



Study on Political Clientelism in the Management of Public Funds

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The project is implemented with the support of the European Union and Konrad Adenauer Stiftung e.V.

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Abbreviations

EEA	Energy Efficiency Agency
EEF	Energy Efficiency Fund
EIA	Alliance for European Integration
IC	Independent Candidate
LPA	Local Public Authority
MARDE	Ministry of Agriculture, Regional Development and Environment
MDL	Moldovan leu
MEI	Ministry of Economy and Infrastructure
MSIF	Moldovan Social Investment Fund
NCCRD	National Coordination Council for Regional Development
NEF	National Ecological Fund
NRDF	National Regional Development Fund
PCNM	‘Our Home – Moldova’ Party
PDM	Democratic Party of Moldova
PL	Liberal Party
PLDM	Liberal Democratic Party of Moldova
PPEM	People’s European Party of Moldova
PPPN	‘Our Party’ Political Party
PPSOR	‘Sor’ Political Party
PSRM	Party of Socialists of the Republic of Moldova
RF	Road Fund
SPD	Single Program Document

Introduction

Corruption, political clientelism and the low institutional capacity of public authorities to adequately respond to people's needs are factors that continue to determine the low development level of the Republic of Moldova. These issues are present both at the central level, in the highest circles of government, and at the local level, where local budgets are limited and often used inefficiently. A pronounced manifestation of corruption, favouritism and political clientelism can also be observed in the process of allocating public funds from the central budget to local budgets. In this case, the political affiliation of mayors and district presidents is a key element on which depends largely the political situation and the parties that comprise the central government.

The study on political clientelism in the management of public funds was conducted under 'Inform, Empower and Act! Civil Society for good budgetary governance in Moldova' project. The analysis is part of component 3 of the project ("Act"), and is part of the research activities aimed at promoting changes in the process of allocating financial resources from central to local level. The study followed a specific methodology and was conducted by a team of consultants of the Expert-Grup Independent Think-Tank and the Institute for European Policies and Reforms (IPRE) during April-May 2020.

The purpose of the paper is to identify the phenomenon of political clientelism in financial allocations from the central budget to local public authorities and to assess its level both at the aggregate level and at the individual level for different types of funds. Thus, the main goal of the study is to identify indices of political clientelism for each transfer instrument, and to calculate the aggregate index of clientelism for 2018-2019. This exercise will form the basis of similar evaluations in the coming years, in particular during the project implementation.

The paper is structured in three basic chapters, as follows:

- *Chapter I* — describes the general approach and essence of '*political clientelism*' used in the study. It also presents the phenomenon of political migration of mayors starting with 2015 local elections until a new governing coalition was formed as a result of February 2019 parliamentary elections. At the end of the chapter, the methodology of the whole research is presented, including how to calculate the Political Clientelism Index.
- *Chapter II* — is the main component of the study and presents the forms of political clientelism and the indices identified in the management of public money. It covers both the classical funds that are set up within the state budget (National Ecological Fund, Moldova Social Investment Fund, Regional Development Fund, Road Fund) and other mechanisms for allocating public money to local public authorities. It is about the allocations for implementation of specific programs (e.g. 'Good Roads' Program), the transfers approved on MPs' proposal in the context of the state budget approval or the allocations from the Government's Emergency Funds.
- *Chapter III* — presents the overall results of the Political Clientelism Index for 2018 and 2019. It also highlights a number of conclusions regarding this phenomenon and proposes several recommendations to improve the situation regarding the authorities taking responsibility in the process of allocating and using public funds.

Executive Summary

Political clientelism is considered to be a common practice in relation to public finances. This phenomenon occurs most frequently in the form of violations of the law on public procurement, as well as in the decision-making process and the management of public property or public funds. At other times, political clientelism does not fall within the scope of criminal or contravention law, since legally it cannot be considered a conflict of interests or vitiation of the decision-making process. Such cases include especially the nomination to public office, either directly or on a competitive basis, where the element of a group of persons united by a common interest exists, but there is no strong enough connection in order to be considered a violation of the criminal or contravention law. For the purposes of this research, political clientelism is analysed on the basis of a broad definition, focusing on economic and financial benefits. Thus, various instruments for allocating public funds to level-one LPAs (mayoralities) are assessed from the perspective of resource formation and decision-making on their distribution. At the same time, the study determines an index of political clientelism for each tool, as well as an overall aggregate index. An important aspect has to do with the political affiliation of mayors, which is constantly changing due to the migration of local elected officials from one party to another.

Mayors' migration from one political party to another is a common practice in the Republic of Moldova. On the one hand, this denotes the presence of corruption in the political environment, on the other hand it stimulates and amplifies the level of political clientelism in the use of public funds. The migration of mayors intensified in an unprecedented way during 2015-2019, being a direct result of the political movements at the central level started shortly after the parliamentary elections of 30 November 2014. Obviously, the migration of mayors has only one direction – towards the ruling party, respectively out of the 898 mayors elected in the 2015 elections, at least 471 have changed their political affiliation, some even three times.

The research methodology was based on both a qualitative evaluation of the subject and a quantitative one with empirical estimates. Thus, the quantitative evaluation took into account the programs under which the financial resources were appropriated, including the list of appropriations by each locality/commune. The evaluation focused on examining how public financial resources were allocated from the state budget to local public authorities with the identification of specific indices of clientelism. For this, we've selected six instruments used to allocate funds in 2018 and 2019, namely:

1. *Transfers for capital works and other general-purpose transfers from the state budget to local budgets through the State Budget Law;*
2. *Road Fund and 'Good Roads' Program;*
3. *National Ecological Fund;*
4. *National Regional Development Fund;*
5. *Moldova Social Investment Fund;*
6. *Energy Efficiency Fund.*

Subsequently, political clientelism was analysed on several dimensions that take into account the political affiliation of mayors, the number of mayoralities that benefited from appropriations, the number of people living in communities that benefited from appropriations. In addition, the quantitative aspect of the study was to come up with an Index of Political Clientelism for each fund, as well as an Aggregate Index of Political Clientelism.

The aggregate indices revealed a pronounced manifestation of clientelism in the distribution of funds. Moreover, in 2019 compared to 2018, there is an increase in the aggregate index of political clientelism. Thus, in 2018, an inhabitant of a government-affiliated locality could have benefited from an allocation 2.3 times higher than a person living in a locality not affiliated with the government. In 2019, an inhabitant of a government-affiliated locality was already 2.6 times more advantaged than a person from a locality not affiliated with the government. Likewise, both in 2018 and

2019, most of funds registered high values of political clientelism (higher than 2). EEF is an exception to this. In the case of this fund, the index is 1.05, which allows us to say that, practically, there are no manifestations of clientelism.

1. Transfers for capital works and other transfers for general purpose from the state budget to local budgets through the State Budget Law (transfers from the state budget to the local budgets) can be formulated as part of budget approval by the Government and Parliament. Thus, in addition to general and special purpose transfers proposed by the Ministry of Finance, MPs often come up with proposals to supplement the funds in the case of certain local public authorities. These amendments can be a potential form of political clientelism along with favouring funding for certain LPAs where mayors are affiliated with the governing party or coalition. Obviously, not all proposals are taken into account, especially those of the opposition.

In the process of data analysis, we identified that the tendencies to favour the mayoralties affiliated with the government in a non-electoral year, as well as to support the mayoralties not affiliated with the government in an electoral/pre-electoral year, are detrimental to the efficiency and timeliness of public funds use. In general, the approval of funding takes place in a political context, without taking into account the requirements of efficiency and timeliness. In essence, the transfers from the state budget to local budgets function as a 'bonus' in the political parties' toolkit for attracting votes, contrary to the requirements of efficiency, transparency and timeliness.

The way Annex 5/7 of the State Budget Law is being compiled, in the part related to transfers for capital works, is a form of bypassing the requirements of efficiency and timeliness in the use of public funds and needs to be excluded from the Government's and Parliament's practice and prohibited by law. This form of approving expenditures is non-transparent and favours inappropriate influences, as well as lobbying of interests either in the Government or in Parliament. Instead, the approval of funding projects for capital works can be redirected through the existing procedures/institutions with the establishment of clear expenditure framework requirements, the purpose of investments, eligible local public authorities, a transparent process of application, by pre-selection and selection of winning projects, as well as by establishing the co-financing requirements. The last requirement does not require a large share of co-financing – a symbolic one of 5-10% is enough – but makes the local public authority responsible and ensures that a medium- and long-term approach to securing funds for the maintenance of these investments will be taken by the beneficiary mayorality.

2. The Road Fund and Road Rehabilitation Programs involve the largest volume of financial resources of all the instruments analysed. In recent years, about MDL 2 billion have been allocated through Road Programs (10 times more than through FEN or NRDF). At the same time, given the importance of roads for rural localities, this tool is often used during the election campaign, which also implies a certain dose of political clientelism. Thus, in 2018 and 2019, in addition to the annual program on distributing the Road Fund resources, another program was included that provides for the periodic repair of national, local, communal public roads and streets ('Good Roads for Moldova'). In general terms, the program provides the list of national roads to be maintained with the funds allocated under the first program, adding to it the list of local, communal roads and streets to be repaired from the State Budget sources.

In the context of the parliamentary elections of February 2019 on the basis of a mixed electoral system, programs such as 'Good Roads' have shown money being allocated in clear accordance with certain political interests. Not all mayoralties in the country benefited from financial allocations under the program; out of 898 existing mayoralties, only 703 received funding in 2018 and 855 in 2019, of which 454 were government-affiliated mayoralties in 2018 and 515 in 2019. At the same time, in the case of government-affiliated mayoralties there is an average amount of MDL 808 per capita in 2018 and MDL 876 per capita in 2019 while in those not affiliated, the situation is completely different – only MDL 330 per capita in 2018 and respectively, MDL 516 per capita in 2019.

Based on the analysis, we found that the level of political clientelism in the allocation of resources under the 'Good Roads' Program was moderate. The 2018 clientelism index was 2.3 units, but it increased to 2.6 in 2019. This means

that in 2018 the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources under the 'Good Roads' Program were 2.3 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. In 2019, the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources were 2.6 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government.

3. The National Ecological Fund is still under political control and is being managed by the Ministry of Agriculture, Regional Development and Environment (MARDE). Unlike other Funds, in the case of NEF there is no separate entity and no independent mechanism that would ensure clear and impartial rules in the process of contracting projects and disbursing funds. Given that the NEF leadership is composed of people from Ministries and the State Chancellery, there are multiple risks that the funds will rather be distributed according to political criteria. Moreover, because NEF involves procurement of works and services with the use of the public procurement mechanism, the possibility of politically motivated deals between those who allocate money, mayors and those who execute the works is quite high. The National Ecological Fund is a tool that the government actively uses to strengthen its electoral score. In 2018, but especially in 2019, the Fund's resources were distributed mainly to the communities led by mayors affiliated with the governing parties. Thus, in 2018, an inhabitant of a community led by a government-affiliated mayor could have benefited from an allocation 2.4 times higher than an inhabitant living in a community led by a person not affiliated with the government. In 2019, this ratio increased to 4.7. In fact, in 2018 as well as in 2019, the political clientelism index pertaining to NEF was one of the highest compared with the indices of other transfer instruments.

The high level of political clientelism in the case of NEF is caused by the organisational structure of this fund. NEF is managed by a politically subordinated institution (Ministry of Agriculture, Regional Development and Environment), and the NEF Board is led by the Minister of Agriculture, Regional Development and Environment, who is a political figure. In order to reduce the high level of political clientelism, it would be appropriate to consider reforming the Board of Administration, inter alia by excluding from its members the politically appointed staff.

4. The National Regional Development Fund continues to be managed by MARDE through Regional Development Agencies (RDAs). At the same time, the pre-approval of the projects to be financed is given by the National Coordination Council for Regional Development (NCCRD) and is included in the single program document (SPD). Being a politically controlled mechanism, the way in which projects are approved raises a number of questions, including the reliability and usefulness of some projects. Both the Court of Accounts and the most recent parliamentary hearings present multiple cases in which the projects to be funded were chosen without a clear justification and with clear political interest. Moreover, the usefulness and sustainability over time proved to be reduced, which even led to the failure to finish the work.

The computed political clientelism index shows that in 2018 for a population of 1.45 million people from government-affiliated mayoralities an amount of MDL 113.86 was allocated, while for 1.9 million people from not affiliated mayoralities — MDL 70.9 million were allocated, and in 2019 — MDL 120 million vs. MDL 79 million. We noted a high index of political clientelism: 2.07 in 2018 and 2.15 in 2019. In this case, we concluded that an inhabitant from a government-affiliated mayorality benefited from a **double advantage** in monetary terms, compared to an inhabitant from a not-affiliated mayorality.

The moderate political clientelism index also suggests some issues regarding the decision-making process by favouring the projects of government-affiliated mayoralities. This index suggests that NRDF management needs to be adjusted and improved, including by focusing more on efficiency and timeliness criteria when deciding to include NRDF-funded projects in SPD. It is also necessary to revisit such important subjects, such as the separation of public policy development and evaluation from the implementation function, including in the NRDF management.

5. **The Moldovan Social Investment Fund** is managed, to some extent, by a distinct entity, separate from the political environment. MSIF management mechanism also presupposes the existence of specific procedures for the selection of projects, as well as for the disbursement of funds. MSIF resources are mainly made up of external funds through funding projects and programs (e.g. 'Program of technical and financial assistance provided by the Romanian Government for preschool institutions in the Republic of Moldova'). As a result, the financial resources available are much more limited than in the case of other funds and depend on the Government's relationship with certain external partners. At the same time, the external source of funds implies a lower level of favouritism and political clientelism than in the case of other funds – however certain manifestations could be observed, especially during the electoral period of 2019.

The per capita benefits for MSIF were rather unevenly distributed. This is partly due to the fact that social infrastructure investment projects that have been analysed take several years, and in our case the analysis of these two years of implementation would not be representative for all projects. However, we can see that in the case of per capita distribution, the mayoralities of PCRM, PL and PLDM were at the top of the ranking, with average amounts of 626 MDL, 532 MDL and 481 MDL, respectively. By comparison, in the case of PDM affiliated town halls, the average amount per capita was 327 MDL.

From the analysed data we found that in the case of MSIF there was a low index of political clientelism in 2018-2019, amounting to 1.38. This figure suggests that MSIF-funded projects may have a slight tendency to favour certain politically affiliated town halls. At the same time, the presence of co-financing for the implemented projects is an additional element that reduces the risks of political clientelism. MSIF could consider these indicators as a basis for reviewing some internal processes related to the distribution of funds to localities.

6. **The Energy Efficiency Fund** is intended for energy efficiency projects and distributed on the basis of calls for project proposals from the interested authorities. EEF is made up of state budget appropriations, as well as resources from external funds provided under assistance projects or foreign loans. The EEF is managed by the Energy Efficiency Agency which implements specific procedures for project appraisal and allocation of funds. At the same time, the annual resources available are limited compared to other funds (MDL 80 million in 2019), and the clear project scope (energy efficiency) narrows the framework for political clientelism.

Analysis of data submitted by the Energy Efficiency Agency (EEA) revealed the lowest index of political clientelism – 1.048, which shows that the distribution of funds within EEA, including the projects financed by the Energy Efficiency Fund (EEF), is the most neutral from all funds analysed in this study. Even if EEA implemented a modest number of projects during 2018-2019 (16 projects in total during 2018 and 2019), it is clear that the amount of almost MDL 40 million was distributed relatively equally among mayoralities beneficiary of EEF and EEA funds.

