

Programmatic Cooperation Framework for  
Armenia, Azerbaijan, Georgia, Republic of Moldova, Ukraine and Belarus

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by the Council of Europe

STRENGTHENING THE INSTITUTIONAL BASIS OF MUNICIPALITIES

ADJUSTED LOCAL FINANCE BENCHMARKING  
AS A TOOL TO EVALUATE THE PERFORMANCE OF  
THE NEW LOCAL FINANCE SYSTEM  
IN MOLDOVA

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# Top priority goals of the National Fiscal Decentralization Strategy of Moldova

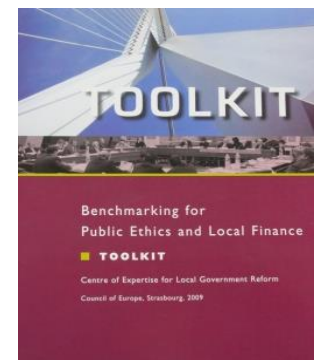
1. Strengthening the local revenue basis
2. Transparency of state budget transfer allocation
3. Improving local fiscal management



**Out of said 3 priority goals, only Goal 2 has been achieved, with the following results:**

1. The uniform formula for calculating general-purpose transfers from the state budget based on 3 indicators: population, square area and fiscal capacity per capita based on personal income tax collected.

2. Direct relation between LPA I level budgets and central (state) budget.



*With only Goal 2 achieved, the following risks were overlooked:*

- 1. Loss of revenue from local tax reliefs: for instance, the losses of the local government of Festelita from tax reliefs granted by operation of law without any compensation from state budget amount to about 10% of its annual local revenue.*
- 2. Lack of new sources of revenue for local or delegated competencies, for instance local road maintenance.*
- 3. Due dates for payment of local taxes and levies are not aligned with operating demand for cash, for instance: due dates for payment of real property tax are set for 15 August and 15 October resulting in cash shortages from January through August.*

# Objectives of the benchmarking study

1. Incentives to LPAs to put financial management into practice on the local level
2. Use of information technology
3. Talent development
4. Development of local fiscal policies by LPAs
5. Complete and correct assessment of the local tax base

# Benchmarks

## 1. Local income sources

- Income classification: local (base, rate, ratio)
- Income on capital: sales, rentals, dividends, return on equity

## 2. Municipal property

- Do LPAs own property?
- LPA powers: sales, rentals, concessions

# Benchmarks (2)

## **3. Allocated revenue**

- What revenue is allocated, source budgets, norms of calculating allocations
- The share of allocated revenue in local budgets

## **4. State budget transfers**

- ▶ What types of transfers are assigned to administrative-territorial units (equalization and special purpose)
- ▶ Their share in local budgets, transparency and predictability
- ▶ Whether or not they encourage the full use and expansion of the local income tax base, increase in budget spending efficiency

## **5. Local loans**

While likely insignificant, the procedures involved must be well regulated

# Benchmarks (3)

## **6. Local fiscal management:** required by law vs in practice

- Budget planning
  - Whether or not based on strategic vision
  - Local council independent of executive authorities
  - Whether or not budget planning is transparent
- Restrictions of management autonomy at the local level
- Solutions to fiscal problems
- Budget performance supervision and reporting procedures



