularly reviewing and assessing staff performance, as recommended by international best practices.

#### ***Conclusions and Recommendations***

Given the possible future changes that the Funds might undergo, including increased revenues at a national level, in particular, and the associated increase in workload as well as the potential for focusing on investment projects which will require specific skills, the capacity of the current management structure of the Funds to accommodate such changes seems extremely limited and needs to be further strengthened. Emphasis needs to be placed on the competence of the personnel that will require the selection of highly qualified experts with specific expertise. A special training programme (formal and on-the-job) needs to be developed and put in place in order to train these specialists in the best practices in project cycle management (See Section 4.3) and project finance. Performance criteria for evaluation of the results of the staff work against clearly stated objectives need to be developed. As international practice suggests, these criteria need to be clearly spelled out in the regulatory documents on the Funds and staff members regularly evaluated against the criteria.

- Develop and put in place a special programme for training the specialists in the best practices of project cycle management and project finance. Develop performance criteria for evaluation of the results of the staff work against clearly stated objectives.

### **3.3.4 Control and Auditing**

#### ***Internal Control and Auditing***

The main tools for exercising internal control (meaning within the Government as opposed to external control exercised by independent chartered auditors) are legal, financial and performance audits.

The existing legislation on the Funds does not explicitly require that the Funds accounts should be subject to financial audits by the fiscal (treasury) authorities and/or external audits conducted by independent chartered accountants. In practice, the Funds are subject to regular financial control by the State financial control authority, which is usually conducted at 1 or 2-year intervals. The Statute of the Funds (Article 17) states that all "accounting and financial reporting as well as control of the activities of the environmental funds should be carried out in accordance with the legislation in force". However, in order to avoid ambiguities, it would be better if the Statute enumerated specific applicable legislative acts, instead of simply referring to "the legislation in force".

Performance audits (evaluations of Fund performance in terms of stated objectives and good performance standards) are not required by the State Auditor. The current performance audit by the Review Team was initiated at the request of the MECTD. Current legislation does not specify any criteria that would guide future performance audits. International practice indicates that without a clear legal basis, public auditing institutions are usually unwilling to assess the performance of environmental funds. The Review Team was informed that the National Fund had been audited for compliance with legislation over the period 1997 - 1999 by the Parliamentary Commission on Control and Petitions and the Environmental Office of Public Prosecutor. However, no information from this legal audit was made available to the Team members.

#### ***Conclusions and Recommendations***

It seems that internal government control of the Funds is exercised according to current legal requirements. In order to improve the system the regulator may want to consider good international practices. Internal control is defined as the organisation, policies and procedures used to help ensure that government programmes achieve their intended results, that programmes are protected from risks, such as misuse, waste of financial, human and technical resources, fraud and error, unsatisfactory accounting records, failure to produce timely and reliable financial and resource management information, failure to execute budgetary and other policy decisions in a regular and effective manner. In this regard, it is recommended to:

- Further upgrade the legislation on the Funds to harmonise the internal control requirements with international standards.
- Clearly specify auditing standards and explicitly refer to other "core" laws of Moldova in this regard.

#### ***Accounting Standards***

Existing regulations on the Funds do not specify the accounting procedures of the Funds or the applicable standards of financial management. It can be assumed that the accounting standards and financial discipline that apply to all public entities are also binding to environmental funds, which in the case of Moldova, is the cash-flow based accounting standards.

The financial management of the National Fund is reviewed by the Division of Finance and Accounting of the MECTD and for the local Funds, by the Division of Accounting of the Territorial Ecological Agencies. The Territorial Ecological Agencies prepare statistical reports on the revenues and expenditures every three months and on an annual basis, including the revenues of the

environmental funds. The National Fund (meaning the Ministry) incorporates the data developed and provided by the local Funds into a consolidated report. The Funds do not produce income and cash flow statements and financial reports consistent with international standards. Indeed, the accounting standards used by the Funds do not form a good basis for internationally meaningful reporting. This deviation from international accounting standards may not be a problem as long as the funds manage small resources. However, if the Funds are to finance environmental investment programmes, in particular in co-operation with foreign financing institutions, accounting practices would need to be strengthened.

The National Fund's accounts are kept in a commercial bank, *Banca Sociala*, on behalf of the Treasury. That Bank was selected through a competitive process by the Ministry of Finance. Local Funds, also have their accounts at the same Bank. However, the procedures and criteria for selecting such banks do not appear to be specified in any documents.

### ***Conclusions and Recommendations***

The Funds follow the accounting standards typical of all public entities in Moldova. Given the possible future development of the Funds, it is recommended that the Government should:

- Harmonise book-keeping, financial management and reporting of the Funds with international accounting standards by introducing a legal requirement for preparing income and cash-flow statements and financial reports by the Funds.
- Keep money within the Treasury system, make publicly available the policy for selecting banks for managing Funds' assets, or providing other services.

### **3.3.5 Transparency, Public Disclosure and Access to Information**

The current regulations on the Funds require that both the National and local Funds describe the results of their activities in quarterly and annual reports that should also be announced in the mass media and the MECTD Bulletin. The regulations also require that these reports should be translated into three languages - Romanian, Russian and English (for easy access by international institutions). However, no such reports, either on the National Fund or the Chisinau Municipal Fund, were made available to the Review Team during the mission.

On the basis of the information provided by the local funds, the National Fund prepares a consolidated report that, in principle, is available to the public. The format of these reports is not clear. There seem to be no special external reports. It is most likely that these are the standard statistical reporting forms (to report revenues and expenditures) used by the Statistical Office. Local Funds' reporting forms are approved by the Territorial Ecological Agencies. The information is closely monitored by the MECTD, as both the Minister and Deputy Minister sit on the National Fund Administrative Council, as well as the Ministry of Finance, through the internal control it exercises, but it is not clear to what extent other government agencies have access to this information. The NGO community in Moldova seems to be well informed about the activities of the Funds, in part because NGO representatives are members of the National and local Fund Administrative Councils and in part because many NGOs have received grants from the Funds.

The regulations do not clearly specify the requirements and standards for reporting to the Government or the Parliament and the public. International practices suggest that there should be guidelines or procedures for fulfilling such requirements and that Funds' policies toward public disclosure and access to information by the public and other interested parties should be clearly documented. Currently, this is not the case of Moldovan Funds. At the same time, Funds are required to keep evidence of all contracts and documents submitted by project applicants and file them in their registry as well as make them available when requested by the authorities. One possible explanation for the

lack of proper reports (as internationally understood) may well reflect the lack of human resources in the Funds.

Sometimes, reports on the Funds appear in *Natura* newspaper (an NGO-run newspaper) published in Romanian. Announcements on the grant schemes provided by the National Fund appear in *Natura*, on national TV and in monthly electronic information releases (e-mails sent to potential applicants upon their request). The National Fund is also in a process of developing a website that will go live soon<sup>4</sup>. This will increase its visibility and will improve the access to information by the general public. During the review mission, the two Funds visited provided the Review Team free access to their financial statements, internal documentation and regulations.

It is worth noting that reporting standards are a broader notion than just presenting simple financial results. A fully developed reporting system would cover both financial reporting (including preparation of an income statement) as well performance results. Performance results should present the environmental effects of the subsidies provided by the Funds, in terms of, at least, pollution emissions reductions, if not in terms of ambient quality impact of investments. Introducing such reporting standards could significantly contribute to improved fiscal control by the Government and evaluation of the performance of the Funds against their stated objectives. This will also help make the Funds better understood and appreciated by the rest of the Government and the public at large.

### ***Conclusions and Recommendations***

Making meaningful information available to the public is a salient characteristic of transparency. The principles and practices concerning the provision of comprehensive information on these activities and obligations with respect to publication and dissemination of such information should be documented in the regulations on the Funds.

Reports are an important instrument for planning and policy formulation. For this purpose, they should provide both comprehensive and timely information on on-going programmes as well as information on main objectives and how these are met. Local Funds could consider preparing separate reports particularly if their revenues grow in the future and they are to manage more significant expenditure. Annual reports on the Funds should be prepared in time and routinely distributed to all parties involved. The Government and the Parliament need to be better informed about the results achieved by the Funds so that they could better understand the contributions the Funds make. To this end, it is recommended to:

- Update the regulations on the Funds to better reflect the requirements for reporting to the Government, the Parliament and the public.
- Establish legally-binding standards for financial reporting in line with international standards.
- Develop specific guidelines for preparing performance reports.

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<sup>4</sup> Information on the National Fund is now placed on the web-site of the Government of Moldova [www.moldova.md](http://www.moldova.md) under the MECTD web-page

## **4. Operations of the Funds**

### **4.1 Fund Revenues**

The National and local Funds derive their working capital from a variety of revenue sources. With the notable exception of the levy on imported fuels and payments for damage to fish stocks that are earmarked for the National Fund, revenues for Moldovan Funds are described in the Law on Environmental Protection (in its amended version of 25 February 1998). These sources are listed below (Article 84):

- pollution charges;
- non-compliance fees;
- claims for compensation for damages caused to the environment;
- income from the sale of confiscated products obtained through illegal use and exploitation of flora and fauna;
- voluntary contributions.

The 1998 amendments to the Law provide the legal basis for the introduction of mandatory pollution charges. Their status was further reinforced in the Law on Environmental Pollution Payments No. 1540-XIII, adopted by the Parliament on 25 February 1998.

The Environmental Protection Law also specifies the proportion in which the revenue collected from these sources will be allocated between the National Fund and the local Funds. Local Funds are responsible for collecting revenues from these sources, retaining 70% of revenues and transferring 30% of revenues to the National Fund. Polluters pay the pollution charges directly to the accounts of the local Funds.

All Fund' revenues are received and transacted in cash, i.e. according to available data there are no non-monetary transactions. All Fund resources are exempt from income tax. Since 1999, the budget of the National Fund has been included as an Annex to the Law on the Budget for the respective year and has been approved by the Parliament. All resources that remain at the end of the year can be carried over to the following year.

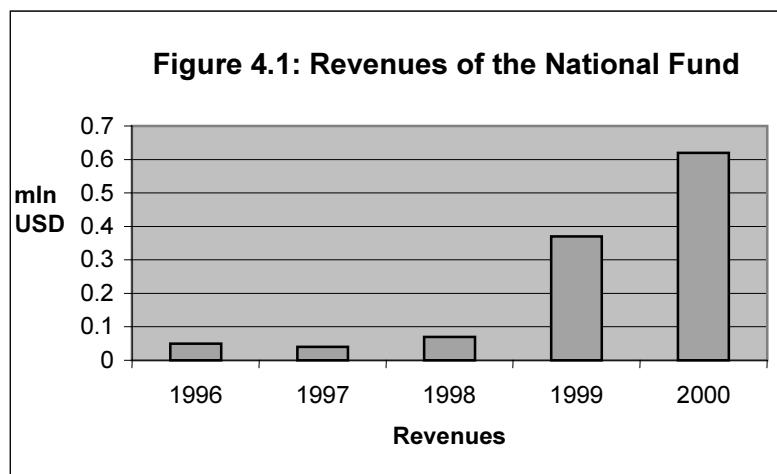
#### **4.1.1 National Fund**

The revenue sources of the National Fund are further specified in the Law on Environmental Pollution Payments, with the levy on imported oil as the main source of revenue for the National Fund. In addition, the 2000 and 2001 Laws on the Budget provide the most recent legal basis for the revenue sources of the National Fund. The 2001 Law on the Budget No 1392-XIV of 30 November 2000 specifies 4 major sources of revenue for the National Fund (2000 Law on the Budget No 405-XV with amendments of 26 July 2001, Annex 19). These sources are listed below:

- resources carried over from the previous year;
- resources transferred from the local Funds;
- payments for air pollution emissions released by mobile sources, using leaded and unleaded gasoline and diesel fuel (the levy on imported fuel);
- resources for compensation of damages caused to the fish stocks.

In addition, the Statute of the Funds (Government Decree No 988 of 21 September 1998) provides for two other potential sources of revenue for the National Fund, namely, voluntary contributions by natural persons and legal entities and resources from the Fund's own activities (in the form of dividends, interest from bank deposits, operations from government securities, from equity, etc.). In practice, the National Fund has never received any revenues from these two last sources.

No information was provided on the scale of non-payment or delayed payments of charges, non-compliance fees and damages by those sectors/polluters that are usually in arrears. However, this appears to be a chronic problem related to the country's economic situation. The low collection rate is apparent from the pattern of transfers from local Funds to the National Fund. For example, in terms of transfers of resources from the local Funds to the National Fund, the review team was informed that the Chisinau Municipal Fund failed to make any transfers to the National Fund in 2000. However, it paid in entirety in 2001 for both 2000 and 2001. The transfers from the local funds to the National Fund have been extremely low - 18% in 1999 and 12% in 2000 of the expected local funds' contributions were actually transferred to the National Fund. The penalty for delayed payments of pollution charges by polluters is very high (50 minimum salaries) but rarely enforced for social reasons. The major reason for non-payment is the insolvency and liquidation of enterprises. In addition, municipal service companies may fail to make payments because their customers (households, businesses and government agencies) are delinquent in their payment of user fees for



water, heat, and waste services. The most reliable source of revenue is collection of the levy on imported fuels, which has a collection rate of 100% in 1999 and 2000.

Available data on the total revenues of the National Fund for the period 1996 - 2000 are shown in the above Chart (Figure 4.1) and in Table 4.1 below. The volume of revenues has been steadily increasing (in real terms) particularly since 1998 when actual collection of the levy on imported fuel started.

**Table 4.1 National Fund: Revenues (1996 – 2000)**

	1996	1997	1998	1999	2000
Total revenues (thousands of MD Lei)	225.2	168.0	384.2	3901.2	7727.8
Total Revenues in USD (mln) (at current exchange rates)	0.05	0.04	0.07	0.37	0.62

*Source: Ministry of Ecology, Construction and Territorial Development*

The revenues of the National Fund by source are provided in Table 4.2 below. All data are in thousands of MD Lei, nominal values.

