

## Key Features of Local Self-Government in Moldova

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### *Project*

The description of key features of local self-government in Moldova was created within the initiative "**Promoting transparency and financial sustainability of regional policies, state-owned enterprises and local authorities in Moldova**". The initiative is being implemented from September 2017 until March 2019 by the Institute for Economic and Social Reforms in Slovakia (INEKO), in partnership with IDIS "Viitorul" in Moldova with the financial support of the Official Development Assistance of the Slovak Republic (SlovakAid). The initiative aims to increase the transparency, financial accountability, and quality of regional policies, state-owned enterprises and local authorities in Moldova.

### *Constitutional and legal norms regulating local governments*

Moldova is a unitary state with two levels of local government. The first level or tier consists of 898 administrative-territorial units (villages, communes, cities and municipalities), while the second level consists of 32 districts (rayons) established around a city centre and adjacent communes (villages). Two of the largest municipalities in Moldova (Chisinau and Balti) enjoy the status of 2<sup>nd</sup> level local government, and Gagauzia is granted special status.

The 1994 Constitution (article 109) stipulates that 'public administration is based on principles of local autonomy, decentralization of public services, their accountability and consultation with citizens on local issues of particular interest'. The Constitution also provides for a special status for the left-bank settlements in Transnistria, a region currently outside of the Moldovan government's de facto control.<sup>1</sup>

In 1997, Moldova ratified the European Charter of Local Self-Government, thereby committing to respect the effective right of local governments to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population. Since its ratification, the Congress of Local and Regional Authorities of the Council of Europe (CLRA) has regularly monitored the compliance of local self-governance reforms with the principles and spirit of the European Charter of Local Self-Government, and encouraged the

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<sup>1</sup> Law No.173 of 22 July 2005 on the basic provisions of the special legal status of the settlements on the left-bank of the Dniester (Transnistria), Monitorul Oficial Nr. 101-103 art Nr : 478

Moldovan Government to recognize existing gaps, set new priorities and act to improve the functional aspects of local self-government.

Although it is a unitary and indivisible state, Moldova has used a wide range of instruments of political devolution and classic levers of administrative decentralization of local competences. This was done to reduce the asperity of conflicts with the authorities of certain regions.<sup>2</sup> Article 111 of the constitution invokes the possibility of granting special forms and conditions of autonomy, through special statutes adopted as organic laws, to settlements on the left bank of the Dniester, as well as some settlements in the southern part of Moldova. Between 2001 and 2005, the Moldovan Parliament amended the constitution, enshrining the existence of the Gagauzia Territorial Administrative Unit (UTAG), which cannot however ‘*affect the unitary character of the state*’ (article 109: 3). In 2005, Moldovan Parliament adopted Law 173 on the special legal status of Transnistria.<sup>3</sup>

Moldova’s decentralization paradigm, developed over previous decades, has two distinct approaches: (a) a conventional transfer of competences to the level closest to the people; and (b) recognition of a special status for some historical, ethno-cultural communities, such as Gagauzia, and reserving a similar status for the region of Transnistria in case of a successful settlement. Another facet of decentralization policy is the designation of development regions, aimed at creating the necessary conditions for well-balanced economic and social development in line with the European Union (EU) standards. Among the priorities outlined by the government from the outset of the decentralization reform are: the decentralization of public services, consolidation of administrative and financial autonomy, strengthening the status of locally elected representatives and their capacity.

The first territorial reform dates back to 1995 when parliament determined the territorial extent of the autonomous region of Gagauzia (no. 344-XIII).<sup>4</sup> In 1999, the Republic of Moldova moved to a system of 10 counties (judete), as a type of second level sub-national government, incorporating over 960 communes, cities and municipalities. After the change of government in 2001, the new government led by Moldova’s Communist Party (PCRM) decided to cancel the previous administrative-territorial organization and return to the pre-1991 structure based on districts (rayons), towns and villages. In this way, the Communist party sought to restore its political control over local government, call for early local elections and suspend the valid mandates of locally elected officials throughout Moldova. Since this intention clearly contradicted Moldova’s obligations to the Council of Europe, in particular to respect local autonomy, the Council of Europe called on the national authorities in Moldova to refrain from actions that would abrogate the powers and valid mandates of local governments. Nevertheless, in 2003, following legal confrontation in the Constitutional Court, the Parliament of Moldova voted to support the return to the pre-1991 system of 32 districts (second level) and 898 local authorities (first level). The 2003 reform faced sharp criticism from opposition parties and the CLRA, but remains in place to date. This major change to a more fragmented system of administrative-territorial organization has altered the scope of the reform pursued before 2000, which had aimed to make sub-national units and local governments more sustainable, more effective and more representative.

