

IMPROVING PUBLIC EXPENDITURE MANAGEMENT FROM THE PERSPECTIVE OF CONSOLIDATION OF ECONOMIC, SOCIAL AND CULTURAL RIGHTS

Ludmila Popa, Angela Secrieru, Natalia Mocanu

The Academy of Economic Studies of Moldova, 61 Banulescu-Bodoni Street, Chisinau, MD-2005, Republic of Moldova

Abstract

Economic, social and cultural rights (ESCR) are materialised through public goods and services, which are produced and provided, respectively, through public expenditure. To a great extent, respecting human rights in the Republic of Moldova is affected by unsatisfactory evolution of public expenditure and the way the latter is managed. From the theoretical-scientific perspective, the research has been done in the context of a complex and systematic approach to modern economic and social concepts. The complexity of social, economic and financial phenomena, which have been studied, necessitated the use of statistical methods, in particular the correlation and simple regression analysis. At the same time, the comparative analysis was used for the same purpose. Public expenditure management is a process which permits governments to be responsible, from the fiscal point of view, for spending on the correct things and benefiting at the maximum from limited public resources. The quality of public expenditure management with an impact on respecting ESCR is evaluated through the prism of basic objectives of public financial management, namely the following: maintaining strict financial discipline, allocating public financial resources in conformity with government's priorities, efficient provision of public services. The central public administration and local public administrations from the Republic of Moldova are relatively more successful in consolidating fiscal discipline than in providing the efficient use of public expenditure in conformity with strategic priorities. The research argues a positive effect which can be made by improvement of public expenditure management on respecting ESCR in the Republic of Moldova.

Keywords: *fiscal discipline, economic, social and cultural rights, allocative efficiency, technical efficiency, public expenditure management*

1. INTRODUCTION

A right is a demand, justified from the moral and/or legal point of view, to have or to do something. Human rights represent the norms that are meant to protect all people far and wide from serious political, juridical and social abuses [8]. From another perspective, human rights are the rights assigned to all human beings only on the basis of their humanity [2].

The classification offered by a French jurist of Czech origin *Karel Vašák* [12], which suggests the concept of three generations of rights, is, probably, the most practical, frequently used and comprehensive classification of human rights. According to this grouping, there are three major types of norms regarding human rights: civil and political, socio-economic and that of collective development. The first two types, which represent the potential things demanded by individuals from the state, are the norms that are firmly accepted and identified in international treaties and conventions. The third type, representing the potential things demanded by peoples and groups from the state, is the most debated one and does not have any juridical and political recognition.

The category of economic, social and cultural rights from *The International Covenant on Economic, Social and Cultural Rights* includes the right to work assigned to any person; the right to social security, including social insurance; the right of any person to the standard of living that is sufficient for them and their family; the right to enjoy the best physical and mental state that can be attained; the right to education; the right to participate in cultural life; the right to benefit from the scientific progress and its applications.

ESCR are materialised through public goods and services, which are produced and provided, respectively, through public expenditure. We would like to mention in this context that the functional classification of public expenditure permits to correlate economic, social and cultural rights with corresponding functional groups of public expenditure. To a great extent, respecting human rights in the Republic of Moldova is affected by the unsatisfactory evolution of public expenditure: the share of public expenditure on the social sector in GDP decreased from 24% in 2010-2012 to 21% in 2016-2018. In 2020 this index was 24.4%. The increase of 2.6 percentage points of the value of this index in 2020 as compared to 2019 is explained by the effects of the COVID-19 pandemic crisis, which, firstly, determined the decrease of GDP, and, secondly, the increase of some categories of public expenditure. These changes represent the manifestation of improper management of public expenditure from the perspective of human rights. The factors explaining this situation are the following: lack of professionalism in public expenditure management, negligence and corruption in the public sector, which artificially increase the cost of the resources used for providing public services.

2. MATERIALS AND METHODS

From the theoretical-scientific perspective, the research has been done in the context of a complex and systematic approach to modern economic and social concepts.

The complexity of social, economic and financial phenomena, which have been studied, necessitated the use of *statistical* methods, namely the *correlation and simple regression* analysis. At the same time, the comparative analysis was used for the same purpose.