**Table 4.2 National Fund Revenues by Source**  
 (all data in thousands of MD Lei; current values for the given year)

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
End-of-year balance	16.4	1.0	4.0	125.6	137.1
Revenues transferred from local funds (30%)	208.8	167.0	74.0	17.7	34.7
Revenue collected from the levy on imported fuel			306.0	3757.9	7330.8
Other					225.2
<b>Total</b>	225.2	168.0	384.2	3901.2	7728.8

*Source: Ministry of Ecology, Construction and Territorial Development*

The item "Others" in the above Table refers to reimbursements to the Fund for air tickets and Ministry staff salaries paid from the National Fund's budget in cases when the Ministry of Finance experienced cash flow problems and requested the Fund to cover salaries on a reimbursement basis.

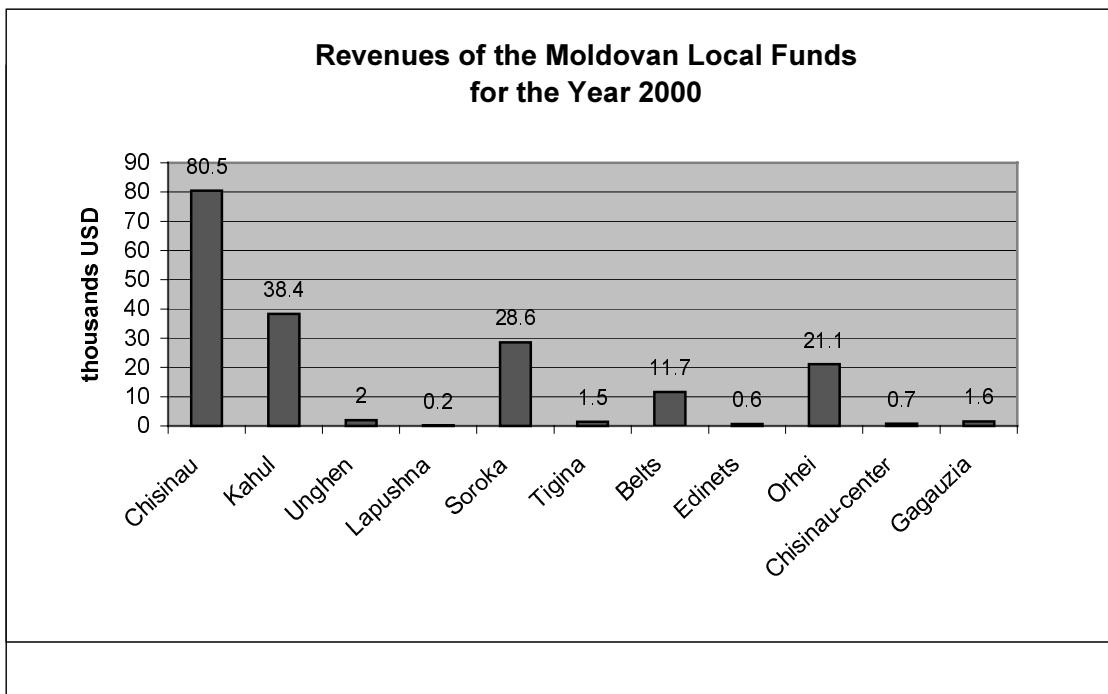
As can be seen from the above Table, the revenue from the levy on imported fuel (leaded and unleaded gasoline and diesel fuel) is by far the largest source. It accounts for 80% of all revenues received by the National Fund in 1998, 96% in 1999 and 95% in 2000. This charge was introduced by the Law on Environmental Pollution Payments (Article 7) and represents 1% of the customs value of leaded gasoline and diesel fuel and 0.5% of the customs value of unleaded gasoline. The responsibility for collecting the levy lies with the Customs Control Department. The Customs Control Department then channels all revenues collected to the account of the National Fund (Article 2(3)). Subsequent to the Law, a detailed "Instruction Concerning the Mechanism of Collection and Transfer of Pollution Payments on Oil Products Imported to Moldova" was developed and jointly approved by the Ministry of Finance, Ministry of Environment and Territorial Development and the Customs Control Department in November 1998. The Instruction specifies that actual payments should be made 5-6 days before the fuel is transported across the border. If this is not possible, payment can be made in cash at the Ecological Control Payment Counter at the Customs Office. The Instruction also specifies that the levy should be paid in all cases regardless of (i) the form of payment for the imported oil (be it cash, barter, or by loan) and (ii) the type of payment (in advance, current account, through mutual settlements or transfer of the cost to consumers). If importers refuse to pay the charge, fuel shipment is stopped at the border.

Although the levy is collected by the Customs Control Department, the MECTD is involved in the process in two ways: i) through the Ecological Control Service (which is part of the State Ecological Inspectorate) which has its own officers at the Customs who keep track and records of all imports made, collect information, provide the MECTD with regular and timely information and also verifies imported fuel quantities, customs value of imported oil and the payment of the levy; and ii) through its laboratories which are authorised to check the quality of the fuel imported.

#### **4.1.2 Local Funds**

There are 11 local environmental funds in Moldova. The Chart below (Figure 4.2) presents revenue levels for the local funds in 2002 (in thousands of USD, at current exchange rates). As can be seen from the Chart, the Chisinau Municipal Fund is by far the largest among the 11 local Funds in terms of revenue. Five of the local Funds have revenues of less than 2,000 USD. The main sources of revenue of the local funds (including the Chisinau Fund) are pollution charges and non-compliance fees. The overall trend in revenues for the Chisinau Fund between 1996 and 2000 is shown in Table 4.3 and the Chart (Figure 4.3) that follows the Table.

**Fig. 4.2: Revenues of the Moldovan Local Funds for the Year 2000**

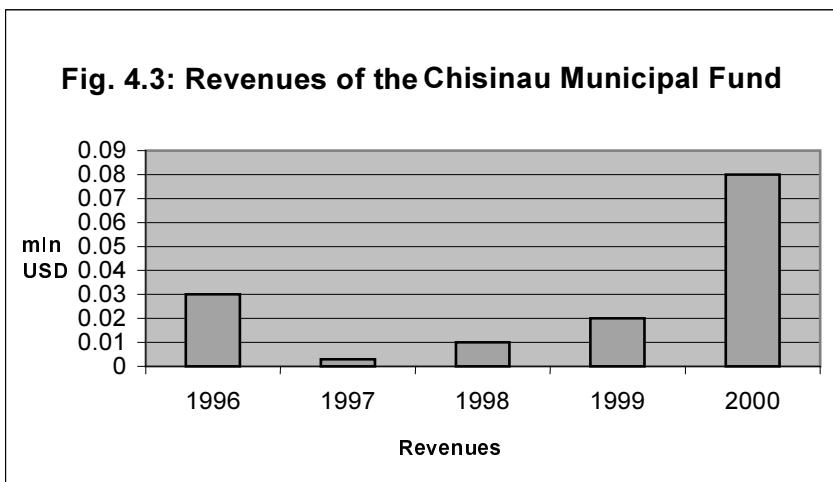


**Source:** *Ministry of Ecology, Construction and Territorial Development*

**Table 4.3 Chisinau Fund: Revenues (1996 – 2000)**

	1996	1997	1998	1999	2000
Total Revenues (thousands of MD Lei)	134.3	16.3	51.3	269.6	1006.1
Total Revenues in USD (mln) (at current exchange rates)	0.03	0.003	0.01	0.02	0.08

**Source:** *Chisinau Municipal Fund*



The revenues of the Chisinau Municipal Fund by sources are provided in Table 4.4 below.

**Table 4.4 Chisinau Fund Revenues by Sources**  
(all data in thousands of MD Lei; current values for the given year)

	1996	1997	1998	1999	2000
Beginning balance	101.8	4.0	1.8	19.8	72.9
Air pollution charges			47.1	154.0	217.9
Water use charges				91.0	398.5
Wastewater charges				4.3	13.5
Air pollution fines	0.4	0.4	0.4	0.2	1.2
Wastewater fines	2.5	2.6	2.4	4.3	1.8
Soil / land use fines		3.0		0.3	0.3
Other fines (flora/fauna)	9.6				
Other (transferred from NEF)	20.0				300.0
<b>TOTAL</b>	<b>134.3</b>	16.3	<b>51.3</b>	<b>269.6</b>	<b>1006.1</b>

Source: Chisinau Municipal Fund

#### 4.1.3 Revenue Structure of the Chisinau Fund

Pollution charges and fines have been the only sources of revenue for the Chisinau Fund. Actually, the Fund started receiving revenue from pollution charges only in 1998. Between 1996 and 1998, its major sources were fines for violation of environmental legislation. This is the main reason for the significant increase in revenues of the Fund in 1999 and 2000. The respective share of the sources in the budget of the Fund in 2000 was as follows: water use (abstraction) charges - 40%, air pollution charges - 22% and wastewater charges - only 1.3%. Carryover from 1999 and transfers from the National Fund accounted for 37%. By comparison, revenues from fines account for only 0.3% altogether (including air pollution fines, wastewater fines and soil/land use fines) of total revenues collected in 2000. This general pattern has more or less prevailed over the past two years. None of the other sources, legally allowed to the Fund, were reported as generating revenues.

In Moldova, there are about 110 air pollutants that are subject to charges. In wastewater effluent, 27 pollutants are charged. Charges are also levied on non-toxic waste and 4 classes of toxic waste (data from the Survey on the Use of Economic Instruments for Pollution Control and Natural Resources Management in the New Independent States, OECD EAP Task Force). In reality, however, only a few pollutants are monitored on a regular basis and this is reflected in the way the draft budget of the National Fund is prepared at the end of each year. The estimated budget is prepared on the basis of about 10 major pollutants that are known to generate revenue (e.g., NO<sub>x</sub>, CO, suspended particles, BOD, phosphates, etc.). Charge rates differ across the administrative regions in Moldova. For example, in 2000 the charge rate per equivalent tonne (including human toxicity index) within limits on NO<sub>2</sub> emissions from stationary sources varies from the lowest rate of MD Lei 275 (20.6 USD) up to MD Lei 450 (34.3 USD); for SO<sub>2</sub> these rates are MD Lei 237.6 (22.6 USD minimum) up to 396 (37.8 USD maximum), respectively. The rates for CO emissions are MD Lei 10.8 (1 USD) and 18 (1.7 USD). Some of these rates are relatively high by international standards, but they are still below the marginal costs of significant emissions reductions. For comparison, the SO<sub>2</sub> rates in the three

Baltic countries, Estonia, Latvia and Lithuania, that are part of the accession process to the European Union, are respectively 3.3, 16.9 and 53.3 USD/tonne. For NO<sub>x</sub>, these rates are respectively, 7.7, 16.9 and 100 USD/tonne.

The MECTD jointly with its Ecological Territorial Agencies are legally allowed to adjust the rates of the charges (Article 5(1), Law on Environmental Pollution Payments). The rate within limits is determined on the basis on the minimum salary which is then multiplied by a coefficient calculated for each of the regions. The minimum salary until the year 2000 was 1.5 USD, in 2001 it was increased to about 8 USD. The fine is 5 times the rate within limits. For accidents - the rate becomes 50 times the basic rate. When preparing the budget for the next year, the National Fund works with average rates in its calculations. When charges were introduced in 1998, charge rates were not indexed, resulting in lower real charge rates in 1999 due to inflation. However, charge rates were indexed beginning in 2000.

The above Law and the subsequent Instruction on the Calculation of Pollution Charge Payments, approved by the Minister of Environment and Territorial Development on 17 April 2000, as well as the Regulations on the Ecological and Economic Services of the Territorial Agencies of the Ministry of Environment (5 November 1998), assign a special role to the local Funds in developing the pollution charge rates and revenue collection. Polluters make proposals for adjustments of pollution charges. These proposals are then agreed with the Territorial Ecological Agencies and are approved by the Administrative Councils of the local Funds. In reality, it is the level of revenue needed to cover the expected expenditure to be financed from the funds in the following year that is the determining factor in setting the charge rates.

The Ecological and Economic Services, which manage the day-to-day work of the local Funds, work with polluters to establish the amount of charge due and payments have to be made quarterly. If the quarterly payments are very small, the polluter may be allowed to pay them once a year.

Polluters make their own calculations and report their emissions to the Ecological and Economic Service. The inspectors working at the Service are responsible for checking and verifying the accuracy of the estimated emissions. They are also responsible for checking the quantities emitted or discharged. Although not officially permitted, it seems that informal negotiations with polluters concerning the volumes or schedules of payment sometimes take place. For example, the Chisinau Fund is responsible for monitoring 60,000 polluters. This will normally require a considerable number of personnel but there are only 30 inspectors who work in the Chisinau Agency and 5 staff in the Chisinau Fund. The Chisinau Fund lacks resources to equip its staff with even basic computers and monitoring infrastructure and relies on the MECTD for direct transfers from the National Fund for such purchases.

Polluters pay the amounts due directly to the bank account of the local Fund. Tax authorities are not involved in this process at all, although this option is being considered. However, if the charge for pollution above permissible levels equals or exceeds the profit of the enterprise that has to pay it to the Fund, the Ministry or its territorial Agency, along with the local hygiene-sanitary authorities, have the right to propose to the local public administration to partially or fully close down the polluting enterprise. So far, this practice has not been enforced mainly for social and economic reasons, as one of the main debtors to the Funds are power plants and water utilities.

It was not clear from the Review Team's interviews if pollution charge offset arrangements with polluters are practised at a local level whereby charges are reduced or waived in return for a commitment by the polluter to implement certain agreed environmental improvement measures. The Review team was informed that some polluters have proposed that charges be reduced or waived. On the other hand, offsets may not be needed, if polluters could negotiate the rates and volumes with authorities in advance. Offsetting pollution charges has never been a practice in the Chisinau Fund.

#### **4.1.4 Analysis of the Funds' Revenues**

Over the past two years, the National Fund has experienced a drastic 9-fold increase of its revenues compared to the 1998 level, the year before the levy on imported fuel started to be collected and more than a 2-fold increase compared to the first year (1999) when the levy was collected. This fuel charge provides a stable and relatively predictable flow of resources that, with the growth of the economy, can only be expected to increase even more. The levy has a relatively low administrative cost for the National Fund. On the other hand, it seems a bit unusual that the Customs Control Department is heavily involved in collecting the revenue from the levy but does not receive any share of it. There is, of course, a strong legal basis for this (the Law on Environmental Pollution Payments) but the Review Team heard, anecdotally, that the Customs Office had already raised this issue. International practice shows that whenever other bodies than Funds are involved in the revenue collection they need some incentive to do so effectively particularly if the levy does not represent a revenue-raising instrument for the Government budget. It also seems that there is some overlap of responsibilities of the Customs Control Department and the Ecological Control Payment Counter which need to be further clarified in order to avoid inefficiencies.