The reforms linked to the decentralization process were re-launched in December 2006, when the Moldovan Parliament adopted new laws, such as the Law on Administrative Decentralization (no. 435-XVI), the Law on Local Public Administration (no. 436-XVI) and the Law on local public finances (No. 397-XV) in line with the acceleration of political reforms outlined by the EU-Republic of Moldova Action Plan.<sup>5</sup>

The Government’s work programme for 2011–2014 emphasized the importance of decentralization, noting that ‘Moldova’s approach to the EU can only take place in a state in which the highly hierarchical structures are replaced

<sup>2</sup> Law No.435 of 28 December 2006 on Administrative Decentralization in the Republic of Moldova

<sup>3</sup> Law No. 173 of 22 July 2005

<sup>4</sup> Law no.344-XIII of 23 December 1994 on the Special Status of the UTAG.

<sup>5</sup> Law 435-XVI of 28 December 2006 on Administrative Decentralization; Law no.436-XVI of 28 December 2006 on the local public administration and Law No. 397 of 16 October 2003 on Local Public Finances.

by decentralized, transparent and dynamic ones'. In 2012–2014, the government made new attempts to develop a basis for measurable criteria for the amalgamation of local and regional governments, and initiated policy consultations. However, their recommendations were opposed by local government representatives, particularly the Congress of Local Authorities of Moldova (CALM). Local government representatives claimed that the proposed reform was built on a top-down approach that did not reflect the views of local government. Implementation of these reforms in the near future is likely to be difficult due to the upcoming parliamentary elections in 2018, as well as local elections in 2019.

Half of all rural municipalities have fewer than 2000 residents and about 93 per cent have fewer than 5000 residents. As of 2013, the population varied from a minimum of 215 to a maximum of 638,481, with an average of 3766. This leads to a high degree of jurisdictional fragmentation across the country. As a result, there are 26.4 municipalities per 100,000 inhabitants in Moldova, even higher than in the most fragmented European countries such as the Czech Republic (24), France (21) and Austria (21). The largest region in terms of land area is the Central Region, which accounts for 34.5 per cent of the total territory of Moldova and has the largest population (30.7 per cent of the country), but also the lowest share of urban population (16.6 per cent of the territory's residents).

The current small size of many villages (communes) is seen as not economically viable in terms of self-governing units due to the narrow economic base and lack of economies of scale in service provision. Furthermore, the large number of communes implies lower efficiency—high cost of administration, technical support, capacity building—and requires stronger supervision of local government from the higher level of public administration and central government, hindering decentralization. Although decentralization reform was adopted in 2015 and important steps were taken in its implementation, reforming the country's administrative-territorial system will be essential for the success of the decentralization agenda.

## ***Local government functions***

According to Law 435 of December 2006, decentralization is based on local autonomy, subsidiarity, equity, integrity, correspondence of resources and competencies, financial solidarity, institutional dialogue, public-private partnerships and accountability. Legislation specifically delineates three kinds of competences for local government: decentralized, delegated and shared.

*Decentralized competences* are those which are legally recognized as fully transferred to local governments, whereby these public authorities have full autonomy to manage and deliver local public services. Central authorities cannot interfere in their operational management or decision-making. Nevertheless, the central government authorities retain the possibility of influencing service delivery indirectly, through policymaking, mandatory quality standards, incentives and penalties, monitoring, control, law enforcement and evaluation. According to the Law on Local Public Finance, and the Law on Administrative Decentralization, the decentralized competences of level I are:

- socio-economic development;
- territorial and urban development;
- construction and maintenance of roads, streets, local bridges and traffic management;
- maintenance and operation of water supply systems, sewerage, water treatment, sanitation and domestic waste;
- social housing; social assistance to the population, including protection of families with multiple children, mothers' and children's rights, older people and soldiers; in the absence of other authorities, construction of housing for socially vulnerable groups and for other categories of inhabitants; expenditure of the municipal housing fund;
- passenger transport; urban electric transport; bus and train stations;

- pre-school and extra-curricular institutions; primary, general and secondary education; other educational institutions serving the population;
- public cultural institutions, establishments and activities; maintenance of libraries and museums;
- sports; sports facilities;
- organization of markets and other public places; protection of consumer rights; organization of retail trade;
- registration and maintenance of households; managing local property assets;
- defence against fire; and
- maintenance of parks and green spaces; soil, plant, animal and other environmental protection measures; management of land relations; allocation of land for the construction of housing and other purposes; maintenance of cemeteries.<sup>6</sup>