The research is based on the approaches dedicated to the field of human rights, in particular ESCR, with the main focus on the connection between these rights and public expenditure management. There is examined the relationship between the Human Development Index (HDI) and the Budget Transparency Index, the latter representing one of the basic parameters of public expenditure management, the relationship between HDI and the Incidence of Corruption Index and the relationship between HDI and the Index of Strength of Auditing and Reporting Standards. HDI is a summative measure of realizing the key dimensions of human development: health, education and standard of living. Although HDI simplifies and reflects only a part of the aspects regarding the human development, we will consider this index as an aggregate parameter which has the capacity to quantify, in a more or less ample way, the level of respecting economic, social and cultural rights.

3. RESULTS

Public expenditure management is a process which permits governments to be responsible, from the fiscal point of view (to spend only what they can afford), for spending on the correct things and benefiting at the maximum from limited public resources.

Public expenditure management aims to achieve the following three key objectives:

- *maintaining strict financial discipline*, which refers to the effective control of the budget totals through the establishment of some ceilings for income and expenses imposed on the whole level as well as on individual entities which raise and spend public funds. An effective budget system is the one which has disciplined totals (in contrast to periodic adjustments).
- *allocating public financial resources in conformity with government's priorities*. Allocative efficiency is determined by the capacity to set priorities within the budget, to distribute the resources according to government's priorities and the efficiency of the programs and to divert resources from the achieved objectives to new ones, or from less productive activities to more productive ones. The efficiency of the use of resources, which reflects the extent of fulfilling the objectives of a policy, program or activity, is predetermined by the justification of decisions concerning their allocation.

- *efficient provision of public services.* Technical or operational efficiency in using budget resources refers to the capacity to implement the programs in the respective fields and to provide services at the lowest price.

These three objectives are complementary and interdependent. Efficient prioritising and implementing the priorities of government programs are not possible without fiscal discipline. Improving the systems of internal administration to obtain efficiency without any pronounced constraint is not credible. However, it is impossible to sustain simple fiscal discipline when there is arbitrary allocation of resources and some inefficient operations. If a spending limit is imposed from the top to the bottom in an isolated way and without paying attention to the internal functioning of the public expenditure system, the result can be inadequate funding of lots of meritorious activities and distortion of current and strategic priorities. Difficult situations, which necessitate special measures for providing fiscal discipline, need greater allocative efficiency and a more modern implementation technique, but not arbitrary reductions of expenses. These three key objectives mustn't be pursued in an isolated way.

The Republic of Moldova remains the poorest country in Europe: in 2020 GDP per capita was \$4,551.1 (according to the World Bank). The evolution of the budgetary process on the level of the central public administration and local public administrations suggests that the quality and performance of public expenditure management in the Republic of Moldova are affected by the following categories of issues:

- poverty: determines lack of resources to meet increasing demand for /expectations of public services;
- economic instability: has as a consequence an inadequate potential to deal with cyclical shocks and other crisis episodes;
- reduced income basis: amplifies vulnerability to unfavourable changes of product prices, commercial conditions and reduced access to capital markets;
- informal economy: a great part of economic activity is beyond the law, not respecting formal rules and regulations; weak application of proprietary rights and contracts results in relatively high corruption levels;
- informal public sector: formal norms regarding public services, public expenditure and public procurement tend to be ignored or broken;
- reduced political mobilization: inadequate development of interest groups to express public opinion and monitor government performance;
- corruption: to a great extent, the above mentioned issues are determined and amplified through the corruption generalized on the level of the entire society of the Republic of Moldova.

International experience in public expenditure management demonstrates that these issues are often common for the countries that confront an insufficient level of development.

A general conclusion about the influence of corruption through the system of public expenditure on respecting ESCR comes from the graph below. Thus, graph 1 quantifies the impact of corruption measured by the Incidence of Corruption Index, produced and measured by the World Economic Forum in the Global Competitiveness Report 2019, on the Human Development Index, produced and measured by UNDP in the 2020 Human Development Report. It follows from the graph, through the application of the simple regression method, that a value of the Incidence of Corruption Index which is close to 100 (100 means the best value denoting lack of corruption) determines a value of HDI which is close to 1 (1 means the best value denoting the maximum level of human development).