The trend of the revenues flowing to the Chisinau Municipal Fund is increasing. This is particularly true for 1999 and 2000 (a 4-fold increase) due to the enforcement of pollution charges. It might be expected that, to some extent, the situation is similar in the other local Funds. However, despite this revenue increase as well as the expansion of the revenue base to include pollution charges, the weak enforcement of the pollution charges and low collection rates seriously dampens the revenue potential of pollution charges. Most importantly, the lack of stability and precise planning of revenues negatively affect the realistic programming and spending budgets of the Funds. On the one hand, the low collection rate, reflected in the amount of revenue transferred by the local funds to the National Fund, could be partially explained by the early stage of enforcement of pollution charges and little experience of both polluters and authorities with their application. It seems that enterprises find it difficult to understand how to make the charge calculations. On the other hand, it could be a result of a large number of pollutants charged and the incapacity and lack of resources of inspectors to monitor the process and collect the revenues. Most likely however, given the possibility for negotiations between polluters and local Funds, the volatility of the revenue collection may well be due to excessive discretion allowed by local Funds. Besides, the concept of the collection rate is rendered meaningless, if charges due are results of year-by-year negotiations. In this context, the collection rate at a local level could be very high if the collection rate is defined in terms of amounts billed and amounts paid by polluters, as the deal between the two sides is struck in advance. However, the Review Team did not have the opportunity to assess this issue in any detail.

Related to the collection of revenue from pollution charges and fines is one other issue of major concern, namely the fact that polluters pay the pollution charges due directly to the accounts of local Funds (unlike the levy on the fuel which is collected at a Treasury account, Instruction Concerning the Mechanism of Collection and Transfer of Pollution Payments on Oil Products Imported into the Republic of Moldova, Article 3). Local Funds have their accounts held at a commercial bank and not at the Treasury. Good public expenditure management practices require that public revenue should be controlled by the Government and collected at Government accounts that are part of the Treasury. From there, the revenue is distributed among Funds to their bank accounts. Bypassing Treasury banks does not allow the Government to control the total flow of money from pollution charges in these accounts. Hence, the Government may not be fully aware of the exact amount of resources collected and spent by the Funds. This could prompt fraudulent behaviour and misuse of public resources. Such situations should be avoided. Such a behaviour may not necessarily be the case of the Moldovan Funds but it is worth considering the introduction of safeguards to protect the system of pollution charges from misuse and corruption.

The fine for delayed payment that is set at 50 minimum salaries (a one-time payment usually made at the end of the year by delinquent polluters upon court decision) is also meaningless as it is practically

unenforceable. In order for the fine to work, it should be made realistic and enforced without discretion.

Predictability of the different revenue sources depends on how the rates and base quantities change over time. A number of discretionary elements in the process of determining the charge rate and the charge base have also adversely affected the predictability of disposable resources of the Funds. The MECTD sets the rates in terms of minimum salaries per equivalent tonne of pollutant for each of the regions but the actual rates for individual pollutants are left to the discretionary decisions of the local funds. Actual rates are set in the negotiation process between the Territorial Ecological Agency (through its Director who sits on the Administrative Council of the Fund) and the local public administration (through the mayor/prefect as a Chair of the Administrative Council at local funds) with the active lobbying of polluters. The charge base is also subject to possible negotiations between polluters and funds' staff. All these factors decrease revenue predictability.

The charge base for the local Funds is, in some respects, too broad and in others too narrow. It is too broad because more than 200 pollutants are charged. Currently, environmental authorities do not have the capacity to effectively monitor or supervise self-monitoring of so many pollutants and enforce payments of all charges. The heavy burden that this system imposes both on polluters and authorities is not worth the negligible revenue these pollutants generate. This is also reflected in the level of revenues of some of the local Funds that is so low that it is difficult to view them as funds. They are obviously not in a position to (co-) finance any environmental investment projects. As in other countries, a small number of emissions account for a large share of revenues from pollution charges. This revenue must cross-subsidise the collection of all the other pollution charges for which the cost of collection is larger than the amount of revenue collected. Rationalising this system, by focusing on fewer charges for revenue raising or incentive purposes and replacing other charges by different instruments to reduce emissions, is worth considering.

On the other hand, the revenue base of the local funds can be considered narrow because no other instruments but pollution charges and different environmental fines generate revenue. Other revenue sources are worth considering as well, such as charges on environmentally damaging products or transactions (e.g. charge on used batteries or tyres). These charges are typically easier to monitor and enforce and can ensure a more stable and predictable revenue stream. Removing obstacles to effective mobilisation of foreign finance is another option for consideration. As experience in other countries, both CEE and the NIS, shows the involvement of the State revenue service in the collection process could significantly increase the revenue stability due to comparative advantages in enforcing collection.

Although the top rates of some of the charges are significant by international standards, they are still low in terms of marginal costs of pollution abatement technology. Nevertheless, as currently enforced, the system of pollution charges does not seem to be working properly. The revenue collected is so low that it is difficult to see how pollution charges fulfil even their primary function as revenue-raising instruments, let alone providing economic incentives to polluters to modify or mitigate environmentally-damaging behaviour. Hence, in practical terms, they do not differ fundamentally from most other taxes and charges imposed by the state. The major difference being that the revenue collected from pollution charges is not well controlled by the Government at a local level, which renders the whole scheme even more susceptible to corruption and misuse of public funds.

Experience in other CEE and NIS Funds shows that non-compliance fees are of a very unstable and unpredictable nature and contribute very little revenue. As local Fundsinspectors in Moldova have no capacity to regularly inspect facilities, and given the administrative costs of these fees compared to the revenue they generate, it is not worth keeping them as a formal revenue source of the Funds.

Pollution charge offsets, as mentioned earlier, are not practised by the Chisinau Fund<sup>5</sup>. But given the negotiation process between polluters and local Funds with respect to volumes of pollution and charge rates, there seems to be no real need for such offsets. It is worth pointing out that evidence from other NIS, where offsets are commonly used, shows that offset schemes significantly reduce the stability of the revenue stream. They also suffer from a number of other serious defects that may raise legitimate concerns by the authorities responsible for the integrity of the public finance. For example, such schemes may provide a window for corruption, tax evasion and cause significant fiscal risk.

### ***Conclusions and Recommendations***

The fact that the Ministry has managed to direct 100% of the revenue from the fuel levy to the accounts of the National Fund for environmental improvements is a great achievement. It also shows a certain level of maturity and understanding on the part of the Government with regard to the needs for financing environmental improvements. However, this significant increase has brought new challenges to the National Fund and will increasingly place it in the focus of political and public attention and raise higher expectations with regard to the results achieved by the Fund. With regard to the revenue sources, the following changes might be considered:

- Reduce discretionary elements from the process of setting the pollution charge rates, charge base and revenue collection. Enforce strict prohibition of individual negotiations with polluters.
- Reduce the number of revenue raising pollution charges from 200 to less than 10. In parallel legislation, introduce credible emissions monitoring system for these charges.
- Consider introducing charges on environmentally damaging products or transactions (e.g. on used batteries, tires, etc.) which can ensure a more stable and predictable revenue stream for the Funds.
- Consider involving the Tax authorities in the collection of pollution charges as they have better enforcement tools. Consider some sort of sharing agreement with them in order to provide them with incentives to enforce the system.
- Remove obstacles to effective mobilisation of foreign finance through, among others, implementing reforms outlined in this paper.

## **4.2 Fund Expenditures**

### **4.2.1 National Fund**

#### ***Programming/Planning***

The planning process by which the National Fund establishes annual expenditures is closely linked with the preparation of the State Budget. The anticipated income for the Fund (revenues plus carryover) is allocated to one of the 14 budget categories developed by the MECTD, with the final decision on allocation taken at a higher level of government. In preparing the budget, the Ministry is expected to programme at least 70% of expenditures for activities related to the implementation of the National Environmental Action Plan (Statute of the Funds, Article 7). The Fund's approved budget is

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<sup>5</sup> The Review Team has been informed that on 16 April 2002 the Minister of Ecology, Construction and Territorial Development issued an Order on procedures for evaluation of proposals made by enterprises on reduction of or exemption from payment of pollution charges against a commitment by the enterprise to invest the withheld resources into waste treatment and recycling projects

presented in an Annex to the State Budget devoted to extra-budgetary funds. At the beginning of the year, the Fund is provided with the approved allocation plan and is required to comply with the allocation in making disbursements during the year. The Fund does not register projects into a database that would facilitate the analysis of the Fund's project portfolio, but simply tracks expenditures according to the 14 budget categories.

### **Analysis of the Programming/Planning Process**

The existing planning process involves the Ministry's staff setting allocation levels for each of the 14 expenditure categories. The process is not transparent, with no clear and specific objectives and vaguely defined expenditure categories. A wide range of potential activities can be supported by the Fund. In addition, the lack of clearly defined spending priorities (apart from support for water projects) exposes the Fund to external pressures from a great number of potential beneficiaries. This has led to a dissipation of the Fund's scarce resources, thinly spread among many projects in an attempt to satisfy too many stakeholders.

The Fund does not have a longer-term strategy and its annual planning is exclusively based on annual budgeting. The spending priorities are not closely linked to eligibility criteria in terms of priority projects and target groups that can receive financing from the Fund. The existing 14 expenditure categories, as currently formulated, provide very little guidance as to what the real priorities are and encourage unrealistic expectations. The NEAP serves as a basis for defining the priorities of both the National and the Chisinau Fund. However, the NEAP is not an implementing strategy and could not provide the basis for decisions on how to allocate public funds.

In order to address priority environmental investments in the country, the future spending programmes of the Funds should be derived from a realistic strategy with clearly identified targets. One such example is the Environmental Financing Strategy for the Municipal Water and Wastewater Sector of Moldova prepared in 2000. The Strategy contains robust cost estimates for financing priority measures in the water sector and can serve as a basis for focusing the National Fund resources on projects and project owners that critically need subsidies, thus identifying a specific "niche" for the Fund. Using such tools, as the Financing Strategy, could help inject a level of realism in the programming cycle of the National Fund. It could also help introduce a strategic multi-year perspective in the Fund's planning which will, in addition, allow it to more effectively allocate its limited resources among competing projects.

Improved programming and planning will further help the MECTD in its discussions with the Ministry of Finance on the future of the Funds.

### ***Expenditure Focus***

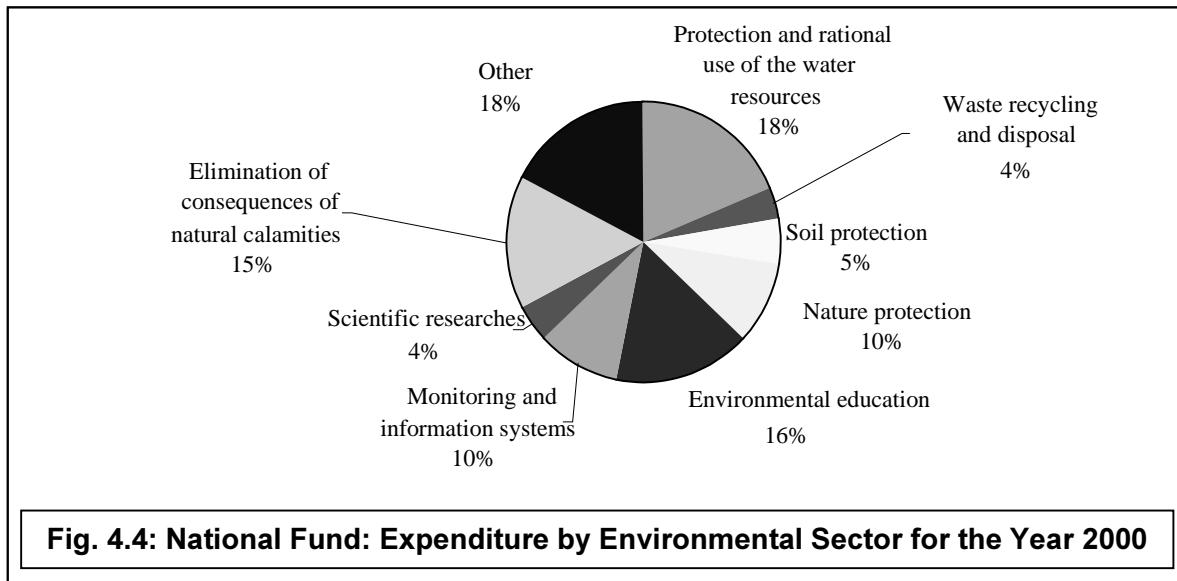
In 2000, the total expenditure of the National Fund amounted to MD Lei 7 113 400 (about USD 570 000). The actual expenditures by budget categories are presented in Table 4.5 for 1998-2000.

**Table 4.5 National Fund: Expenditures by Budget Item**  
 (all data in thousands of MD Lei; current values for the given year)

Budget Item	1998	1999	2000
Development and implementation of national programmes on environment protection, reclamation of land and water sites damaged by human activity		2263.7	2106.5
Research in environmental protection (commissioned by the Ministry)	29.0	187.2	121.5
Development of an environmental standards system, regulating the use of natural resources and environmental quality		81.9	199.2
Organisation and introduction of environmental information and promotion	37.1	96.4	150.0
Environmental education and awareness-raising	65.1	200.2	145.4
Re-training of Ministry's staff	42.1	14.4	61.6
Collaboration with international organisations in the field of environmental protection, including attracting foreign specialists for consulting, conducting analyses, participation of national representatives in the work of international environmental conventions to which Moldova is a Party. Payment of membership fees to international organisations		129.4	499.7
Co-financing of scientific research, designing and implementation of technologies with technical parameters meeting environmental standards, the creation of inter-sectoral enterprises for waste recycling, implementation of clean technologies during construction of environmental facilities		10.0	522.6
Elimination of consequences of calamities, industrial accidents and other accidents that could be potentially environmentally-damaging		155.0	1370
Financial support to local Environmental Funds for implementing environmental measures in hot-spot areas		173.3	597.3
Rewarding specialists – regardless of the institution they belong to – that have contributed to the stabilisation and reduction of pollution levels (no more than 1% of the National Fund budget)		13.6	66.9
Co-financing of environment technical assistance and investment projects, funded by international donor organisations, local sponsors and investors		1.0	773.1
Payment for the creation of technical and material infrastructure and introduction of statistical databases of local environmental funds	85.3	281.5	300.0
Financial support of environmental NGOs based on a special grants programme for environmental protection projects		156.5	199.6
Balance at the end of the year	125.6	137.1	614.4
<b>Total Expenditure:</b>	<b>258.6</b>	<b>3 764.1</b>	<b>7 113.4</b>

*Source: Ministry of Ecology, Construction and Territorial Development*

In 2000, priority areas for financing from the National Fund were protection and rational use of the water resources (over 18% of expenditure) and for environmental education (16%). The allocation of Fund expenditures for 2000 is illustrated in the diagramme below (Figure 4.4). In addition, Table 4.6 provides information on National Fund expenditures by environmental sector for the period 1996-2000. The category "Other" covers support for the Ministry, in terms of training, rewarding of Ministry's staff, international cooperation, buying of equipment, etc.



