

# The Organization and the Operation of the Treasury System of the Republic of Moldova

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## Abstract

*The Treasury system has become one of the main elements of the Public Financial Management. Currently, the treasury system carries out cash execution of the budget for income and expenses, is responsible for the targeted use of budget funds and optimizes the flow of cash flows, ensures the consolidation of budget funds and their effective management, takes part in the development of budget legislation and monitors its implementation.*

*Increasing government expenditures for the governmental needs, reducing governmental incomes as the results of the population decreased and low businesses' enthusiasm, makes us look for new organizational forms of public financial management.*

*This paper is based on the author' experience in operating and implementing Treasury system in Republic of Moldova.*

**Key words:** Public Financial Management, Treasury System, Treasury Single Account.

**J.E.L. classification:** G28, H11, H61, H72

## 1. Introduction

Moldova is reforming its public financial management (PFM) system in accordance with the 2013-2020 Strategy for the Development of Public Finance Management approved by Government Decision No. 573/2013. The strategy includes provisions to improve budget development, ensure rules-based and competitive procurement, and implement financial management information systems across government entities. The budget preparation, it's approval, execution, control and audit processes, are regulated by the Law on Public Finances and Budgetary Fiscal Accountability No. 181/2014. (The Law No.181/2014)

The ensuring of the rational distribution and use of financial resources, balancing financial and monetary policy, developing a financial mechanism for implementing the state financial policy in the form of relevant regulatory acts are important tasks that the state system should implement through the structure of the Treasury System.

Moldova has begun to improve its PFM system, but much more remains to be done. There is an established dedicated automated commitment management system that needs to improved and aligned to the international standards.

The Government needs to ensure the efficient implementation of its budgets and good management of its financial resources.

## 2. Theoretical background

The purpose of the paper is the theoretical justification of modern technologies of treasury execution of the national budget and the development of methodological proposals for improving the organization of the treasury system in the context of reforming the public financial management.

To achieve the goal, the following tasks are solved in this paper:

- identify the prerequisites that determine the unity of the organizational and technological system of treasury execution of the budgets of the Republic of Moldova;

- explore the essence of the national model of treasury budget execution and determine the content of the concept of the treasury budget execution system from the standpoint of economic and regulatory characteristics;
- give a subjection-objection characteristic of budget accounting;
- analyze the treasury system of budget revenues and expenditures.

Our goals in this paper are to provide historical context around the framework's development, and to flesh out the concepts and concerns underlying the Treasury System framework. While we draw heavily on the thoughts and ideas of others expressed internally over many years.

### 3. Methodology of research

In this regard, the study of this subject is an essential condition for a deeper understanding of the contents of the budget and the mechanism of its functioning.

In this paper the author intends to highlight the role and functions of the state treasury, by describing the historical stages of transforming the structure of the treasury system, and proposes to outline the problems that the treasury system faces.

### 4. The history of the Treasury system of Moldova

The State Treasury was created on the basis of the Decree of the President of the Republic of Moldova No. 39/1993. Over its history, the development and the implementation of the Treasury system of the Republic of Moldova, was carried out in the following stages:

*Stage I* (1993-1997). Starting with the first of April, 1994, the State Treasury opened a unique account with the National Bank of Moldova, which ensured the accumulation and administration of the revenues in the total amount, without ensuring their record on the types of taxes and fees. The financing of the state budget expenditures was carried out from the same account through the main authorizing officers within the limit of the approved quarterly budget allocations.

*Stage II* (1998-1999). For the execution of the provisions of the Government Decision No. 683/1996 regarding the creation of territorial treasury structures, the Ministry of Finance created the following territorial treasuries:

- from the 1st of January, 1998 – the staff of the Chisinau Territorial Treasury consists of 25 units;
- during the second quarter of 1998 – 10 territorial treasuries based in the following localities: Balti, Edineț, Soroca, Drochia, Ungheni, Hincesti, Cahul, Causeni and Comrat, with a total of 3 units in each treasury, in total 32 units.

During the creation of the territorial treasuries, changes have been made in the process of cash execution of the state budget.