The value of HDI in the Republic of Moldova, which has a slightly favourable value of the Incidence of Corruption Index (equal to 33), is 0.75. To put that in perspective, in New Zealand the Incidence of Corruption Index is 87, whereas the value of HDI equals 0.931; in Sweden the Incidence of Corruption Index equals 85, whereas HDI is 0.945. The highest value of HDI is in Norway (0.957), and the value of the Incidence of Corruption Index equals 84.

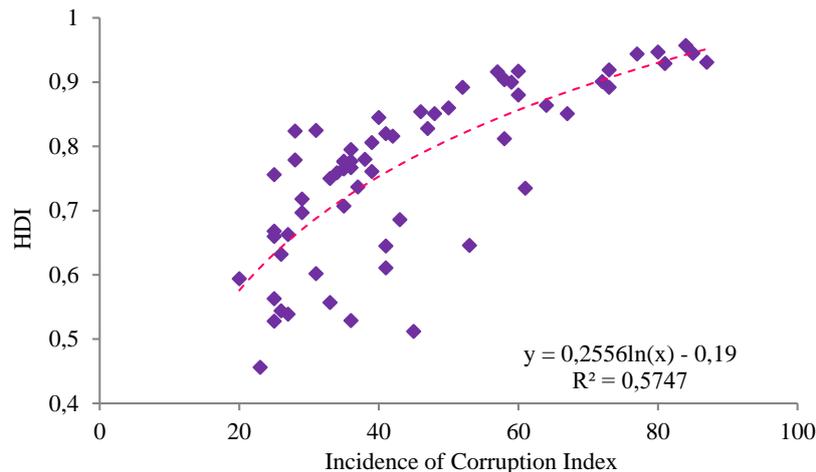


Fig. 1. Relationship between the Human Development Index and the Incidence of Corruption Index

Source: made according to the 2020 Human Development Report and the Global Competitiveness Report 2019.

It can be assumed in a well-argued manner that the corruption generalized on the level of the entire society determines, among other things, absolutely inefficient public expenditure management, which has a direct impact on the quality of respecting ESCR.

Table 1 demonstrates the system of public expenditure in the Republic of Moldova represented in ten principal groups of functional classification.

Table 1. The structure of the national public budget of the Republic of Moldova in terms of expenditure and respective non-financial assets

	2016		2017		2018		2019		2020	
	mil. lei	%								
Expenditure and non-financial assets, mil. lei	48 462,60	100,0	54 522,40	100,0	59 608,90	100,0	65 975,60	100,0	73 269,80	100,0
State services of general interest	5 151,10	10,6	5 679,10	10,4	5 551,70	9,3	6 183,90	9,4	6 590,80	9,0
National defence	547,30	1,1	568,30	1,0	643,30	1,1	611,20	0,9	650,20	0,9
Public order and national security	3 338,40	6,9	4 041,50	7,4	4 376,20	7,3	4 322,20	6,6	4 770,40	6,5
Services in the field of economy	4 600,30	9,5	5 424,90	9,9	6 615,70	11,1	7 206,50	10,9	8 885,50	12,1
Environment protection	172,60	0,4	146,70	0,3	115,40	0,2	165,00	0,3	253,70	0,3
Housing services and public utilities	1 144,90	2,4	1 315,30	2,4	1 523,40	2,6	1 552,50	2,4	1 780,40	2,4
Health protection	6 505,50	13,4	7 268,70	13,3	7 799,00	13,1	8 635,00	13,1	9 990,20	13,6
Culture, sport, youth, cults and recreation	1 177,10	2,4	1 333,40	2,4	1 519,10	2,5	1 839,60	2,8	1 733,20	2,4
Education	8 447,70	17,4	9 681,30	17,8	10 462,10	17,6	12 121,20	18,4	12 583,10	17,2
Social security	17 267,70	35,6	19 063,20	35,0	21 003,00	35,2	23 338,50	35,4	26 032,30	35,5

Source: made on the basis of the information of the Ministry of Finance. Available at: <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale>

Out of ten groups of public expenditure regulated by the functional classification, those which can be directly connected with ESCR are the following:

- Functional group 05 “Environment protection” corresponds to the right to a healthy environment (the right reflected in the Constitution of the Republic of Moldova in art. 37);

