

**LOCAL FINANCE
BENCHMARKING
TOOLKIT:
PILOTING AND
LESSONS LEARNED**

REPUBLIC OF MOLDOVA

Strasbourg, 2017

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Foreword

The Local Finance Benchmarking (LFB) project in Moldova was implemented in 2015-2016 under the thematic programme “*Strengthening Institutional Frameworks for Local Governance*”. It was managed by the Centre of Expertise for Local Government Reform, Good Governance Division, Directorate General of Democracy, Council of Europe under the CoE/EU Eastern Partnership Programmatic Co-operation Framework. The project¹ aims to support the local government reform, primarily by increasing the efficiency and accountability of local authorities.

Benchmarking of local financial resources and financial management practices is based on the toolkit developed by the Centre of Expertise. The toolkit builds on a simple municipal management rule: in a decentralised environment local governments learn from each other, so comparison and information sharing will improve their performance.

The LFB toolkit assesses the local financial resources and financial management practices by scoring them along a standardised set of criteria. Then the scores are compared with the results in other similar municipalities, indicating the areas of the best and lower performance in a particular municipality and helping to identify the directions of improvement.

In Moldova the adaptation of the standard LFB has been completed through piloting. The LFB survey was implemented in five bigger towns (Straseni, Edinet, Cimislia, Ungheni, Ialoveni) and in five villages (Colibasi, Preresečina, Festelita, Besghioz (Gagauzia region), Cristesti). The localised survey covers twenty-seven critical areas of local finances. It showed that the municipalities perform well (average scores were the highest) in capital investment financing and in budgeting methods, planning procedures. They scored lowest in capacity development for the staff, use of IT, public involvement in fiscal decisions and local property management.

During the LFB implementation, we closely cooperated with the Congress of Local Authorities in Moldova (CALM) and the State Chancellery. The results of the LFB survey and reports on the pilot municipalities were transferred to CALM who has the right to use the final, revised version of the LFB toolkit and in the future it be the partner for further disseminating and promoting this instrument among the other local governments in Moldova. The translation of the adapted version is available and the local expert team was trained to continue the benchmarking.

This publication contains all the outputs of the project:

- (i) adapted LFB toolkit;
- (ii) reports on the pilot municipalities;
- (iii) final reports with policy recommendations and proposals on the continuation of the project.

Jutta GÜTZKOW

Head of the Centre of Expertise for Local Government Reform
Council of Europe

¹ Project website: http://www.coe.int/t/dgap/localdemocracy/Centre_Expertise/Local_Finance_Benchmarking/

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Local Finance Benchmarking toolkit Moldova

Local Finance Benchmarking toolkit Moldova

1. BENCHMARKS OF FINANCIAL RESOURCES OF LOCAL AUTHORITIES

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES			
1. Transparency and involvement of the public			
1.1 Draft budget developed by the local authority should be opened and discussed publicly (R2, R3, R10, R15, R17)	<ul style="list-style-type: none"> Public access to draft budget through local mass-media, website etc. Participation of the public at local council meetings during discussions of the budget 	<ol style="list-style-type: none"> Minutes of meetings Media reviews Local authority web-site 	0-10
1.2 Approved local budget is made public (R3, R10, R17)	<ul style="list-style-type: none"> The annual budget decision is published through all possible channels of communication 	<ol style="list-style-type: none"> Local authority web-site Media reviews 	0-10
1.3 The report on local budget execution is made public (R16, R17)	<ul style="list-style-type: none"> Discussion of local budget execution at the local council is opened to public participation The local budget report is published through all possible channel of communication 	<ol style="list-style-type: none"> Media reviews Minutes of meetings Local authority web-site 	0-10
2. Use of IT			
2.1 Managerial efficiency should be improved by IT (R6)	<ul style="list-style-type: none"> Local government has a website Draft council documents are put on the website Local authority's personnel has and using emails 	<ol style="list-style-type: none"> Local IT procedures IT equipment Local authority web-site 	0-10
2.2 Using FMIS (Financial Management Informational System) and other IT systems	<ul style="list-style-type: none"> FMIS is used by the finance department and local budgetary institutions Accounting software is used by the finance department 	<ol style="list-style-type: none"> Local IT procedures IT equipment 	0-10
3. Capacity development of local staff			
3.1 Training in various forms are needed for the local staff (R7)	<ul style="list-style-type: none"> Staff days spent at training courses in a year 	<ol style="list-style-type: none"> Human resource department Local budget Evaluation sheets of civil servants 	0-10
II. LOCAL TAXATION			
4. Local tax policy			
4.1 Local taxes should be fair (R9)	<ul style="list-style-type: none"> Existence of local practices in tax exemptions Existence of different rates for different groups of taxpayers (scale of such difference) 	<ol style="list-style-type: none"> Local tax regulations (decisions etc.). Local fiscal statistics Local budget 	0-10
4.2 Local taxes should produce high revenues (R9)	<ul style="list-style-type: none"> Local tax revenues compared to total cost of local tax administration Local tax revenues in percentage of total local budget 	<ol style="list-style-type: none"> Local fiscal statistics Local budget 	0-10
4.3 Number of local taxes imposed by local authorities	<ul style="list-style-type: none"> Number of local taxes 	<ol style="list-style-type: none"> Fiscal code Local tax regulations Local budget 	0-10
4.4 The mix of local revenues from property of business enterprises and persons/residents should be balanced	<ul style="list-style-type: none"> Proportion of property taxes collected from businesses and persons/residents Use of permitted maximum rates of local taxes 	<ol style="list-style-type: none"> Fiscal code Local tax regulations Local budget 	0-10