Thus, starting with the 1<sup>st</sup> of January, 1998, the revenues of the state budget were administered through 5000 treasury income accounts, which ensured the receipts record according to each type of taxes and fees, and territorial-administrative units.

At the same time, about 1500 bank accounts of the budgetary institutions, financed from the state budget, were closed and treasury accounts were opened in the respective territorial treasuries, based on the financing plans approved for each institution.

*Stage III* (2000-2002). For the execution of Art. 28 of the Law on Local Public Finances No. 491-XIV/1999 (currently repealed) and the Decision of the Government of the Republic of Moldova No. 961/1999 on the Development of the Treasury System, the Ministry of Finance, in common with The National Bank of Moldova and the local public administration bodies were authorized to ensure the organization and implementation of the third stage of the treasury system development in the republic, which provides for the cash execution of the budgets of the administrative - territorial units through the territorial treasuries.

From the 1st of January, 2000 three new treasuries started their activity: the Chisinau Territorial Treasury - the municipality budget, the Chisinau Territorial Treasury - the county budget and the Taraclia Territorial Treasury. During the year 2000 the treasury system of the Ministry of Finance (consisting of the Central Treasury and 14 territorial treasuries) ensured the record of the daily receipts of the state budget and of the budgets of the administrative-territorial units through about 2

million accounts, administrative-territorial unit and locality (municipality, city, village / commune). Thus, from the 1st of January, 2000, the treasury system ensures the administration of the revenues of the state budget and the budgets of the administrative-territorial units.

During 2001, 23 territorial treasuries started their activity in order to create more favorable conditions for the services of the general finance departments, of the town halls, of the public institutions, which ensure the execution of the budgets of the administrative - territorial units. Starting with the 1<sup>st</sup> of April, in the counties Cahul and Ungheni, was performed the testing of the packages of programs elaborated by the employees of the Central Treasury, together with the employees of the Calculation Information Center of the Ministry of Finance. Based on the test results and for the execution of the decision of the College of the Finance Ministry No. 16-3/2001, the treasury system was extended throughout the territory of the republic:

- from the 1st of July, 2001 - in the counties of Tighina, Lapusna, Taraclia and UTA Gagauzia;
- from the 1<sup>st</sup> of August, 2001 - in the counties of Balti, Edineț, Orhei, Soroca and Chisinau;
- from the 1<sup>st</sup> of October, 2001 - in the town halls of Chisinau municipality;
- from the 1<sup>st</sup> of January, 2002 - in public institutions financed from the Chisinau municipality's budget.

Starting with 2001, 38 territorial treasuries operate within the republic.

*Stage IV. (2004)* The incomes of the Compulsory Insurance Funds were taken over by the treasury system.

*Stage V. (2006)* The revenues of the State Social Insurance Budget were taken over by the treasury system.

*Stage VI. (2007)* The transfer of special means, special funds and means temporarily entered into the possession of public institutions, financed from the State Budget, from the bank accounts of the territorial treasuries in the Treasury Single Account of the Ministry of Finance.

The Treasury Single Account system is in place since 2007, providing for proper cash management. As regard to debt management, medium-term debt management strategies are regularly prepared, and include a fiscal risk analysis, indicators for risk monitoring, and a debt sustainability analysis.

*Stage VII. (2008)* The transfer of the means of the State Social Insurance Budget, the Compulsory Insurance Funds for Medical Assistance and the Administrative-Territorial Unit budgets from the bank accounts in commercial banks to the Treasury Single Account of the Ministry of Finance.

For the purpose of temporary use of the available balances of money from the accounts of public authorities / institutions financed from the state budget, as well as the balances of money means from the accounts of self-management public authorities / institutions, opened in the Treasury Single Account of the Ministry of Finance, according to the annual budget law.

A reform agenda for public finance management – the PFM Strategy 2013-2020 was elaborated and approved in August 2013. The implementation of this strategy is also supported by the new the Law on Public Finance and Budgetary-Fiscal Accountability No. 181/2014.

Since 2015, self-managing public authorities / institutions manage the financial means through the Treasury Single Account of the Ministry of Finance.