- Functional group 06 “Housing services and public utilities” corresponds to the right of every person to the standard of living which is sufficient for them and their family;
- Functional group 07 “Health protection” corresponds to the right to enjoy the best physical and mental state that can be attained;
- Functional group 08 “Culture, sport, youth, cults and recreation” corresponds to the right to participate in cultural life, the right to recreation, the right to enjoy the best physical and mental state that can be attained;
- Functional group 09 “Education” corresponds to the right to education and the right to benefit from the scientific progress and its applications;
- Functional group 10 “Social security” corresponds to the right to social security, including social insurance.

At the same time, the right to work and the rights related to it, expressing the rights of employees in the public sector, are reflected in all the groups of public expenditure.

In the structure of expenditure and non-financial assets (further – expenditure) of the national public budget during the period 2016-2020 the greatest share belongs to the functional group “Social security” (approx. 35% out of the total), followed by “Education” (approx. 17-18% out of the total), “Health protection” (approx. 13-14% out of the total), “Services in the field of economy” (approx. 11-12% out of the total).

The most evident changes (measured in percentage terms in comparison with the previous year) were recorded in the period 2016-2019 in the context of state services of general interest (a considerable increase in 2019 compared with 2018), national defence and public order and national security (a considerable decrease in 2019 in comparison to 2018), environment protection (an increase in 2019 compared with 2018 and 2017, but not reaching the level of 2016); education, social security, culture, sport, youth, cults and recreation (a significant increase in 2019 in comparison with the previous years).

It is necessary to examine separately the changes in public expenditure in 2020, the year when the changes of budget indices were affected by the COVID-19 pandemic crisis. Thus, the most significant increases (in percentage terms in comparison with 2019) were characteristic of: environment protection (53.8 p.p.), services in the field of economy (23.3 p.p.), health protection (15.7 p.p.), housing services and public utilities (14.7 p.p.), social security (11.5 p.p.), public order and national security (10.4 p.p.). The smallest relative increases as compared to 2019 were recorded in the field of public expenditure related to education, namely 3.8 p.p. Actually, it represents the smallest value of the annual growth rhythm of public expenditure on education in the period 2016-2021. Culture, sport, youth, cults and recreation represents the only functional group which was subject to the decrease of related public expenditure (-5.8p.p.).

To conclude, over the analysed period, judging by the evolution of public expenditure, the following economic, social and cultural rights have been affected especially by the impact of the COVID-19 pandemic crisis: the right to work, the right to culture, the right to recreation, the right to health, the right to education.

To make this conclusion more concrete and elaborate it is necessary to carry out a more detailed study using other research techniques as well.

4. DISCUSSION

Financial discipline. After dramatic deteriorations in the early years of its independence, the Republic of Moldova, in the late 90s, managed to stabilize budgetary deficits at the average level of 1-3% of GDP.

Fiscal adjustments have been facilitated by the resumption of economic growth. At the same time, the success achieved in fiscal adjustment can be easily reversible, which is typical of the countries with reduced income per capita. In addition, small open economies, being vulnerable to external shocks having both positive and negative effects on the interior, dispose of entirely modest possibilities to maintain independently their financial stability.

A favourite instrument in the field of fiscal discipline in developing countries, including the Republic of Moldova, is rationalization of public expenditure. It follows from Table 2 that the growth of the share of public income in GDP is modest and far below the level of growth of the share of public expenditure in GDP.

Table 2. The evolution of income, expenditure and non-financial assets related to the national public budget of the Republic of Moldova

	2016	2017	2018	2019	2020
Income, mil. lei	45953,9	53377,6	57995,9	62949,2	62650
Share of income in GDP, %	28,6	29,8	30,1	29,9	30,4
Expenditure and non-financial assets, mil. lei	48462,6	54522,4	59608,9	65975,6	73269,8
Share of expenditure and non-financial assets in GDP, %	30,1	30,5	31,0	31,4	35,5
Deficit (-) / Surplus (+), mil. lei	-2508,7	-1144,8	-1613	-3026,4	-10619,8
Share of budget deficit in GDP, %	-1,56	-0,64	-0,84	-1,44	-5,15

Source: made on the basis of the information of the Ministry of Finance. Available at: <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale>

Limited possibilities of the extension of the taxable base and continuous reductions of public expenditure have placed the Republic of Moldova far below the level of public expenditure (measured as a percentage in GDP) recorded in developed countries.