**Table 4.6 National Fund Expenditures by Sector**  
 (all data in thousands of MD Lei; current values for the given year)

Sector	1996	1997	1998	1999	2000
<b>Air protection</b>				25.0	
- Energy production / heating sector					
- Industry sector (excl. energy)				25.0	
- Transport					
- Other					
<b>Water</b>				1106.0	1332.9
- Water supply				98.0	
- Wastewater treatment / sewage				918.0	1332.9
- Other				90.0	
<b>Waste</b>				33.0	270.3
- Reuse /recycling					10.0
- Disposal				33.0	260.3
<b>Soil protection</b>				126.0	360.0
<b>Nature protection / conservation</b>	12.3	25.9		1125.7	689.2
<b>Environmental education</b>	77.8	60.2	65.1	378.5	1128.7
<b>Monitoring and information systems</b>	46.6	29.2	116.4	282.0	697.2
<b>Research</b>	9.4	16.4	29.0	197.2	305.2
<b>Clean-up of accidents / emergencies</b>				155.0	1080.0
<b>Other</b>	7.1 <sup>1</sup>	32.3 <sup>2</sup>	48.3 <sup>3</sup>	335.7 <sup>4</sup>	1249.9 <sup>5</sup>
<b>Total expenditure</b>	<b>224.2</b>	<b>164.0</b>	<b>258.8</b>	<b>3764.1</b>	<b>7113.4</b>

Source: Ministry of Ecology, Construction and Territorial Development

1. Training of Ministry's staff and international cooperation;
2. Training of Ministry's staff, international cooperation and employee bonuses;
3. Training of Ministry's staff;
4. Training of Ministry's staff, international cooperation, financial support to the local environmental funds, employee bonuses;
5. Technical and material infrastructure of the Ministry, international cooperation and employee bonuses.

In 2000, as well as from the beginning of the surveyed period, the central administration was the largest recipient of assistance from the National Fund, accounting for 31% of total expenditures (Table 4.7). Improving the equipment of the Ministry of Ecology, Construction and Territorial Development and its sections as well as organisation of seminars, printing publications, etc. was financed from the National Fund sources. Municipal administrations accounted for 19% of Fund expenditures for projects involving investments in municipal water and wastewater treatment facilities, sewerage systems, solid waste disposal, cleaning potable water intakes, etc.

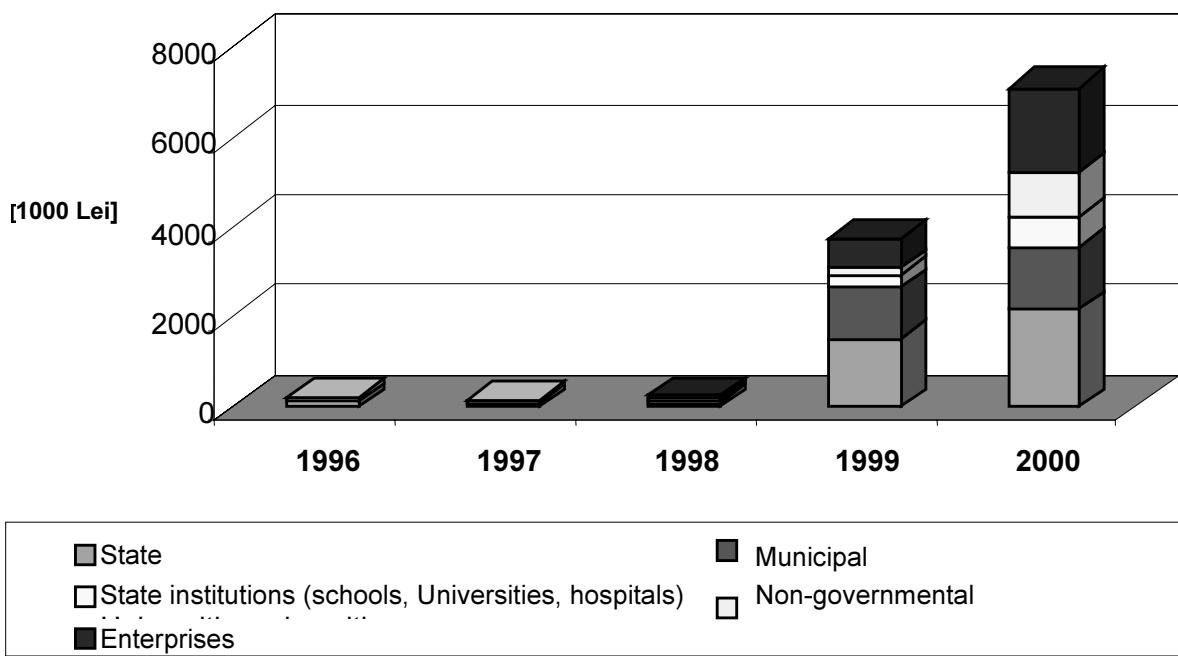
Enterprises started to receive support from the Fund only in 1999. In 2000, state enterprises received 19% of the budget for improving the situation in Nature Reserves, for planting greenery in the cities, and for TV programmes on environmental subjects. The National Fund allocated 8% to private companies for projects on utilisation of galvanic waste, for replacing equipment, for creation of videos on environmental subjects, for publishing booklets and TV-radio transmissions on private channels. State institutions (schools, universities, hospitals, etc.) received 10% of the budget for organising school thematic competitions, purchasing environmental books for schools, for research, for the development of environmental standards and elaboration of ecological maps, etc. Finally, NGOs accounted for 13% of Fund expenditures for seminars, conferences, organisation of environmental activities, expeditions, publishing information bulletins, etc.

**Table 4.7 National Fund: Disbursements by Beneficiary**  
(all data in thousands of MD Lei; current values for the given year)

Beneficiary	1996	1997	1998	1999	2000
<b>State administration</b> (including awards for personnel)	124.2 (55%)	77.0 (47%)	84.7 (33%)	1516.6 (40%)	2179.4 (31%)
<b>Municipal administration</b>	12.3 (6%)	30.0 (18%)		1139.0 (30%)	1364.6 (19%)
<b>State institutions</b> (schools, universities, hospitals)	9.4 (4%)	15.0 (9%)	71.7 (28%)	283.5 (7%)	719.4 (10%)
<b>Non-governmental organisations</b>	78.0 (35%)	42.0 (26%)	65.1 (25%)	156.5 (4%)	954.6 (13.4%)
<b>Enterprises:</b>			37.1 (14%)	668.5 (19%)	1895.4 (27%)
-state-owned				354.7 (10%)	1315.5 (18%)
-private			37.1 (14%)	313.8 (9%)	579.9 (9%)
<b>Total expenditure</b>	<b>224.2</b>	<b>164.0</b>	<b>258.6</b>	<b>3764.1</b>	<b>7113.4</b>

Source: Ministry of Ecology, Construction and Territorial Development

**Figure 4.5: National Fund: Expenditures Allocation by Beneficiary**



Until 1999, the National Fund's expenditures had been limited to non-investment items. With the increased budget, investment projects were funded in 1999 and 2000, accounting for 8% of expenditures in 1999 and 18 percent in 2000 (Table 4.8). The increased budget beginning in 1999 has also increased the number of projects the National Fund can support (Table 4.9).

**Table 4.8 National Fund Expenditure by Project Type**  
(all data in thousands of MD Lei; current values for the given year)

Type of Projects	1996	1997	1998	1999	2000
<b>Investment projects</b>				312.4	1276.4
<b>Non-investment projects</b>	224.2	164.0	258.6	3451.7	5837.0
<b>Total expenditure</b>	<b>224.2</b>	<b>164.0</b>	<b>258.6</b>	<b>3764.1</b>	<b>7113.4</b>

Source: Ministry of Ecology, Construction and Territorial Development

**Table 4.9 Number of Projects Supported by the National Fund**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Grants	30	25	30	175	208
Equity investments					1
<b>Total number of approved projects</b>	<b>30</b>	<b>25</b>	<b>30</b>	<b>175</b>	<b>209</b>

Source: Ministry of Ecology, Construction and Territorial Development

### ***Administrative Costs***

Current regulations prohibit the use of the National Fund's budget to cover Fund administrative costs (including salaries). Under the present arrangement, the Fund's staff are employed by the Ministry of Ecology, Construction and Territorial Development. The Fund can use 1% (the Statute on the Funds, Article 12k and the Law on the Budget) of its expenditures for compensation of Ministry personnel and part of this sum is effectively used as a salary for staff (5% for local Funds, Statute on the Funds, Article 10g).

### ***Monitoring/Reporting of Expenditures***

All expenditures are classified according to 14 budget categories. The Fund does not monitor expenditures according to the sector, type of beneficiary, type of disbursement, or type of project. The information presented in earlier tables was developed for the purposes of this review.

### ***Disbursement Mechanisms***

The disbursement mechanisms, allowed to both the National and local Funds, are specified in the Statute on the Funds (Article 5). These are: grants, interest subsidies, soft loans and interest free loans, loan guarantees.

To date, the National Fund has used mainly grants and has covered direct expenses of the Ministry. It pays expenses of the MECTD (equipment, travel costs, etc.) directly in response to invoices, and disburses grants to external applicants (other governmental agencies and institutions, state-owned and private sector enterprises, and NGOs). Grants require the recipient to provide *ex post* evidence to the Fund that the amount of the grant has been used for purposes proposed in the application. As noted earlier, the levy on imported fuels significantly increased the National Fund's capacity to support projects. For example, in 2000, the National Environmental Fund received 371 applications, of which 209 received financing.

Even when the National Fund finances investment projects, the grants provided by the Fund are often difficult to qualify as "grants" according to the internationally-understood meaning of this word. The financing done by the Fund resembles rather direct purchases on behalf of the government. It is the Fund (on behalf of the Ministry) that purchases goods and services according to the public procurement procedures and transferring them to beneficiaries (state or local administration). Often 100% of a project's cost is covered by the Fund's resources.

### ***Analysis of Funds' Disbursement Mechanisms***

Given their legal status, management structure and staff expertise, it is understandable why the Funds have used until now only grants and direct purchases. Under current circumstances, the Funds are not prepared to use more sophisticated and more risky financing instruments, such as loans or equity investments. Direct grants and subsidy interests are the simplest instruments for transferring subsidies. Grants are transparent and relatively easy to manage and do not require extensive administrative staff

resources. They allow Funds' staff to accumulate experience and develop basic skills with financial management, contracting, project appraisal and implementation monitoring. On the other hand, grants leverage a very small level of other financing sources, especially because the National Fund does not require co-financing. By serving as a funding source of "first," rather than "last" resort, the Fund's financial support cannot be viewed as "additional," a criterion that is often associated with effective utilisation of scarce public resources. The use of Fund resources for Ministry expenditures, which are usually financed from regular Ministries' budgets and not out of resources envisaged for priority environmental measures, also reduces the resources that are available for projects. Thus, there are significant opportunities for the National Fund to support a greater number of projects and to stimulate the development of other sources of environmental financing.

International experience shows that disbursement mechanisms allowed to public Funds should be few and transparent. They should also be adjusted to the needs of the projects as well as to the institutional and managerial capacity of the Funds. In fact, a great deal of capacity building is needed even to manage grants effectively. As noted earlier, the National Fund does not disburse resources in a way typical of public institutions managing public environmental expenditure world-wide. Moldovan Funds do not always offer grants to beneficiaries who could then pay contractors to implement environmental projects. Instead, the National Fund (on behalf of the Ministry) just organises tenders for goods and services that the state or local authorities want to purchase. Hence, fundamental organisational and management reform as well as capacity building will be needed before the Fund is ready to operate competitive grants (let alone loans) in a manner that is understandable to foreign institutions.

Soft or interest free loans can also be used, but this will have immediate implications on the Funds' staff. Either a loan department would have to be created (2-3 credit analysts) who would analyse creditworthiness and collateral of borrowers, or this task will have to be contracted to commercial banks (for a fee). The experience of environmental funds in the CEE countries indicates that the division of project appraisal competencies (for appraisal of the environmental and technical feasibility of the investment project, including verification of the project's cost-effectiveness and project's (not borrowers') cash-flows) and risk sharing with commercial banks may be a good tool to mitigate the risks connected with issuing soft loans. Such an arrangement also allows fund managers and stakeholders to retain control on the project appraisal, implementation and monitoring of operation. It also helps accumulate expertise if appropriate legal requirements are introduced by the Fund's stakeholders. However, the current Statute on the Funds does not envisage any such arrangements. In addition, the potential revenue that will be generated from such loans (principal plus interest) is not mentioned in the current regulation on the Funds as a legal revenue source of the Funds.

It seems that in 2000, the National Fund made its first equity investment in a joint-stock company that amounted to MD Lei 60 000 (USD 4 800). However, it is recommended that investments on the capital market should not be allowed to the Fund. In addition, this instrument seems to be illegally used as it is not allowed by the current regulations on the Funds. Acquiring or receiving enterprise shares or securities (bonds, veksels) would diminish the credibility of the Fund, as a public institution, and may easily wipe out its resources. Such investments also require a great deal of management time and human resources to trade these securities against cash on the market.

Allowing the Fund to issue contingent liabilities, such as loan guarantees, is particularly dangerous. Most environmental funds in the CEECs are not allowed to provide guarantees. The limited experience with loan guarantees in the CEECs has been disappointing. For example, the Czech Fund was required to cover several defaulted loans for which it had provided loan guarantees. In addition, loan guarantees require a multi-year planning framework which the Moldovan Funds have no experience with whatsoever.