*Since 2016*, some state-owned enterprises and joint stock companies manage the financial means through the Treasury Single Account of the Ministry of Finance.

## **5. The State Treasury functions**

Revenue uncertainties, combined with political pressures for social spending and resistance to expenditure reductions elsewhere, mean that the approved budget is often an unrealistic guide to a sustainable level of public spending.

“The traditional and the contemporary functions of the treasury are: the manager of public money, the financial intermediary, the trustee of public power, the agent of public financial intervention in the economy, the guardian of the great balances.” (Manole, 2014, p. 26)

The State Treasury of the Republic of Moldova is a General Directorate within the Ministry of Finance that fulfills the following functions as:

- ✓ the execution of the national public budgets,
- ✓ the drafting and approving of the methodology for the execution of the component budgets of the National Public Budget and the maintenance of accounting records and reporting systems,
- ✓ the accounting and reporting of assets and liabilities, state revenues and expenditures,
- ✓ the cash management and forecasting,
- ✓ the provision of relevant methodological and advisory assistance to budgetary institutions.

The Treasury aims at achieving its goals through:

- the establishment of the Treasury Single Account and the gradual expansion of its coverage,
- the reform of the accounting and reporting systems for better alignment with the international standards,
- the continuous improvement of the automated budget execution processes.

Starting with January 01, 2016, financial accounting and reporting in the budgetary system are conducted in accordance with the new Chart of Accounts and Methodological Norms on accounting and financial reporting in the budgetary system approved by the Order of the Minister of Finance No. 216 of 28 December 2015. The new Chart of Accounts is integrated with the new economic classification of the budget.

Information about the cash receipts, cash payments and cash balances is necessary for accountability purposes and provides input useful for assessing the ability of the government to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the government's activities, users of the government's financial statements require an understanding of the timing and certainty of cash receipts and cash payments.

In the budget execution process, the Treasury ensures:

- the Treasury Single Account functioning;
- participation in the Automated Interbank Payment System;
- registration of commitments;
- daily cash forecasting and management.

In accordance with the provisions of the Regulation on automatic interbank payments system approved by the Decision No. 53 of the Council of Administration of the National Bank of Moldova of 2<sup>nd</sup> March 2006, the Ministry of Finance – State Treasury, starting from 1<sup>st</sup> March 2007, has become a direct participant in the automatic interbank payments system. Since January 1<sup>st</sup>, 2007, the special means, special funds and means temporarily owned by the public institutions financed by the state budget were transferred from the treasury banking accounts of the territorial accounts into the Treasury Single Account of the Ministry of Finance.

To make the banking operations more efficient, streamline the electronic exchange of documents between the territorial units of the State Treasury and its clients, the Ministry of Finance procured and installed the Informational System of Long-Distance Account Services 'Client – Treasury' that permits to deliver long-distance services to the territorial units and clients without presenting the hardcopy documents and information and without resorting to the services of commercial banks.

Beginning with January 01, 2008, the authorization of payment documents shall be done by applying the digital signature issued and certified by the Centre of Public Key Certification.

Consolidation of Government bank accounts to a Treasury Single Account at the Central Bank and setting up appropriate institutional arrangements for processing payment and receipt transactions against this account.

Treasury Single Account is one of the proven practices in improving the payment and revenue collection systems, and carrying out consistent control of public expenditures by centralizing the free balances of government bank accounts. The TSA infrastructure is usually implemented as a part of the Financial Management Information System solutions.

"Treasury Single Account is a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments done through this account as well. The maintenance of a Treasury Single Account will help to ensure proper cash management by eliminating idle funds usually left with different commercial banks and in a way to enhance reconciliation of revenue collection and payment." (Cernit, 2017, p. 35)

The centralization of all government payments throughout the Treasury System and consolidation of bank accounts to a single account at the Central Bank, avoids a situation in which there is a buildup of large idle balances in spending unit bank accounts, even though the Ministry of Finance experiences a cash deficit in overall terms. The buildup of idle balances is also indicative of the difficulty experienced by the Ministry of Finance to receive timely information from spending agencies on the use of public funds and subsequently to exercise control.