Budgetary expenses have been subject to considerable decreases as economic transition required reconsidering the role of state in the economy regarding direct supply of public goods and services. Although this change has become a major factor which has determined positive evolution of public expenditure in Central European countries, in the majority of countries from the former USSR there was another factor – extended demand for expenditure aimed at development of public institutions: the governments of these countries have transformed from local units of the former USSR into sovereign governments. At the same time, the mechanisms of public revenue mobilization are not up to the level of necessities, which, as a rule, are characteristic of a sovereign government. In these conditions decreases of expenses represent the main instrument of adjusting to a modest effort to form public financial resources.

We would like to mention, at the same time, that the Republic of Moldova, as well as other post-Soviet countries, encounter internal and regional conflicts, which reduces the performance of public revenue and supplements the urgency of the tasks related to the consolidation of state institutions.

However, there are great possibilities to improve the quality of fiscal adjustment in the Republic of Moldova, including those created through the reduction of quasi-budgetary activities and of the non-transparent ones, as being very expensive.

In the conditions of a substantial reduction of public financial resources, governments are not able to ensure the provision of an extended list of public services. At the same time, the provision of goods and services bearing public character by private agents could be an attractive solution in many fields (public utilities, education, health, culture, art, sport etc.). However, governments are not willing to encourage any launches of private economic agents in the respective fields.

Some categories of expenses which are important for durable economic growth, e.g. investments, remain volatile and vulnerable to a possible budget sequester.

Generalising the problems of aggregated fiscal discipline observed at the level of the budgetary system in the Republic of Moldova, the following can be mentioned:

- *unreal budgeting*. As a rule, the national public budget of the Republic of Moldova is not implemented in the way it was initially approved, because it authorises a greater volume of expenditure as compared to what can be afforded by the central public administration and local public administrations (table 3 supports this conclusion);
- *black budgeting*. A “real” budget (actual revenue and expenditure) is known only to a limited group of people from the interior, or only in retrospect – after completing a fiscal year;
- *escapist budgeting*. Unreal budgets generate escapist budgets: the government consciously authorises significant public expenditure realizing from the early stage of the development of a budget project that they are not going to be effected, so as to make an impression that it reacts to demands for social improvement (table 3 supports this conclusion);
- *repetitive budgeting*. In the Republic of Moldova, the national public budget, including its components, is frequently and repeatedly rectified over a year in response to economic or political conditions.

Table 3. The national public budget of the Republic of Moldova (functional aspect): specified and executed levels of expenditure and non-financial assets

Indicator	2019				2020			
	Specified (the level after the last rectification), mil. lei	Executed, mil. lei	Absolute difference (executed - specified), mil. lei	Relative difference, % (absolute difference as against the specified	Specified (the level after the last rectification), mil. lei	Executed, mil. lei	Absolute difference (executed - specified), mil. lei	Relative difference, % (absolute difference as against the specified
Expenditure and non-financial assets	70 631,3	65 975,6	-4 655,7	-6,6	78 750,1	73 269,8	-5 480,3	-7,0
State services of general interest	7 286,5	6 183,9	-1 102,6	-15,1	7 447,4	6 590,8	-856,6	-11,5
National defence	631,5	611,2	-20,3	-3,2	656,4	650,2	-6,2	-0,9
Public order and national security	4 569,3	4 322,2	-247,1	-5,4	4 934,5	4 770,4	-164,1	-3,3
Services in the field of economy	8 006,6	7 206,5	-800,1	-10,0	9 676,2	8 885,5	-790,7	-8,2
Environment protection	246,6	165,0	-81,6	-33,1	313,7	253,7	-60,0	-19,1
Housing services and public utilities	1 954,4	1 552,5	-401,9	-20,6	2 197,8	1 780,4	-417,4	-19,0
Health protection	9 214,9	8 635,0	-579,9	-6,3	11 273,5	9 990,2	-1 283,3	-11,4
Culture, sport, youth, cults and recreation	2 015,5	1 839,6	-175,9	-8,7	2 001,8	1 733,2	-268,6	-13,4
Education	12 875,8	12 121,2	-754,6	-5,9	13 482,5	12 583,1	-899,4	-6,7
Social security	23 830,2	23 338,5	-491,7	-2,1	26 766,3	26 032,3	-734,0	-2,7