The fact that the two Funds reviewed have used mainly direct grants and purchases so far responds to their managerial and institutional capacity and has prevented them from financial failures. More

sophisticated and risky instruments should only be used if and when the Funds acquire a certain level of experience that would allow them to manage the public resources at their disposal safely and in an accountable manner.

#### **4.2.2 Chisinau Municipal Fund**

The planning process used by the Chisinau Fund is very closely connected to the preparation of the budget. Priorities are determined by the Local Ecological Agency and approved by the Administrative Council. There is no long-term programming, however the NEAP is seen as a long-term strategy, to be used for setting Chisinau Municipal Environmental Fund priorities. The entire planning system is based on an annual budget preparation and at the beginning of the year, resources are allocated to appropriate budget lines.

All expenditures (projects, equipment purchases, travel expenses) have to be classified according to 9 budget lines. Up through 1998, the Chisinau Fund usually covered some local environmental needs. Since the end of 1998, a grant programme has been introduced and works similarly to the programme in the National Fund. The number of supported projects is very small: 5 in 1999 and 10 projects in 2000. All projects are of a non-investment nature. Although the Fund reports all its expenditures as grants, a major part of its resources is used to support municipal administration, bonuses for inspectors, etc. Information on expenditures of the Chisinau Fund is provided in Tables 4.10 and 4.11. In Table 4.10, expenditures are presented by sector while Table 4.11 summarises expenditures according to beneficiaries.

**Table 4.10 Chisinau Fund: Expenditures by Sector**  
(all data in thousands of MD Lei; current values for the given year)

Sector	1996	1997	1998	1999	2000
Water supply					1.2
Waste disposal					180.0
Nature protection				171.7	131.9
Environmental education					49.6
Monitoring and information systems				10.0	87.2
Elimination of consequences of natural disasters					300.0
Other	130.0	14.5	31.5	15.0*	146.3**
<b>Total expenditure:</b>	<b>130.3</b>	<b>14.5</b>	<b>31.5</b>	<b>196.6</b>	<b>896.2</b>

*Source: Chisinau Municipal Environmental Fund*

Note: The category “other” for 1996-1997 includes transfers made to the Chisinau Municipal Fund and to the National Environmental Fund to cover Agency needs

\* Inspectors’ awards

\*\* Creation of the technical and material infrastructure of the Agency

**Table 4.11 Chisinau Fund: Expenditures by Recipient**  
 (all data in thousands of MD Lei; current values for the given year)

Recipient	1996	1997	1998	1999	2000
State administration	42.0	4.6	15.3	25.0	332.0
Municipal and local administration	88.3	9.9	16.2	171.7	449.1
NGOs					115.1
<b>Total expenditure</b>	<b>130.3</b>	<b>14.5</b>	<b>31.5</b>	<b>196.7</b>	<b>896.2</b>

Source: Chisinau Municipal Environmental Fund

### **Conclusions and Recommendations**

The starting point for improving the National and Chisinau Fund's disbursement programmes is to review the existing policies that guide disbursement and the process that is used to programme expenditures on an annual basis. With the exception of guidance on the form of disbursements (e.g., grants and direct payments) and the categories of expenditures, the National Fund lacks disbursement policies comparable to those of the well-performing CEE Funds. For example, the National Fund is encouraged to establish co-financing rates for different classes of projects and set maximum absolute levels of support that the Fund is prepared to provide. In addition, greater emphasis should be placed on support for investments. To enhance transparency and accountability, the Review Team would recommend several changes to the current system for classifying expenditures:

- Decrease the number of budgetary classifications of Fund expenditures. Budget lines should correspond to real priorities of the government and should give more flexibility to the Fund.
- Separate out and condense all administration costs into one budget line. Salaries and other operational expenses of the Fund should be financed from the Fund's sources.
- Separate out and condense support to the Ministry into one budget line. Such expenses should not be recorded as "other" environmental priorities. This would enable the public to better understand how the Fund's resources are spent. Ultimately, supplementary budget support for the Ministry should be significantly decreased.
- Focus expenditure on investment projects by, for example, introducing the minimum percentage limit on annual expenditure that must be used to finance investments in environmental infrastructure.
- Require co-financing by, for example, introducing percentage limits on the maximum share of investment expenditure that can be financed by the funds.
- Do not permit Funds to use direct loans or equity investments for a few years until required capacity in risk management is developed. If loans need to be considered earlier, out-source loan management to commercial banks selected through a competitive procedure. Amend the regulations on the Funds accordingly.
- Increase transparency and consistency of revenue and expenditure data. Prepare a database of projects supported from the Fund and report expenditures (as well as the number of the projects) by sector, type of beneficiary, project type.

## **4.3 Project Cycle Management**

Project cycle management is the key function of environmental funds. It is the process by which Funds make decisions on disbursements. The project cycle includes a sequence of activities designed to identify, appraise, select, implement, and monitor environmental projects financed by the Fund. Typically, management of the project cycle is the shared responsibility of the Fund's management and staff, with the supervisory board tasked with the approval of projects for funding.

### **4.3.1 National Fund**

Until 1998, the National Fund did not operate under a set of project cycle management procedures. As revenues were modest and primarily used to support the Ministry, the process of selecting projects was simple. With the introduction of the levy on imported fuels and the very large increase in working capital, the Fund's expenditure programme was expanded. In November 1998, regulations were approved to guide the National Fund's project cycle management activities (Government Decree No 988 of 21 September 1998 "On Approval of the Statute of Environmental Funds").

The Fund does not deal with many infrastructure investment projects. In 2000, 22% of the Fund's resources were allocated to investment projects versus only 8% in 1999 (the first year when the Fund started providing support to environmental investments), however, from the data provided, it is not clear if the Fund covers only investment costs or O&M costs, too. Consequently, the project management load is reduced. This is a situation common to some CEE and almost all NIS Funds. Those funds that have both infrastructure investment projects and non-investment projects often use simplified project cycle procedures for non-investment projects and a more detailed approach for investment projects.

#### ***Procedures for project cycle management***

The National Fund's project cycle is simple and has a small number of formal elements. As noted in Section 3, the Administrative Council plays a very strong role in project selection. Applications are accepted throughout the entire year and reviewed by the Administrative Council during its meetings. The scheme on the next page (Figure 4.6) presents the basic structure of the project cycle for the National Fund. Each step of the project cycle is summarised below.

##### **1. Project identification**

The National Fund plays a passive role in identifying projects. The Fund's budget allocation is published at the beginning of the year and serves as the guiding instructions for potential applicants. Applicants must request financing for projects that match one of the 14 budget categories. In addition, applicants must be cognizant of the funding ceilings for each budget category, as the Fund is not allowed to exceed these caps.

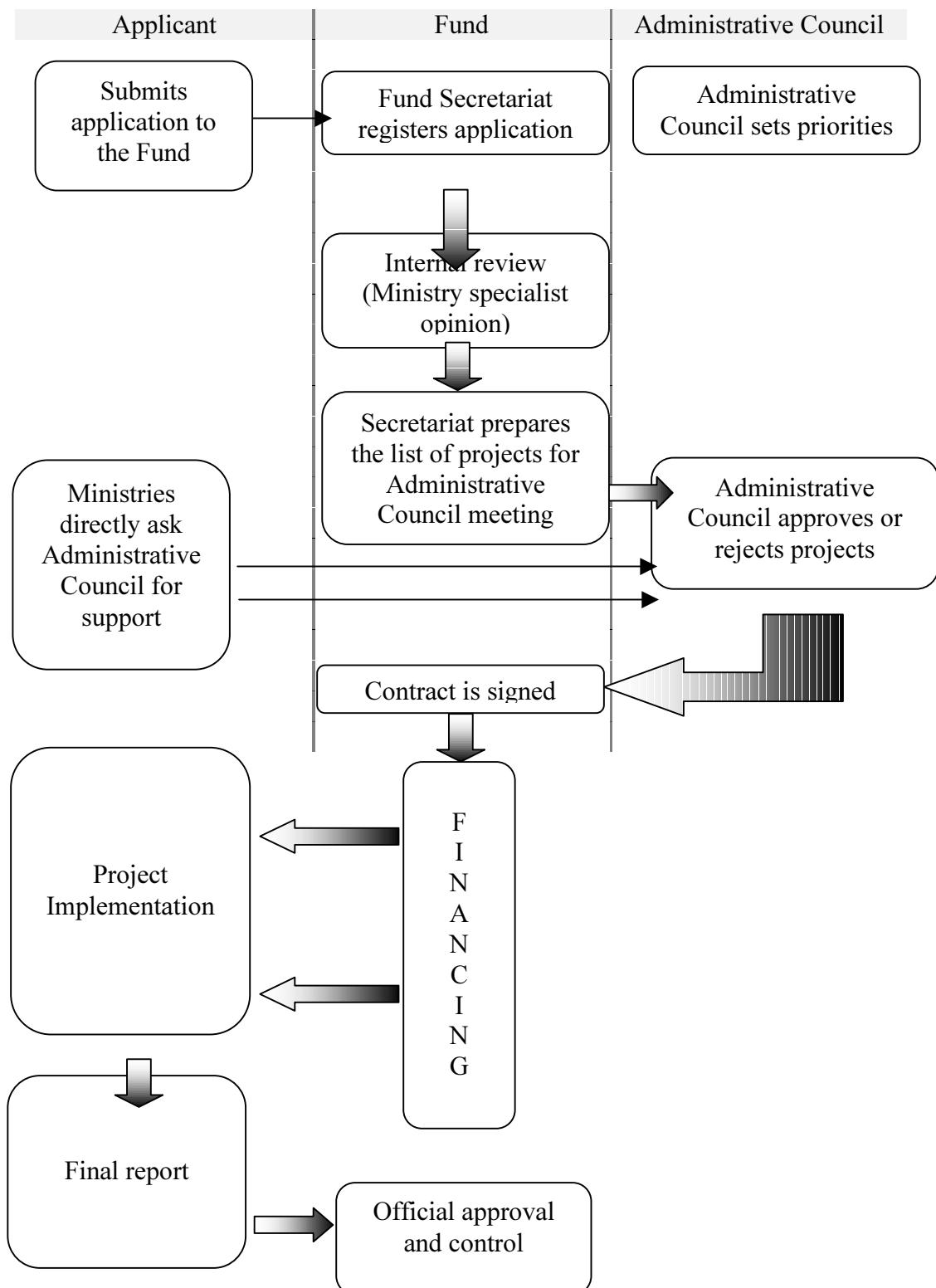
##### **2. Project preparation**

To request financial support from the Fund, an applicant submits an application form with supporting documentation, including:

- Description of the project;
- Applicant's estimation of project costs;
- Documentation of monitoring provided by local environmental inspectors;
- Letter of recommendation from the municipal authority;

No requirement is in place for preparation of a detailed technical design, feasibility study, environmental impact analysis or other similar documents.

**Figure 4.6: Project Cycle of the National Environmental Fund**



The National Fund's application consists of a 2-page (general project information) form plus a 5 to 6 page (more detailed) project proposal. Only one type of application form is used regardless of the types of project. The general project information application form includes:

- Information about applicant: name and address, etc.;
- Basic information about project: name, place of implementation, project type, implementation period, short description;
- Total project costs and support requested;
- Bank information;
- Budget of the project.

The detailed project proposal should include 4 components:

- Project description and rationale;
- Action plan (timetable)
- Detailed budget justification; and
- Applicant's declaration (certifying that all data provided in the document are reliable and factual).

The applicant also submits the following documentation with the application (the list of documents that applicants are required to submit is attached to the application form):

- Notice (opinion) from the Territorial Ecological Agency (if the project is to be implemented on a special territory), from the National Ecological Institute (for projects involving new technologies, etc.), the Municipal Administration (if municipally-owned enterprises are involved) and as needed – from other organisations and institutes;
- Recommendation from local public administration body;
- Other documents (technical design, plans, etc.).

A sample application form has been attached to the report (Attachment 1).

Anticipated project results (effects) are presented in a descriptive form only, making it difficult to assess benefits or to make comparisons between projects. The project budget is presented in a detailed form but the financial plan typically does not provide evidence on other sources of financing that will be used for the project (in cases where the requested level of funding is less than the total costs of the project).

While the same application form is used for all types of projects: investment and non-investment, the current application form is sufficient for non-investment projects only and cannot be used for assessment of investment projects because the Fund does not collect any data for financial, economic or cost-effectiveness analysis. Cost-effectiveness is not used as a criterion in project appraisal.

### 3. Project appraisal and selection

When the application is submitted to the Fund, the Secretary registers and keeps a record of all projects. At least one expert<sup>6</sup> (specialist) from the Ministry of Ecology, Construction and Territorial Development is asked to review the project and to write a recommendation. The Fund Secretariat prepares the list of the projects for the Administrative Council meeting. The list consists of:

- Project code;
- Project name;

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<sup>6</sup> If the amount requested by the Fund is higher than 15 thousand MD Lei, the project proposal should be examined by two experts

- Requested Fund support;
- Budgetary classification;
- Project description / scope;
- Expert's opinion.

As an example, the project list prepared for the November 2001 Administrative Council meeting has been attached (Attachment 2).

The expert opinion is one of the most important parts of the project assessment. The Fund Secretariat directs the application to one of the Ministry's experts (Ministry employee). The expert prepares an opinion on the project in terms of its merits and makes a positive or negative recommendation. In addition, the expert may make recommendations on the application of the following types:

- Change the project scope (to expand);
- Require additional measures to be taken before project implementation;
- Propose that the budget for the project be revised (tests budget rationality);
- Suggest that the Administrative Council seek additional opinions about the application from research institutes.

There are no written procedures to guide experts in the preparation of their opinions. The expert does not employ cost-effectiveness formulas (for example, annual unit cost of pollution reduction which is the most widely used method for calculating cost-effectiveness) and applications are not ranked. A financial or economic analysis of the project is not conducted. The expert prepares a project assessment taking into consideration the technical feasibility and the general need for such a project for MECTD purposes.

During its meetings, the Administrative Council reviews the list of projects prepared by the Fund Secretariat. The expert's opinion is provided to the Council but is not binding. The Administrative Council votes to accept or reject each project, with majority vote of members in attendance providing the basis for each decision. In addition, the Administrative Council reviews MECTD and other ministry requests for financial support for expenditures such as official travel (in-country and international) and purchase of equipment (computers, computer paper, etc.). These requests are not subject to the application process nor reviewed by experts. All decisions taken by the Administrative Council are summarised in the protocol prepared during each meeting.