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
4.5 Own revenues should prevail other revenue sources	<ul style="list-style-type: none"> • Share of own revenues in total local budget • Share of general transfers in total local budget • Share of earmarked transfers in total local budget • Share of national shared revenues in total local budget 	<ol style="list-style-type: none"> 1. Local budget 2. Local fiscal statistics 	0-10
4.6 Tax avoidance and evasion should be prevented (R18)	<ul style="list-style-type: none"> • Difference between potentially collectable taxes if tax arrears would be paid and real collection of taxes 	<ol style="list-style-type: none"> 1. Local tax regulations 2. Local tax statistics 3. Local budget 	0-10
4.7 Information on tax base should be updated and has to be founded on legally available sources(R19)	<ul style="list-style-type: none"> • Existence of local databases for tax base evidence • Cooperation with relevant institutions on tax information at the local/regional level (e.g. territorial branches of tax inspectorate, cadaster, Registry etc.) 	<ol style="list-style-type: none"> 1. Taxpayers registries 2. National and local IT systems 	0-10
4.8 Tax collection: identification of tax payers and collection rate (R25)	<ul style="list-style-type: none"> • Regular update on tax payer registry • Cross-checking tax registries (tax base, tax payer) • Trends in collection rate 	<ol style="list-style-type: none"> 1. Analytical reports on tax collection 2. Taxpayers registries 	0-10
5. Tax administration and payment monitoring			
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	<ul style="list-style-type: none"> • Billing: timely call for tax payment • Diverse forms for paying local taxes <ul style="list-style-type: none"> – Through cashier – Bank transfer (including on-line payment) – Others 	<ol style="list-style-type: none"> 1. Local authority website 2. Billings 3. Mayor statement 	0-10
5.2 Payment demands should provide information on tax levies (R23)	<p>Compulsory elements of local tax claims:</p> <ul style="list-style-type: none"> • identification of taxpayer (property owner) • tax base, exemptions • tax rate, amount due • deadline for payments • forms of payment • consequences of delay or non-payment • deadlines for lodging a complaint are set reasonably 	<ol style="list-style-type: none"> 1. Payment demands (tax forms) 	0-10
5.3 Complaint procedures should be clear (R23, R24)	<ul style="list-style-type: none"> • Methods of complaint: contact point, in writing • Decision/response on complaint are limited in time • Appealing procedures are set 	<ol style="list-style-type: none"> 1. Procedure description 	0-10
III. CAPITAL BUDGET FINANCING			
6.1 Local capital investments are managed effectively	<ul style="list-style-type: none"> • Appropriations on capital expenditures are separated in the local budgets • Capital investment projects are completed within the forecasted budget 	<ol style="list-style-type: none"> 1. Local authority budget and annual financial reports 2. Capital investment project documents 	0-10
6.2 Local capital expenditures are funded by diverse sources	<ul style="list-style-type: none"> • Applications for projects financed from diverse central government funds (Environment fund, Regional development fund etc.) • Applications for projects financed from diverse external (foreign) sources • Share in the local budget of projects financed from external sources • Share in the local budget of projects financed from diverse central government funds (Environment fund, Regional development fund etc.) 	<ol style="list-style-type: none"> 1. Local budget and annual financial reports 2. Loan agreements 3. Project agreements 4. Application documents 5. Final report of implementation 	0-10
6.3 Capital borrowing complies with limits imposed by the national legislation	<ul style="list-style-type: none"> • Share of the debt for contracted or guaranteed loans (including the payback of principal amount and interest), in the total annual revenues 	<ol style="list-style-type: none"> 1. Local budget and annual financial reports 2. Loan applications 3. Capital investment project documents 	0-10

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
IV. LOCAL PROPERTY			
7.1 Local authorities keep records of their own assets and liabilities.	<ul style="list-style-type: none"> Balance sheets are annually prepared Value of local non-financial assets is regularly updated 	<ol style="list-style-type: none"> Balance sheets Local budgets Financial reports Inventory reports 	0-10
7.2 Regulations on municipal companies ensure their long term financial stability	<ul style="list-style-type: none"> Medium term service management contracts and their annual specifications define the service performance, the level and method of compensation Share of compensation/subsidies on services provided by municipal enterprises in the local budget expenditures 	<ol style="list-style-type: none"> Municipal service management contracts Local authority expenditures (compensation, subsidies) on services provided by companies 	0-10

2. BENCHMARKS OF FINANCIAL MANAGEMENT OF LOCAL AND REGIONAL AUTHORITIES

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
I. SOUND BUDGETING AND FISCAL PLANNING			
1. Fiscal strategy design			
1.1 Multi-annual budget plans (R.45)	<ul style="list-style-type: none"> Budget is based on central macroeconomic policies Clear connections between annual budget items and local development strategy 	<ol style="list-style-type: none"> Local budgets Local development strategies 	0-10
2. Budgeting methods and capacity			
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	<ul style="list-style-type: none"> The number of participating departments, including the nature of their work. Comparisons are used to justify the appropriate changes in figures, comparing the former performances, according to the objectives. 	<ol style="list-style-type: none"> Local budget development procedures which regulates the duties and cooperation of departments. Local budgeting calendar. IT system which supports the calculations and documentations. 	0-10
2.2 Analytical sheets make the budget transparent (R. 47)	<ul style="list-style-type: none"> A structured set of analytical budget data supports the understanding of the budget, providing different dimensions of the data. 	<ol style="list-style-type: none"> Set of budget sheets with explanations 	0-10
2.3 Programme – based budgeting implementation (R.54)	<ul style="list-style-type: none"> Performance information is part of the budget documentation. Goal and objectives are identified. Performance indicators are set: <ul style="list-style-type: none"> Results indicators Efficiency indicators Outputs indicators 	<ol style="list-style-type: none"> Budget proposals Budget documentation (informative note) 	0-10
3. Budgeting procedures			
3.1 Involvement of elected bodies (R.49, R.74)	<ul style="list-style-type: none"> The budget and the informative note are presented in time by the local authority to local councilors Workshops are organized for the elected bodies to understand the message of budget. 	<ol style="list-style-type: none"> Disposal of the local authority regarding the submission of the budget The informative note, which explains the budget objectives, the importance of different items, the role of different classification. 	0-10
3.2 Public budget debates	<ul style="list-style-type: none"> A public budget debate is being organized An open forum exists to collect citizen contributions. 	<ol style="list-style-type: none"> Local rules Minutes of discussions Evidences on forums/ citizen participation 	0-10

SECTION and AREA (with reference to the number of the Recommendation)	ACTIVITY, INDICATOR	VERIFICATION STATEMENT, DOCUMENTS	SCORE
3.3 Cooperation with other local authorities (R.70)	<ul style="list-style-type: none"> • Separate decision before cooperation. • Inter-municipal cooperation agreement with declared objective, budget figures and explanations on cost-sharing, advantages, the expected results, and the long term financial consequences in the phase of operation. 	<ol style="list-style-type: none"> 1. Decisions, contracts on cooperation. 2. Cooperation agreements 3. Joint management of municipal service organisations 4. Council decisions on joint service provision 5. Procurement regulations 	0-10
II. SPECIAL RULES OF BUDGET ADJUSTMENTS AND IMPLEMENTATION			
4.1 Regular evaluation keeps track of budget implementation (R.76, 77)	<ul style="list-style-type: none"> • Mid-year execution reports, nine-month execution reports are developed and reviewed at the meeting of elected bodies • They provide opportunities to decide adjustments, when necessary. 	<ol style="list-style-type: none"> 1. Midyear and nine-month execution reports. 	0-10
4.2 Budget adjustment during the year is limited. (R. 78)	<ul style="list-style-type: none"> • Number of budget adjustment during one budgetary year • Necessity of the budget adjustment based on analysis 	<ol style="list-style-type: none"> 1. Decisions on budget adjustment Informative note - scope of budget adjustment. 	0-10
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	<ul style="list-style-type: none"> • Performance of services rendered are specified in written contracts • Sources of funding contracted services are specified annually (user charges, municipal subsidies, loans, etc.) 	<ol style="list-style-type: none"> 1. Local government budgets and financial reports 2. Local government framework agreements and annual contracts with municipal enterprises 	0-10
4.4 Special consideration has to guarantee PPP projects (R.72)	<ul style="list-style-type: none"> • Number of PPP projects and contracts • PPP are properly prepared and legitimate (analysis, calculations, etc.) 	<ol style="list-style-type: none"> 1. Proposals and calculations of future financing needs of PPP projects 2. Contracts of PPP projects 	0-10