Source: made on the basis of the information of the Ministry of Finance. Available at: <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale>

Allocative efficiency. The Government of the Republic of Moldova is relatively more successful in consolidating fiscal discipline than in providing the efficient use of public expenditure in conformity with strategic priorities. The decisions on allocation of expenditures among the sectors do not reflect government priorities.

An important aspect of allocating expenditures is flexibility. Governments, with the purpose of protection against shocks, must have sufficient flexibility in their annual allocative decisions. If some expenditure positions are protected, being incorporated in the category of nondiscretionary expenses (nondiscretionary expenses include staff expenses, social benefits and interest payments), and if the share of nondiscretionary expenses in the overall expenditure is increased, adjustment can become difficult during adverse periods, or it can reduce disproportionately unprotected expenses, which are important for a long-term growth (public expenditure on education, research, culture, etc.). The field of public expenditure in the Republic of Moldova, as it follows from table 4, is relatively inflexible, and over time, under the influence of the COVID-19 pandemic crisis, it will become even more exposed to potential external and internal shocks.

Table 4. Nondiscretionary expenses in the overall expenditure and non-financial assets related to the national public budget of the Republic of Moldova

	2016	2017	2018	2019	2020
Staff expenses, mil. lei	10 966,6	12 505,4	13 733,1	15 649,0	17 214,4
Social benefits, mil. lei	16 404,1	17 964,5	19 949,0	22 302,6	25 007,9
Interests, mil. lei	1 811,7	1 959,1	1 525,9	1 641,1	1 706,7
Nondiscretionary expenses, mil. lei	29 182,4	32 429,0	35 208,0	39 592,7	43 929,0
Share of nondiscretionary expenses in the overall expenditure and non-financial assets, %	60,2	59,5	59,1	60,0	60,0

Source: made on the basis of the information of the Ministry of Finance. Available at: <https://mf.gov.md/ro/trezorerie/rapoarte-privind-executarea-bugetului/rapoarte-anuale>

Summarizing practical aspects and results of the budgetary process in the Republic of Moldova, the following issues of allocative efficiency become evident, which is, actually, characteristic of other poor countries:

- *short-term budgeting.* Although the medium-term budgetary framework reflects budgetary indices for the following three years, this budgetary exercise is rather superficial. In reality, the budgetary process emphasizes a short-term perspective, not taking into account medium-term implications of the decisions made by the central public administration and local ones.
- *escapist planning.* Planning is important from the political point of view. At the same time, the planned level reflects the promises to citizens made by politicians. These promises, when they get to the execution of the public budget, are not often backed financially;
- *distorted priorities.* Limited resources are spent on demonstrable projects which produce reduced social viability, whereas the objectives aimed at the development of human capital (health, education, etc.) are underfinanced.

Technical or operative efficiency. The analysis of the quality of public expenditure management denotes the following problems of operational efficiency encountered by the Republic of Moldova and other developing countries:

- compensatory expenses. One of the effects of improving the labour force participation rate is “inflating” the scale of public services with a concomitant reduction of the salary level in the public sector;
- productivity reduction. The phenomenon of ghost-employees, insufficient investment in staff training and information technology, poor work conditions and other similar practices degrade operational efficiency;
- detailed budgets and formal controls. Formally, expenditure control is extremely centralized, there are detailed rules regarding public function (numerous classifications and evaluations), external control of procurement and other expenditure articles. However, in reality, these formal controls are often broken in practice;
- informal management. Informal arrangements coexist along with formal rules. The arrangements which are beyond the legal framework determine the way the government work: the way public officials get work places or promotions, their salary scale, the way acquisitions are made etc.;
- corruption. When formal rules are inefficient, the government, using the means beyond the law, incite corruption growth. There are numerous opportunities for corruption, which is often undetected and undeclared, yet popular.