Articles 10 and 11 of the Law on Administrative Decentralization delimit the competences between levels I and II and article 11 clearly stipulates the principle that the competence recognized in law cannot be imposed or limited by any public authority, except under the law. The decentralized competencies of level II are:

- socio-economic development, territorial planning and urban development;
- construction, administration and repair of district roads;
- construction of sanitary institutions and schools; social assistance; maintenance of sanitary and social facilities
- oversight and management of higher education institutions;
- coordination and development of sporting and other activities for youth;
- public transportation;
- environmental protection, managing public property, construction of interurban pipelines, land relations under the law; and
- maintenance of exhibitions, theatres, public television and other institutions that serve the population, as well as financing of cultural activities organized and carried out by level II local public administration, fire protection, other duties under the law.

*Delegated competencies* are services transferred to local government by the central authorities, with the latter retaining various management and control instruments to oversee the quality and use of the delivered services. However, competencies and public services can be delegated to the local governments only if funds are budgeted. Otherwise, local authorities are entitled to refuse to comply with these directives, legally challenge them or request specific instructions from central government.

Examples of delegated functions for level 1 are: social protection of the population, social protection of the unemployed, public hygiene, management of protected zones and sanitary areas, nature reserves, maintaining public order, training for military mobilization/conscription and conscription process and, other activities provided by the legislation in the field of national defence and civil protection. For instance, district authorities are in charge of managing social care (social assistance units) at the district level and the development and management of community social services for socially vulnerable groups, and monitoring the quality of social services, following the provisions of the Law on decentralization. Social care is, however, a delegated function of a state competence. Therefore, district Departments of Social Care (social assistance and family protection) primarily do the work of the central government authorities, and act as strategic partners in social assistance to the first level of local government.

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<sup>6</sup> Law 397-XV of 16 October 2003 on Local Public Finance, article 8, as amended on 1 November 2013; and Law 435-XVI of 28 December 2006 on Administrative Decentralization, article 4, as amended on 26 April 2012.

The delegated powers are similar to those of deconcentrated services of the national government with two important differences: They cannot refer to monitoring, control or law enforcement activities, so they only refer to the provision of services to the beneficiaries, and they cannot be provided by the central government structures localized in those settlements. Consequently, local public authorities act as agents without autonomy when delivering these services.

Level II local authorities have the following delegated functions:

- social protection of the population, including the unemployed,
- public health (i.e. maternal and child health);
- public order;
- coordination and supervision of administrative-military activities, mobilization and other activities in the field of national defence;
- institutions and activities linked to secondary vocational education, boarding schools, schools for children with special needs, other institutions that serve the population of the administrative-territorial unit, methodological development activity in the field of education;
- protection of natural resources; and
- consumer and civil protection.

While the delimitation of competences and powers between different levels of government is described in detail in several relevant laws, these functions are often conflicting or neglected due to the shortage of funds or the excessive use of administrative leverage to diminish the extent of local powers. This raises issues in relation to the allocation and sharing or coordination of functions.

First, there is an unclear assignment of functions among different administrative levels (central, rayon and local/communal/city level authorities), due to high number of normative acts that conflict with the law on administrative decentralization. Second, the shared or fragmented responsibilities in many sub-functions lead to a lack of sufficient technical or financial resources to enable local government to fulfil these functions.

Until 2006, a ‘prefect’ was in place as the ‘state territorial representative acting on behalf of the Government’, but afterwards, the position of territorial offices led by prefects were suspended, and the competence to run decentralized services transferred to the Ministry of Local Public Administration (MLPA). When the MLPA was removed from the cabinet structure (2009), the management of decentralized state responsibilities continued to be supervised by central government ministries, creating ambiguities in the local governments’ attributes of power and territorialized services of the national government.

The existing framework does not contain a legal mechanism that provides the territorial-administrative units with the necessary financial resources to carry out the tasks delegated by the state. These gaps in the normative framework of local public administration lead to a low level of awareness among local public administrative authorities and officials of their competences, as well as an inability to identify their proper competences from those that have been delegated by the state.