In making decisions, the Administrative Council has to consider the budgetary classification and initial allocation of expenditures made in the budget (plan). Consequently, the Administrative Council has to monitor funds used in each category. When funds are exhausted in a particular budget category, even a good project with a positive expert opinion cannot be accepted. In such an instance, the project proponents must wait for next year's budget. Typically during the first meeting of the year, a number of "carryover" projects from the previous year are reviewed. As a consequence, projects delivered at the end of the year have less probability to be accepted than those delivered at the beginning of the year.

The Administrative Council has no information about project cost-effectiveness; the list provided by the Secretary does not even contain information on the total project costs (only requested support is noted). However, where an expert's opinion is requested, more comprehensive data are provided in the application form along with the supporting documentation that are examined by the expert. Neither the Administrative Council, nor Ministry's experts use any formulas and clear eligibility and appraisal criteria upon which they may base their decisions on selecting individual projects for financing. Hence, the selection process is not conducted transparently.

The development of the Manual on Procedures and Mechanisms of Functioning of Environmental Funds in Moldova, prepared with support by the UNDP, is a commendable attempt by the Moldovan

Government to improve the expenditure management of Moldovan Funds. It is worth noting that the Manual has been greatly disseminated and some training has been provided on its basis but this training has not resulted into any significant changes in the project cycle management practices of either the National or the Chisinau Funds. Although the Manual provides some good understanding of the project cycle management procedures, it is not a practical implementation tool and needs further improvement. However, this experience could serve as a first step in working with selected Funds to improve the transparency of their project cycle management procedures and bring them in line with internationally recognised best practices.

#### 4. Project implementation

After the Administrative Council meeting, the Fund Secretariat prepares a protocol and initiates activities to sign the contract and to transfer the funds to the recipient if the Administrative Council decision is positive or to inform applicant about the negative decision in oral or written form.

For those proposals approved by the Administrative Council, simple contracts between the MECTD and recipients are prepared. A contract consists of:

- Legal background;
- Project name and financial support requested;
- Financing scheme (installments);
- Project schedule;
- Applicant's declaration (certifying that all data provided in the document are reliable and factual).

A project financial plan is attached to the contract. The Minister of Ecology, Construction and Territorial Development signs the contract. No requirement compels the beneficiary to apply the Public Procurement Law in procuring goods and services financed by the National Fund.

When the Fund supports MECTD expenditures, no contract is involved: the Ministry selects the vendor (usually they check a few offers and select the best one (best price, quality, etc.). Because Ministry expenditures typically involve small purchases, they are not subject to the provisions in the Public Procurement Law.

Money is transferred to the beneficiary after the contract is signed, sometimes in more than one installment. This is the case even for investment projects. The Fund transfers the money to the beneficiary instead of paying contractors after the project has been implemented. The Fund has a separate bank account, but all bank transfers are signed by the Minister.

#### 5. Monitoring

The beneficiary is required to deliver a 2-3 page final report after project completion. In addition, the beneficiary has to deliver a financial report documenting all expenditures financed by Fund resources. The local Territorial Ecological Agency monitors project implementation and prepares control notes about project progress. Sometimes (rarely), Fund staff conducts on-site visits to check project implementation.

Project implementation is not evaluated. While the Fund staff reported that there had been no negative results of project implementation to date, they noted that Fund sources had been used for purchases not specified in the applicant's financial plan. In such instances, the Fund has no rules on how to act when beneficiaries breach the contract. The Fund does not impose any fines on such beneficiaries and does not attempt to recover the amounts from the recipient for purchases that were not allowed. Instead, the Fund may decide not to support the organisation in the future. Project monitoring is one of the weakest parts of project cycle management.

## 6. Reporting

Only a so-called statistical report (summarising information on how funds were used according to the 14 lines of the budgetary classification) is prepared. An example of such a report has been attached (Attachment 3). There is no other kind of performance reporting.

### 4.3.2 Chisinau Municipal Fund

The Chisinau Municipal Fund does not finance infrastructure investment projects, thereby limiting the requirements for project cycle management. As with the National Fund, the Chisinau Fund employs a simple project cycle management approach with a small number of formal elements and the Administrative Council playing a major role in project selection. Projects are identified and developed by applicants in accordance with 9 budget categories. Applications are accepted throughout the year, registered by the Territorial Ecology Agency staff, and reviewed by the Administrative Council. The project cycle process of the Chisinau Fund with regard to non-investment projects is similar to the process applied by the National Fund.

#### **Analysis of the National Fund's Project Cycle Management Procedures**

In fund reviews, project cycle management procedures are typically evaluated in terms of a number of criteria related to cost-effectiveness, transparency, and overall management effectiveness. The Review Team did not have appropriate information to assess cost-effectiveness of the Fund or individual projects. Given the emphasis on non-investment projects in the Fund's portfolio, such determination would have been difficult in any event. However, given the lack of eligibility and appraisal criteria and well-articulated priorities, as well as the modest requirements for elaboration of expected project benefits, it is not likely that the procedures would meet cost-effectiveness criteria.

Procedures and criteria for project selection currently used by the Fund are based on internal experts' opinions and voting of the Administrative Council members. It has to be emphasised that procedures are written and approved by formal resolution but they are not detailed into operational documents. Hence, approval and selection of individual projects for financing from the Fund are conducted in a discretionary manner rather than on the basis of formal rules and criteria. The requirement for an expert opinion is a very good first step. At present, the Fund does not have objective, fair and transparent procedures and project selection criteria. This is one of the most serious weaknesses of the Fund. Given the growing revenues of the Fund as well as the increasing number of investment projects to be supported by Fund resources, the Fund will need to develop and put in place modern management tools that will bring it in line with the best international practices for such institutions. Independent experts capable of conducting proper technical, financial and economic analysis have to be engaged and trained in order to apply these tools. Rigorous project selection criteria have to be developed against which such analysis can be carried out and Fund managers' performance can be assessed. These criteria should be specified in Fund's regulations, detailed in operational documents and made available to the public and potential beneficiaries. Well-defined appraisal and selection criteria are the crucial elements that shape the trustworthiness, accountability and transparency of successful Funds. For investment projects, good international practices show that financing institutions have a two-stage appraisal process. At the first stage, simple "pass-fail" initial screening criteria help identify and select out projects that are in principle eligible. Later, a more sophisticated comparison and ranking criteria are applied to a smaller number of selected projects in order to choose which projects should be financed first thus forming the most cost-effective portfolio of projects.

At present, the Fund Secretariat does not function as a management unit with a significant role in project selection. Typically in CEE Funds, Fund managers will present a slate of recommended projects to the supervisory board. The supervisory board may raise questions about a few projects that

were accepted or rejected, but ultimately relies on the recommendations of the Fund's management unit.

For the National Fund, the Administrative Council has considerably more discretion in the selection of projects than in many CEE Funds. Given the current composition of the Council, the weakness of the Secretariat and the lack of transparent and objective criteria for evaluating projects, the process may be perceived to lack credibility.

Among MECTD and National Fund officials, there is recognition of the need to strengthen project cycle management procedures. The MECTD has developed new procedures for the Fund entitled "Regulation on the Procedure of Approval, Coordination and Implementation of Projects Financed from the National Environmental Fund", (as of March 2001). It seems these procedures have not been implemented yet but if implemented this will significantly increase the transparency and objectivity of the Fund decisions and the project selection process will be more rational.

A major improvement is the decision to appoint independent (paid, and not Ministry employees) experts for project assessment. These procedures introduce deadlines for information flow and preparation of opinions as well as the requirement for beneficiaries to comply with provisions of the Public Procurement Law when selecting a vendor for purchases/services that exceed 10 thousand lei. The new regulation also introduces project implementation monitoring procedures in cooperation with the Territorial Ecological Agencies. It also introduces cost-benefit analysis as a major method of evaluating projects. However, given, the time, resources, tools and expertise needed to properly apply cost-benefit analysis techniques, this does not seem a very realistic approach.

### ***Conclusions and Recommendations for Improving Project Cycle Management***

Project cycle management in the National Fund is not conducted in accordance with international good practices for financing institutions. Environmental effectiveness of the projects supported by the Fund is not measured neither is projects' cost-effectiveness. Decision-making on financing individual projects is discretionary and not based on formal rules and criteria. Monitoring and evaluation of projects implemented with Fund's support is effectively missing.

Nevertheless, the MECTD has made serious attempts to improve this situation and has developed a simple project cycle with a small number of formal elements. In addition, the new Regulation on the Procedure of Approval, Coordination and Implementation of Projects Financed from the National Environmental Fund, developed by the MECTD, is a promising step. The improvements to project cycle management procedures, proposed in the above Regulation, are welcomed by the Review Team. However, the Review Team would encourage the Ministry to focus its effort on strengthening the overall process of project cycle management of the Fund in a comprehensive way, involving changes throughout the process rather than making a few adjustments, as is currently proposed. By implementing the proposed changes, the Fund could be recognised by international financial institutions and donors as an organisation that is capable of effective management of its resources in accordance with international best practices and as a reliable partner in co-financing environmental projects.

Most of the recommendations presented in this section are focused on the National Fund. However, recommendations that pertain to the organisation of the "process" of project cycle management and to non-investment project cycle management are appropriate for the Chisinau Municipal Fund and other local Funds as well. The recommendations are organised in accordance with the main stages of the project cycle.

## 1. Improving project identification

The first step in strengthening project cycle management involves providing clear signals to potential applicants regarding the types of projects the Fund wishes to support. At present, applicants are guided by the budget categories and the allocation of resources to each of these general categories. As mentioned earlier, the Review Team recommends that priorities be elaborated in clear and specific terms that can be associated with real projects.

The National Fund could be more proactive in identifying potential projects. One way is to organise calls for projects for resolving a specific priority environmental problem. Such competitions are best applicable when there is a large number of polluters involved and the implementation of many similar projects is required. The competition would allow the Fund to identify the best combination of projects that can achieve the given objective in the most cost-effective way.

## 2. Improving project appraisal and selection

### a) Project Appraisal

The Review Team recommends three major types of improvements to the process of project appraisal: (1) implementing separate processes for the different types of projects/expenditures; (2) using a two-stage application process for investment projects; and (3) introducing more rigorous appraisal procedures and criteria. The first type of improvement could be implemented immediately, while the second and third change must be combined with the expansion of the Fund's staff and training to provide staff with the expertise to apply these appraisal criteria.

(1) Implementing separate processes for the different types of projects/expenditures - The National Fund and local Funds are encouraged to develop separate procedures and application forms for non-investment and investment projects. Typically, these projects are substantially different in terms of the applicant's institutional status, the size and impacts of the projects, and the requirements for additional financing to supplement resources provided by the Fund. It is recommended that maximum funding levels (as the Fund's share in investment costs) be set to leverage other sources of financing. Even if a project receives only a minor portion of Fund's financing, it should be subject to full appraisal and monitoring process.

In addition, the Review Team would encourage the MECTD to separate the process of purchasing equipment and covering costs of the Ministry from the responsibilities of the National Fund. Gradually, this responsibility should be transferred to the regular budget of the Ministry. Funds, as internationally understood, are financing mechanisms that select and finance priority environmental (mostly) investment projects in accordance with national environmental priorities that bring real results on the ground.

(2) Using a two-stage application process for investment projects - It is recommended that project appraisal for investment projects consist of two stages. The aim of the preliminary selection is to reveal at an early stage those projects that do not have a chance to be financed by the Fund. The second aim is to identify, as early as possible, those projects that might be eligible for financing from the Fund but are not very well prepared. At this pre-selection stage, the Fund applies a set of "hard" formal eligibility criteria for making binary (yes-no) choices. If a proposal fails to meet even one of the criteria, it is excluded from subsequent stages (and financing). This approach would prevent applicants from spending time and money for preparing projects that would fail to be financed. In the same vein, it will save time and resources of the Fund management to conduct a full evaluation of projects that will not be financed by the Fund anyway.

(3) Introducing more rigorous appraisal procedures and criteria - The set of criteria used by the Fund for pre-selection has to be made available to the public. "Hard" criteria might include the following:

- Project type eligibility, based on annual priorities of the Fund;
- Applicant's (legal status) eligibility;
- Demonstration that the applicant can finance total costs of project (if the request is for less than 100% of project costs);
- Project meets the minimum/maximum funding levels set by the Fund.

The second stage should involve submission of a full application by applicants whose projects meet the pre-selection criteria. To facilitate more rigorous appraisal (see below), the current application form would need to be expanded to include information about all sources of financing of the project (to introduce an investment and financing schedule).

In addition, for investment projects, the application form should require more detailed information on expected results of the investment to accommodate analysis of environmental effectiveness (measured in terms of pollution reduction before and after the implementation of the project, e.g. one-year pollution of SO<sub>2</sub> in kg or tonnes before and after the project) and cost-effectiveness (achieving environmental results at minimum costs measured, as the full lifetime investment and O&M costs against the reduction of the level of a given pollutant achieved as a result of the implementation of the financed project).

For investment projects, the final outcome of the technical appraisal is the aggregated environmental effect indicator for the submitted project, which is shown as an absolute value “weighted” by the level of compliance with “soft” criteria used by the Fund in the process of project application appraisal (scores).

To conduct the financial analysis, as part of the appraisal process, the Fund can use the following criteria:

- Whether the project is financially feasible (hard criteria);
- The Fund's share in investment costs;
- Aggregated investment and operating annual unit cost of pollution reduction.

At this stage, a feasibility study is required. By calculating the ratio of the environmental effect to investment costs (or better: the Fund's share in project cost), the Fund can assess the effectiveness of its financing of the environmental project in question.

Given the lack of expertise of both the Fund and project proponents with calculating cost-effectiveness, an intermediate solution could be to ask applicants to use consulting firms for the elaboration of the financial and economic analysis of their projects while the Fund could outsource the verification of such analysis to few (selected) consulting firms who are certified to have such an expertise. The consulting firm, hired by the Fund, should not be involved in the preparation of projects submitted to the Fund for financing which the firm will have to evaluate. In the meantime, the Fund staff should be trained in these techniques. The Fund should also prepare manuals and guidelines with specific and detailed instructions for applicants on how to prepare the information needed as well as instructions for the Fund's staff on how to evaluate this information and analysis.