One of the basic prerequisites with a significant potential in ensuring financial discipline, as well as allocative and operational efficiency, is budget transparency. Budget transparency refers to complete disclosure of all the relevant fiscal information in a timely and systematic manner. It is a multidimensional concept related to clarity, exhaustiveness, reliability, topicality, accessibility and usability of public reporting regarding public finance, as well as citizen participation in the budgetary process.

Graph 2 quantifies the impact of the Budget Transparency Index, produced and measured by the World Economic Forum in The Global Competitiveness Report 2019, on HDI.

It follows from the graph, through the application of the simple regression method, that a value of the Budget Transparency Index which is close to 100 (100 means the best value denoting the maximum budget transparency) determines a value of HDI which is close to 1 (1 means the best value denoting the maximum level of human development).

The value of HDI in the Republic of Moldova, which has a slightly favourable value of the Budget Transparency Index (equal to 58), is 0.75. To put that in perspective, in New Zealand the Budget Transparency Index is 89, whereas the value of HDI equals 0.931; in Sweden the Budget Transparency Index equals 87, whereas HDI is 0.945. Among the countries included in the analysis, the highest value of HDI is in Norway (0.957), and the value of the Budget Transparency Index equals 84.

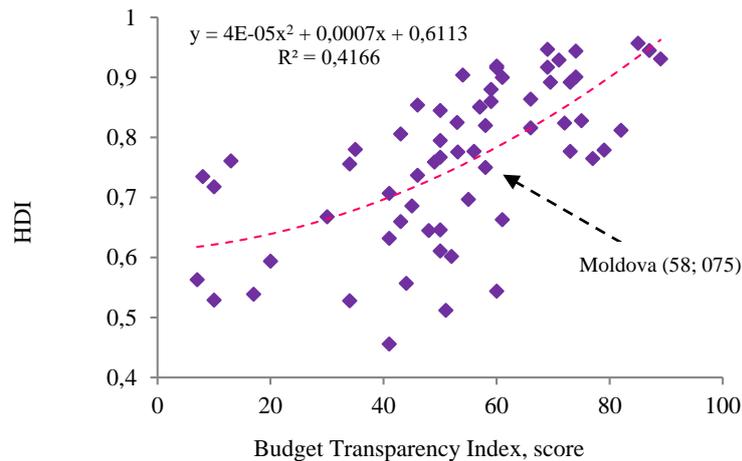


Fig. 2. Relation between the Human Development Index and the Budget Transparency Index

Source: made according to the 2020 Human Development Report and the Global Competitiveness Report 2019.

It can be assumed in a well-argued manner that the insufficient transparency at the level of the public budgetary process and its components (the state budget, the social security budget, the mandatory health insurance funds) is indirectly reflected on the quality of respecting ESCR in the Republic of Moldova.

A significant impact on the budgetary transparency and responsibility and, eventually, on respecting ESCR is made by the quality of the system of internal control and internal audit.

According to the reports of the Court of Auditors of the Republic of Moldova, the systems of internal control within public entities in Moldova confront at least the following problems:

- superficial implementation of the components of the internal managerial control system;
- lack of documented procedures as to reporting suspicions related to discrepancies, frauds and corruption;
- insufficient implementation of managing risks (financial, operational, those related to fraud and corruption, etc.).

In addition, human resources and staff fluctuation create deficiencies in the process of implementation and development of the internal managerial control system and of the internal audit function.

In the context with the above-mentioned ideas, graph 3 quantifies the impact made on HDI by the Index of Strength of Auditing and Accounting Standards regarding the efficiency of auditing and accounting standards, which was produced and measured by the World Economic Forum in The Global Competitiveness Report 2019.

It follows from the graph, through the application of the simple regression method, that a score of the Index of Strength of Auditing and Accounting Standards which is close to 100 (100 means the best score denoting the complete implementation of audit and accounting standards) determines an HDI value which is close to 1 (1 means the best value denoting the maximum level of human development).