Piloting LFB toolkit

BESGHIOZ MUNICIPALITY

Project	<i>Piloting Local Finance Benchmarks in Moldova</i>
Local expert	Alexandru Osadci
Mayor	Nicolae Gotisan
Region	Ceadir Lunga, Gagauzia ATU
Area	41.9 km ²
Population	3,522 inhabitants
Local budget for 2015	MDL 3,930,800

Following an agreement with the Mayor and the Mayor's office, on April 13, 2016, local expert Alexandru Osadci made a field trip to Besghioz, Ceadir Lunga Region, Gagauzia ATU, under the Council of Europe project for piloting LFB. During the visit, the local expert met and discussed the toolkit questions with the Mayor of Besghioz, the chief accountant, the accountant, the secretary of the Local Council, the local tax collector, and with a few heads of institutions subordinate to Mayor's office (kindergarten, school, house of culture, etc.). During the meeting, the local expert put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local expert obtained copies of financial reports, Local Council's decisions, budget documents and other supporting documents.

Based on the discussions held and the subsequent analysis, the following score was given to Besghioz Municipality against the average score for pilot municipalities (see annex for more details). The overall score of the municipality is lower than the average for pilot municipalities (4.7 for Besghioz against 5.7 for pilot municipalities).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

Communication with the public is mostly being carried out through the information board at the Mayor's office. The website is currently under modernisation and has not been made operational so far. A page on budget and finance existed on the previous website and is planned for the updated website as well.

The budget approval procedure is quite detailed. In fact, the Local Council not only approves the local budget in its entirety but discusses and votes each and every item of expenditure (salaries, energy, medicines, etc.).

Budget execution is reported on a quarterly basis. One of the specifics of Gagauzia is that all councillors are assigned to a particular area of the village and monitor expenditures for that area. The same applies to subordinate institutions (kindergartens, etc.). All decisions, draft budget, approved budget, amended budget and budget execution reports are being placed on the information board on the first floor of the Mayor's office. Public debates are not an established practice. However, community leaders and people qualified for particular budget issues (representing veterans, elderly people, etc.) are being invited at each session of the Local Council.

The financial report is being submitted to the authorities of Gagauzia. People generally believe that there are many control bodies, which are better-qualified to monitor budget execution and financial data than people in the community. Another specific feature of Gagauzia are the transfers made under the Gagauz Autonomy. Those are being subsequently divided in a somewhat unpredictable manner. The Budget and

Finance Commission is conducting the hearings before the Council. General transfers for all local governments in Gagauzia have been inadequate and last year local governments did not receive their transfers in full.

*The score is below the average due to limited communication with the public on financial and budget issues. **Score: 4.0.***

I.2. Use of IT

Currently, the Mayor's office does not have an operational website or Facebook page. The official e-mail account of the Mayor's office is being used by the Mayor and the secretary, at least for business communication. The private e-mail address of the Mayor is also widely used. The majority of employees and subordinate institutions, though not all, have e-mails. The 1C accounting package has been used since 2012. The local budget is being developed using performance-based budgeting methodology, and is being presented to the Local Councils in both electronic and hard copy. The FMIS is administered by the chief accountant. Both the Mayor and the chief accountant have access to the FMIS. They also possess electronic signatures, as does the lyceum's budget accountant.

The Ministry of Finance in Chisinau has provided support to FMIS implementation on ad-hoc basis, though no training was organised. The relevant people at the Ministry are not so easy to reach. For the purposes of FMIS implementation, the Mayor's office has bought a new computer since the old ones were quite obsolete. One particularly serious problem emerged this year in the relations with the Ceadir Lunga Treasury Office. No data on the treasury account balance is available, nor does any access exist to the contracts that have been concluded by the Mayor's office. This made it impossible to monitor the Mayor's office commitments and available balance on the treasury account. The reason for this problem, which began in 2016, is unclear.

Data on commitments, state budget transfers or other macro-economic data (economic growth, etc.) are also unavailable in the FMIS. In fact, apart from reporting, there seems to be little use of the FMIS as such. Potentially, it would be beneficial to consolidate data from the 1C accounting package, the FMIS and the Treasury account.

*The score is below the average. **Score: 5.0.***

I.3. Capacity development

No training has been provided at the Mayor's office on any subject, apart from one general training in which only the Mayor participated. Aside from that, neither trainings on financial issues were offered, nor on any other issues, FMIS included. The Mayor's office did not benefit from international training either. When new policies or instruments are being introduced, the Mayor's office refers to the State Gazette (*Monitor Oficial*) for guidelines and primary and secondary legislation.

*The score equals to the average, although quite serious problems exist, since almost no training has been provided, including on newly introduced instruments. **Score: 4.0.***

II. LOCAL TAXATION

II.4. Local fiscal policy

Local fiscal policy is based on a small number of local taxes, limited basically to territory development tax, commercial tax and patent tax. No exemptions or allowances are offered to either economic agents or natural persons, including when it comes to special cases. Moreover, tax rates for natural and legal persons are the same. This creates certain inequalities given that some real estate properties have been appraised recently, while others have not, which results in different tax base and tax obligations. Real estate tax rate is the same for natural and legal persons – 0.1%, which is rather low, considering the situation with property appraisal.

Revenue from this tax is extremely small – MDL 19,300 or less than 1% of the local budget. Land tax collection rate is better and revenue amounts to MDL 377,600 or 9.6% of the local budget. Due to the relatively high share of this tax in the total budget, as well as the high share of other income (mostly from rent of land and other property), Besghioz Municipality's own revenue is quite high – 20.3% (significantly above the average). Even revenue from personal income tax is somewhat lower – MDL 301,200 or 7.7% of the local budget (below the average).

The share of local taxes, excluding land and real estate tax, in local budget revenue amounts to 0.8% (significantly below the average). The share of special purpose transfers from the central budget and the budget of Gagauzia ATU (Administrative-Territorial Unit) is 48.1% (below the average). Quite high is the share of general purpose transfers: 14.8% (significantly above the average). In 2015, Besghioz Municipality received MDL 64,000 from the Compensation Fund (1.5% of the local budget).

Tax collection rate is rather good, normally exceeding estimates, which suggests that tax revenue and efficient revenue collection are somewhat cautiously planned and underestimated. Municipal authorities maintain a unique database of natural and legal persons for PIT collection purposes. All data on both natural and legal persons are provided by the State Tax Inspectorate and are being recorded in one file at the local tax inspector. This joint database allows for segregation and visibility of taxes due by public institutions and private individuals. This helps in the collection of all other taxes. Tax payment patterns and tax collection rates have remained more or less unchanged over time. Tax rates also have been more or less the same. Tax base adjustments are not common and are seldom made. Payments for local services are collected separately by the municipal enterprise.