One typical situation illustrates the issue outlined above: the Ministry of Defence assigns local authorities with the task of conducting regular recruitment drives and transporting of conscripts, without any additional funding or resources. Defence is undoubtedly an exclusive area of central government competence and when certain activities are to be carried out locally, the central government must secure the required funding. Another issue is the way in which the designation of agricultural land on the territory of a local public authority is compromised because of delays in the adoption of normative acts that specify the cadastral allocation mechanism of the respective lands.

This, in turn, leads to local properties having undetermined status and the loss of local revenues.

The decision-making process at the local level takes place in accordance with the principle of legality. Citizens can challenge acts issued by authorities where they affect their individual interests.<sup>7</sup> Any act issued by public authorities that leads to a violation of individual rights may be challenged in the courts. Control over the legality of acts issued by local authorities can be carried out by the territorial entities of higher-level state authorities. In addition, any natural or legal person may request that the territorial office check the legality of acts issued by the mayor and the district president, for example, the legality of acts on the employment and dismissal of personnel.

Local authorities complain about undue interventions by central government on issues pertaining to the management of local public services, or in budgetary management. Interventions are typically explained by the lack of administrative and professional capacity at the level of the local executive governments. Several mayors have been removed from their positions in the last years based on investigations initiated by the prosecutor offices.<sup>8</sup> Evidence suggests that such interventions could be aimed at gaining political control over local government officials.

Law No. 123/2003 on local public administration applies the term executive authority to mayors. At the same time, it does not narrow the role and statute of the councils, and there is no subordination between local councils and mayors, thereby implying a separation of powers similar to that between parliament and government. Both mayors and councillors should act in the name and interests of their local populations. Independent sources note that relations between various levels of public authorities are excessively bureaucratic, their independence is negatively influenced by political parties and this in effect creates multiple obstacles for the implementation of their duties.<sup>9</sup>

## ***Source of mandate of local government bodies***

The mayors of the municipalities and villages, and councillors in the city councils (municipalities) and village councils (communes) are elected by universal, equal, direct, secret and free vote for a four-year term. The size of the local councils depends on the number of voters in the respective first level local governments. Citizens of the Republic of Moldova with voting rights, who have reached the age of 18 on the day of the elections, have the right to be elected as councillors in local councils. Only citizens with voting rights over the age of 25 can be elected as mayors. The status of locally elected bodies is determined by the law on the status of a locally elected person (Law 768 of 2 February 2007 and Law 436 of 28 December 2006).

Locally elected government officials include level I and II tier councillors, members of the Gagauz Regional Assembly, mayors, deputy mayors, and district Presidents and Vice-Presidents. Local authorities consist of locally elected officials, as well as municipal servants and other technical staff hired by the local governments, which are not covered however by specific legal regulations.<sup>10</sup> The first and second levels of government obtain their

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<sup>7</sup> According to articles 1 and 2 of the Law on Administrative Litigation, 'any person who believes that one of his/her rights under the law was violated by a public authority, through an administrative act or failure to settle a claim within the prescribed legal period, may apply to the competent administrative court to seek the cancellation of that act, recognition of the alleged right and the repair of the damage caused to him/her'.

<sup>8</sup> See 'Taraclia Mayor, suspended by Court of Appeal: It is a revenge of PD that I refused to vote for Lupu in 2009', <<http://jurnal.md/en/politic/2016/4/6/taraclia-mayor-suspended-by-court-of-appeal-it-is-a-revenge-of-pd-that-i-refused-to-vote-for-lupu-in-2009>>; and 'Mayor of Moldova capital arrested, sparking political fight', <<http://www.foxbusiness.com/markets/2017/05/26/moldova-mayor-detained-over-city-parking-contract.html>>.

<sup>9</sup> Roles and responsibilities of mayors and local councils in Armenia, Azerbaijan, Georgia, Moldova, Ukraine, Belarus, CoE 2016, <https://rm.coe.int/168071b235>

<sup>10</sup> The most important laws governing these categories are: the Law on the Status of a Locally Elected Person, (No.768-XIV of 02.02.2000), the Law on Civil Service (No.443-XIII of 04.05.95), the Labour Code (No154-XV of 28.03.2003), Decision of the Government of the Republic of Moldova on Approval of the Unified Classifier of Public Positions No. 151 of- 23.02.2001; the

mandates differently: mayors at level I are directly elected, while district councils elect presidents of districts (level II) indirectly. The law prohibits locally elected representatives from assuming conflicting functions simultaneously.<sup>11</sup> Locally elected representatives are liable under civil, administrative and criminal law.