## b) Project Selection

The cost-effectiveness (CE) criterion can be used to develop a ranking list of projects. Because of the difficulty of comparing environmental effects for different sectors, it is recommended that the first step in project selection should involve ranking projects within categories (e.g., wastewater, air, solid waste). With an aggressive effort to identify projects, the Fund would presumably receive more applications than can be funded. In the Administrative Council's deliberations on projects, the Fund

management unit would provide lists of projects ranked according to the cost-effectiveness criterion for each sector. The Administrative Council's role would be to select the projects for funding, taking into account the rankings resulting from the appraisal process and spending priorities established for the Fund in the annual plan. The diagramme on the next page (Figure 4.7) summarises the selection process that might be used. The final diagramme (Figure 4.8) in the section summarises the overall project cycle the Review Team recommends for consideration.

### 3. Improving monitoring and evaluation

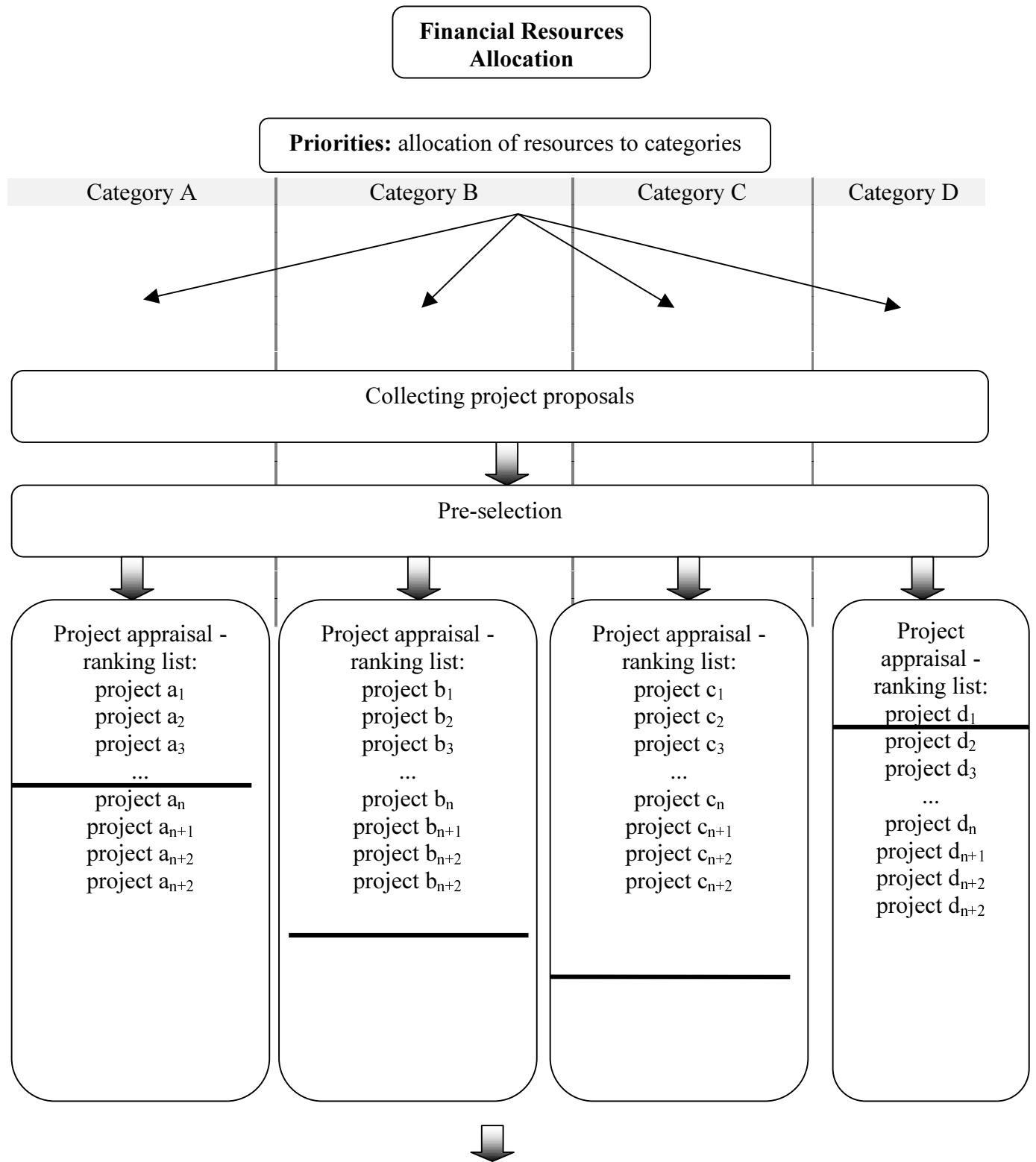
Monitoring is a crucial part of the successful project cycle, particularly with regard to investment projects as the implementation phase is a period when Fund's resources are disbursed but not yet yielding a return. Monitoring should continue into the operational stage when the benefits arising from the project begin to be realised. To this end, the National Fund needs to build strong in-house capacity to monitor the process and make sure that the beneficiary spends the Fund's money according to the agreement towards achieving the project's objectives.

In the event when the beneficiary breaches the contract and uses the money for purposes other than those specified in the contract, the Fund should have clear legal and administrative procedures to deal with such beneficiaries.

During the evaluation phase, the Fund should assess the achievement of the project's objectives. This is also the time for the Fund to look at its internal operations during the project cycle and analyse the causes of success and failures. Systematic evaluation is a critical learning device and a prerequisite for building capacity and skills to improve the management of future project cycles.

With regard to the improvements in the project cycle management, it is recommended to:

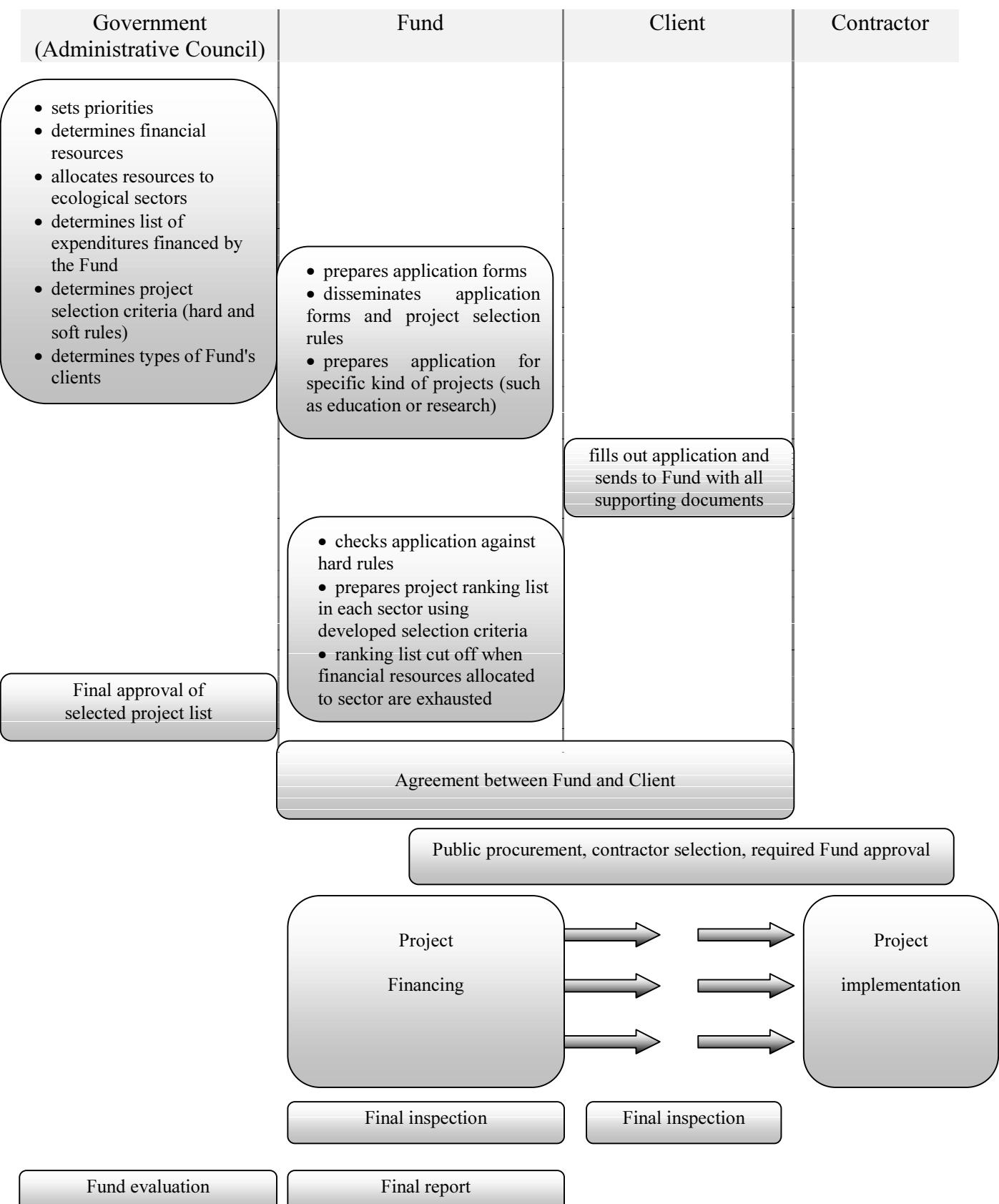
- Make Fund Managers responsible and accountable for project cycle management, including project identification, appraisal and selection.
- Establish specific, objective and transparent appraisal criteria, binding for Managers. Make cost-effectiveness (achieving environmental results at minimum costs) a prominent appraisal criterion.
- Develop detailed operational procedures and rules for each stage of the project cycle management and make them available to the public at large.
- Strengthen the capacity of the executive units in project appraisal. Particular improvement is needed in engineering, economic/financial and legal skills of the personnel.
- Improve control of advance payments on investment projects supported by the Fund by paying directly to contractors against invoices after the work is done. Develop clear legal and administrative procedures to deal with beneficiaries who breach contracts with the Fund.
- Introduce and maintain regular monitoring of investment projects implemented with support by the Fund.



*Cut-off line: below this line, no resources for financing projects remain, project a<sub>1</sub> has higher effectiveness of financing environmental project than project a<sub>2</sub>, etc.*

**Figure 4.7: General Overview of the Project Selection Process**

**Figure 4.8: Proposed Project Cycle Management**



**Attachment 1****National Environmental Fund  
Grant Application Form**

Complete name of the organisation		
Address		
(code) Tel.	(code) Fax.	E-mail
Person responsible for the project		
Name of the project		
Place of the project realisation		
Type of the project		
<b>Terms of realisation:</b> <b>beginning</b> _____ day, month, year <b>end</b> _____ day, month, year		
Content of the project:		
<b>Total cost of the project (lei)</b> - <b>Requested sum from NEF (lei)</b> -		
Bank name	Bank code	
Bank account	Fiscal code	

NAME OF PERSON RESPONSIBLE OF THE PROJECT	SIGNATURE	DATE
---	-----------	------

Project registration number \_\_\_\_\_  
Date of registration \_\_\_\_\_  
Executive secretary \_\_\_\_\_

## Attachment 2

### Requested Budget from the National Environmental Fund (NEF)

Budget will include all taxes.

Expenditure categories:	Requested sum from the NEF (lei)
<i>Works</i> (specify)	
Total	
<i>Technology</i>	
Total	
<i>Equipment, materials</i>	
Total	
<i>Transport</i>	
Total	
<i>Services</i>	
Total	
<i>Fuel</i>	
Total	
<i>Energy</i>	
Total	
<i>Remuneration</i>	
Total	
<i>Mission expenses</i>	
Total	
<i>Other expenditures</i> (to indicate separately)	
Total	
<b>Total Project Cost</b>	

NAME OF PERSON RESPONSIBLE FOR THE PROJECT	SIGNATURE	DATE
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### Attachment 3

**List of Projects Presented for Examination at the Session  
of the Administrative Council of the National Environmental Fund  
November 2001**

Project Number	Project Title	Requested Amount	Code	Institution Representing the Project	Brief Description and Scope of the Project	Conclusions of
						Preliminary Evaluation
47/II	Elaboration of methods and measures of sustainable development and protection of the fish genetic fund in the aquatic ecosystems in the lower Prut river	12 123	14	Society for Bio-remediation of Aquatic and Anthropogenic Amphibian Ecosystems "Eurobiont", Leova local administration, Lapusna County	Evaluation of the state of environment and the factors with negative effect on the environment and fish population, development of practical proposals on protection and improvement of the fish genetic fund.	The project is of interest in terms of providing general estimates of fish genetic fund in the respective area.
16/II	Reconstruction of the Leova (Lapusna) city dump site	40 000	1	Leova local administration, Lapusna County	The dump site is situated in the Prut river catchment area, it contains about 7 200 m <sup>3</sup> of household solid waste, which in rainy periods, goes into the river causing water pollution and soil erosion.	In preparing the project technical documentation, it is recommended to take into consideration the stipulations of the "Technological Scheme for Disposal of Household Solid Waste"
34/II	Closing of the Criuleni city dump site	97 255	8	Criuleni local administration	Closing the Criuleni dump site and area development through land reclamation.	Recommendation, close the dump site first and then to develop the area.
36/II	Planting Trees in the Basarabeasca Town Public Park	60 500	1	Basarabeasca local authorities	Development of the Basarabeasca Public Park (2,5 ha) where 30 species of trees and bushes will be planted.	The project is proposed for consideration to the NEF Administration Council.

37/II	Implementing anti-erosion measures in the village of Voinescu, Lapusna County	100 000	9	Voinescu local administration, Lapusna County	There is a crevice in the village of Voinescu - 15-18 m wide and 7-8 m long, the erosion process is progressing. To stop this process, consolidated measures need to be taken, such as changing the water flow, planting trees and bushes, etc.	Must be examined by the Project Development Institute.
41/II	Recycling of solid galvanic waste	45 000	8	Chemical and Technological Center "Tenzor" Ltd.	Organisation of the technological sector for recycling of solid galvanic waste in pigments, mastics, pastes, etc., elaboration of technical standards documents.	This project can be financed from the NEF only after the National Environmental Institute and the Institute of Chemistry provide their written opinions on the project.
55/II	Documentary film "Environment – the Results of Collaboration" (Moldova – Germany)	38 254	5	"Vidoinf" NGO Ion Bujor	Production of a documentary film on an environmental topic.	For consideration by the NEF Administrative Council.
56/II	Design and construction of artesian wells for water supply of the village of Giurgulesti	100 000	12	Giurgulesti local administration, Cahul County	Construction of artesian wells for the residents of the village.	This project is supported, provided the artesian wells will be on the Cahul "Apa-Canal" balance.