Thus, the clear rules for the selection of projects based on performance, the internal selection procedures, the transparency of selection process, as well as the co-funding requirement for energy efficiency projects and the autonomy of authority in charge of funds management, with a minimal influence of political factor, contribute to a more efficient use of funds, meeting the requirements for resource efficiency and investment timeliness.

1. General Considerations on Political Clientelism

1.1. The Essence of Political Clientelism

The Explanatory dictionary of the Romanian language defines the term ‘clientelism’ as follows:

1. A range of relations between persons united out of interest or who try to obtain favouritism, or
2. The tendency of a politician or of a party to increase the number of their supporters by demagoguery, favouritism, etc.

The relevant literature finds the clientelism and corruption to be very closely linked, but often impossible to demonstrate within the meaning of criminal or contravention law. Thus, the legal framework provides for a series of instruments in order to prevent and sanction the distribution of financial resources based on interest, rather than on merit and objective criteria.

The most common forms of violation of law, which fall in the scope of political clientelism, are related to rigged public procurement, family relationships or other emotional ties or based on financial interest in the contracts with public authorities, conflict of interests in the decision-making process, especially related to public asset and public funds management.

At other times, political clientelism does not fall within the scope of criminal or contravention law, since legally it can not be considered a conflict of interests or vitiation of the decision-making process. Such cases include especially the nomination to public office, either directly or on a competitive basis, where the element of a group of persons united out of a common interest exists, but there is no strong enough connection in order to be considered a violation of the criminal or contravention law. Though the national law requires to report conflict of interests and abstain from participating in taking decisions on such cases. In practice, these obligations are not fulfilled, especially when there are not enough instruments to detect the connections between persons united by common interests, financial or otherwise.

For the purpose of this research, we will analyse the term clientelism, using the definition combined of the above-mentioned elements, focusing on the expected economic benefits.

Thus, within the meaning of this analysis, ‘political clientelism’ is defined as the *range of relations between persons united out of interest in a political party and by personal relationships of the party members in order to obtain personal or party financial benefits by means of favours, by **avoiding** or **violating** the law, including the legal provisions on avoiding conflicts of interests, public procurement, use of public resources, including financial.*

Given the widespread political clientelism, the research domains of this phenomenon are quite varied and extensive, like in any sector where decisions can be influenced by holders of public positions, which are accessed by political parties through the struggle for power during elections.

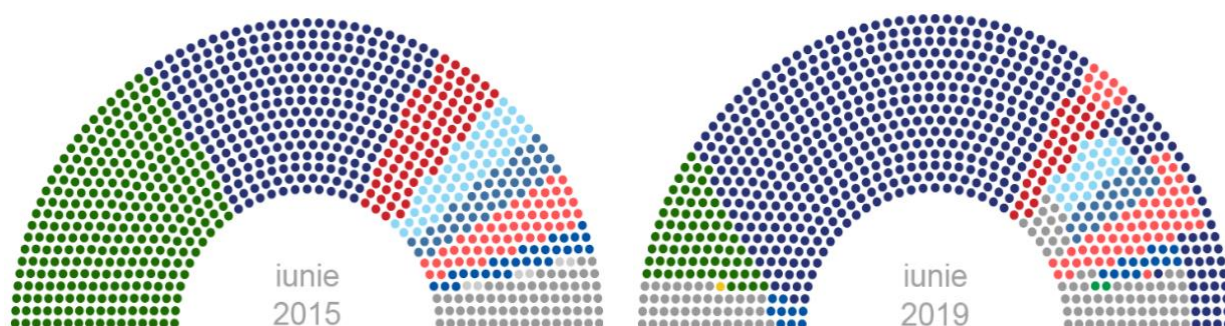
1.2. Mayors’ Political Migration

Mayors’ migration from one political party to another is a common practice in the Republic of Moldova. This practice intensified in an unprecedented way during the last mandate of the local public authority, namely during 2015-2019. As a result, the most comprehensive studies in this domain reveal that during this period at least 471 of 898 elected mayors have changed their party affiliation, some of them even three times. Several reasons for this phenomenon can be listed, from absolutely democratic processes to pressures on mayors to adhere to or support another party. Even so,

from a systemic viewpoint, these reasons are also rather the consequences of a lack of real local autonomy, including financial, which makes mayors dependent on changes in the political conjuncture at the central level¹.

The political situation of mayors during the studied period is the outcome of the political movements at the central level, initiated shortly after the local elections of June 2015. As mentioned repeatedly, in addition to major financial impact, the frauds in the banking sector also had significant political consequences. Thus, with the arrest of the leader of the Liberal Democratic Party (PLDM) in October 2015, charged with passive corruption and involvement in frauds at Banca de Economii, a number of mayors and counsellors left the party. They oriented rapidly to another member of the Alliance for European Integration (AIE), which de facto controlled the government at that moment, and namely the Democratic Party (PDM). After the third member of AIE, i.e. the Liberal Party (PL), went into opposition a new wave of migration with the same destination – PDM, followed. As a consequence, the number of PDM mayors increased from 302 at the general elections of 2015 to 543 before the parliamentary elections of February 2019 (Figure 1).

Figure 1. Outcomes of mayors' migration during 2015 - 2019



Source: Taken from *Mayors' Political Migration between 2015 and 2019*, published on *alegeri.md*

• PLDM • PDM • PCRM • PL • PPPN • PSRM • PPEM • IC

After PDM gave up on power in June 2019 and a new governing coalition was set up, another wave of mayors' migration was registered, but this time from this party. Local officials practically initiated new political arrangements, having in mind the elections to be held in the autumn of 2019. During this period mayors migrated mainly to parties that constituted the majority coalition – Party of Socialists of the Republic of Moldova (PSRM) and the Block 'ACUM'. This helped about 300 mayors-in-office to be re-elected, even if they were already on the lists of another party. Nonetheless, this study refers only to the situation of the mayors in 2018 and in the first half of 2019, which is essentially the same.

1.3. Research Methodology

In the process of research and development of this study we took into account an approach which combined both qualitative and quantitative methods (empirical estimates). The qualitative analysis examined how public funds were allocated to local authorities during 2018 and 2019, and also took into account the amendments made during the year. For this, we selected the following tools, through which financial resources (hereinafter referred to as '*funds*') were allocated:

1. Amendments proposed by Members of Parliament to the State Budget Law (BT);
2. Road Fund and the 'Good Roads' Program (GR);

¹ Mayors' Political Migration between 2015 and 2019, *alegeri.md*,
http://alegeri.md/w/Fenomenul_migr%C4%83rii_politice_a_primarilor_%C3%AEntre_anii_2015%E2%80%932019

3. National Ecological Fund (NEF);
4. Moldovan Social Investment Fund (MSIF);
5. National Regional Development Fund (NRDF);
6. Energy Efficiency Fund (EEF).

These transfer instruments of funds do not have to be confused with: (i) own revenues of local public authorities, because these are collected and used according to local priorities; (ii) deductions from state fees and taxes, because these are transferred according to some percentage shares established by the law² and used by LPA according to their priorities; (iii) general-purpose transfers, appropriated to mayoralities on the basis of a formula stipulated by the law, used entirely at the discretion of local authorities³.

The key characteristic of these funds is related to the appropriation of financial resources to level-one LPAs, i.e. mayoralities. The information regarding the appropriation amount was taken from public sources, in particular from the websites of the institutions that manage the Funds. For all the instruments, we analysed the approved projects and/or the activity reports of the institutions that managed them. Afterwards, we developed a list of appropriations for each Fund and compared it with the political affiliation of beneficiary mayors. The mayors' political affiliation was determined, taking into account their migration during 2015-2018.

The identification of the political clientelism took into account several aspects, including 5 basic ones:

- i. *The total amount appropriated to all the mayoralities affiliated to a party;*
- ii. *The number of mayoralities that benefited from appropriations depending on mayors' political affiliation;*
- iii. *Average amount appropriated per mayorality depending on mayor's political affiliation;*
- iv. *The number of people who live in the mayoralities that benefited from appropriations depending on mayor's political affiliation (administrative data were used);*
- v. *The amount per capita appropriated to mayoralities, depending on mayor's political affiliation.*

The quantitative analysis of the study covers the year 2018 and the first half of 2019. For 2018, it was considered that the government, at least formally, was formed through the parliamentary coalition of two parties: PDM and PPESD. For the first half of 2019, it was considered that the government was represented only by PDM. Though after the elections of February 2019 no coalition was formed for 3 months, PDM had a large number of members in Parliament and the incumbent Government included persons affiliated with that party.

The central part of the analysis consisted in the development of an index of the political clientelism for each fund, as well as that of an aggregate index for all the instruments mentioned above. To develop an index that reflects the political clientelism, we started from the fact that, in case of a specific fund (F_i), for one-year period we will use the ratio between the total amount received by mayoralities affiliated to the governing parties and those affiliated to opposition parties:

$$S_g / S_o \quad (1)$$

where:

- S_g - total amount appropriated to mayoralities with government-affiliated mayors;
 S_o - average amount appropriated to mayoralities with non-affiliated mayors.

Subsequently, we assumed that in the case of absence of political clientelism the ratio in the relation (1) has to be equal to the ratio between the population that lives in the mayoralities with government-affiliated mayors and the population

² Law No 397 of 16.10.2003 on Local Public Finances, https://www.legis.md/cautare/getResults?doc_id=121302&lang=ro

³ Meleştean, I, Political clientelism in allocating public resources from the State Budget to local public authorities, Expert-Grup Independent Think-Tank, Chişinău, 2018, p.8, <https://expert-grup.org/ro/biblioteca/item/1691-clientelismul-politic-in-alocarea-resurselor-publice-din-bugetul-de-stat&category=7>

that lives in mayoralities with non-affiliated mayors. Thus, if in the mayoralities 'controlled' by the government lives 60% of the population, then 60% of the fund appropriation have to be oriented towards the government-affiliated mayoralities. This equality can be described mathematically as follows:

$$S_g / S_o = P_g / P_o \quad (2)$$

where:

P_g – total number of inhabitants who live in mayoralities with government-affiliated mayors;

P_o – total number of inhabitants who live in mayoralities with non-affiliated mayors;

Formula (2) can be rewritten:

$$\frac{S_g / S_o}{P_g / P_o} = 1 \quad (3)$$

Nonetheless, if the presence of political clientelism is proven then the relation (3) will not be equal to 1 anymore, but will have a supra-unitary value. If political clientelism is present, a part of the specific fund i , greater than the population share, will be redirected to the population of the government-affiliated mayoralities. Thus, if in the mayoralities monitored by the government lives 60% of the population, then more than 60% of the fund appropriation will be directed towards the government-affiliated mayoralities. As a result, the formula for the index of the clientelism specific to a fund (I_i) is:

$$I_i = \frac{S_g / S_o}{P_g / P_o} \quad (4)$$

The index shows how many times bigger the appropriation is per inhabitant from a settlement where the mayoralty is affiliated with the government than that of a person who lives in a settlement where the mayoralty is not affiliated with the government.

The index can have the following values:

- Sub-unitary values – presence of a negative political clientelism. In this case, non-affiliated mayoralities are favoured;
- 1 – absence of political clientelism;
- Supra-unitary values – presence of political clientelism.

At the same time, if the index has supra-unitary values, but close enough to 1, we have a reduced manifestation of clientelism and we can disregard this phenomenon. Though empirically we didn't succeed to establish a threshold, we can consider, for example, that an index with values between 1 and 1.05 may be treated as the absence of the clientelism.

The calculation of indices specific to each fund took into account the population according to the data of the Ministry of Finance. Thus in 2018, the government-affiliated mayoralities (represented by the coalition PDM+PPM) had 1.45 million inhabitants, and the non-affiliated communities had about 1.88 million inhabitants. In 2019 (first half of the year), the government-affiliated mayoralities (represented by PDM) had 1.37 million inhabitants, and the communities with non-affiliated mayors had about 1.94 million inhabitants.

A separate index is calculated for each fund. Then the indices for each fund will be aggregated into a final index (I_f). For weighting, the amounts of each specific fund will be used (F_i). For the weight calculation the following formula will be used:

$$P_i = F_i / (F_1 + F_2 + \dots + F_n) \quad (5)$$

where:

P_i - the weight associated to the fund i ;

F_i - the amount appropriated to the mayoralities from the fund i .

The final index of the political clientelism will be calculated according to the following formula:

$$I_f = P_1 \times I_1 + P_2 \times I_2 + \dots + P_n \times I_n \quad (6)$$

At the same time, we can mention the following study limitations:

- the index does not include all forms of political clientelism and is limited only to the distribution of public funds to LPA. This constraint is determined by the fact that it is often difficult to separate the manifestations of political clientelism from populism or corruption;
- The analysis covers only the first half of 2019, because most decisions regarding the appropriation were implemented in the first quarters of the year;
- The index does not reflect the appropriation to level-two LPAs.

2. Political Clientelism in the Management of Public Funds

The management of public funds is definitely a highly attractive area for political actors. Thus, any form of public funds coming from taxes, compulsory contributions, rental fees or other form of compensation paid by the private sector for using public assets belonging to the central government or administrative-territorial units, are potential areas for clientelism expression. We will express below our opinion about the most important instruments and their use in the context of the political clientelism, in particular:

- i. **Transfers for capital works and other general-purpose transfers from the state budget to local budgets (hereinafter referred to as transfers from the state budget to the local budgets) through the State Budget Law;** The transfers to local budgets, which are made according to the current legal framework, are also approved by the annual State Budget Law. In addition to special-purpose and general-purpose transfers, set out according to the current law, Annex 5 of the 2018 Budget Law and Annex 7 of the 2019 Budget Law envisage transfers for capital works and other transfers for general purpose. The main regulatory framework regarding transfers to local public authorities is set out by the Law No 397/2003 on Local Public Finances.

Thus, if certain transfer categories are based on quite strict criteria like territory and population, the others are more evasive and allow making decisions relying on criteria other than necessity, as for example, political affiliation of the local public authority representative (district chairman, district council, mayor, local council). The 'favouritism' towards certain settlements at the expense of others has been practiced for a long time in the Parliament of the Republic of Moldova and often it means making decisions relying on other criteria than merit. Finally, certain local public authorities end up with local budgets supplements obtained from transfers, and others receive only the transfers strictly provided for by the law.

One of the most common phenomena which derives from such practices is 'political migration' of mayors and other local public authorities' representatives determined by the chase of general-purpose 'transfers'. For example, the 2020 Budget Law provides for MDL 168.3 million as other general-purpose transfers and MDL 134.6 million as capital expenses. And hardly all the settlements of the Republic of Moldova will receive transfers according to these two categories of transfers.

- ii. **The use of financial resources available in the funds created by law.** Nowadays, the Government manages several funds through ministries and specialised agencies. 2019 Budget Law sets out appropriations for:
 - Road Fund (MDL 1 790.7 million);
 - National Ecological Fund (MDL 298.95 million);
 - National Fund for Regional Development (MDL 220 million);
 - Energy Efficiency Fund (MDL 40 million);
 - Moldova Social Investment Fund (MDL 92 million).
- iii. **The use of resources from the Reserve and Intervention Funds** - the Government has at its disposal two distinct funds that it can use in exceptional circumstances. Thus, the Government's Reserve and Intervention Funds represent financial resources available in case of emergencies and when there are no available financial resources for the beneficiary authorities. The most common cases are related to removing the damages caused by natural disasters or other cases of force majeure. Nonetheless, these funds are available to the Government, giving it the possibility to use the financial resources as favours for various representatives, which means a discretionary use of the financial resources.