*The benefits of Treasury Single Account:*

1. *Allows complete and timely information on government cash resources.*
2. *Improves appropriation control.*
3. *Improves operational control during budget execution.*
4. *Enables efficient cash management.*
5. *Reduces bank fees and transaction costs.*
6. *Facilitates efficient payment mechanisms.*
7. *Improves bank reconciliation and quality of fiscal data.*
8. *Lowers liquidity reserve needs.* (Bragg, 2010, p. 69)

The Treasury prepares and publishes periodic and annual reports on the execution of the State Budget and the National Public Budget.

Budget execution reports are accurate, comprehensive and produced in a timely manner. The consolidated annual budget execution report is the basis for the annual financial statements which are prepared on cash basis, using a national methodology which is not International Public Sector Accounting Standards compliant, but broadly in line with international standards.

In accordance with the provisions of Law No. 181 of 25 July 2014 on Public Finance and Fiscal Responsibility, the reports on the implementation of the national public budget and its components are elaborated and published monthly, semi-annually and annually.

The managers of the component budgets of the national public budget are prepared and published reports on the execution of the budgets they manage.

These reports include the approved and executed indicators, as well as the indicators executed for the same period of the previous year.

Information on overdue liabilities and debts (arrears) of the state budget and of local budgets are prepared and published each month.

The semi-annual report on the execution of the national public budget and its components for the current budget year is drafted and submitted to the Parliament by the 15<sup>th</sup> August.

The annual reports on the execution of the state budget, the state social insurance budget and the mandatory health insurance fund are prepared by the respective budget administrators and submitted to the Government and then to the Parliament for approval by the 1<sup>st</sup> June of the year following the reporting period.

The annual reports on the execution of local budgets are drawn up by the local executive authorities and submitted to the local councils for approval by 15<sup>th</sup> March of the year following the reporting period.

Treasury is also an excellent place to schedule internal audits, with the intent of matching actual transactions against company policies and procedures. Though these audits locate problems only after they have occurred, an adverse audit report frequently leads to procedural changes that keep similar problems from arising in the future. (Bragg, 2010, p. 6)

The Treasury provides methodological advice and consultations to central and local public authorities in the process of budget execution.

The Treasury is in the process of reforming the accounting and financial reporting system in the public sector. The objective of the reform is to develop National public-sector accounting standards in line with International Public Sector Accounting Standards.

In order to implement the reform, the Ministry of Finance established, by the Order No. 202/2015, a Council for Public Sector Accounting Standards aligned with International Public Sector Accounting Standards to draft/amend the relevant normative acts.

The concept for the development and introduction of National public-sector accounting standards was approved by Order of the Minister of Finance No.159/2016. The National public-sector accounting standards will be designed in compliance with International Public Sector

Accounting Standards taking into account the specific characteristics of the Moldovan Government operations.

## 6. Conclusions

To enhance the efficiency of the use of budgetary resources to improve the procedures used in budget execution and capitalization of existing reserves in the field of public finance, it is necessary to ensure the stability of treasury system. Efficiency of budgetary resource use can be reached, first of all, by re-examining the budgetary process by implementing the best practices in the field, after which the reform of public sector by undertaking activities of improving the budgetary expenditures and their harmonization in accordance with the financial resources really available for their coverage.

As it is mentioned in The Treasury management manual, "The value for money in treasury management activities should be pursued and performance methodology used in support, within the framework set out in the treasury management policy statement." (Treasury management manual, p.5)

The electronic public procurement system MTender in Republic of Moldova is completely ineffective. The existence of an effective electronic procurement system is crucial to ensuring the transparency, record keeping and efficiency of the public expenditures.

Advanced economies are assumed to have solved most control problems. Ex-ante control has been replaced by strong ex-post accountability. They can prioritize efficiency and effectiveness objectives, while having ample financial management capacity and well developed markets for financial services.

An integrated treasury system offers several significant benefits in managing public monies more effectively, including, greater financial control, improved monitoring of the government's cash position and better planning for future requirements, better fiscal reporting, and availability of better data for budget formulation.

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