The executive authorities (the mayor and district president) are assisted in the exercise of their legal powers by personnel recruited according to the law on civil servants and other technical staff.<sup>12</sup> To enter into the civil service, candidates must satisfy certain general criteria (such as the requirement to know the official language), take a competitive examination, apply for a position and be interviewed.

Civil servants are appointed for an undetermined term, with some exemptions such as temporary replacements. It is very difficult to dismiss a civil servant. Unsatisfactory performance is almost the only ground for dismissal, and in practice this is rarely applied.

The structure and personnel of the mayoralty and the apparatus of the district president are approved by the council, following the recommendations of the executive authority. These proposals are, in turn, based on staffing plans approved by the government. In practice, local authorities often challenge the limits set by the government on the grounds that they do not reflect local needs and the volume of work required locally.

## ***Administrative and institutional capacity of local authorities***

Law 435 on Administrative Decentralization defines administrative capacity as the ratio between a local public administration's (LPA) total administrative expenses and its own revenues. Law considers an LPA considered viable if its administrative expenses do not exceed 30 per cent of total local revenue. Financial data shows that only 157 LPAs (17 per cent) can cover their administrative expenses from their own revenues, while most local governments (83 per cent) use transfers from the state budget to cover administrative costs.<sup>13</sup>

Of all the 898 municipalities in Moldova, 86 per cent have a population of under of 5000 inhabitants. In addition, 94 per cent (844) are typical rural settlements with limited infrastructure or communal services (sanitation, sewerage, heating systems, waste disposal or centralized water distribution). Despite the legal provisions, around 28 per cent (237) of all administrative-territorial units (ATUs) are communities with less than 1500 inhabitants. A significant part of these 'exceptional cases' are geographically close or even adjacent, and could eventually be merged. Local settlements, however, fear that amalgamation would mean in effect another instrument of control and centralization (top-down approach of the central government), which creates a certain annoyance among local governments.

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Decision of the Government of the Republic of Moldova No. 192 of 01.03.2004 on Approving the Regulation on Filling in Public Position Vacancies.

<sup>11</sup> A local elected official cannot serve as a Member of the Parliament of the Republic of Moldova, a member of the Government, in any other government office, or as a civil servant in the apparatus of the district president. Mayors cannot work as entrepreneurs, counsellors or in any other enterprises, institutions or organizations with the exception of scientific and teaching organizations. Law 786 of 2000 and Law 123 of 2003.

<sup>12</sup> See: Law on local public administration (No. 123/2003), Government Decision (GD) No. 688/2003 regarding the structure and staff of the mayoralties of villages (communes), cities (municipalities); GD No. 116/2003 on the organogram and the personnel of the apparatus of the district president, the departments, other subdivisions subordinated to the district council; Law No. 436/2003 on the Framework-Statute of the state (commune), the city (municipality).

<sup>13</sup> Report on the Territorial-Administrative Structure Options for the Republic of Moldova, 2015, Ionescu, A, Drezgic, S, Rusu, I, [http://www.md.undp.org/content/dam/moldova/docs/Publications/JILDP-Report%20on%20territorial%20administrative%20reform\\_24\\_03\\_2015.pdf?download](http://www.md.undp.org/content/dam/moldova/docs/Publications/JILDP-Report%20on%20territorial%20administrative%20reform_24_03_2015.pdf?download)

Local governments fear they may lose from the amalgamation and would deprive their small communities of the very modest, poor quality, but nevertheless basic services delivered through their small town halls (*primaria*). For instance, many people who resist amalgamation make their arguments based on analogies with other types of ‘optimization’ policy conducted by the national government, which resulted in the closure of local schools without achieving better educational opportunities in the neighbouring villages. Therefore, any sort of territorial-administrative recalibration should consider a solid participatory approach, rather than purely technocratic estimates or assumptions without consent.

Fragmentation of the national territory is a problem identified in the National Decentralization Strategy adopted on 5 April 2012, which states, inter alia, that ‘*de jure* the LPAs have full autonomy, *de facto* it is limited, partly because of central government interference in the day-to-day work of the local governments and partly because of their own financial resources under the limit of needs’. Approximately 66 per cent of the country’s population lives in rural areas. According to a study conducted by Expert Group, the administrative costs of maintaining local government for this type of rural settlement is estimated at around 600–800 lei per capita, compared to 100–200 lei in the case of other forms of local government with populations larger than 5000 inhabitants.<sup>14</sup>

Apart from 55 LPAs (6 per cent), all local governments spend more on administration than on all the public utilities together. For many LPAs the amounts allotted are insignificant: 214 LPAs (24 per cent) spend less than 20 MDL (€1) per capita per year on all public utilities, while 639 LPAs (71 per cent) spend less than 100 MDL.<sup>15</sup>

In sum, the majority of small mayoralities, particularly in rural areas, are unable to secure basic communal services for their populations. This makes rural settlements, where most of the vulnerable groups of the population live, fairly unattractive and poorly developed in terms of infrastructure, services and living conditions more broadly. A vicious circle of poverty, limited labour and educational opportunities, income inequalities and conservative mind-sets present clear barriers to modernization. Budget deficits present local authorities with tough choices in prioritizing their fields of intervention.