In addition to the mentioned funds, there are other instruments for public money appropriation which, though difficult to identify, can result in political clientelism. Here we could mention Government's Emergency Funds or the National Fund for Agriculture and Rural Development (NFARD) used for agricultural subsidies. In the first case, we are talking

about similar requests for funding from Emergency Funds coming from different institutions and local authorities that were not approved, or the recognition of certain decisions to be truly ‘uncertain’. In the second case, the appropriations from NFARD are not transferred to LPA but to agricultural businesses and are mainly used to cover the already incurred operational costs. Even so, there are certain companies affiliated to political leaders, especially to those from governing parties, that have actively benefited from these appropriations.

2.1. Transfers from the State Budget to local budgets

The State Budget is formed every year through a complex procedure that is set out in the Law on Public Finance and Budgetary-Fiscal Accountability⁴. The Budget Calendar includes two main stages: a) amendments to the Budget Law, sent to the Parliament until 1 June of the current year, and the Parliament approves them until 15 July, and b) approval of the State Budget Law for the next year, which is submitted by the Government to the Parliament until 1 October, and the latter approves it until 1 December.

On the basis of Article 53(3)(d) of the Law no 181/2014, the State Budget Law includes capital investments among annexes and transfers to local budgets. The 2018 State Budget Law⁵ and the Law amending the 2018 State Budget Law⁶, set out these transfers in Annex 5. Similarly, the 2019 State Budget Law⁷ and the Law amending the 2019 State Budget Law⁸ set out the volume of transfers approved for 2019 in Annex 7.

2.1.1. Approval of appropriations from the State budget to local budgets

The public finance legislation, in particular the Law on Local Public Finance sets out the appropriations from the State budget to local budgets. Thus, general-purpose or special-purpose transfers can be found in the list of transfers in Annex 5 or 7 of the 2018 and 2019 State Budget Law, respectively.

According to Article 10 of the Law No 397/2003, general transfers are made from the resources available in the Administrative-Territorial Units Financial Support Fund on the basis of a well-defined formula. According to Article 12 of Law No 397/2003, special-purpose transfers are appropriated to local budgets in order to finance:

- a) preschool, elementary, secondary general, special and complementary (afterschool) education;
- b) infrastructure of local public roads;
- c) powers delegated by the Parliament, at the Government proposal, to LPAs;
- d) capital investments;
- e) other special measures.

The last two forms of special-purpose transfers are analysed in this chapter.

Thus, the suggestions for addenda to Annex 5 and 7 respectively of both State Budget Laws are formulated by Local Administrative Authorities according to the requirements of Law No 181/2014 and sent to the Ministry of Finance in order to be included in draft Budget Law. Besides these entities, the Government and the Parliament may suggest changes to the appropriation structure. This analysis focuses on funds approved via Budget Law amendments for transfer to the local authorities, proposed by the Government and Members of Parliament.

⁴Law on Public Finance and Budgetary-Fiscal Accountability no 181/2014, https://www.legis.md/cautare/getResults?doc_id=106188&lang=ro

⁵ The 2018 State Budget Law no 289/2017, https://www.legis.md/cautare/getResults?doc_id=110403&lang=ro

⁶ The Law amending the 2018 State Budget Law, Law no 118/2018, https://www.legis.md/cautare/getResults?doc_id=105482&lang=ro

⁷ The 2019 State Budget Law no 303/2018, https://www.legis.md/cautare/getResults?doc_id=117024&lang=ro

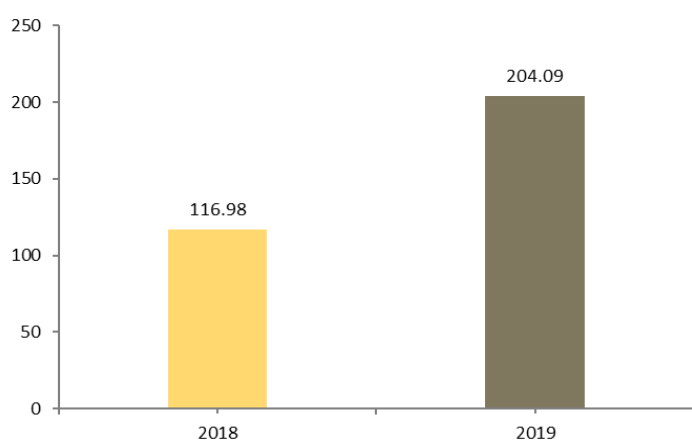
⁸ The Law Amending the 2019 State Budget Law, Law no 63/2019, https://www.legis.md/cautare/getResults?doc_id=115236&lang=ro#

The data analysis covered the transfers approved by the Parliament, including those proposed by Members of Parliament which are related to capital investments and other special measures.

Moreover, we decided to establish an index of political clientelism by analysing the proposed amendments submitted to the draft State Budget Law and determining the weight of those that were approved by Parliament versus those that were rejected, focusing on proposals of the opposition that were declined in comparison with the Parliamentary majority's declined proposals. Data did not include proposals that came from the Ministry of Finance or directly from the State Chancellery.

Therefore, the transfers approved by 2018 and 2019 Budget Laws encompass the following financial funds, representing MDL 117 million in 2018 and MDL 204.1 million in 2019 (Figure 2).

Figure 2. Transfers to level-one LPAs, approved by the State Budget Law, million MDL



Source: authors' calculations based on 2018 and 2019 Budget Laws.

2.1.2. Potential forms of political clientelism

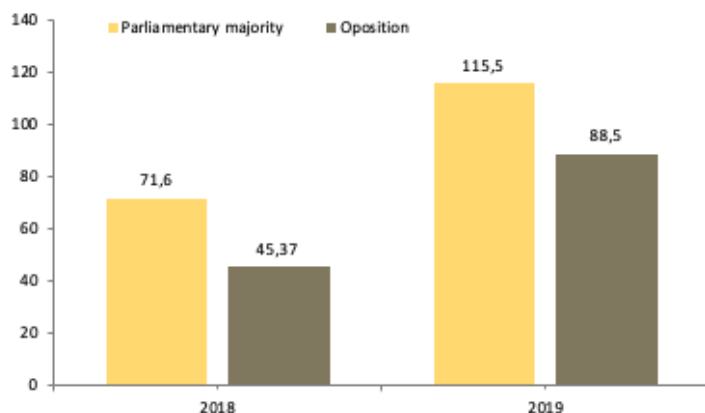
The transfers from the State Budget to local budgets could constitute a potential form of political clientelism by favouring the local budgets for LPAs where mayors are affiliated with the parties forming the parliamentary majority.

This study reviews the following favouring methods:

- Transfers approved on the basis of the 2018 and 2019 State Budget Laws
- The rate of accepting amendments submitted by the opposition versus those proposed by the parliamentary majority during the Parliamentary debates on amendments to the Budget Law.

The analysed data showed that the transfers approved by the 2018 and 2019 Budget Laws were distributed unfairly among level-one LPAs favouring the settlements where mayors are affiliated to the political parties forming the parliamentary majority. Thus, of the total of MDL 116.98 million in 2018, MDL 71.6 million (61.2%) of transfers were approved for level-one LPAs that are affiliated to the parliamentary majority, compared to only MDL 45.37 million (38.8%) of transfers approved for level-one LPAs that are affiliated to opposition parties. Of the total MDL 204.09 million in 2019, MDL 115.5 million (56.6%) of transfers went to level-one LPAs that are affiliated to the parliamentary majority, compared to only MDL 88.5 million (43.4%) of transfers approved for level-one LPAs that are affiliated to opposition parties (Figure 3).

Figure 3. Transfers from the State Budget to level-one LPAs by mayors' political affiliation, million MDL



Source: authors' calculations based on 2018 and 2019 Budget Laws.

At the same time, the amendments submitted by opposition MPs had a lower approval rate than the proposals of the MPs affiliated to the Democratic Party, including non-affiliated/independent MPs. To determine this, we analysed the amounts proposed by Members of Parliament affiliated to political parties and non-affiliated MPs and we considered their proposals to be accepted when amounts close to what they have suggested were included in the 2018 and 2019 Budget Law. Thus, as shown in Table 1, the highest proposals' approval rate is registered among the PDM representatives, as well as non-affiliated/MPs that used to represent PPEM parliamentary group.

Table 1. Amendments proposed for the revision of the 2018 Budget Law, MDL thousands

No	Party	Recommended amount of the amendment	Amount indicated in the budget	Approval rate
1	PSRM	60 343	10 727	18%
2	PDM	48 645	65 483	135%
3	PLDM	57 356	35 537	62%
4	PPEM/non-affiliated MPs	22 076	18 877	86%
Total		188 419.50	130 624	70%

Source: authors' calculations based on 2018 Budget Law (amendments made in the middle of the year) and on the amendments submitted by MPs.

If we analyse the average approval rate of 69.33% of the MPs' proposals, then PDM registers a 100% approval rate of their submissions together with those already stipulated in the Law amending the 2018 Budget Law. This fact denotes a strong political clientelism. At the same time, when amending the 2018 Budget Law, the proposals of independent MPs had an approval rate of 85.51%, compared with only 17.78% of those coming from PSRM.

However, we have to mention that the amounts proposed by PSRM are about three times higher than those of the non-affiliated/MPs from PPEM parliamentary group. Even though this study didn't analyse the timeliness of proposed appropriations for capital investments for LPA budgets, some proposed amendments indeed might not be realistic and beyond the financing possibilities of the State Budget. If we compare, the approval rates are higher for other political actors of the Parliament during debates and approval of the 2019 Budget Law. Thus, the average approval rate is 35.76% and the proposals submitted by PDM account for 29.84% in comparison with those of PSRM (26.76%). At the same time,

the proposals of the non-affiliated/MPs from PPEM parliamentary group and those of PCRM constitute a little over 50% (Table 2).

However, in absolute numbers, the highest approved amounts were submitted by the PDM representatives and the non-affiliated/MPs from PPEM parliamentary group — over MDL 150 million, compared with the total amount of MDL 165.5 million. From this point of view, more than 90% of the proposals submitted by parliamentary majority were approved, which reveals one more time that the parties of the parliamentary majority tend to use capital investments transfers from the State Budget to local budgets in a political context, failing to analyse the timeliness and impact of the capital investments suggested by MPs in their amendments.

Table 2. Amendments proposed for the revision of the 2019 Budget Law, MDL thousands

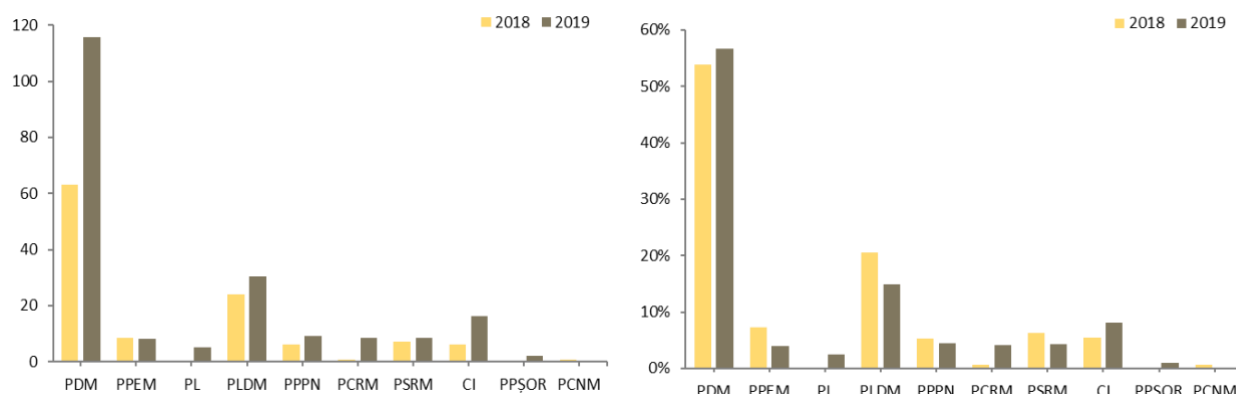
No	Party	Recommended amount of the amendment	Amount indicated in the budget	Approval rate
1	PSRM	39 954	10 691	27%
2	PDM	254 126	75 823	30%
3	PLDM	21 700	2 376	11%
4	PPEM/non-affiliated MPs	143 922	75 430	52%
5	PCRM	309	160	52%
6	PL	1 500	558	37%
Total		461 510	165 038	36%

Source: authors' calculations based on the 2019 Budget Law and on the amendments submitted by MPs

2.1.3. Identified indices of political clientelism

Based on the analysis of the collected data, we found that in relation to political parties, the transfers for 2018 and 2019 were made so as to favour significantly the mayors affiliated with the Democratic Party. Thus, for PDM mayors, transfers of MDL 63.1 million for 2018 and MDL 115.6 million for 2019 were approved. These amounts represent 53.9% of the total transfers for 2018 and 56.63% for 2019 respectively (Figure 4).

Figure 4. Transfers to level-one LPAs based on the political affiliation of mayors, amount (MDL million) and share (%)



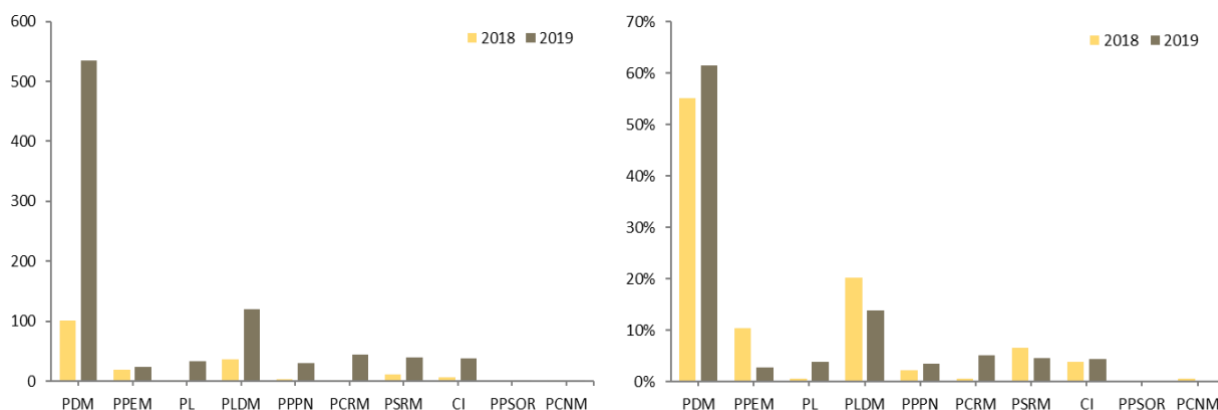
Source: authors' calculations based on 2018 and 2019 Budget Laws

Not all the mayoralities in the country benefited from transfers from the state budget. Out of the 898 mayoralities, only 183 were allocated resources in 2018, but much more in 2019 – 870. In 2018, out of the total number of mayoralities

that obtained transfers from the state budget 101 were mayoralities affiliated with the Democratic Party, which accounts for more than 55% of the total beneficiary mayoralities, as well as 19 mayoralities of the PPDM, representing 10.38%. In 2019, the number of mayoralities benefiting from appropriations from the state budget to local budgets increased significantly, reaching 870 mayoralities. Although we do not see major changes in terms of weights, just a slight bias in favour of PDM mayors (compared to 2018) and independent candidates, at the national level, the 2019 Budget Law covered virtually all level-one LPAs.