*The score equals to the average. **Score: 6.1.***

II.5. Tax administration and payment monitoring

The main payment methods used are cash payments for natural persons and bank transfers for legal persons. However, farmers also often pay via bank transfer. Authorities use standard notices of the Ministry of Finance in the Russian language. The dilemma for municipal authorities is whether to keep tax collection rates high by providing early payment incentives (15%) or to offer discounts on real estate tax instead of losing these 15% to early payments. Generally, real estate tax is being collected to a significant degree (up to 80%) within the first half of the year.

All methods for further notification of taxpayers are being used: telephone reminders, written notices, door-to-door. One of the main problems with regard to tax collection are the people who have left the community. The population outflow is increasing and currently nearly 20% of the residents live outside the community and accumulate tax arrears, although total arrears amount approximately to MDL 6,000, which is quite small.

No notable complaints about local tax calculations have been lodged and no such record exists. Existing complaints relate mainly to PIT and are submitted to the Central Tax Inspectorate, rather than the Mayor's office. People are informed about the competences of each institution and address their complaints to the Central Tax Inspectorate. No regulations exist at the local level because no complaints have been lodged so far.

*The score equals to the average. **Score: 5.0.***

III. CAPITAL INVESTMENT

Capital investment or local investment in improvements are coming from two main sources: the Gagauz autonomy budget and the local governments' own revenue. Meanwhile, Besghioz Municipality has also benefited from the Moldova Social Investment Fund - Government of Romania Project for Kindergartens, the Energy Efficiency Fund project for thermal insulation and heating system in public buildings (MDL 2,398,000). A project financed by the Road Fund provided road access to Besghioz from the main national road, but this was implemented by the regional authorities. Total capital investment in 2015 reached MDL 1,195,000 or 27.5% of the local budget.

Certain monopolisation existed in the elaboration of feasibility studies for particular projects that used to be performed by a single institution in Gagauzia. The monopolist even adopted a centralised approach to project implementation, sometimes without consulting local governments whose property or infrastructure was involved. However, this practice seems to have been terminated this year in the aftermath of some scandals related to unauthorised studies carried out by this monopolist institution. The institution was assigned to elaborate budget and feasibility studies for capital investment projects financed from the Gagauz share in VAT and excise taxes. However, such studies usually increased significantly the cost of works (by 20-40%).

No commercial loans have been contracted by the municipal authorities. However, the Municipality participated in the EBRD water sector project, which apart from capital investment, envisaged creating an IMC cluster in the water sector, centred in Ceadir Lunga.

The score is below the average (5.5) mainly due to limited fund-raising opportunities and limited flexibility in project implementation. These limitations are also conditioned on the general state of affairs in Gagauzia ATU.

IV. PROPERTY

Very serious problems exist with property registration and property appraisal. Both are performed mostly on ad-hoc basis, according to data from real estate and land sales. Otherwise, registration is very expensive. Not all private commercial enterprises have been registered and appraised. Three out of 12 companies have not registered their property and hence, have no property appraisals. The rate of registration among private households is generally very low. Only 20% have been registered and have had their real estate property appraised recently.

There is one municipal enterprise dealing with water supply and waste removal. A direct consequence on local tax policy and local budget, apart from capital investment in water infrastructure, is the inclusion in the water tariff of a certain amount to cover the EBRD loan; MDL 6.20 in the MDL 16.20 tariff represent interest payments to EBRD. A complete water system reconstruction was carried out three years ago and now the municipality has constant supply of water on a daily basis. A loan was contracted by the Government of Moldova for water system rehabilitation in 6 clusters in Moldova, including Ceadir Lunga.

Loan repayment represents a serious problem due to the difference in exchange rates at the time of the loan and current exchange rates. Exchange rate increase was not foreseen and now repayments in MDL are rather high compared to initial projections. Another serious problem has to do with decrease in water service users due to the dwindling population and number of connected households.

The score is below the average (3.5) due to the rather poor property registration and appraisal, as well as the lack of structured and formalised relations with the municipal enterprise.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

Multi-annual budget is based on projections handed down from the Ministry of Finance. Multi-annual budget projections seem to be of little use since, as a rule, after the first year radical changes are always being made. There is no local development strategy. The previous one has expired in 2014 and since then, municipal authorities saw no need to adopt a new one because they had no international projects through which to apply it.

The score is below the average (5.0) because no strategic planning document exists and hence, local financial policy is not based on a specific strategy.

I.2. Budgeting methods and capacity

The performance-based budgeting forms that have been introduced seem rather unusual. The tables and annexes adopted for use differ slightly from the ones used in other parts of the country and are rather simplified. For one, they are in Russian, while data are segregated in a rather peculiar way by programmes and by responsible subordinate divisions. Expenditures are also reported in the same way and discussions at the Local Council are organised both around programmes and around responsible divisions. No training or instructions on performance-based budgeting were provided, apart from receiving the forms by e-mail from the Ministry of Finance.

Due to the problems in obtaining information from the Treasury on account balance and contractual commitments, which were discussed above, the municipality is maintaining its own list of commitments and available budget resources in each programme. Generally, all Mayor's office staff and subordinate divisions participate in budget procedures (about 15 people).

The score is below the average (3.7) due to the rather general and simplified budget forms that have no explanatory notes and are not clear enough for the public to ensure transparency.

I.3 Budget procedures

No budget calendar has been adopted locally, the main guidelines being provided by the Ministry of Finance calendar and Gagauzia ATU internal administrative procedures. These two institutions do not seem to leave much space for local initiative as far as the budget calendar is concerned. Normally, discussions of the draft budget, from its submission to Local councillors until its approval, take one month, including work in Local Council commissions. There seem to be no explanatory notes on the budget, apart from specific clarifications requested from control bodies. Local councillors have somewhat limited interest in budget procedures and generally inadequate understanding of the process.

There is also significant confidence in budgeting and budget execution procedures coming from reliance on multiple control bodies. People are aware that the municipality is subject to significant control by all sorts of control bodies. This factor, coupled by the limited resources at the discretion of LGs, is reducing people's interest in local budgeting. Budget execution reports are being prepared and presented on a quarterly basis.

No IMC has been established. One was planned under the EBRD project. The idea was to create water supply clusters based on municipal enterprises in the natural centres, in this case Ceadir Lunga. However, it did not go ahead because of a variety of operational, technical and political issues. Apart from Ceadir Lunga and Besghioz, four other municipalities were involved, however no systems were consolidated and no municipal enterprises were merged. In effect, no IMC was established.

The score is below the average (4.3) due to rather limited communication and public involvement and lack of IMC.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Adjustments to the budget are made once a year, mainly to distribute the annual account balance.