Institutional capacity is defined as the effective skills and capabilities of local governments to provide sufficiently high quality local goods and services. It indicates the technical, organizational and educational level at which local authorities are able to perform the duties delegated to them by law. Today, 769 of the first level local governments (or 85 per cent) employ fewer than six full-time staff members/local civil servants, while 24 per cent of them have 4 staff members or less, typically a secretary, the tax collector, the cadastral engineer and an accountant.<sup>16</sup> The continued challenges for cadastral valuation of property at the local level serve as an example of local authorities’ weak institutional capacity. This has resulted in almost 60 per cent of all local properties not being evaluated and thus registered according to the Cadaster code. This leads to uncertain legal status, less taxable revenue for local budgets, corruption and mismanagement, which make local governments suspect and feeds mistrust.

Studies show that a return to a district-based territorial system mostly corresponded to the central government’s agenda and served less to decentralize local government. Since 2003, central government has increased its territorial personnel by 63 per cent, district (rayon) administrations by 33 per cent, but the first level local government by only 11 per cent. The amount spent on staff, maintenance and operational costs between 2003 and 2015 was 20 billion lei.<sup>17</sup> Despite the obvious obstacles to carrying out their main functions, local governments aspire to develop and showcase skills and best practices in various fields of intervention. Every year, Best Practices Programs for Local

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<sup>14</sup> Ibid

<sup>15</sup> Ibid. p.56

<sup>16</sup> Ibid. p.11

<sup>17</sup> ‘Lessons Learned for the Future Administrative-Territorial Reform in Moldova. How Much Money Did the Government Blow by Switching to Rayons in 2003?’, IDIS Viitorul Trend Hunter, April 2017.



Authorities, organized by the Council of Europe, IDIS and CALM, collect and recognize positive practices in the work of local authorities.<sup>18</sup>

Over 650 local communities participated so far, competing for recognition in such areas as governance, entrepreneurship, intercommunity cooperation, energy efficiency and other services provided to the population.<sup>19</sup>

## ***Financial capacity***

Effective financial autonomy, as a condition for the functioning of local self-governance (article 9 of the European Charter) is fragile and incomplete in Moldova.

The vast majority of local communities are extremely poor, compared to the same indicator in neighbouring countries. The average volume of local budget revenue per capita does not exceed 1004 MDL (or 49.70 euro), the average share of local revenues in local budgets is just 10 per cent, and in a large number of local governments overheads (administrative expenses) exceed five times their own revenue.<sup>20</sup> According to Law 397 of 2003 on local public finance, local government revenues consist of: their own budget revenues, local taxes and fees, property tax and other fiscal and non-fiscal revenues; shared taxes and fees; special means/special funds; transfers from the state budget; rayon budgets; grants/borrowing; and revenues from property sales and privatization.

Across 898 first level municipalities, current expenditure accounts for almost 88 per cent of total spending, with wages claiming almost 38 per cent of their total budgets and investments accounting to only 17 per cent. The dominant expenditure item in the local government budget is education, which represents around 60 per cent of local expenditure. Social assistance, culture and sports, and housing are other important expenditure items.

To balance these expenditures, the Ministry of Finance provides equalization grants to bridge the difference between estimated expenditure based on normative indices (number of pupils, the elderly) and the tax base (financial capacity to collect and generate local revenues). Usually, the normative indices are extremely detailed, and the meticulous rules for estimating the equalization shares are often contested by local governments, who claim that transfers are highly politicized.

These claims emerge when state equalization grants are not distributed directly, but through the second level districts (rayon administration), which set the amount of grants to the first level not in accordance with the legal equalization formula, but based on specific negotiation formats. Thus, the aim of equalization grants is often not to build up sustainable local capabilities, but to provide a safety net to local communities irrespective of their tax revenue raising efforts and local service provision, which is sometimes understood as leverage to control local government. Due to the low level of revenue collection, equalization grants can amount to 80 per cent of local budgets, creating dependent relations. In addition, some specific-purpose grants from central government to finance local infrastructure projects or other tasks can be specifically authorized by central government. Slow economic development and weak revenue collection mean that mandatory services exceed the size of the budget, which means that even the most prosperous cities now receive equalization grants from the state budget.