As shown in Figure 5, favouring PDM mayors is obvious in 2019, compared to 2018, as 535 PDM mayors, compared to 101, obtained allocations from the state budget in the form of transfers for capital investments. At the same time, there is an increase in the number of mayoralities affiliated with the opposition (such as PLDM, PCRM and PPPN) that benefited from transfers. Due to the fact that 2019 was an election year, we believe that the increase in the number of mayoralities benefiting from transfers was dictated by the interest in obtaining support for PDM from mayoralities affiliated with the opposition parties. Coupled with financial transfers from other funds, the aim would have been to attract the electorate of other parties to PDM electoral pool.

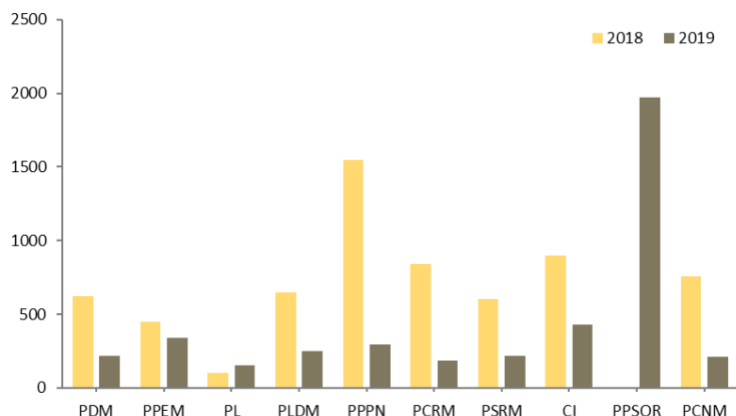
Figure 5. Number and share of mayoralities that received appropriations by political affiliation



Source: authors' calculations based on 2018 and 2019 Budget Laws.

At the same time, the average amount per mayorality, allocated in 2018 and 2019 shows that the mayoralities affiliated with the opposition parties, especially with PLDM, PPPN, PCRM and PCSM, as well as with independent candidates were favoured. As shown in Figure 6, out of all the mayoralities receiving transfers, the 2019 Budget Law favoured predominantly the mayoralities led by politically unaffiliated mayors, mayors affiliated with PPDM, but also the mayors affiliated with PSRM, PPPN and PLDM. The electoral context did not spare the few PPSOR affiliated mayoralities.

Figure 6. Average allocated amount per mayorality by mayors' political affiliation, MDL thousand



Source: authors' calculations based on 2018 and 2019 Budget Laws.

Based on the data presented above, as well as on the computed political clientelism index, we found that the latter had a pronounced manifestation in the case of transfers from the state budget to local budgets. Thus, for 2018 the aggregate index of political clientelism was 2.04, and in 2019 – 1.84, which indicates that the mayoralties affiliated with the governing political parties were favoured predominantly. The index suggests that an inhabitant from a government-affiliated mayoralty benefited from almost a double advantage in monetary terms, compared to an inhabitant from a not-affiliated mayoralty. Thus, at a population of 1.45 million people from the communities covered by government-affiliated mayoralties versus 1.88 million from the communities covered by those not affiliated, in 2018 MDL 71.6 million versus MDL 45.37 million were allocated, and in 2019 – MDL 115.58 million versus MDL 88.5 million.

Two main trends can be identified in the analysed data:

1. In 2018, which is not an electoral year, there are trends of significantly favouring mayoralties affiliated with the government, and
2. In 2019, which is an electoral year, more resources are used for capital investments, including in settlements not affiliated with the government, which shows that capital investment funds are mainly used for electoral purpose.

These trends affect the efficiency and timeliness of public funds use, as the approval of funding takes place in a political context, without taking into account these requirements. In essence, the transfers from the state budget to local budgets function as a 'bonus' in the political parties' toolkit for attracting votes, contrary to the requirements of efficiency, transparency and timeliness.

2.2. Road Fund and 'Good Roads' Program

The Republic of Moldova has a network of public roads (except for streets) with a length of 10635 km. Of them, the national roads are 5857 km in length, the local ones - 3708 km, and the roads managed by authorities on the left bank of the Nistru river - 1070 km. In addition, there is a big network of community roads and streets, of about 30000 km in length. 'State Road Administration' SOE manages only the national roads, with the other roads being managed by the local public authorities (local roads). As for their quality, only one third of roads as assessed to be in a good condition. The most recent available data⁹ rank the Republic of Moldova the 127th of the 141 countries present in the Global Competitiveness Index, with a score of 2.6 of a maximum of 7.

The Government's vision about roads is to make significant public investments in the rehabilitation of public roads and in maintaining their satisfactory condition for a longer period. Roads are stated as a national priority in 'Moldova 2020' NDS¹⁰, as only a network of quality roads can support business development, attract investments, facilitate international transit of goods and improve access to some social services, such as access to education and health care. The 'Moldova 2020' NDS vision and objectives about roads have been transposed in a number of sectoral policy documents. These

⁹Roads quality is a component part of the Global Competitiveness Index, published annually by the World Economic Forum), https://www.theglobaleconomy.com/Moldova/roads_quality

¹⁰ Law No 166 of 11.07.2012 approving 'Moldova 2020' National Development Strategy, https://www.legis.md/cautare/getResults?doc_id=48697&lang=ro

include the Transport and Logistics Strategy¹¹ and National Road Safety Strategy¹² that describe a series of specific activities aimed at enhancing the road quality, which are later transposed in the Government's annual activities.

2.2.1. Funds allocated for road sector

Significant financial resources are mobilised each year, both from internal and external sources, for the rehabilitation, maintenance and even expansion of the road network. The State Budget Law sets out annually the volume of funds allocated for the road sector. The resources are both internal (road taxes and duties) and external, in particular loans from international financial institutions (Table 3). The internal resources are mainly used for maintenance and repair works, while the external ones are used for rehabilitation works and construction of new roads. Implementation of road projects is often problematic. This is also revealed by the large gaps between the approved and executed budgets, mainly for externally funded projects. These can be explained by a number of reasons: limited capacity of public authorities to implement some projects, problems with public procurements, financial commitments beyond the realistic budget possibilities, or even suspended external funding due to some drawbacks of the Government.

Table 3. Annual appropriations to road infrastructure development, approved, MDL million

	2018	2019	2020
Appropriations from external sources:	2 244.5	1 497.4	3 207.8
<i>Road Sector Program Support Project</i>	<i>2 140.1</i>	<i>867.9</i>	<i>1 191.0</i>
<i>Local Roads Rehabilitation Project</i>	<i>104.4</i>	<i>133.7</i>	<i>512.4</i>
<i>Other projects*</i>	<i>-</i>	<i>495.8</i>	<i>1 504.4</i>
Appropriations from internal sources:	1 754.9	1 829.7	2 779.7
<i>Program on the Distribution of Road Fund Resources for National Public Roads</i>	<i>972.5</i>	<i>1 024.1</i>	<i>1 718.8</i>
<i>Transfers from the State Budget to level-one and level-two LPAs</i>	<i>743.4</i>	<i>766.6</i>	<i>1 021.9</i>
<i>Road infrastructure development (MARDE projects)</i>	<i>39.0</i>	<i>39.0</i>	<i>39.0</i>
Total	3 999.4	3 327.1	5 987.5

Source: Author's compilation on the basis of budget documentation

The Road Fund is the main tool in the Republic of Moldova for funding road repair and maintenance works from internal resources. This Fund was established by law¹³ for funding the national and local public road maintenance, repair and rehabilitation works, as well as other works linked to road maintenance (design, research, management etc.). The Road Fund is a constituent part of the State Budget. The annual appropriations are passed yearly by the Parliament alongside the State Budget Law. On the other hand, the decisions on what the funds are to be spent on, are made by the Government, upon proposal from the 'State Road Administration' (SRA) SOE, by coordination with the Ministry of Economy and Infrastructure and in line with the list of national and local public roads and their technical condition.

The Road Fund formation sources can be divided into 3 categories: (i) excess duties on fuel, (ii) road taxes and (iii) various fines. The main source is the defalcations from excess duties on fuel, which generates more than 2/3 of total resources, the rest coming from road taxes (the main component being the road user charges). Although the amount accumulated into the Road Fund is bigger, the share of defalcations from the excise duties on oil products is established yearly in the State Budget Law, depending on the needs and priorities of the Government (e.g. 67% in 2020). Considering

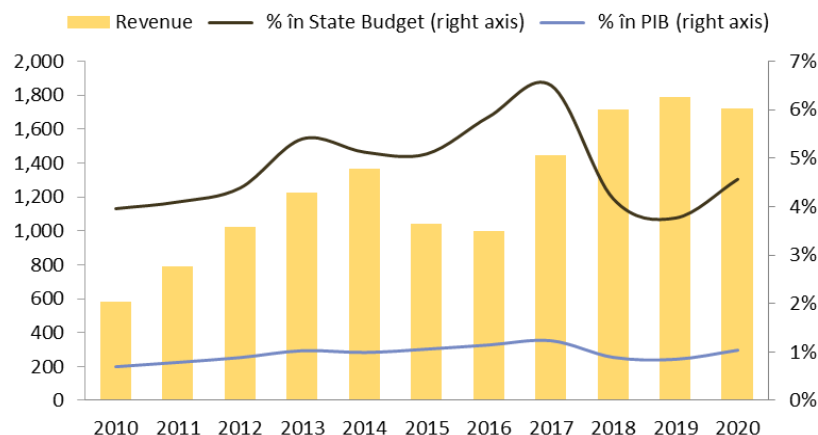
¹¹Government Decision No 827 of 28.10.2013 approving the 2013-2022 Water Supply and Sewerage Strategy, <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=350111&lang=1>

¹² Government Decision No 1214 of 27.12.2010 approving the National Road Safety Strategy, <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=337883&lang=1>

¹³ The Road Fund Law No 720 of 2 February 1996, <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=336995&lang=1>

it in relation to the GDP and the State Budget, the resources of the Road Fund are among the biggest ones compared with other funds, including the ones analysed by this study. Over the last 10 years, they represented a share of about 1% of the GDP or 3-5% of State Budget revenues (Figure 7), with meaningful oscillations during crises, as was the case during 2015-2016 after the banking sector frauds.

Figure 7. Road Fund formation sources, according to the law in force¹⁴



Source: Author's compilation on the basis of budget information

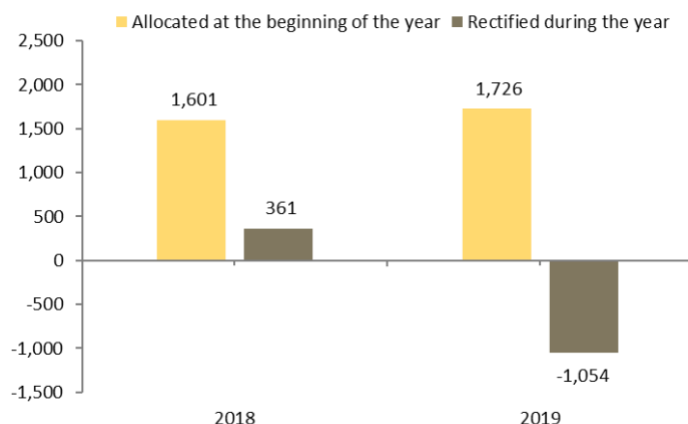
The resources of the Road Fund can be used only for particular purposes related to the maintenance of the initial technical parameters and extension of public road service life. The Government adopts annual decisions on such works, which set out the distribution of the Road Fund resources (*'Program on the Distribution of Road Fund Resources'*). This Program is amended whenever needed, depending on budgetary dynamics throughout the year. A report is also released on the spending of Road Fund resources in the previous year and on the execution of covered contracts. The remaining resources are appropriated to local authorities on the basis of formulae that factor in the size of the population in every settlement and the total distance of administered kilometres. The Government Decision on 2018 and 2019 on the Distribution of Road Fund Resources included one more program. It was the *'Program on the Periodic Repairs of National (inside settlements) Local, Communal Roads and Streets'*, an initiative also known as the *'Good Roads'* Program, which is further analysed in the sub-chapter below.

2.2.2. Potential forms of clientelism. The *'Good Roads'* Program

In 2018 and 2019, in addition to the annual program on the distribution of Road Fund resources, another program was included that provided for the periodic repair of national, local, communal public roads and streets (*'Good Roads for Moldova'*). In general terms, the program provides the list of national roads to be maintained with the funds appropriated under the first program, adding to it the list of local, communal roads and streets to be repaired from State Budget resources. The appropriated resources were quite big compared with other funds analysed as part of this study, as we are talking about MDL 1.6 billion in 2018 (this amount was later increased by MDL 360 million as part of budget corrigendum) and MDL 1.7 billion in 2019. When the Government changed in 2019, the initial amount was substantially cut by MDL 1 billion. (Figure 8).

¹⁴ One of the main sources forming the Road Fund is the annual defalcations from the excise duties for oil products subject to excise duties, except for liquefied gas. Still, the annual amount depends on the percentage established in the State Budget Law for the year concerned. For instance, the law provides for 67.01% in 2020, while it was only around 34% in 2018 and 2019.

Figure 8. Funds allocated for Program on Periodic Repairs of National and Local Public Roads and Streets, (Good Roads), MDL million



Source: Author's compilation on the basis of budget information

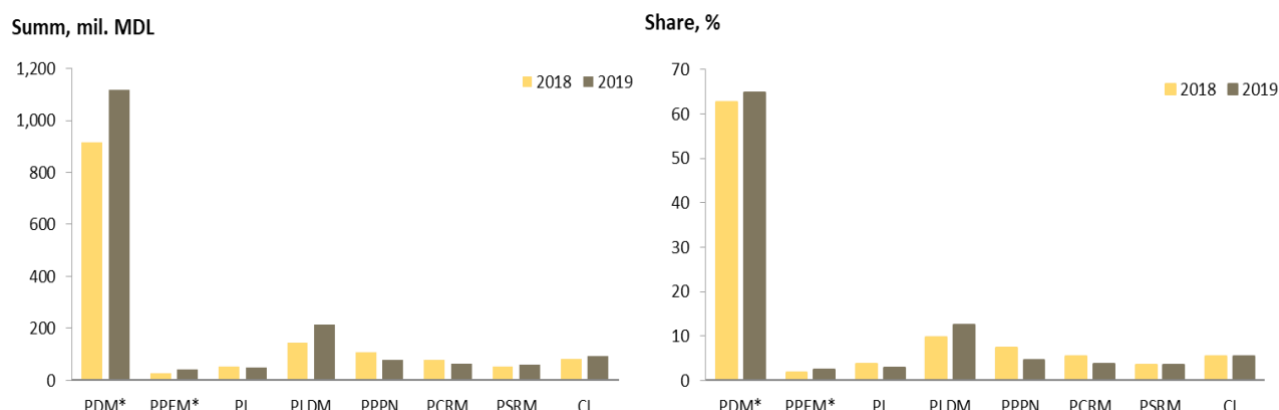
The 'Good Roads' Program was funded from both the Road Fund and other State Budget resources. The list of roads was approved by the Government, while the actual program management was assigned to the Ministry of Economy and Infrastructure, via the State Road Administration. The latter was supposed to monitor the execution of contracts for more than 1200 kilometres of road in more than 1200 settlements, including compliance with technical parameters.

The program was not based on a clear substantiation of the roads to be repaired, other recent repair works funded from other sources having not been taken into account. The distribution of funds was therefore a much-debated topic in the society, including distribution on the basis of political affiliation of local public authorities, political affiliation of the district leadership or formation of single-member constituencies for the 2019 Parliamentary Elections. To test these hypotheses, we analysed the appropriations under the 'Good Roads' Program for 2018 and 2019, by mayoralities and by affiliation of the leadership with the governing party. We also took into account the size of the population by settlements, this having been a general criterion that normally serves as basis for resource transfers from the Road Fund to level-one LPAs.