Payments to the municipal enterprise are made to its designated account. Natural persons generally pay at the post office, while legal persons will have the possibility to pay via one of the banks (previously they also paid by postal order). The municipal enterprise is operating at a profit, generating a total of MDL 860,000 in revenue and MDL 60,000 in profit. No contracts have been concluded with the municipal enterprise, but the municipality is planning to introduce contract-based cooperation, since new law on territory development tax in Gagauzia encourages contracts. The idea is also to shift to a municipal tax for waste removal, which would be collected by the Mayor's office and then transferred to the municipal enterprise. No subsidies were received, apart from some pieces of equipment and networks, including under the EBRD project. Another source of income for the municipality is rent of equipment owned by municipal enterprises. The municipality used to charge an additional fee for water connections but now almost all natural persons and economic agents have been connected and this source of income is no longer available.

No PPPs have been established. One project was proposed involving bio-gas heating systems but the Mayor's office rejected the offer of the private company due to economic and technical considerations. The project was implemented in two neighbouring municipalities and is now almost dead, with no effect. No public services are being delivered by the private sector.

*The score is below the average. **Score: 5.2.***

CONCLUSIONS AND RECOMMENDATIONS

- Besghioz Municipality has certain specifics in terms of budgeting, local finance, and local tax policy, which result from its belonging to Gagauzia ATU. This has an immediate impact on the municipality mostly with regard to transfers from the state budget, which are not made directly to the local budget, but go through the budget of Gagauzia ATU. Apart from the general concerns, this arrangement does not guarantee that transfers would reach each municipality in full. In addition, certain specifics of the local context exist vis-à-vis capital investment financing, which quite often is being provided from the Gagauzia ATU budget via the local budget. This used to put additional constraints on public procurement and elaboration of project documents.
- There seem to be rather specific local problems in Gagauzia ATU with regard to the relations with the Treasury. As of this year, the municipality is no longer receiving information from the Treasury on contractual commitments and budget account balances. This has significantly reduced visibility and predictability of local finance. The situation needs to be addressed generally in order to establish whether this is a strictly Gagauzia ATU issue or a broader one for Moldova.
- Transparency and communication with the public seem to require significant attention. Currently, apart from the information board at the Mayor's office, there are no other means of communication with the population in the municipality on budget and local finance issues.
- Local fiscal policy and tax collections are characteristic of the overall situation in Moldova and particularly in rural communities with extremely low level of real estate tax, extremely limited revenue from local taxes and high share of transfers. Property registration and real estate appraisal is an even more pressing need since appraisals are very rare, while standard tax rates (for all types of taxpayers) significantly disfavour those who have registered their property and have undergone property appraisal.
- Capital investment sources are less diverse given the additional complications for fund raising under the conditions of Gagauzia ATU. Nevertheless, future fund raising, especially from international donors, would benefit significantly from a Municipal Strategic Plan. Fund raising from international partners (some of whom publish Calls for projects even in Russian) seems to hold a significant potential for the future.
- Rather unclear remain the budget forms, which are adjusted to the PBB but are presented in a rather unusual format with only cross-reference tables between programmes and responsible institutions, and no explanatory notes attached.

Annex 1. Score Table for Besghioz Municipality

SECTION and AREA (with reference to recommendation numbers)	Besghioz Municipality	AVERAGE
A. FINANCIAL RESOURCES	4.7	5.7
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	4.3	5.0
1. Transparency and public involvement	4.0	5.2
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	3.5	4.6
1.2 Approved local budget is made public (R3, R10, R17)	4.5	5.6
1.3 The report on local budget execution is made public (R16, R17)	4.0	5.5
2. Use of IT	5.0	5.9
2.1 Governance efficiency should be improved by IT (R6)	4.0	5.4
2.2 Use of FMIS (Financial Management Information System) and other IT systems	6.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.5	5.6
4. Local fiscal policy	6.1	6.2
4.1 Local taxes should be fair (R9)	8.0	6.6
4.2 Local taxes should generate high revenue (R9)	4.5	6.7
4.3 Number of local taxes imposed by local authorities	6.0	5.8
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	4.5	5.7
4.5 Revenue from local taxes should prevail over revenue from other sources	8.0	6.5
4.6 Tax avoidance and tax evasion should be prevented (R18)	6.5	7.6
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	6.5	6.0
4.8 Tax collection: identification of tax payers and collection rate (R25)	4.5	4.8
5. Tax administration and payment monitoring	5.0	5.0
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.0	6.0
5.2 Payment notices should provide information on tax levies (R23)	7.0	7.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	5.5	6.5
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	4.0	6.0
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	0.0
IV. LOCAL PROPERTY	3.5	5.6
7.1 Local authorities keep record of their assets and liabilities.	3.0	5.8
7.2 Regulations on municipal enterprises ensure their long-term financial stability	4.0	5.3
B. FINANCIAL MANAGEMENT	4.8	5.8
I. SOUND BUDGETING AND FISCAL PLANNING	4.3	5.9
1. Fiscal strategy design	5.0	5.5
1.1 Multi-annual budget plans (R.45)	5.0	5.5
2. Budgeting methods and capacity	3.7	6.3
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	5.0	6.4
2.2 Analytical sheets make the budget transparent (R. 47)	3.0	5.6

SECTION and AREA (with reference to recommendation numbers)	Besghioz Municipality	AVERAGE
2.3 Programme-based budget implementation (R.54)	3.0	6.8
3. Budget procedures	4.3	5.9
3.1 Involvement of elected bodies (R.49, R.74)	5.5	6.0
3.2 Public budget debates	3.0	5.0
3.3 Cooperation with other local authorities (R.70)	4.5	5.4
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	5.2	5.7
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.1
4.2 Budget adjustment during the year is limited. (R. 78)	4.5	5.3
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	4.0	4.6
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
AVERAGE FOR BESGHIOZ MUNICIPALITY	4.7	5.7
AVERAGE FOR PILOT MUNICIPALITIES	5.7	-

CIMISLIA MUNICIPALITY

Project	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local experts	Diana Toma, Marcel Blanuta
Mayor	Gheorghe Raileanu
Area	146.13 km ²
Population	14,111 inhabitants
Local budget for 2015	MDL 23,360,000

On March 15, 2016, Diana Toma and Marcel Blanuta made a field trip to Cimislia town in order to pilot the LFB toolkit. During the visit, the local experts met with the Mayor of Cimislia Municipality, the chief accountant, the planning specialist, the local tax collectors, and the property registration specialist. The local experts discussed with the responsible persons topics related to the LFB toolkit and obtained copies of supporting documents (including the local budget, annual financial reports, Local Council decisions, payment notices, capital investments list, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, the overall score given to Cimislia Municipality is higher than the average for pilot towns (7.0 for Cimislia Municipality compared to an average of 6.4 – see annex 1).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

The level of both transparency and public involvement in budget discussions is high. The draft and approved local budget, as well as the budget execution report (including annexes) are being published in due time on the official website of the municipality (www.cimislia.md). Moreover, there is a local decision for digitisation of all Local Council decisions since 2011, which envisages keeping a record of all draft and approved local decisions in electronic format (including online). The local budget is also being discussed on the Local Time TV programme of the local television channel, which partially substitutes public debates. Communication instruments such as Facebook, local media and information board announcements are also being used. All Local Council meetings, including those discussing the local budget, are broadcast live via the local television channel (Media TV Cimislia).