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<sup>18</sup> The Best Practices programme is implemented by IDIS Viitorul, with the support of the Council of Europe and the active participation of CALM.

<sup>19</sup> The IDIS-CoE joint program 'Best Practices Programme for Local Authorities in Moldova', <<http://viitorul.org/ro/content/aplic%C4%83-la-bunele-practici>>.

<sup>20</sup> ATUs have financial capacity when they can generate at least 40% of total revenues. Please see Methodology for assessing the administrative capacity of local public administration authorities, UNDP Joint Integrated Assessment Report, November 2010, IDIS, IDU <http://www.serviciilocale.md/download.php?file=cHVibGJlL3B1YmtpY2F0aW9ucy8xNzI0OV9lbl8zLnBkZg%3D%3D>

These patterns preserve the hierarchical links between the Ministry of Finance and other ministries, with oversight control of various centralized funds (Ministry of Environment, Ministry of Transportation), which can become mechanisms for political clientelism. This allows central government bodies to interfere in and decide the spending priorities of local governments. For instance, central government might decide to exempt private companies from taxes that are collected by the local authorities, without providing compensation remedies. Complaints are also made about the collection of personal income tax at the place of employment, rather than the place of residence.

After analysing the ATUs' budgets for 2005–2013, the IMF concluded that the fewer inhabitants a community has, the less capable it is of collecting its own revenues and covering the costs of services delivered to or expected by the population. Rural ATUs in particular, which have small and ageing populations, have a very high rate of vertical fiscal imbalance, complemented by an excessive dependency on transfers from the central budget.<sup>21</sup> Effective fiscal autonomy will be feasible only if or when administrative-territorial amalgamation consolidates small communities into bigger, more viable units. However, the sustainability of the local government must also consider active efforts to increase the local revenue base (own tax and non-tax incomes).

Today, a quarter of total local government revenue comes from tax sharing of personal income tax and corporate income tax, as well as road taxes which depend to a large extent on the capacity of tax collection and the good standing of local economies. Tax shares differ widely based on the type of local government: second level local governments receive, generally, the total revenue of the personal and corporate income tax, while the municipalities of Chisinau and Balti receive only 50 per cent of corporate tax revenues (the other 50 per cent is allocated to the state budget).

Tax rates are not entirely at the discretion of local government. Local tax ceilings are set by parliament. The smallest part of local revenues comes from non-tax revenues (charges for use of local property, fees for services, fines, confiscations, etc.). First level local governments cannot levy non-tax charges and fees, unless they are provided for in the tax legislation. The law on local public finance was amended in 2013 and the new system, based on a new formula for calculating general transfers, has been implemented throughout the country since 2015.

The overspread lack of financial discipline of the local governments originates from a certain gap between the delegated competences by law and available resources. Most of the municipalities claim to have insufficient financial means, as local economies are too small and fragmented to generate enough revenue to meet citizens' needs and enhance the quality of delivered services. Poverty increased rural-urban migration. Thus, people who return to their villages after having worked abroad for years decide to move to towns or cities, as the villages lack the conveniences they have become used to. The limited size of the population in the current ATUs and the high level of fragmentation undermine the exercise of local autonomy and strengthen the impression of a formal authority that has no power.

The World Bank concluded that 'administrative-territorial fragmentation of the country results in poor efficiency of expenditures at sub-national level' and that only a radical reshape of the territorial-administrative structure in Moldova could yield savings that could be used to improve the quality of the services provided (World Bank 2014).

Data presented by the Ministry of Finance show that local government revenues dropped compared to the ratio of expenditures in the National Public Budget (NPB). With an average share of 26.5 per cent of the NPB in 2001–2015, the 2007–2015 trend confirms that overall more municipal services are financed via transfers from the central budgets, which illustrate a trend that could be called as 're-centralization'. This conclusion is confirmed by an

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<sup>21</sup> Cerhan Cevic (2014) refers to this phenomenon as 'vertical fiscal imbalance' (VFI), defined as a big mismatch between the own-source revenues and expenditure liabilities in terms of services and own duties as stipulated by law. See <<http://www.imf.org/external/pubs/cat/longres.aspx?sk=42549.0>>.