2.2.3. Identified indices of political clientelism

The general approach of the study to political clientelism implies that, overall, the settlements the mayors of which are affiliated with the government, receive more funds than those that are not. In 2018 and 2019, the largest appropriations under the 'Good roads' program went to mayors affiliated with those in power. In 2018, including when the mid-year rectification was made, about MDL 2 billion were allocated. However, about MDL 500 million were allocated under the *Road Fund Resource Allocation Program* for national roads, and these were thus not included in the clientelism index analysis. So the total amount analysed is MDL 1,463 million, of which MDL 915 million, i.e. 62.6% of the total, were allocated to mayoralities affiliated with PDM, while MDL 28 million (1.9%) – to those affiliated with PPEM. The other mayoralities, that were not affiliated with the governing parties, were allocated around MDL 500 million, which is about 35.5% of the total. In 2019, the allocated amounts at the beginning of the year followed the same path, having increased slightly for government-affiliated mayoralities – 67.3% of total appropriations (Figure 9).

Figure 9. Distribution of financial resources under the ‘Good Roads’ Program by mayors’ political affiliation

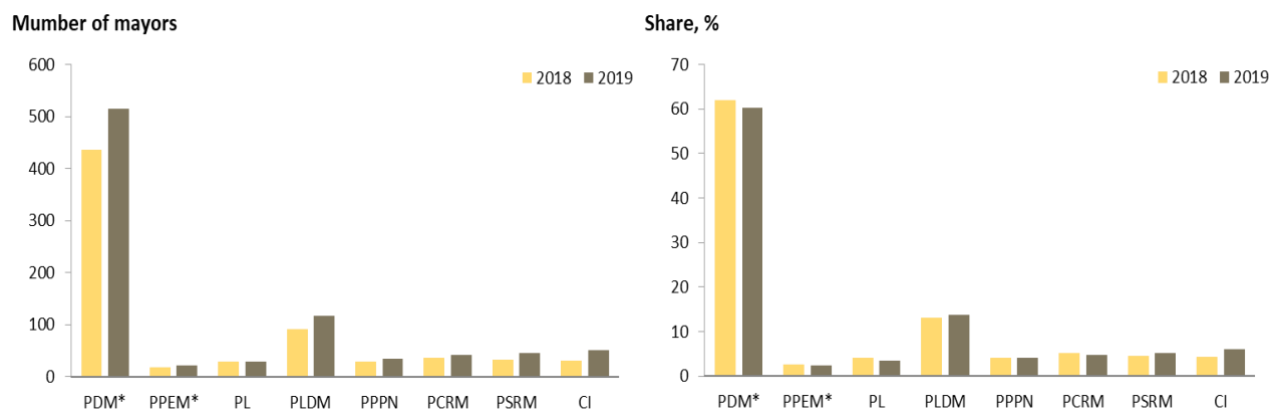


Source: authors' calculations based on the Program on periodic repairs of national, local, public roads and streets

Note: * - the mayorality is affiliated with the government

Not all mayoralties in the country were allocated resources under the ‘Good Roads’ Program. Out of the 898 mayoralties, only 703 were allocated resources in 2018, and 855 – in 2019. Of all the mayoralties that were allocated resources, 454 were government-affiliated, i.e. 64.6% (2018), 436 of which were affiliated with PDM, and 18 – with PPEM. The share of government-affiliated mayoralties in the total mayoralties that were allocated resources remained in 2019 at around the same level – 60.2%, i.e. 515 mayoralties affiliated with PDM, as PPEM had stopped being in power in 2019 (Figure 10).

Figure 10. Distribution of financial resources under the ‘Good Roads’ Program by total number of recipient mayoralties



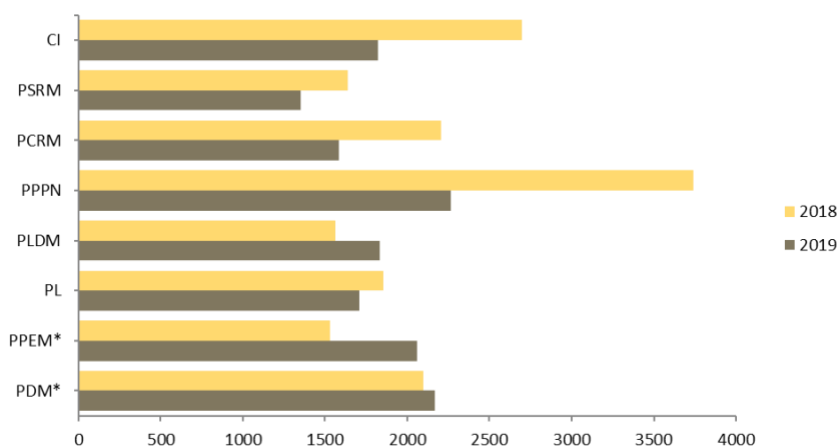
Source: authors' calculations based on the Program on periodic repairs of national, local, public roads and streets

Note: * - the mayorality is affiliated with the government

In our pursuit of identifying the level of clientelism, we'll look deeper into the average allocation per mayorality, depending on mayor's political affiliation. Figure 11 illustrates a different state of affairs across mayoralties from this point of view. We can see thus that mayoralties affiliated with PPPN and the ones led by independent mayors were allocated the largest average amounts of over MDL 2.5 million (2018). Obviously, this might lead us to believe that there's no political clientelism, but we must remember that the ‘Good Roads’ Program was a rather electoral tool implemented with the view of maximising the results of the parliamentary elections in February 2019. The appropriations targeted therefore those settlements where the electorate was the easiest to influence to vote for the governing party. Needless to say, that the targets were first of all independent mayors who, having not political commitments, could be easily pulled on the side of the governing party. Second, Figure 11 shows that mayors affiliated

with PPPN were also targeted. This can be explained by the unclear situation of this party in that period of time, and by the high likelihood that mayors would rather turn towards the governing party than the opposition ones. The same explanation could be true for PCRM-affiliated mayors.

Figure 11. Appropriations approved under the ‘Good Roads’ Program, by mayoralties, depending on mayors’ political affiliation, average by mayorality, MDL thousand



Source: authors' calculations based on the Program on periodic repairs of national, local, public roads and streets

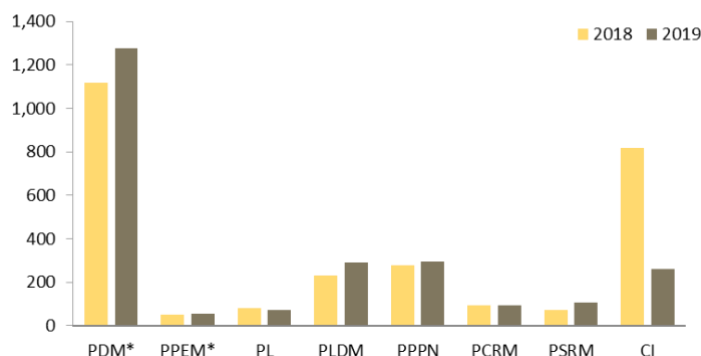
Note: * - the mayorality is affiliated with the government

Lastly, to search for clientelism indices, appropriations for ‘Good Roads’ program were also analysed through the lens of the number of people living in the settlements where the mayors were government-affiliated, and the number of people living in the rest of the settlements. The appropriations were also analysed on the basis of average amount per capita in different settlements (affiliated and non-affiliated with the government).

It turned out that the settlements where the mayors were government-affiliated were inhabited by a greater number of people than the rest of the settlements. Thus, about 1.2 million people living in settlements with PDM- and PPEM-affiliated mayors, and 1.5 million people living in settlements with non-affiliated mayors were beneficiaries of road repairs. On the other hand, about 600 thousand people lived in settlements that did not receive any appropriations under the program, regardless of the political affiliation of their mayors. The state of affairs did not change meaningfully in 2019, except that the number of independent mayors decreased, as some became affiliated with the governing party (Figure 12). This explains the decrease in the number of population that was favoured with repairs of local roads in villages led by independent mayors.

Figure 12. Number of people living in settlements that were allocated resources under the ‘Good Roads’ program, by mayors’ political affiliation

Persons, thousand



Source: authors' calculations based on the Program on periodic repairs of national, local, public roads and streets

Note: * - the mayorality is affiliated with the government

Finally, the most visible indication of clientelism can be noticed when it comes to the average allocation per capita in settlements where the mayors were government-affiliated and where they were not. In the former case – the average amount was MDL 808 per capita in 2018, and in the latter – MDL 876 per capita in 2019. The situation was completely different for non-affiliated ones: the average amount was only MDL 330 per capita in 2018, and MDL 516 per capita in 2019, including after a meaningful increase in the total amount allocated for ‘Good Roads’, (Table 4). Regardless, one important aspect to remember is that the analysis was focused on approved amounts, not on actually spent ones, as the state budget underwent a significant corrigendum in 2019, after the government changed. As a result, the initially appropriated amount was cut by about MDL 1 billion. (Figure 8).

Table 4. Allocated per capita amount by mayors’ political affiliation, MDL

	PDM*	PPEM*	PL	PLDM	PPPN	PCRM	PSRM	IC	Settlement led by government-affiliated	Settlement led by mayor not affiliated
Amount/inhabitant, 2018	819	559	667	629	388	862	746	99	808	330
Amount/inhabitant, 2019	876	804	702	732	267	689	571	358	876	516

Source: authors' calculations based on the Program on periodic repairs of national, local, public roads and streets

Note: * - the mayorality is affiliated with the government

Having regard to the aforementioned, we found that the level of political clientelism in the allocation of resources under the ‘Good Roads’ Program was moderate. The 2018 clientelism index was 2.3 units, but it increased to 2.6 in 2019. This means that in 2018 the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources under the ‘Good Roads’ Program were 2.3 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. In 2019, the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources were 2.6 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government.

2.3. National Ecological Fund

Environmental protection is a globally-important issue because it affects the living conditions of the population. Moldova has several ecological challenges, such as:

- insufficient solid waste management, which causes soil, air and water pollution;
- inappropriate forest management and irrational agricultural practices, which cause soil degradation and loss of biodiversity;
- pollution of small rivers and wells because of outworn water treatment infrastructure, illegal landfills and livestock manure¹⁵.

The environmental policy of the state is detailed in the 2014-2023 Environment Strategy. The view of the Strategy is focused on reforming the environmental protection system, to put in place an institutional, administrative and environmental management system, adjusted to the EU requirements that would ensure environmental sustainability and increase the quality of the environmental factors. The general objective of the Strategy is to create an efficient environmental management system that would enhance the quality of environmental factors and would secure people's right to unpolluted, healthy and sustainable natural environment.

Funding from the National Ecological Fund is an important tool that the state is using to promote the environment policy. The National Ecological Fund (NEF) is governed by several regulatory acts. The Environmental Protection Law, passed in 1993, sets out the legal framework of the environment policy in the Republic of Moldova. The law also stipulates the areas in which the NEF resources can be used. The Regulation on Ecological Funds was approved by Government Decision in 1998 on the basis of the Environmental Protection Law. It regulates the NEF operation and sets out its sources and spending purposes. The Regulation on the Administration of the National Ecological Fund, approved by Order of the Ministry of Environment in 2013, provides for the organisation and modus operandi, tasks and duties of NEF administration bodies and executive bodies.

2.3.1. Formation and distribution

The National Ecological Fund was created as part of the State Budget. NEF is administered by the Board of Administration of the National Ecological Fund (hereinafter referred to as the Board), which consists of 7 members:

- ✓ Minister of Agriculture, Regional Development and Environment (Chair of the Board);
- ✓ Secretary of State of the Ministry of Agriculture, Regional Development and Environment, in charge of environment and natural resources protection (Deputy Chair of the Board);
- ✓ one representative of each of the following bodies: State Chancellery, Ministry of Finance, Ministry of Economy and Infrastructure, Ministry of Health, Labour and Social Protection and the State Chancellery, as well as one representative of environmental non-government organisations.

The chair and deputy chair of the Board have these positions as long as they are Minister and Secretary of State, respectively. Board members are appointed for 2 years, after which the institutions that appointed them are to reconfirm their membership or appoint other representatives, except for the representative of environmental NGOs, who are elected/re-elected every year at the environmental non-government organisations' forum.

NEF was created as part of the State Budget. The resources of the fund are allocated on the basis of projects submitted by the local public authorities, companies and organisations, regardless of their form of ownership, as well as by non-government organisations. The project proposals and grant applications are examined by the Board according to a set procedure, in meetings that take place at least quarterly. The financial resources of the NEF can be used for:

- ✓ funding projects implementing national environmental protection strategies, programs and plans, standards and rules; constructions and participation in building environmental protection facilities (including funding

¹⁵ <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=352740>

- of their design and implementation in the area of water supply and sewerage; supporting waste collection and sorting and waste processing and neutralising companies; air improvement works);
- ✓ scientific researches in environmental protection;
 - ✓ organising and managing environmental protection-related information and advertisements; raising awareness about ecology;
 - ✓ paying the salaries of NEF staff (up to 5% of the resources of the Fund); creating and strengthening the physical condition of environmental protection facilities, including keeping statistical records of the ecological funds (up to 10% of the total revenue of the Fund);
 - ✓ organising international collaboration in the area of environmental protection, including by involving foreign experts in advisory assistance, expert reviews, by having representatives of Moldova participate in international ecological conventions that Moldova is party to; paying membership fees to inter-state organisations in the area of environmental protection and paying for the organisation and implementation of activities related to the Convention on International Trade in Endangered Species of Wild Fauna and Flora;
 - ✓ liquidating the consequences of natural disasters, production accidents and of other situations that can harm the environment;
 - ✓ providing financial support to non-governmental environmental organisations under a special grants program for projects focused on the environmental protection.

In 2018 and 2019 the NEF resources were allocated as a matter of priority to water supply, sanitation and water treatment projects and to projects in the area of river bank strengthening and liquidation of flood damages. In fact, compared with the projects under the water supply and sanitation program, other priorities are given little funding. The NEF Board of Administration approved 137 projects in 2018 and transferred about MDL 236.3 million. Of the 137 accepted projects, 127 were about water supply and sanitation, with appropriation totalling about MDL 202.2 million (Table 5). As many as 62 projects were approved in 2019, MDL 218.3 million having been allocated. A number of 49 water supply and sanitation projects were approved, the appropriated amount having reached MDL 205 million.

Table 5. Programs and projects financed from National Ecological Fund

Program	2018			2019		
	Number of approved projects	Approved amount, MDL thousand	Transferred amount, MDL thousand	Number of approved projects	Approved amount, MDL thousand	Transferred amount, MDL thousand
Policies and management in environmental protection	3	9 267	1 745	3	1 296	1 137
Integrated management of waste and chemicals	2	12 022	9 335	6	19 409	7 294
Environmental security	1	200	0	2	3 955	423.5
Environment quality monitoring	3	8 110	14 370	0	0	3 498
Protection and conservation of biodiversity	1	2 914	8 649	2	5 712	1 000
Water supply and sewerage	127	350 270	202 164	49	203 633	204 978
Total	137	382 784	236 264	62	234 005	218 330

Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

2.3.2. Potential Forms of Clientelism

NEF is not a fund managed by an institution with particular political independence. For instance, the NEF Board is chaired by the Minister of Agriculture, Regional Development and Environment who is a political figure. Similarly, other members of the Board represent ministries which are basically politically controlled institutions.