The score for Cimislia Municipality on this chapter *is the highest* among all pilot towns.

Score: 8.3.

I.2. Use of IT

The website of Cimislia Municipality (www.cimislia.md) is well-maintained and frequently updated. All draft and final versions of Local Council decisions are being regularly published online. All Mayor's office staff use personalised corporate e-mail accounts. This facilitates internal and external communication.

The implementation in Cimislia of the Financial Management Information System (FMIS), introduced during the elaboration of the 2016 budget, has been significantly easier compared to other LPAs thanks to the

USAID's assistance under the Local Government Support Project in Moldova (LGSP), which included training on FMIS application. However, local budget institutions do not use the FMIS modules and all budget data is being entered by the planning specialist and the accounting department staff.

One of the main problems regarding the use of IT is that the bookkeeping system in Cimislia Municipality is still managed manually, in contrast to current Public Finance Management (PFM) reform objectives, however, there is an expressed intention to switch to an electronic accounting package.

The score for Cimislia Municipality on this chapter is the highest among all pilot towns; however one of the main challenges is the lack of accounting software.

Score: 7.8.

I.3. Capacity development of local staff

The Mayor's office staff participate in various financial management trainings organised by different partners, mainly the Financial Division of the 2nd tier of administration (region). During 2015, they have benefited significantly from trainings provided under the LGSP project. Similar to other municipalities, there are no current plans or local budget allocations for capacity development, considering the comprehensive Public Financial Management (PFM) reform that is currently underway.

The score on this chapter *equals to the average*. The main challenge is the lack of a local capacity building plan and ad-hoc and limited training for all staff dealing with local finance management.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

Apart from real estate and land taxes, Cimislia Municipality has approved 12 local taxes for 2016. Explicit and abundant information on local tax rates and other elements of taxation is being provided in the annual Local Council decision on local taxes, which is published online.

Local tax exemptions are being granted mainly for social purposes or for the promotion of local economic activities. However, there is no impact assessment regarding these exemptions.

The Cimislia Mayor's office has four tax collectors (there is a local regulation regarding this service). Three of them are in charge of property tax collection from residents and one of them is in charge of collecting the solid waste removal fee (introduced in 2013). Similar to all other municipalities, all other local taxes are being collected by the Territorial State Tax Inspectorate, as these apply only to legal entities.

In 2015, the share of Cimislia Municipality's own revenue was the highest among pilot towns (23.5% of the total local budget). The share of local taxes amounts to 10.5% (being one of the highest), while property tax accounts for about 6.4% of the total revenues.

It is worth mentioning that in Cimislia Municipality, the revenue generated from local taxes has increased by almost 31.5% in 2015 compared to 2013 (mainly due to the solid waste removal fee), while the revenue from property taxes has decreased by 5.1%. This means that the municipality still has not benefited much from the incentives offered by the amendments to the Local Public Finance Act (in force as of 2015). Even though revenue generated from local and property taxes has been evaluated recently, tax rates have not been reviewed for quite some time (there are no major changes in 2016 compared to 2013 regarding approved local and property tax rates).

No significant measures regarding tax avoidance and tax evasion are currently being taken. In case of non-payment of property taxes, notification letters are being sent to the residents by the local tax collectors. However, some problems exist with regard to people who are currently abroad or are absent from their place of residence for a long time. With reference to local tax revenue, local tax collectors say that they do

not have the necessary leverage to influence collection, as local taxes are collected by the Territorial State Tax Inspectorate.

Information on tax base and taxpayers' registers are being updated in cooperation with the Territorial Cadastre Office, which is assessed as a positive practice. This is not the case with the perceived cooperation with the Territorial State Tax Inspectorate, mainly due to limited access to shared information (e.g. database of economic agents).

The score on local fiscal policy is *below the average*. The main challenges include limited use of local fiscal potential, limited fiscal policy conceptualisation, and limited integration of data on the fiscal base from all sources.

Score: 6.5.

II.2. Tax administration and payment monitoring

The situation regarding tax administration and payment monitoring in Cimislia Municipality is similar to other pilot towns. A standard fiscal notification system for property tax (annually, in April-May) and solid waste removal fees (monthly) is in place. Diverse forms of payment of local and property taxes can be used, most commonly bank transfer and cash (at the Mayor's office). Many compulsory elements of local tax claims are present. As in all pilot municipalities, there is no complaint or appeal procedure for the amount of imposed taxes.

The score on this chapter is *slightly above the average*. The main challenges involve the regulation of tax appeal and complaint procedures.

Score: 6.0.

III. CAPITAL BUDGET FINANCING

Cimislia Municipality benefits from diverse sources for financing local capital investment projects, including the local budget (mainly revenue from sale or privatisation of public property). Other sources of funding are the central government funds (Environment Fund, Road Fund, Social Investment Fund) and the projects financed from external sources (Embassy of Japan, USAID, The Peace Corps). Capital expenditures are included in the local budget only based on actual contracts.

No loans for capital investment projects have been contracted so far.

According to the local budget execution report for 2015, the share of transfers and grants for capital investment in the local budget was approximately 20%, while the share of capital expenditures reached 30%. Capital expenditures per capita amounted to approximately MDL 500.

Comprehensive information regarding ongoing and completed investment projects carried out by the municipality can be found on the official website (<http://cimislia.md/ro/page/primaria/proiecte-locale>).

The score on this chapter is *above the average*.

Score: 7.0.

IV. LOCAL PROPERTY

Cimislia Municipality has 17 budget institutions and one municipal enterprise in its subordination. The balance sheet of the municipality is a consolidated one. The value of the local non-financial assets is regularly updated. A consolidated inventory report is prepared annually, based on separate inventory reports for each local budget institution.

Not all public property is registered, mainly due to limited local financial resources.

The activity of the municipal enterprise is largely regulated by its statute, which is approved by the Local Council. There are no mid-term service management contracts with the municipal enterprise, only an annual contract for solid waste removal, which lays down the responsibilities of the parties, as well as the cost

and performance of the service provided. No subsidies for services provided by the municipal enterprise are being allocated from the local budget.

The score for Cimislia Municipality on this chapter *is the highest* among all pilot towns.

Score: 6.5.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

The local social and economic development strategy covers the period 2015-2020, however the connection between the objectives set in the strategy and the annual local budget is constrained by limited financial resources.

The local budget is developed taking into account the macroeconomic indicators from the Ministry of Finance, and in addition to figures for the upcoming year, it also includes projections for the next two years.