# Conditions for local finance benchmarking study (LFB) success

**Fine tuning:** selection of areas of local financial autonomy, benchmarking tool localization

**Possibility to implement LFB:** external rather than internal assessment

**Incentivization:** within a centralized system with restricted local management powers

**Partner support:** public apprehension, pilot projects, central government

**Critical mass of data for comparison:** variety of case studies, regular surveys, data availability

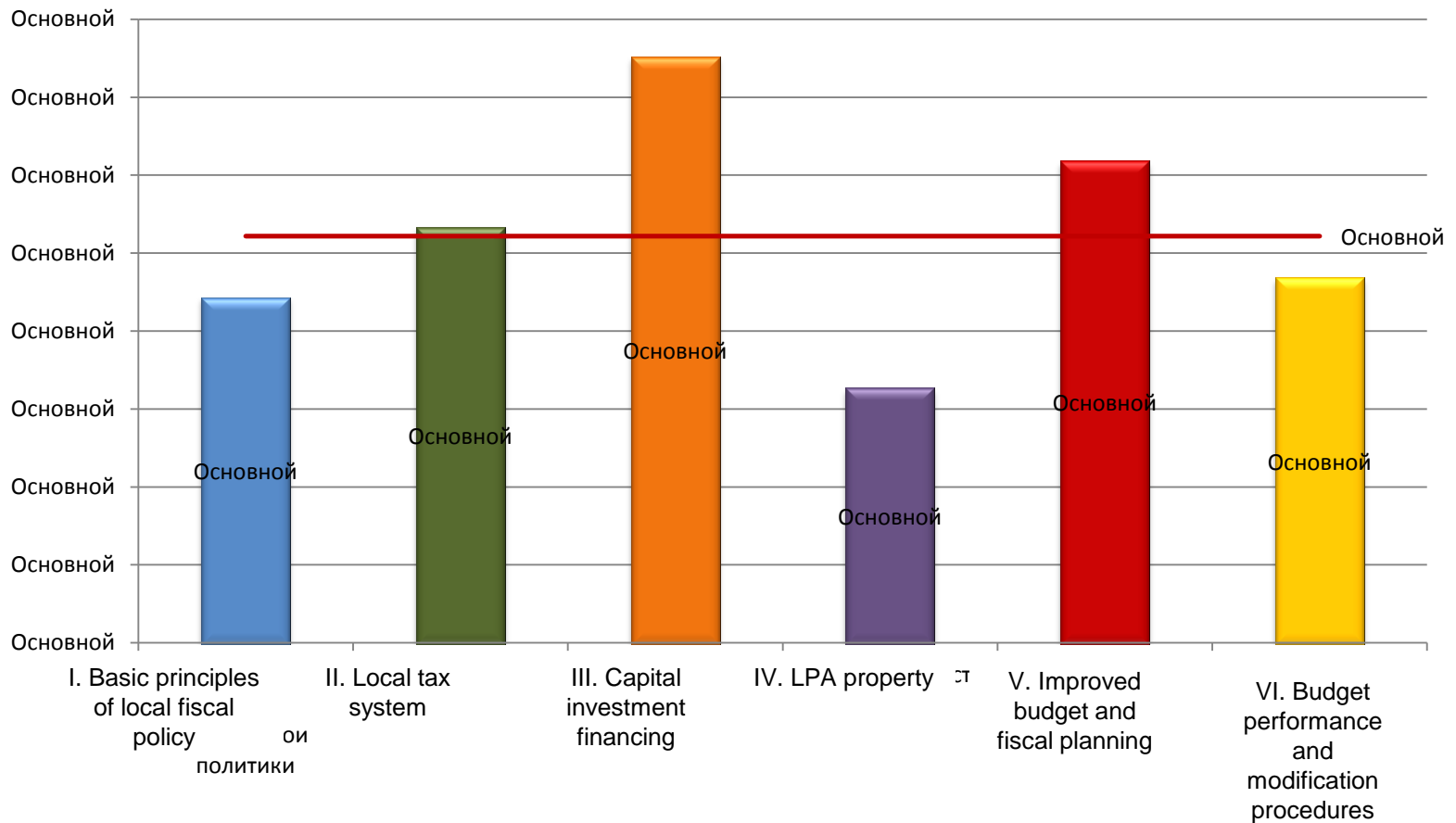
**Leading organization (for instance, Congress of Local Authorities from Moldova — CALM):** analytical skills in working out recommendations