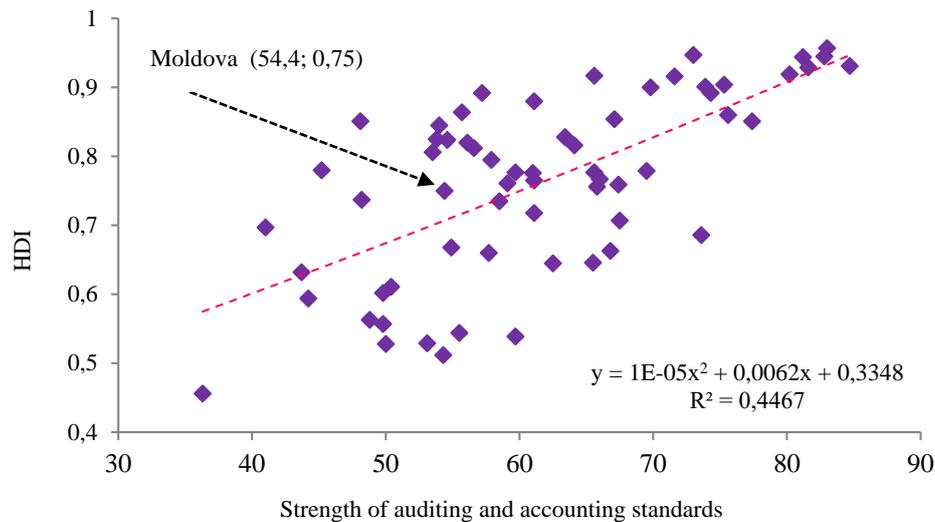


Fig. 3. The relation between Human Development Index and the Index of Strength of Auditing and Accounting Standards

Source: made according to the 2020 Human Development Report and the Global Competitiveness Report 2019.

The value of HDI in the Republic of Moldova, which has a slightly favourable score regarding the efficiency of auditing and accounting standards (equal to 54.4), is 0.75. To put that in perspective, in New Zealand the Index of Strength of Auditing and Accounting Standards is 84.7, whereas the value of HDI equals 0.931; in Sweden the Index of Strength of Auditing and Accounting Standards equals 82.8, whereas HDI is 0.945. Among the countries included in the analysis, the highest value of HDI is in Norway (0.957), and the value of the Index of Strength of Auditing and Accounting Standards equals 83.

5. CONCLUSIONS

The category of economic, social and cultural rights includes the right to work, assigned to any person; the right to social security, including social insurance; the right of any person to the standard of living that is sufficient for them and their family; the right to enjoy the best physical and mental state that can be attained; the right to education; the right to participate in cultural life; the right to benefit from the scientific progress and its applications.

ESCR are materialised through public goods and services, which are produced and provided, respectively, through public expenditure.

To a great extent, respecting economic, social and cultural rights in the Republic of Moldova is affected by the unsatisfactory evolution of public expenditure management.

The central public administration and local public administrations in the Republic of Moldova are relatively more efficient in consolidating fiscal discipline than in providing the efficient use of public expenditure in conformity with strategic priorities.

The following solutions have the capacity to improve public expenditure management with a positive impact on respecting ESCR:

- improving the quality of macroeconomic and fiscal foresight aimed at providing budget preparation on the basis of a real and foreseeable macro-budgetary framework;

- preparing the national public budget and its components in conformity with the legal framework, providing the allocation of public financial resources in a close correlation with policy priorities, expenditure limits established in the medium-term budgetary framework;
- increasing the efficiency and transparency of the process of preparing and implementing the national public budget, including its components, through the corresponding implementation of budgeting based on performance, avoiding superficial approach;
- improving and modernizing treasury management, providing efficient control and adequate monitoring at every stage of expenditure, establishing an adequate system of accounting and reporting in conformity with international practices;
- developing a system of internal control and audit in the public sector in conformity with the international practice with the purpose to provide efficient usage and transparency of public funds;
- upgrading the mobilization of public revenue through increasing the capacity of public authorities responsible for their management, especially regarding fiscal and customs revenues;
- developing a modern system of public procurement in conformity with the standards of the European Union;
- continuous development of institutional capacity at the level of central and local public administration authorities and the subordinate institutions, which is necessary for the budget implementation in terms of programs and performance;
- strengthening the capacities to analyse budgetary and fiscal risks, fraud and corruption risks, as well as to provide financial monitoring of self-managed public authorities/institutions, state/municipal enterprises and trading companies with the integral or majority public capital.

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