In 2018 and 2019, the largest NEF appropriations were directed to mayors affiliated with parties/governing parties (Table 6). In 2018, the decision to grant MDL 307 million for 107 mayoralties was approved. The mayoralties held by mayors from governing parties, PDM and PPEM, should have received MDL 187.9 million (61.2% of Fund's appropriations) and MDL 11.8 million (3.8% of Fund's appropriations). Thus, the mayoralties run by governing parties received about 2/3 of NEF appropriations. In 2019, decisions on appropriation of NEF sources were made in March (only 2 decisions were made in February). In 2019, the decision to transfer MDL 195.6 million for project implementation in 46 settlements was approved. It was decided to allocate MDL 150.7 million for mayoralties led by PDM mayors, which represents over 3/4 of Fund's approved transfers.

Table 6. Amount of money allocated depending on mayors' political affiliation, disaggregated by parties

	PDM*	PPEM*	PL	PLDM	PPPN	PCRM	PSRM	IC	Total
Amount approved in 2018, million MDL	187.9	11.8	11.9	40.1	9.9	17.8	7.0	20.5	307
Amount approved in 2019, million MDL	150.7	-	9.2	29.9	1.1	-	4.7	-	195.6
The share in total approved amount, %, 2018	61.2	3.8	3.9	13.0	3.2	5.8	2.3	6.7	100
The share in total approved amount, %, 2019	77.0	-	4.7	15.3	0.6	-	2.4	-	100

Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

Note: * - the mayoralty is affiliated with the government

The analysis of political distribution of mayoralties, which benefited from NEF appropriations, shows a clear favouring of those run by mayors affiliated to governing parties (Table 7). Thus, in 2018, 62 out of 107 mayoralties which obtained funding from NEF were run by PDM mayors (57.9% of mayoralties), and 4 were managed by PPEM mayors (3.7% of mayoralties). Therefore, about 62% of mayoralties which benefited from funds were run by government-affiliated mayors. In 2019, compared to 2018, the amount of money allocated for communities managed by mayors affiliated to governing parties was higher. A share of 36 (73.9%) out of 46 mayoralties that received financial appropriations were managed by PDM mayors.

Table 7. Mayoralties that benefited from funding depending on mayors' political affiliation

	PDM*	PPEM*	PL	PLDM	PPPN	PCRM	PSRM	IC	Total
Number of mayoralties that benefited from NEF appropriations, 2018	62	4	5	15	4	6	4	7	107
Number of mayoralties that benefited from NEF appropriations, 2019	34	-	2	8	1	-	1	-	46
The share in total number of mayoralties that benefited from NEF appropriations, %, 2018	57.9	3.7	4.7	14	3.7	5.6	3.7	6.5	100

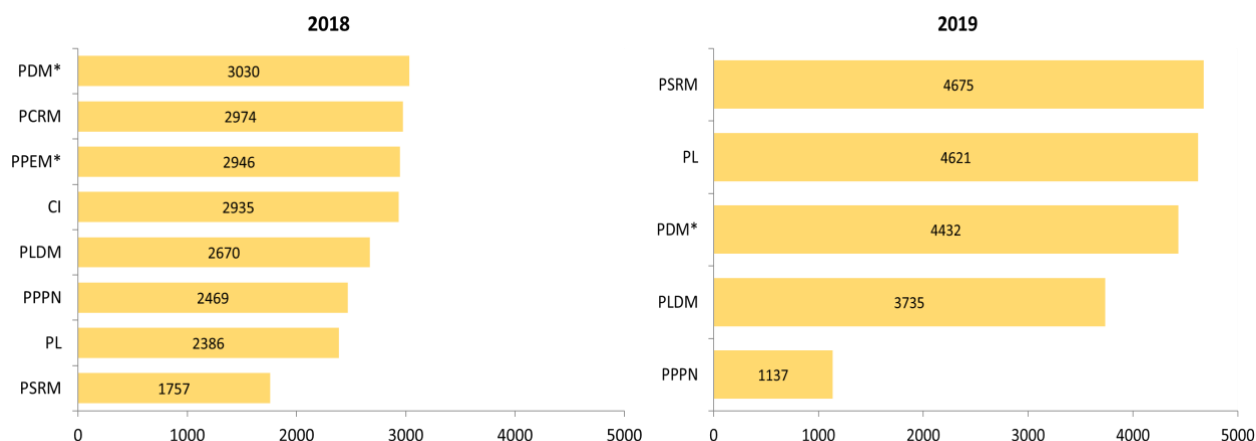
The share in total number of mayoralties that benefited from NEF appropriations, %, 2019	73.9	-	4.3	17.4	2.2	-	2.2	-	100
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Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

Note: * - the mayoralty is affiliated with the government

Particular differences are noted at level of average appropriations depending on mayor's political affiliation, but these gaps do not represent a definite indicator of political favouring. In 2018, the mayoralties led by mayors affiliated to 4 parties, as well as independent mayors, have benefited from approximately equal average amounts of money (Figure 13). Thus, an average of MDL 2.9-3 million were approved for mayors affiliated to PDM, PCRM, PPEM mayors and for the non-affiliated mayors. The most disadvantaged mayoralties, with an average of MDL 1.76 million, were run by PSRM representatives. In 2019, the mayoralties governed by PSRM representatives received the largest average appropriations (MDL 4.7 million), followed by mayoralties ran by PDM mayors (MDL 4.4 million), and the most disadvantaged were PPPN mayoralties (MDL 1.1 million).

Figure 13. Average allocated amount per mayoralty by mayors' political affiliation, MDL thousand

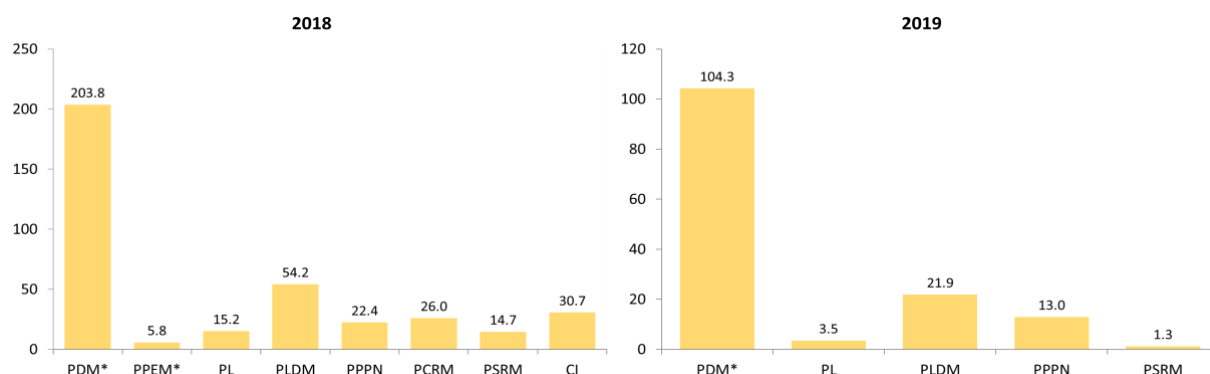


Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

Note: * - the mayoralty is affiliated with the government

The government-affiliated mayoralties that benefited of NEF funding have more inhabitants than the beneficiary communities that are not government-affiliated (Figure 14). As a result, there were more actual beneficiaries in the government-affiliated mayoralties, compared with the not affiliated ones. Thus, in 2018, approximately 209.6 thousand people were living in government-affiliated mayoralties that received funding: about 203.8 thousand in mayoralties controlled by PDM and 5.8 thousand in PPEM mayoralties. At the same time, approximately 163.3 thousand people were living in mayoralties that were not affiliated with the government and received funding. In 2019, about 104.3 thousand people were living in PDM mayoralties which received funding, while in communities with non-affiliated mayors – 39.7 thousand people.

Figure 14. Number of population registered in settlements for which NEF funding was approved by mayors affiliation, thousand people



Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

Note: * - the mayoralty is affiliated with the government

In addition, the amount allocated per an inhabitant of a government-affiliated mayoralty exceeds the amount allocated per a person from a community with a non-affiliated mayor (Table 8). At the same time, note that the analysis of amounts per capita related to each party does not always highlights great differences. An inhabitant of a government-affiliated mayoralty received, on average, MDL 952.6 in 2018 and MDL 1445.2 in 2019, while a person living in a mayoralty ran by a mayor not affiliated with the government received MDL 657.1 in 2018 and MDL 1133 in 2019.

Table 8. Average amount per capita in settlements for which NEF funding was approved, by mayors' political affiliation, MDL

	PDM*	PPEM*	PL	PLDM	PPPN	PCRM	PSRM	IC	Mayoralty with government-affiliated	Mayoralty led by a mayor not affiliated
Amount/inhabitant, 2018	922.1	2015	784.2	738.4	441.1	685.3	478	669.9	952.6	657.1
Amount/inhabitant, 2019	1445.2		2613.9	1364.7	87.6		3737.3		1445.2	1133

Source: <http://www.madrm.gov.md/ro/content/fondul-ecologic-național>, author's calculations

Note: * - the mayoralty is affiliated with the government

2.3.3. Identified indices of political clientelism

Indices reveal a high level of political clientelism in the distribution of NEF appropriations. The clientelism index for 2018 amounted to 2.4 units, but it increased to 4.7 in 2019. This means that in 2018 the chances of an inhabitant from a government-affiliated mayoralty to 'benefit' from NEF resources were 2.4 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. In 2019, the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources were 4.7 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. This progress can be explained by the fact that NEF was actively used for political purposes. After the parliamentary elections of February 2019, local elections were following, and even early parliamentary elections could take place. In this context, the governing party at least tried to maintain its client network, if not to extend it by allocating NEF resources to affiliated mayoralties first of all.

2.4. National Regional Development Fund

National Regional Development Fund (hereinafter NRDF) was established in 2018 on the basis of the Government Decision implementing the Law on Regional Development in the Republic of Moldova¹⁶. NRDF is managed by MARDE and aims to finance and implement regional development projects and programs, included in the Single Program Document (SPD). Once assessed by an Evaluation Committee, the SPD is approved by the National Coordination Council for Regional Development (NCCRD) on the basis of the project proposals submitted for approval.

2.4.1. Formation and allocation of NRDF resources

On the basis of Government Decision No 127/2008, NRDF consists of at least 1% of state budget revenues, which are approved annually by the State Budget Law. Nevertheless, the 2018 Budget Law stipulates MDL 200 million for 2018, and MDL 220 million for 2019 and 2020 for NRDF. In this context, MDL 36.6 billion was provided for as revenue in the 2018 Budget Law, 40.6 billion in 2019, and in 2020 – 44.1 billion.

NRDF resources are distributed on the basis of SPD, approved by NCCRD. NRDF also covers the operational costs of North, Centre, South and Gagauzia Regional Development Agencies.

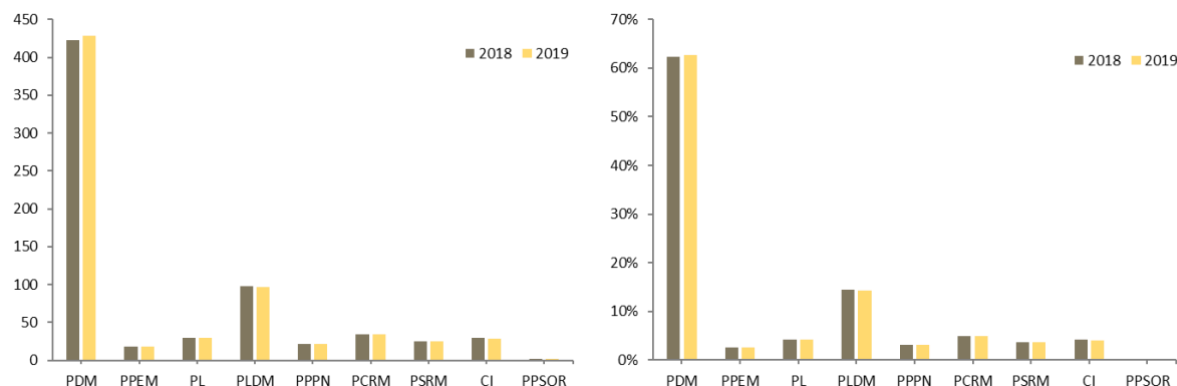
2.4.2. Potential forms of clientelism

NRDF resources are shared on the basis of projects initially approved by Evaluation Committee and further submitted to NCCRD for approval. Thus, the political clientelism can occur by favouring particular projects coming from LPAs where the mayors or district presidents are affiliated with a particular political party. In this regard, approval of projects by NCCRD, which is composed mostly by Government representatives, could have a potentially negative impact on the efficient use of resources and could lead to granting financial resources depending on political affiliation.

Analysing the collected data, we noted that about 700 mayoralties benefited of NRDF funds in 2018 and 2019. While establishing these appropriations, we took into account both projects for a single or several mayoralties, as well as for the whole district. The large number of beneficiary mayoralties it is also explained by the methodology applied in this study. Thus, in case of a district-level project, the allocated amounts were distributed equally among the respective level-two LPAs. As described in

Figure 15, the funds were mainly allocated to PDM mayors (423 and 428 mayoralties), with a share of 62.3% and 62.76% respectively of total number of beneficiary mayoralties.

Figure 15. Number and share of mayoralties, beneficiaries of NRDF appropriations by political affiliation



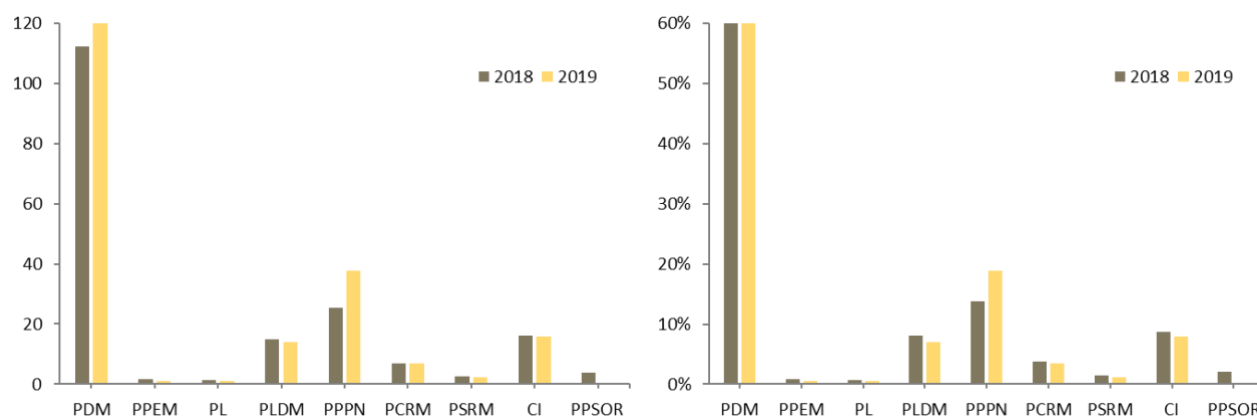
¹⁶ Government Decision No 127/2008 implementing Law No 438-XVI of 28 December 2006 on Regional Development in the Republic of Moldova

Source: author's calculations on the basis of 2018 and 2019 NRDF implementation reports, www.madrm.gov.md

2.4.3. Identified indices of political clientelism

We noted a preferential distribution for PDM out of total resources approved for projects in the single program document. Thus, Figure 16 shows the resources allocated for projects where PDM mayoralties are beneficiaries: amounting to MDL 112.29 million for 2018 and MDL 120.31 million for 2019, with a share of slightly over 60%. A separate support represents the funding of projects for PPPN mayoralties – between 13.73% and 19% of allocated funds. The lack of any advantage for PPEM mayoralties is a specific aspect.