The score on this chapter is *slightly below the average*. The main challenge is the limited connection between local strategic documents and the local budget.

Score: 7.0.

I.2. Budgeting methods and capacity

The main participants in the budget process are the planning specialist, the chief accountant, the Mayor and the deputy mayors, with the technical support of the local tax collectors and the staff of the subordinate budget institutions. A budget calendar is approved annually with a decree by the Mayor and specifies the main activities in the budget process, the responsible staff and the deadlines. In addition to this, it is recommended to develop a local regulation stipulating the role and responsibilities of all parties involved in the budget process at the local level.

The budget documentation comprises a well-structured set of analytical budget data, as well as explanatory notes, which support the understanding of the local budget. Since 2016, information on performance has been included as part of the budget documentation. The established goals, objectives and performance indicators are actually well-defined (thanks to the training provided under the USAID LGSP project).

The score on this chapter is *above the average*.

Score: 8.5.

I.3. Budget procedures

The draft local budget, including an explanatory note and all annexes, is presented to the local councillors in due time. Before the Local Council session in which the local budget is discussed and approved, the draft local budget is actively debated during 4-5 consultation meetings of the (three) special Local Council commissions. As mentioned before, the draft local budget is also discussed during a public debate broadcast on the local television channel.

No inter-municipal cooperation (IMC) activities have been undertaken so far.

The score on this chapter is *above the average*.

Score: 7.5.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Mid-year and nine-month budget execution reports are produced on a regular basis and are submitted for approval by the Local Council. Based on these reports the local budget is adjusted, if necessary.

Within one fiscal year, the local budget is subject to up to 7 adjustments, mainly related to capital investment financed from other sources than the local budget. All adjustments are based on prior analysis and the purpose of the adjustment is detailed in the explanatory note.

The relations between the local government and its municipal enterprise are regulated by the statute of the enterprise (approved by the Local Council) and the annual contract on solid waste removal (the revenue generated by the Cimislia Mayor's office from solid waste removal fee constitutes the source of financing for this contract). User charges are approved by the Local Council.

No PPP activities have been launched so far.

The score on this chapter is *the highest* among all pilot towns.

Score: 7.0.

CONCLUSIONS AND RECOMMENDATIONS

Cimislia Municipality has received the average score of 7.0 points on all areas and sections of the LFB Toolkit and is 0.6 points above the average score for all pilot towns. The best scores have been achieved in the areas "Transparency and public involvement" (8.3 points) and "Budgeting methods and capacity" (8.5 points), while the lowest score has been given in the area "Tax administration and payment monitoring" (6.0 points).

The following recommendations are made to improve the situation in some areas:

- Implement an accounting software package as soon as possible in order to comply with current PFM reform objectives;
- Expand FMIS use to the staff of subordinate local budget institutions and other parties involved in the budget process;
- Pay more attention to local staff capacity development in the area of local public finance management by keeping track (via a register) of local staff participation in trainings, as well as by elaborating and implementing a local capacity development plan;
- Explore the possibility of developing a local tax policy document, which would include a comprehensive analysis of the current local fiscal policy and potential, as well as the objectives in this area for the upcoming 3 to 5 years (related to possibilities of increasing tax rates, strengthening tax evasion measures, evaluating tax base and keeping electronic tax base registers);
- Develop a local regulation regarding local tax appeal and complaint procedures;
- Finalise the local property register;
- Improve budget planning and implementation processes by strengthening the connection between annual local budget and priorities set in policy documents (including the local social and economic development strategy);
- Develop and approve a local regulation, which would specify the role and responsibilities of all parties involved in the local budget process;
- Formalise the relations with the municipal enterprise by developing and signing a mid-term service management contract/agreement.

Annex 1. Score Table for Cimislia Municipality

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Cimislia Municipality	Average score for pilot towns
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	6.6	6.1.
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	6.7	5.8
1. Transparency and public involvement	8.3	6.6
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	9.0	6.7
1.2 Approved local budget is made public (R3, R10, R17)	10.0	7.0
1.3 The report on local budget execution is made public (R16, R17)	6.0	6.2
2. Use of IT	7.8	6.7
2.1 Governance efficiency should be improved by IT (R6)	10.0	6.9
2.2 Use of FMIS (Financial Management Information System) and other IT systems	5.5	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	6.3	6.3
4. Local fiscal policy	6.5	6.8
4.1 Local taxes should be fair (R9)	7.0	7.0
4.2 Local taxes should generate high revenue (R9)	8.5	7.7
4.3 Number of local taxes imposed by local authorities	7.5	7.2
4.3 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	6.0	6.7
4.4 Revenue from local taxes should prevail over revenue from other sources	7.5	7.2
4.5 Tax avoidance and tax evasion should be prevented (R18)	4.5	6.4
4.6 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	5.5	6.2
4.7 Tax collection: identification of tax payers and collection rate (R25)	5.5	5.6
5. Tax administration and payment monitoring	6.0	5.9
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	8.0	7.8
5.2 Payment notices should provide information on tax levies (R23)	8.0	8.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	7.0	6.9
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	7.0	6.6
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	7.8
IV. LOCAL PROPERTY	6.5	5.3
7.1 Local authorities keep record of their assets and liabilities.	7.0	6.7
7.2 Regulations on municipal enterprises ensure their long-term financial stability	6.0	3.9
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	7.3	6.7
I. SOUND BUDGETING AND FISCAL PLANNING	7.7	7.2
1. Fiscal strategy design	7.0	7.2
1.1 Multi-annual budget plans (R.45)	7.0	7.2

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Cimislia Municipality	Average score for pilot towns
2. Budgeting methods and capacity	8.5	7.0
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	7.5	5.8
2.2 Analytical sheets make the budget transparent (R. 47)	9.0	7.3
2.3 Programme-based budget implementation (R.54)	9.0	7.9
3. Budget procedures	7.5	7.4
3.1 Involvement of elected bodies (R.49, R.74)	7.0	7.1
3.2 Public budget debates	8.0	7.6
3.3 Cooperation with other local authorities (R.70)	0.0	0.0
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	7.0	6.2
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	9.0	7.6
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	6.2
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	6.5	4.7
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	7.0	6.4

COLIBASI MUNICIPALITY

Project	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local experts	Diana Toma, Marcel Blanuta
Mayor	Ion Dolganiuc
Area	69.12 km ²
Population	5,877 inhabitants
Local budget for 2015	MDL 7,328,500

On March 30, 2016, Diana Toma and Marcel Blanuta made a field trip to Colibasi village in order to pilot the LFB toolkit. During the visit, the local experts met with the Mayor of Colibasi, the chief accountant, the secretary of the Local Council, the local tax collector and the cadastral engineer. The local experts discussed with the responsible persons topics related to the LFB toolkit and obtained copies of supporting documents (including the local budget, annual financial reports, Local Council decisions, payment notices, capital investments list, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, the overall score given to Colibasi village is higher than the average for pilot villages (5.8 points for Colibasi village compared to an average of 5.7 – see annex 1).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

To compensate for the lack of an official website, the municipality has recently developed its own blog, which contains comprehensive information on local activities and projects, however most local decisions and budget documentation (the draft and approved local budget, the budget execution report) are not made available. In order to ensure public access to the local budget documentation, municipal authorities use communication instruments such as Facebook and information board announcements.