**Lifetime of the benchmarking tool:** specifically, its usability by associations of local authorities.

# Pilot project results

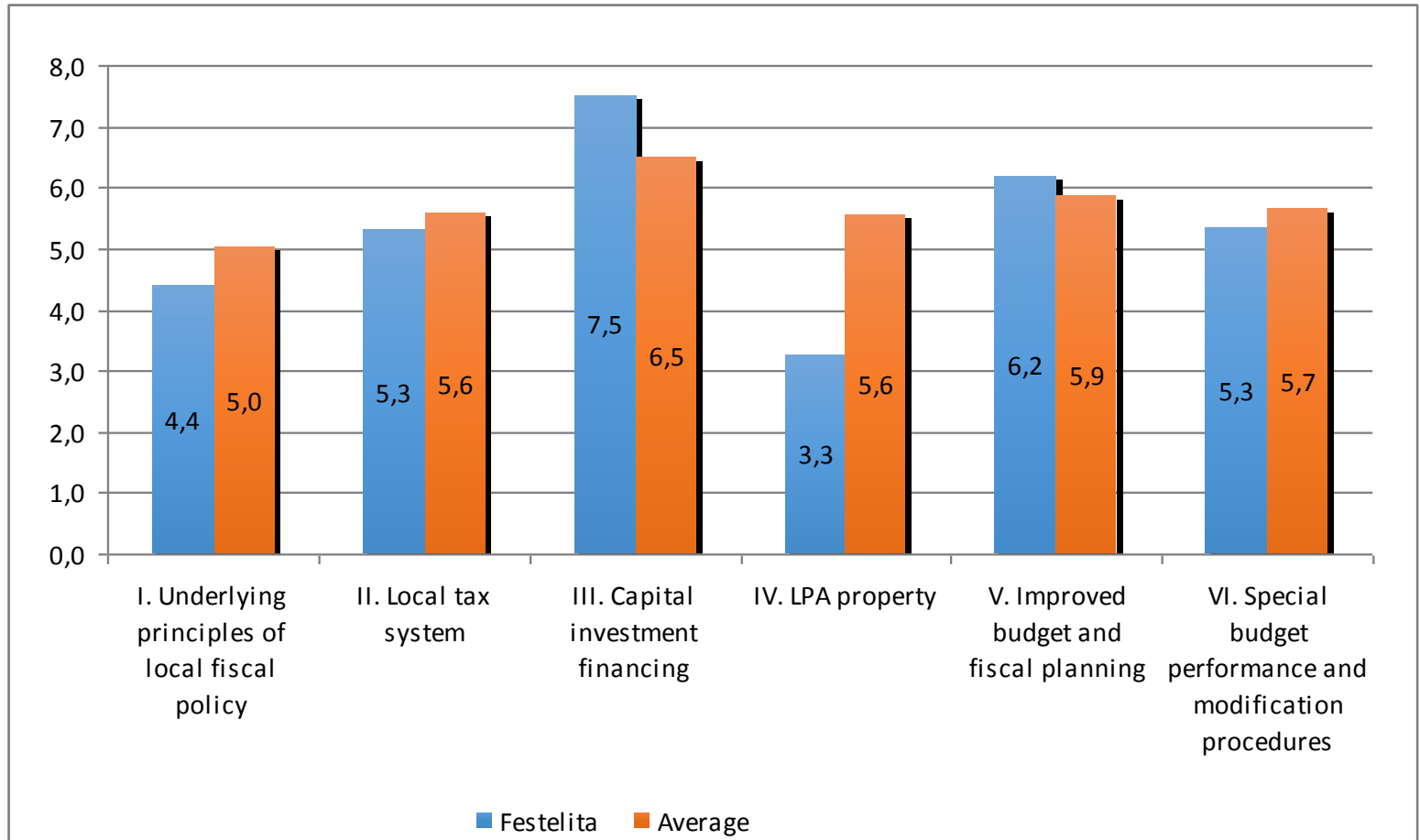
## Benchmarking in Feștelița, 2015 (II)

Assessment of Feștelița against other local administrations involved in pilot projects



# Pilot project results

## Benchmarking in Feștelița, 2015 (II)



## Benchmarking in Feștelița, 2015 (III)

### **Conclusions:**

- 1. Local budget losses from tax reliefs imposed by central authorities in the absence of compensations for LPA**
- 2. Lack of property value updating mechanism resulting in loss of revenue from real property tax**
- 3. Poor financial management transparency caused by low interest of local residents**

# Benchmarking in Feștelița, Moldova

## Recommendations:

- 1. Income tax allocation as alternative source of revenue for local budgets**
- 2. Real property revaluation (*under discussion*)**
- 3. Income tax allocation based on the place of incorporation (*under discussion*)**
- 4. Increased transparency by launching a website of the local administration**