57/II	Publication of a book: "Reduction of Air Pollution"	5 180.06	5	Research Center for Scientific and Applied Chemistry	<p>The aim of the project is the publication of a book which will contain:</p> <ol style="list-style-type: none"> <li>1) Methods and technical solutions for reducing discharges of toxic substances generated by engines with internal combustion.</li> <li>2) Methods and equipment for reducing toxic discharges emitted by the power generation sector.</li> <li>3) Combustion of the water-fuel oil emulsions and use of catalysts in natural gas combustion.</li> <li>4) Use of corona discharge.</li> <li>5) Specific recommendations for implementation of the technical measures.</li> </ol>	Taking into consideration the topical and priority character of the problems addressed by the this book, the book is recommended for publishing
58/II	<p>Publication of a textbook - "Botanics, Systematisation of Higher Plants"</p> <p>Authors: Grati, Negru, Pulbere, Chiriac</p>	25 260	5	State University of Tiraspol	Printing of the handbook.	500 copies.
59/II	Upgrading of the waste water treatment facility at the poultry-raising plant at the village of Toghilie	96 890	12	Avicola Poultry-Farm, Toghilie, Unghen County	Reconstruction and upgrading of the wastewater treatment equipment at the poultry-raising plant.	<p>The project is rejected.</p> <p>The Ministry of Agriculture and Food-Processing Industry could finance it from its extra-budgetary funds.</p>

60/II	Restoration and protection of rare species of snakes in the middle parts of the Nistru river	12 795	14	Ornithological and herpetological Society of RM	<p>Restoration and protection of reduced populations of rare snake species in the Nistru river area, improvement of their state and maintenance of their species diversity:</p> <ul style="list-style-type: none"> <li>- determination of the priority habitats that need improvement;</li> <li>- improvement of the genetic fund through collection and combination of specimens from different location of the habitats;</li> <li>- creation of conditions for reproduction in semi-natural surroundings with the aim of restoring the reduced population;</li> <li>-publication of booklets and brochures with information on the current state of and measures for protecting rare species.</li> </ul>	For examination by the NEF Administrative Council.
61/II	Water - the National Patrimony	49 681	12	Marculesti local authorities, Soroca County	The project objective is the construction of 3 wells on the territory of the town of Marculesti (a town suffering from serous water shortages) with the aim of providing drinking water to town residents.	The implementation of this project is recommended along with elimination of the water pollution sources.
62/II	Conducting monitoring in the Riscani residential region (Chisinau) with the aim of ensuring integrity of the surface used for mining activities in 2001 and the first quarter of 2002	78 855		Inmacomprojecit Project Design Institute	Visual and instruments monitoring on the flooded cogs/pits of the Chisinau Quarry.	The project can be financed by the Quarry Management of the local administration of the town.
63/II	Organisation of a quiz "Sol lucet omnibus"	5 000	5	"Noi" (We) magazine	Organization of children quizzes on the pages of the magazine, awarding of winners.	For examination by the NEF Administrative Council.

64/II	Recycling and storing of waste generated by the waste water treatment plant in the town of Floresti	99 974	12	“Utility services” Floresti	1. Use of sludge accumulated since 1980 on the site of the water treatment plant by placing it on private fields; 2. Clean-up of the sludge from the biological ponds and including them in the treatment process; 3. Clean-up of sludge in order to ensure the proper functioning of the waste water treatment plant.	The project can be proposed for consideration by the NEF Administrative Council after submission of the necessary project documentation.
65/II	Creation of the genetic fund of species and distant forms of gladiolus, lily, dahlia, callah for the creation of original, ecologically pure and highly adaptable species of the XXI century	100 000		“Flora Murin” Company	The project envisages building a genetic fund of species and distant ecological forms of gladiolus from the Netherlands.	The project is rejected.
66/II	Improvement of the supply drinking water for the residents of the village of Bujor, Lapusna County	34 000	12	Bujor local authorities, Lapusna County	Water supply for families, including the construction of a sewerage system.	Data on the length of the pipeline are missing.
67/II	Biodiversity and the Value of Wildlife in RM between Millenniums	43 740	7	Academy of Science of RM, State University of Moldova, MECTD, NGOs	Organisation of an international workshop "Biodiversity and the Value of Wildlife in RM between Millennia", publication of a book on these issues.	The project is supported, and is proposed for consideration by the NEF Administrative Council.
69/II	Seminars on "The Management of Mineral Resources and their Protection"	20 000		State Ecological Inspection	Organisation of 10 seminars for mayors, economic agents and specialists on legal issues concerning the management of mineral resources.	The project is supported, and is proposed for consideration by the NEF Administrative Council.
70/II	Children in Environmental Protection	4 000	5	“Alunelul” Children's Magazine	200 subscriptions of “Alunelul” for orphanages.	The project is supported, and is proposed for consideration by the NEF Administrative Council.

71/II	Children in Environmental Protection	5 280	5	“Florile dalbe” Weekly Newspaper	200 subscriptions of “Florile dalbe” for orphanages.	The project is supported, and is proposed for consideration by the NEF Administrative Council.
72/II	Results from the republican contest “The Greenest, the Cleanest and the Most Developed Settlement”	4 000	1	MECTD	Mission costs of the MECTD officials participating in the working group on this topic for their visits to the communities participating in the contest.	The project is supported, and is proposed for consideration by the NEF Administrative Council.

## **Statistical Report No 1 - National Environmental Fund (Quarterly)**

Department of Statistics and Sociology

Ministry of Ecology, Construction and  
Territorial Development

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Identification Data      Codes

Ministry of Ecology, Construction and  
Territorial Development \_\_\_\_\_ Code

Address:                  Code CUTAM  
Municipality \_\_\_\_\_ Chisinau  
Street \_\_\_\_\_ Cosmonautilor  
No. \_\_\_\_\_ Nr. 9

Superior authority \_\_\_\_\_ Code COCM

Form of property (1) \_\_\_\_\_ Code CFP

Institutional and legal form (2) \_\_\_\_\_  
Code CFOJ

Main activity (3) \_\_\_\_\_ Code CAEM

Name and contact details of the person who has  
prepared the Form

Head  
Chief Accountant

### **Statistical Report No 1 - EF (Quarterly)**

### **On the Revenue and Expenditure of the National Environmental Fund**

**In the Year 2001**

In accordance with the Law of Republic of Moldova "On Statistics", the state statistical institutions have the right to receive statistical reports from all legal and natural persons, regardless of the forms of property.

Statistical institutions ensure confidentiality of reported data and individual information as well as the use of the information for statistical purposes only.

Approved by the Department of Statistical and Sociological Analyses of RM and the Ministry of Environment of RM through Order No. 37/42, dated 27.05.1999.

1. The Ministry of Ecology, Construction and Territorial Development, annually, by 30th of January, presents consolidated statistical report to the Department of Statistics and Sociology of Moldova.

No.	Budget Line Code	Budget Line	Actual (Thousands of Lei)
1	01	Balance at the beginning of the reporting period, including:	
	02	Reserve fund	
2	03	Resources collected at the account of the National Environmental Fund	
	04	Resources transferred by the local environmental funds (30%)	
	05	Payment for emissions generated by mobile sources using gasoline (leaded and unleaded) and diesel oil	
	06	Donations from legal and natural persons	
	07	Funds for compensation of damages caused to fisheries	
	08	Resources, collected as a result of own activity of the National Environmental Fund	
	09	Others	
3	10	Expenditures, total, including:	
	11	Elaboration and implementation of the National environmental programmes, reclamation of lands and water sites	
	12	Scientific research (commissioned by the Ministry)	
	13	Development of the environmental standards system	
	14	Organisation and administration of environmental information and promotion	
	15	Dissemination of environmental knowledge	
	16	Personnel training and re-training	
	17	Organisation of international co-operation (to indicate)	
	18	Partial participation in R&D works, application of cleaner technologies and construction of environmental protection sites	
	19	Elimination of consequences of calamities, accidents and other situations (to indicate)	
	20	Financial assistance to local environmental funds for implementation of environmental protection measures	
	21	Rewarding of specialists	
	22	Co-financing of projects (to indicate)	
	23	Creation of the material and technical base and statistical database of environmental funds	
	24	Support to NGOs on the basis of the grants programme	
4	25	Balance of resources at the end of the financial period	
	26	Reserve fund	
		Information	
	27	Number of projects approved for financing by the National Environmental Fund	
	28	Number of projects, financed by the National Environmental Fund	
	29	Number of projects financed by grants programme	

Chair of the Administrative Council of the NEF \_\_\_\_\_

Chief Accountant \_\_\_\_\_

Council Secretary \_\_\_\_\_

“ ” 200

## **Attachment 5**

### **List of People Interviewed**

Mr Nicolae Stratan, Deputy Minister of Ecology, Constructions and Territorial Development  
Vice-president of the Administrative Council of the National Environmental Fund

Mr Mihai Plopă, Executive Secretary of the National Environmental Fund

Ms Raisa Leon, Secretary of the National Environmental Fund

Mr Andrei Isac, Head, Environmental Policy Division, MECTD

Ms Tatiana Pleshco, Consultant, Environmental Policy Division, MECTD

Mr Gheorghe Pricacaru, Director of the Chisinau Ecological Agency, Vice-President,  
Chisinau Environmental Fund

Ms Valentina Tapes, Deputy Director, Chisinau Ecological Agency

Representatives from the Parliament:

Mr Andrei Conisescu, Chief, the Committee for Ecology and Territorial Development

Mr Dumitru Osipov, Consultant

Mr Alexandru Lazari, Consultant

Mr Sergiu Covaliu, Senior Consultant, State Cancellary, Government of the Republic of Moldova

Mr Victor Zubarev, Deputy Head of the General Division for Economic and Structural  
Changes, Ministry of Economy

Mr Vlad Garaba, President, Chisinau Branch of the Moldovan Ecological Movement, ONG  
representative in the Administrative Council of the National and Chisinau Funds

Mr Ilya Trombitsky, Administrative Board Member, Ecological Society BIOTICA  
Mr Victor Cotruta, Execuriv Director, REC Moldova

Mr Boris Papadiuc, Director, Moldovan Social Investment Fund

Mr Anatolie Gobjila, World Bank, Moldova Office

Mr Ivan Borisavijevici, Head of Office, Delegation of the EC to Moldova, Tacis Branch Office

Mr Sergiu Botezatu, Project Management Specialist, USAID

Mr Stuart Brown, Adviser for Moldova, Tacis Project Support for Implementation of  
Environmental Policies and NEAPs in the NIS

Mr Vitalie Binzaru, Head of Capital Investments Division, Ministry of Finance

Mr Stefan Lozinschi, NGO ECO

Ms Maria Marinuta, Senior Expert, Environmental Policy Division, MECTD

## **Attachment 6**

### **List of Documents Reviewed**

1. National Environmental Action Plan of Moldova, Government of the Republic of Moldova and the World Bank, 4 August 1995
2. Environmental Performance Review of Moldova, UN/ECE, 1998
3. National Strategy for Sustainable Development, High Economic Council under the President of the Republic of Moldova/UNDP, Chisinau 2000
4. Moldova - Background Analysis for the Environmental Financing Strategy, OECD EAP Task Force/DEPA/DANCEE, 2000
5. Municipal Water and Wastewater Sector in Moldova Environmental Financing Strategy - Draft Final Submitted to the Government of the Republic of Moldova, OECD EAP Task Force/DEPA/DANCEE, 2000
6. Danish-Moldova Environmental Co-operation 2001-2003, 8 May 2001
7. Environmental Protection Law No 1515-XII, 16 June 1993
8. Law on Amendments to the Environmental Protection Law No 1539-XIII, 25 February 1998
9. 2001 Law on the Budget No 1392-XIV, 30 November 2000
10. Law on Accounting No 426-XII, 4 April 1995
11. Law on Audits No 729-XIII, 15 February 1996
12. Law on Public Purchases and Services No 1166-XIII, 30 April 1997
13. Law on Natural Resources No 1236-XIII, 3 July 1997
14. Law on Environmental Pollution Charges No 1540-XIII, 25 February 1998
15. Law on Amendments to the Law on Bankruptcy No 427-XV, 27 July 2001
16. Government Decree No 988 of 21 September 1998 "On Approval of the Regulations Regarding Environmental Funds" (Statute of the Funds)
17. Minister of Environment Regulation on the Functions of the Administrative Councils of Environmental Funds - General Provisions, 5 November 1998
18. Minister of Environment Regulation on the Environmental and Economic Services Provided by the Territorial Units of the Ministry of Environment, 5 November 1998
19. Minister of Environment and Territorial Development Regulation on the Procedures of Approval, Coordination and Implementation of Projects Financed from the National Environmental Fund, 29 March 2001

20. Instruction Concerning the Mechanism of Collection and Transfer of Payments for Pollution from Import of Oil Products - approved by Ministry of Finance, Ministry of Environment, Department of Customs Control, November 1998
21. Minister of Environment and Territorial Development Instruction on Calculation of Environmental Pollution Charges, 17 April 2000
22. Government Decree No 595 of 25 June 1999 on the "Regime of Management and Control of the Public Purchases Process"
23. Government Decree No 395 of 8 April 1998 on Conducting Environmental Audits of Enterprises
24. Statistical Report Form No 1 for the National Environmental Fund - 2000
25. Statistical Report Form No 1 for the Local Environmental Funds - 2000
26. Grant Application Form to the National Environmental Fund
27. Operational Procedures of Environmental Funds in Moldova, Ministry of Environment/UNDP, Chisinau 1999
28. Survey on Economic Instruments for Pollution Abatement and Control - Moldova - OECD EAP Task Force - 2000
29. REC Moldova - Annual Report 1998/1999
30. REC Moldova - Annual Report 2000
31. Republic of Moldova: Recent Economic Developments, IMF Country Report No. 01/22, January 2001
32. Republic of Moldova: Economic Trends Report, TACIS, Quarterly Issue, July-September, 2001