analysis of local public expenditure per capita. The level of expenditure is insufficient to provide the public services demanded by the population, while, in financial terms, the volume of expenditure decreased by 24.2 per cent in 2015 compared to 2014, an unprecedented and dramatic decline over the past decade.<sup>22</sup>

Since 2014, performance-based budgeting (PBB) has been a key policy reform of the national budgeting process, covering almost all public sector fields (health, education, welfare).<sup>23</sup> After a one-year pilot in the district governments (second level), the PBB received a positive evaluation and, accordingly, has been extended to the rest of the municipalities (first level), with the stated goals of making local government more effective and transparent, boosting accountable governance and strengthening communication and outreach on spending. Implementation of PBB at all levels of public administration is now seen as a mid- to long-term strategic priority for Moldova.

Stakeholders highlight specifically the achievements resulting from the implementation of PBB in two pilot towns (Ungheni and Comrat). Launched with support from the Ministry of Finance of Slovakia, UNDP Slovakia and UNDP Moldova (UNDP n.d.), the new policy has had multiple effects on the regulatory framework and laws governing public finance. In addition to the new methodology for calculating budget allocations based on results, PBB attempts to integrate democratic governance principles in the context of broader administrative and fiscal decentralization reform in Moldova, and to stimulate partnerships and close cooperation among key stakeholders.

## ***Financial capacity in the Autonomous Territorial Unit of Gagauzia***

The budget of the Gagauzia Territorial Administrative Unit (UTAG) accounts for about 4 per cent of the national public budget of the Republic of Moldova. However, 60 per cent of the UTAG budget is made up of state budget allocations, while its own revenues account for only 7–8 per cent. Budget expenditure per capita is lower than that of other ATUs, with the exception of the year 2015 when this indicator reached the national average. Current expenditure accounts for 91 per cent of spending and capital investment the remaining 9 per cent. UTAG attracts more capital investment per capita than other ATUs, which allows the regional authorities to assign more funds for socially oriented programmes.

For instance, education receives one of the largest shares of expenditure at 61.1 per cent, culture and sport 9.1 per cent and social security 6.3 per cent, while the costs associated with the maintenance of utilities and road infrastructure and protection of the environment account for only about 8 per cent. Data for 2013–15 shows a decreasing share of its own income during the period, while the share of transfers from the state budget increased, which follows the general trend on equalization highlighted above.

**Table 1.1. Regional Gross Domestic Product (RGDP), 2015**

<b>Development regions</b>	<b>TOTAL</b>	<b>Chisinau</b>	<b>North</b>	<b>Central</b>	<b>South</b>	<b>UTAG</b>
<b>RGDP, current prices, thousand lei</b>	112,049,578	62,869,976	20,519,025	17,973,693	9,704,175	3,064,634
<b>RGDP per inhabitant, current prices, thousand lei</b>	31,51	77,90	20,66	16,96	18,14	18,94

*Source:* National Bureau of Statistics, Territorial statistics, 2015

<sup>22</sup> Secieru, A, 2017 Report on the assessment of the local public finance of the 50 LPAs, "Improving financial control of local public authorities in the Republic of Moldova, IDIS, <[http://www.viitorul.org/files/library/Raport%20evaluarea%20finantelor%20publice\\_Angela\\_Secieru\\_0.pdf](http://www.viitorul.org/files/library/Raport%20evaluarea%20finantelor%20publice_Angela_Secieru_0.pdf)>

<sup>23</sup> National Strategy for developing the management of public finances (2013–2020), Governmental Decision 573 of 6 August 2013.

Official data shows that the regional GDP of UTAG in 2015 was far higher than other regions, in terms of its contribution to national GDP, business development and value per capita. Development is still quite unequal in Moldova, where 57 per cent of the country's GDP is created in Chisinau and 17 per cent in Balti, while the entire Gagauz region (UTAG) contributes only 3 per cent. Nonetheless, UTAG has recently become an attractive destination for donors' efforts. Part of their success is related to a better communication strategy by the regional authorities, development strategies that show clear indications of intent, as well as an ease of doing business on topics of relevance to the donor community and the stakeholders in the region. The data shows that in 2016 alone UTAG attracted 68 projects funded by major foreign partners, compared to just 6 in Taraclia and 30 in Cahul.<sup>24</sup>

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<sup>24</sup> A visual map of foreign support provided to Moldova can be found on the website of the Government of Moldova, <<http://amp.gov.md/TEMPLATE/ampTemplate/gisModule/dist/index.html>>.