Figure 16. Number (MDL million) and share (%) of projects financed from NRDF based on the mayors' political affiliation, MDL million

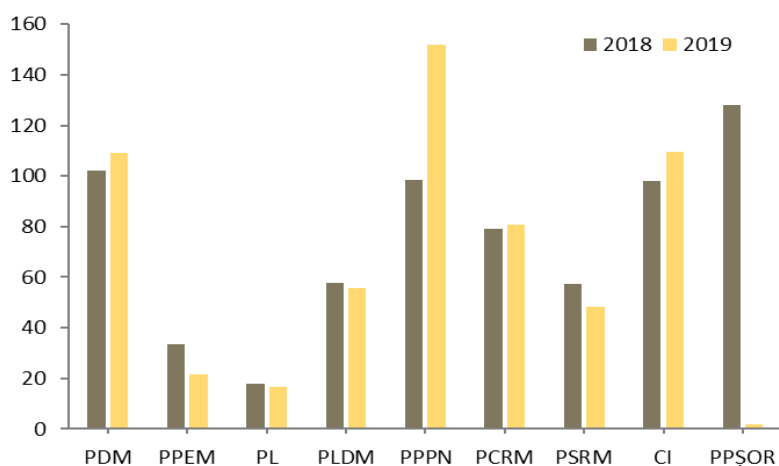


Source: author's calculations on the basis of 2018 and 2019 NRDF implementation reports, www.madrm.gov.md

At the same time, analysis of per capita appropriations shows that NRDF favoured the inhabitants of mayoralties affiliated to PDM and to PPPN, as shown in

Figure 17. Therefore, in 2019, the average value reached MDL 151.91 per capita in case of projects financed for PPPN mayoralties and the minimum value of MDL 1.92 per capital in settlements affiliated with PPŞOR.

Figure 17. Average per capita amount allocated for projects from NRDF, MDL



Source: author's calculations on the basis of 2018 and 2019 NRDF implementation reports, www.madrm.gov.md

The political clientelism index shows that in 2018 for a population of 1.45 million people from government-affiliated mayoralities an amount of MDL 113.86 was allocated, while for 1.9 million people from not affiliated mayoralities — MDL 70.9 million were allocated, and in 2019 — MDL 120 million vs. MDL 79 million. Similar to the transfers from the state budget to local budgets for capital investments and 'Good Roads' Program, we noted a high index of political clientelism: 2.07 in 2018 and 2.15 in 2019. In this case we also concluded that an inhabitant from a government-affiliated mayorality benefited from a double advantage in monetary terms, compared to an inhabitant from a non-affiliated mayorality.

The moderate political clientelism index also suggests some issues regarding the decision-making process by favouring the projects of government-affiliated mayoralities. This index suggests that NRDF management needs to be adjusted and improved, including by focusing more on efficiency and timeliness criteria when deciding to include NRDF-funded projects in SPD. It is also necessary to revisit such important subjects, such as the separation of public policy development and evaluation from the implementation function, including in the NRDF management.

2.5. Moldovan Social Investment Fund

The Moldovan Social Investment Fund (MSIF) was established by Government Decision under a project supported by World Bank and US Agency for International Development (USAID) back in 1997. MSIF status was revised several times, but till present the aim and objectives are related to the implementation of social projects, funded from external sources. In 2018, MSIF underwent a reorganisation process, now having the status of 'Moldova Social Investment Fund' Public Institution.

2.5.1. Formation and distribution of MSIF resources

Since 2018, MSIF has been operating on the basis of its new Statute. Before the Government Decision No 1188/2018 was approved, MSIF used its own regulations, including the operational manual, procurements manual as well as the monitoring and evaluation guide.

MSIF resources were formed mainly from external funds through financing projects and programs. Known projects implemented by MSIF include the 'Program of technical and financial assistance provided by the Romanian Government for preschool institutions in the Republic of Moldova', "Social Infrastructure and Energy Efficiency" Project, financed by the German Government through the German Development Bank, "Education Reform in Moldova" Project, financed by the World Bank, as well as other technical assistance and financial support projects. This study analyses how the funds from programs and projects managed by MSIF in the period 2018-2019 were distributed.

The 2018 Budget Law provided MDL 106 million for educational institutions from the World Bank loan under Moldova Education Reform Project. In the same project, MDL 92 million were provided by 2019 Budget Law, and MDL 97.8 million were provided by the 2020 Budget Law.

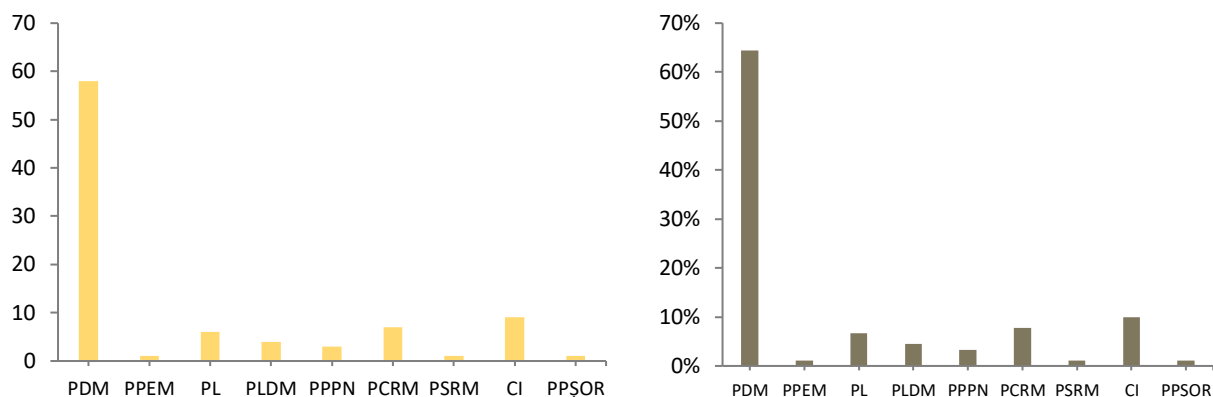
2.5.2. Potential forms of political clientelism

For the purpose of this study, the analysed potential forms of clientelism are related to the political affiliation of mayors from settlements that benefited from financial resources allocated for projects implemented there. This study was based on the official information presented by MSIF on the implementation of the resources provided by the programs and projects managed by the Fund.

For 2018 and 2019, MSIF financed projects totalling 142 million. MDL. Most of the projects were financed on the basis of co-financing, the total value of co-financing from the localities being 26.3 million. MDL.

Thus, for 2018 and 2019, the financial resources allocated for the analysed projects, funded from project and programmes managed by MSIF, reveal a distribution on the basis of political affiliation mainly favouring PDM mayors, as described in Figure 18.

Figure 18. Amount (MDL million) and share (%) of mayoralties, beneficiaries of funding by political affiliation



Source: author's calculations on the basis of 2018 and 2019 MSIF data

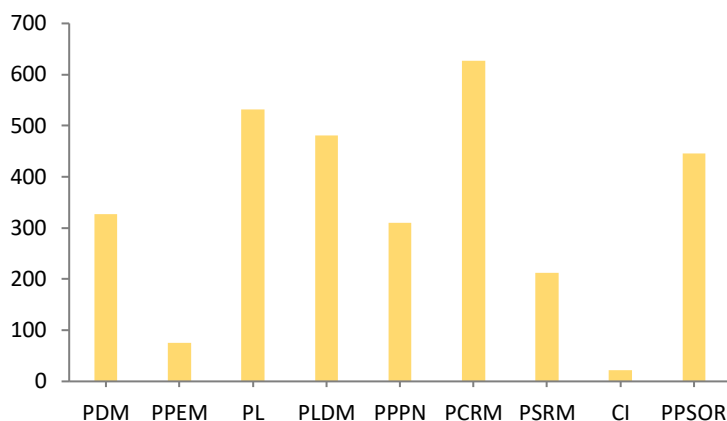
However, we also noted a moderate support for certain opposition parties (e.g. PL, PCRM, PPPN) and for independent candidates. The funding of social projects for PCRM and PPPN mayoralties is an indication that the projects were distributed not only on the basis of political preferences.

2.5.3. Identified indices of political clientelism

From the data analysis we found that in the case of MSIF there was a low index of political clientelism in 2018-2019, amounting to 1.38. This figure suggests that MSIF-funded projects may have a slight tendency to favour certain politically affiliated town halls. At the same time, the presence of co-financing for the implemented projects is an additional element that reduces the risks of political clientelism. MSIF could consider these indices as a basis for reviewing some internal processes related to the distribution of funds to localities.

As shown in Figure 19, the per capita benefits were distributed unevenly in the case of MSIF. This is due to the fact that investment projects for social infrastructure last for several years. In our case, the analysis of these two years of implementation it would not be representative for all projects. However, we can see that in the case of per capita distribution, the mayoralties of PCRM, PL and PLDM were at the top of the ranking, with average amounts of 626 MDL, 532 MDL and 481 MDL, respectively. By comparison, in the case of PDM affiliated town halls, the average amount per capita was 327 MDL.

Figure 19. Average per capita amount allocated on the basis of mayor's political affiliation (MDL)



Source: author's calculations on the basis of 2018 and 2019 MSIF data

2.6. Energy Efficiency Fund

The Energy Efficiency Fund (EEF) was established in 2012 on the basis of Government Decision No 401/2012. In addition, the Energy Efficiency Agency was established on the basis of Government Decision No 1173/2010 as the successor of National Agency for Energy Conservation, founded in 2002. EEF later merged with Energy Efficiency Agency (EEA) on the basis of Government Decision No 45/2019. Thus, through rights succession, EEA took over the management of energy efficiency funds. Both EEF and EEA managed/manage energy efficiency projects on the basis of call for project proposals from the interested authorities. The projects requiring funding must be aligned with the aims mentioned in the call for project proposals.

2.6.1. Formation and distribution of funds for regional development projects

EEF is formed by state budget appropriations, as well as by resources from external funds provided under assistance projects or foreign loans. Given that EEA took over the project management and the implementation of resources for energy efficiency, its operational manual was updated in 2019.

The appropriations for EEF in 2018 were MDL 50 million, MDL 40 million in 2019 and MDL 80 million in 2020. The projects funded by EEA are based on co-funding principle, with funding from beneficiary settlements.

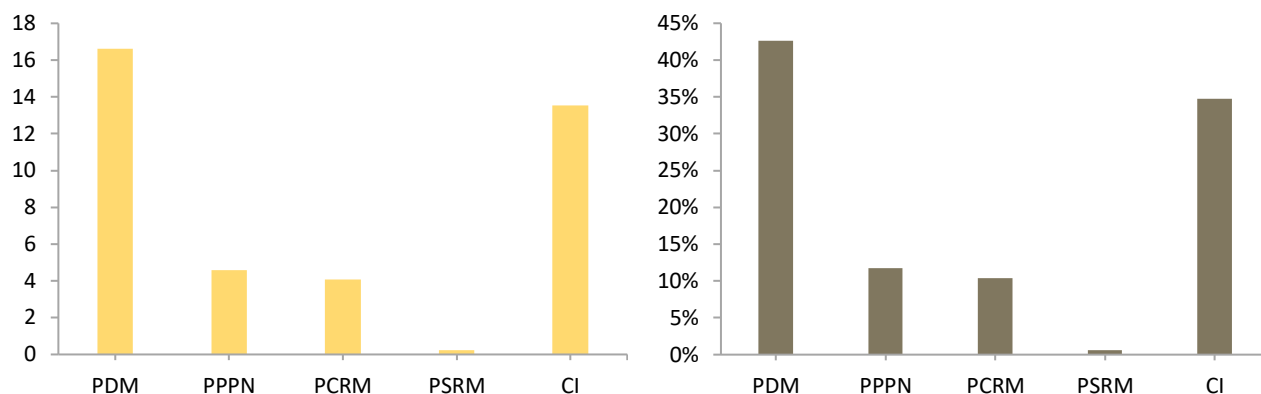
2.6.2. Potential forms of clientelism

For the purpose of this study, the analysed potential forms of clientelism are related to the political affiliation of mayors from settlements that benefited from financial resources allocated on the basis of decisions on project proposal selection and resource allocation.

2.6.3. Identified indices of political clientelism

Analysis of data submitted by the Energy Efficiency Agency (EEA) revealed the lowest index of political clientelism – 1.048, which shows that the distribution of funds within EEA, including the projects financed by the Energy Efficiency Fund (EEF), is the most neutral from all funds analysed in this study. Even if EEA implemented a small number of projects during 2018-2019, it is clear that the amount of almost MDL 40 million was distributed relatively equal among mayoralities beneficiary of EEF and EEA funds. As described in Figure 20, the distribution of funds favours the mayoralities not affiliated with the government.

Figure 20. Distribution and share of appropriations in 2018/2019 by mayors' political affiliation, MDL million



Source: authors' calculations based on data submitted by the Energy Efficiency Agency

Thus, the clear rules for the selection of projects based on performance, the internal selection procedures, the transparency of selection process, as well as the co-funding requirement for energy efficiency projects and the autonomy of authority in charge of funds management, with a minimal influence of political factor, contribute to a more efficient use of funds, meeting the requirements for resource efficiency and investment timeliness.

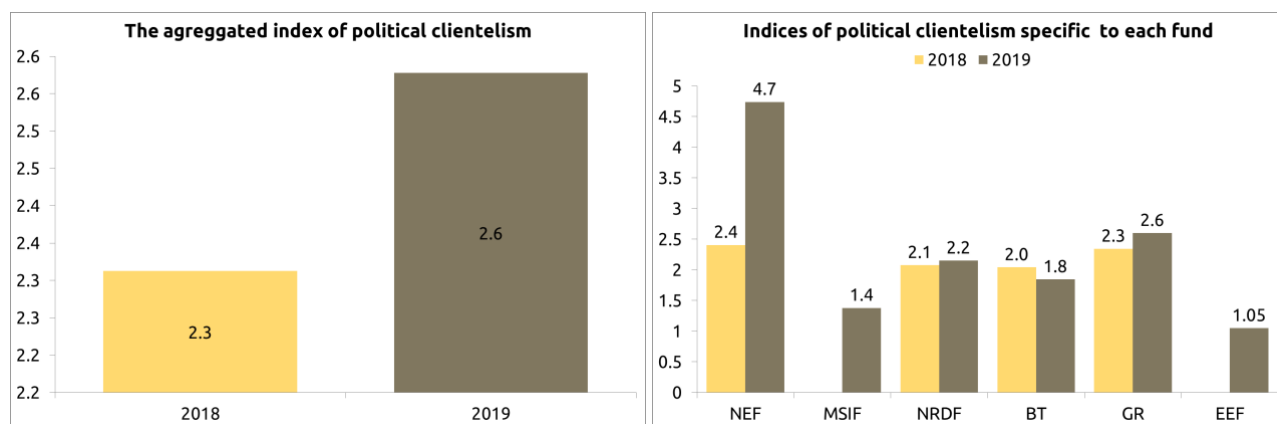
3. Political Clientelism Index (Aggregate Indicator)

In 2019 compared to 2018, there is an increase in the aggregate index of political clientelism. Both in 2018 and 2019, most of funds registered high values of political clientelism. The political clientelism index was lower than 2 for transfers from budget in 2019 and for MSIF. The political clientelism index was higher than 2 for the remaining funds. EEF is an exception. In the case of this fund the index is 1.05, which allows us to say that, practically, there are no manifestations of clientelism.

The increase of index associated to NEF contributed the most to increase the aggregated level of clientelism. Thus, the index doubled: from 2.4 to 4.7. Moreover, except the transfers from the state budget, the level of political clientelism grew for the remaining funds. In 2019 compared to 2018 the clientelism index increased: from 2.1 to 2.2 for NRDF, from 2.3 to 2.6 for 'Good Roads' Program (Figure 21).

Thus, in 2018, an inhabitant of a government-affiliated locality could have benefited from an allocation 2.3 times higher than a person living in a locality not affiliated with the government. In 2019, an inhabitant of a government-affiliated locality was already 2.6 times more advantaged than a person from a locality not affiliated with the government.

Figure 21. Indices of political clientelism



Source: author's calculations

The growth of political clientelism indices was determined by the electoral nature of 2019 year. In February 2019 the parliamentary elections took place and the local elections were following. At the same time, after February elections a governing coalition was not formed, and the likelihood of early parliamentary elections was high. Under these circumstances, the governing represented by PDM tried to strengthen its client network in order to achieve a favourable electoral score. They tried to achieve this goal also by focusing on the appropriation of public resources for local administrations controlled by the government party.

On the other hand, note the low level of political clientelism of EEF. This can be explained by the institutional organisation of EEF. In most cases the decisions regarding money appropriation are taken by political structures or can be politically influenced in majority of funds. In the case of EEF, the decision body has a low political exposure. The EEF Board consists of four members representing public institutions and 5 representatives of the private sector. This fact decreases the possibility to allocate financial resources on the basis of on political criteria.

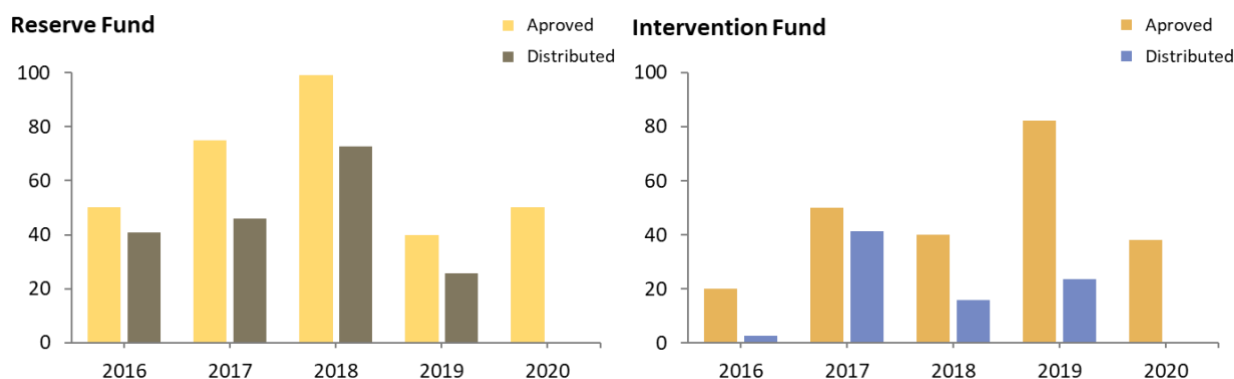
4. Government's Emergency Funds

Along with tools analysed in Chapter 2, there are other funds available to the Government which can be used for political purposes, such as *Government's Emergency Funds*. The Government has two distinct 'emergency' funds for financing unforeseen actions that can occur throughout the year. This is a necessity and offer the Government the opportunity to respond promptly to certain financial needs in unpredictable and exceptional situations with no budget coverage, emerging during the budget year. Thus, the Reserve Fund and the Intervention Fund are designed to fund urgent expenditures which are impossible to be anticipated, the most common cases are related to removing the damages caused by natural disasters or other cases of force majeure. At the same time, these funds are managed according to a regulation approved by Government¹⁷. Following the same reasoning, the local public administration authorities can also establish reserve funds in order to finance urgent expenditures occurring during the budget year, these being managed according to a regulation approved by the local council.

4.1. Formation and distribution of reserve funds

The volume of Government's Emergency Funds is approved by the Annual State Budget Law. Amendments can be made throughout the year, together with the state budget corrigendum. In recent years, the appropriations for each fund ranged between MDL 40 and 100 million (Figure 22) with an actual utilisation rate of money under 80%. Furthermore, the approved amount of the Intervention Fund can be increased through donations offered by individuals and legal entities. This could be noticed this year by adding donations provided by individuals and legal entities to address the COVID-19 pandemic (MDL 18.5 million). Moreover, in 2020 an unprecedented corrigendum to Intervention Fund was made in order to support a number of responses to Covid-19 crisis. Thus, the initial amount of MDL 38 million was amended up to MDL 490 million.

Figure 22. Allocation and distribution of funds from the Government's Emergency Funds



Source: Author's compilation on the basis of budget information at the beginning of the year

The resources of the emergency funds are allocated on the basis of Government decisions, within the limits of the provided appropriations and only through central and local public authorities. The Intervention Fund's appropriations have a much clearer destination established by law¹⁸, i.e. expenditures for particular exceptional situations related to liquidation of consequences of natural disasters, epidemics, etc. Also, the Government has much more room for

¹⁷ Government Decision No 862 of 18 December 2015 approving the Regulation on Management of Government's Emergency Funds, https://www.legis.md/cautare/getResults?doc_id=90061&lang=ro

¹⁸ Law No 181 of 25 July 2014 on Public Finance and Budgetary-Fiscal Accountability, https://www.legis.md/cautare/getResults?doc_id=121242&lang=ro#

manoeuvre regarding the Reserve Fund. Thus, in the recent years, expenditures related to the representation of the State in various international disputes, support of landowners from the left bank of Nistru River, who cannot carry out agricultural works due to the restrictions imposed by Tiraspol authorities, or the coverage of expenditures related to the organisation of official visits were funded. Furthermore, this fund was involved in the sales of shares from several systemic banks to transparent shareholders with good reputation.

The resources of Government's Emergency Funds can be allocated only to central and local public authorities, budgetary institutions and non-commercial organisations. During 2018-2019, the State Chancellery, Public Property Agency, Administration of the President and various line ministries were among the beneficiaries, along with central public authorities. The Ministry of Internal Affairs is mentioned most frequently as beneficiary, being in charge for liquidation of consequences of natural disasters and force majeure events. As regards the local public authorities, both level-one LPAs (mayoralties and local councils) and level-two LPAs (district councils) are beneficiaries. Even if MDL 50 million are allocated to emergency funds, the distribution and, respectively, utilisation rate of resources is low and rarely exceeds 80%. This is explained by the 'exceptional' nature of funds' destination, i.e. the number of such events occurring throughout a year. Also, the resources are allocated on the basis of Government Decisions that should receive positive legal opinions from several institutions.

4.2. Potential forms of clientelism

There is a low political clientelism, given that the Emergency Funds can be used for extraordinary situations only, on the basis of a solid justification. The requests for funds are accompanied by supporting materials and well-grounded calculations that are evaluated by central public authorities according to the area of expertise. If the applicant's request is supported, the funding is approved by a Government Decision, which states the names of the public authority and final beneficiary, the allocated amount and the purpose of resources. In the case of Intervention Fund, the Commission for Emergency Situations, which confirms and submits information regarding the existence of an exceptional situation, is also part of the approval process.

Some signals of political clientelism can be however identified, despite the exceptional nature and participatory mechanism of allocating resources from Emergency Funds. First, it is about the number of applications submitted by various institutions and local authorities and rejected by the Government (there were no data regarding the total number of submitted applications). We are hence wondering if all similar cases have been funded, or only certain cases passed through the whole procedures provided for in the Regulation. Second, the identification of clientelism is about differentiating the decisions that were truly justified by 'uncertainty' from the other decisions. For instance, the official visits of various foreign dignitaries covered by the Reserve Fund (the visit of Turkish President or Tatarstan President). In this case, the question is about the extent to which these visits could not have been planned initially in the budget. The information submitted by the Government states that the decision was taken at the request of President of the Republic of Moldova, failing to describe the uncertainty of these events.

5. Conclusions and Recommendations

5.1. Transfers from the State Budget to local budgets

In the process of data analysis we identified that the tendencies to favour the mayoralities affiliated with the government in a non-electoral year, as well as to support the mayoralities not affiliated with the government in an electoral/pre-electoral year, are detrimental to the efficiency and equal opportunity for using public funds. In general, the approval of funding takes place in a political context, without taking into account the requirements of efficiency and equal opportunity. In essence, the transfers from the state budget to local budgets function as a 'bonus' in the political parties' toolkit for attracting votes, contrary to the requirements of efficiency, transparency and timeliness.

1. The way Annex 5/7 of the State Budget Law is being compiled, in the part related to transfers for capital works, is a form of bypassing the requirements of efficiency and equal opportunity in the use of public funds and needs to be excluded from the Government's and Parliament's practice and prohibited by law.

2. This form of approving expenditures is non-transparent and favours inappropriate influences, as well as lobbying of interests either in the Government or in Parliament. Instead, the approval of funding projects for capital works can be redirected through the existing procedures/institutions with the establishment of clear expenditure framework requirements, the purpose of investments, eligible local public authorities, a transparent process of application, by pre-selection and selection of winning projects, as well as by establishing the co-financing requirements.

3. The last requirement does not require a large share of co-financing – a symbolic one of 5-10% is enough – but makes the local public authority responsible and ensures that a medium and long-term approach to securing funds for the maintenance of these investments will be taken by the beneficiary mayoralty.

5.2. Road Fund and 'Good Roads' Program

1. In 2018 and 2019, in addition to the annual program on the distribution of Road Fund resources, another program was included that provided for the periodic repair of national, local, communal public roads and streets ('Good Roads for Moldova'). In general terms, the program provides the list of national roads to be maintained with the funds appropriated under the first program, adding to it the list of local, communal roads and streets to be repaired from State Budget resources. The appropriated resources were quite big compared with other funds analysed as part of this study, as we are talking about MDL 1.6 billion in 2018 and MDL 1.7 billion in 2019.

2. The assessment of appropriations under 'Good Roads' Program found that this tool was used for political and even electoral purposes. Not all mayoralities in the country were allocated resources under the 'Good Roads' Program, with the biggest amounts of money being allocated to those affiliated or potentially affiliated with the government. This means that in 2018 the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources under the 'Good Roads' Program were 2.3 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government. On the other hand, in 2019, the chances of an inhabitant from a settlement led by a government-affiliated mayor to be allocated resources were 2.6 times higher than of an inhabitant from a settlement the leadership of which was not affiliated with the government.

5.3. National Ecological Fund

1. The National Ecological Fund is a tool that the government actively uses to strengthen its electoral position. In 2018, but especially in 2019, the Fund's resources were distributed mainly to the communities led by mayors affiliated with the governing parties. Thus, in 2018, an inhabitant of a community led by a government-affiliated mayor could have benefited from an allocation 2.4 times higher than an inhabitant living in a community led by a person not affiliated

with the government. In 2019, this ratio increased to 4.7. In fact, in 2018 as well as in 2019, the political clientelism index pertaining to NEF was one of the highest compared with the indices of other transfer instruments.

2. The high level of political clientelism related to NEF is caused by the organisational structure of this fund. NEF is managed by a politically subordinated institution (Ministry of Agriculture, Regional Development and Environment), and the NEF Board is chaired by the Minister of Agriculture, Regional Development and Environment, who is a political figure. In order to reduce the high level of political clientelism, it would be appropriate to consider reforming the Board of Administration, inter alia by excluding from its members the politically appointed staff.

5.4. National Regional Development Fund

1. The computed political clientelism index shows that in 2018 for a population of 1.45 million people from government-affiliated mayoralities an amount of MDL 113.86 was allocated, while for 1.9 million people from not affiliated mayoralities — MDL 70.9 million were allocated, and in 2019 – MDL 120 million vs. MDL 79 million. We noted a high index of political clientelism: 2.07 in 2018 and 2.15 in 2019. In this case we concluded that an inhabitant from a government-affiliated mayorality benefited from a double advantage in monetary terms, compared to an inhabitant from a not-affiliated mayorality.

2. The moderate political clientelism index also suggests some issues regarding the decision-making process by favouring the projects of government-affiliated mayoralities. This index suggests that NRDF management needs to be adjusted and improved, including (1) strengthening the efficiency component and the opportunity to include in SPD the projects financed by NRDF. It is also necessary (2) to return to important subjects, such as the separation of public policy development and evaluation function from the implementation function, including the NRDF management.

5.5. Moldovan Social Investment Fund

1. The per capita benefits for MSIF were rather unevenly distributed. This is partly due to the fact that social infrastructure investment projects that have been analysed take several years, and in our case the analysis of these two years of implementation would not be representative for all projects. However, we can see that in the case of per capita distribution, the mayoralities of PCRM, PL and PLDM were at the top of the ranking, with average amounts of 626 MDL, 532 MDL and 481 MDL, respectively. By comparison, in the case of PDM affiliated town halls, the average amount per capita was 327 MDL.

2. From the analysed data we found that in the case of MSIF there was a low index of political clientelism in 2018-2019, amounting to 1.38. This figure suggests that MSIF-funded projects may have a slight tendency to favour certain politically affiliated town halls. At the same time, the presence of co-financing for the implemented projects is an additional element that reduces the risks of political clientelism. MSIF could consider these indicators as a basis for reviewing some internal processes related to the distribution of funds to localities.

5.6. Energy Efficiency Fund

1. Analysis of data submitted by the Energy Efficiency Agency (EEA) revealed the lowest index of political clientelism – 1.048, which shows that the distribution of funds within EEA, including the projects financed by the Energy Efficiency Fund (EEF), is the most neutral from all funds analysed in this study. Even if EEA implemented a small number of projects during 2018-2019, it is clear that the amount of almost MDL 40 million was distributed relatively equal among mayoralities beneficiary of EEF and EEA funds.

2. Thus, the clear rules for the selection of projects based on performance, the internal selection procedures, the transparency of selection process, as well as the co-funding requirement for energy efficiency projects and the autonomy of authority in charge of funds management, with a minimal influence of political factor, contribute to a more efficient use of funds, meeting the requirements for resource efficiency and investment timeliness.

5.7. Government's Emergency Funds

Along with tools analysed in Chapter 2, there are other funds available to the Government which can be used for political purposes, such as Government's Emergency Funds. Thus, the Reserve Fund and the Intervention Fund are designed to fund urgent expenditures which are impossible to be anticipated, the most common cases are related to removing the damages caused by natural disasters or other cases of force majeure. At the same time, these funds are managed according to a regulation approved by Government. Following the same reasoning, the local public administration authorities can also establish reserve funds in order to finance urgent expenditures occurring during the budget year, these being managed according to a regulation approved by the local council.

There is a low political clientelism, given that the Emergency Funds can be used for extraordinary situations only, on the basis of a solid justification. Some signals of political clientelism can be however identified in case of requests, submitted by various institutions and local authorities and rejected by the Government. We are hence wondering if all similar cases have been funded, or only certain cases passed through the whole procedures provided for in the Regulation. Identification of clientelism is also about differentiating the decisions that were truly justified by 'uncertainty' from the other decisions, such as the official visits of various foreign dignitaries. In this case, the question is about the extent to which these visits could not have been planned initially in the budget. The information submitted by the Government states that the decision was taken at the request of President of the Republic of Moldova, failing to describe the uncertainty of these events.

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