The draft local budget is made known to the local population through the local councillors. The level of public interest in the local budget is quite high, as people actively participate at Local Council meetings in which the local budget is discussed.

After being approved by the Local Council, the annual financial report is being presented by the Mayor to the population during an Assembly of the village.

The score for Colibasi village on this chapter is *above the average*.

Score: 6.0.

I.2. Use of IT

Colibasi Municipality has a blog (<https://colibasiblog.wordpress.com/>), which is being relatively regularly updated with latest local news and activities. However, not all draft and final versions of the Local Council decisions are published online.

In order to facilitate external communication, a common e-mail address (primariacolibasi@yahoo.com) is used by all Mayor's office staff.

The implementation in Colibasi of the Financial Management Information System (FMIS), introduced during the elaboration of the 2016 budget, has been significantly easier compared to other LPAs, due to the assistance provided by the financial division of the 2nd tier of administration (region). However, local budget institutions do not use the FMIS modules (budget proposals are submitted on paper) and all budget data is being entered by the chief accountant.

Colibasi Municipality uses the 1C accounting package only partially for its bookkeeping.

The score for Colibasi village on this chapter is *above the average*.

Score: 6.3.

I.3. Capacity development of local staff

The Mayor's office staff participate in financial management trainings organised mainly by the financial division of the 2nd tier of administration (region) and the Territorial State Tax Inspectorate. Similar to other municipalities, there are no current plans or local budget allocations for capacity development, considering the comprehensive Public Financial Management (PFM) reform that is currently underway.

The score on this chapter *equals to the average*. The main challenge is the lack of a local capacity building plan and the ad-hoc and limited trainings for all staff dealing with local finance management.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

Apart from real estate and land taxes, Colibasi Municipality has approved 3 local taxes for 2016. Explicit and abundant information on local tax rates and other elements of taxation is being provided in the annual Local Council decision on local taxes.

Few local tax exemptions are being granted, mainly with a social purpose. However, there is no impact assessment regarding these exemptions.

There are two tax collectors in the Colibasi Mayor's office who are in charge with property tax collection from residents and the collection of the sanitation fee (introduced in 2016). Similar to all other municipalities, all other local taxes are being collected by the Territorial State Tax Inspectorate, as these apply only to legal entities.

In 2015, the share of Colibasi Municipality's own revenue was the lowest among all pilot villages (9.8% of the total local budget). The share of local taxes amounts to 2.1% (the lowest among all pilot villages), while property tax accounts for about 7.4% of the total revenues (being one of the highest). It is worth mentioning that in Colibasi village, the revenue generated from local taxes has increased by almost 42.5% in 2015 compared to 2013, while the revenue from property taxes has decreased by only 0.9%. This means that the municipality still has not benefited much from the incentives offered by the amendments to the Local Public Finance Act (in force as of 2015). Even though revenue generated from local and property taxes has been evaluated recently, tax rates have not been reviewed for quite some time (there are no major changes in 2016 compared to 2013 regarding approved local and property tax rates).

In order to prevent local tax avoidance and tax evasion, a special register is being kept to monitor arrears on property and local tax payments. Based on this information, notification letters are being sent to the residents, while legal entities are being notified verbally on their debt on local taxes. If necessary, local tax collectors make onsite visits to the taxpayers' residence. However, some problems exist with regard to property tax collection from people who are currently abroad or are absent from their place of residence for a long time.

Information on tax base and taxpayers' registers are being regularly updated (manually) in cooperation with the Territorial Cadastre Office and the Territorial State Tax Inspectorate. However, the cooperation with the above-mentioned institutions is assessed as being a difficult one, mainly due to the limited access to shared information.

The score on local fiscal policy *equals to the average*. The main challenges include limited use of local fiscal potential, limited fiscal policy conceptualisation, and limited integration of data on the fiscal base from all sources.

Score: 6.2.

II.2. Tax administration and payment monitoring

The situation regarding tax administration and payment monitoring in Colibasi village is similar to other pilot villages. A standard fiscal notification system for property tax (annually, in April-May) and sanitation fee is in place. One of the problems is that local and property taxes can be paid only in cash (at the Mayor's office). Many compulsory elements of local tax claims are present, but they are being filled in manually. As in all pilot municipalities, there is no complaint or appeal procedure for the amount of imposed taxes.

The score on this chapter *equals to the average*. The main challenges involve the provision of diverse payment options for local taxes and the regulation of tax appeal and complaint procedures.

Score: 5.0.

III. CAPITAL BUDGET FINANCING

Colibasi Municipality benefits from diverse sources for financing local capital investment projects, including the local budget and the state budget. Other sources for funding are the central government funds (Environment Fund, Social Investment Fund) and the projects financed from external sources (International Fund for Agricultural Development, World Bank). Capital expenditures are included in the local budget only based on actual contracts.

According to the local budget execution report for 2015, the share of transfers and grants for capital investment in the local budget was approximately 18.7%, while the share of capital expenditures reached 38.1%. Capital expenditures per capita amounted to approximately MDL 530.

The score on this chapter *is above the average*.

Score: 6.8.

IV. LOCAL PROPERTY

Colibasi Municipality has 9 budget institutions and one municipal enterprise in its subordination. The balance sheet is a consolidated one, but is being compiled manually. The value of the local non-financial assets is regularly updated. A consolidated inventory report is prepared annually, based on separate inventory reports for each local budget institution.

Most public property has already been registered, however land and water fountains registration still constitutes a problem.

The activity of the municipal enterprise is largely regulated by its statute, which is approved by the Local Council. There are no mid- or short-term service management contracts with the municipal enterprise, apart from those for services contracted directly for subordinate budget institutions. No subsidies for services provided by the municipal enterprise are being allocated from the local budget.

The score for Colibasi village on this chapter is *above the average*.

Score: 6.3.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

The local social and economic development strategy expired in 2015, but a new one is being currently developed with the assistance of the UNDP Migration and Local Development (MiLD) Project.

The local budget is developed taking into account the macroeconomic indicators from the Ministry of Finance, and in addition to figures for the upcoming year, it also includes projections for the next two years.

The score on this chapter is *below the average*. The main challenge is the lack of a local strategic document.

Score: 4.5.

I.2. Budgeting methods and capacity

All Mayor's office staff, as well as the heads of the subordinate budget institutions, are fully involved in the budget process.

No budget calendar or regulation regarding the budget process has been approved. However, there is an approved local regulation, which specifies the responsibilities of all Mayor's office staff, including with regard to the budget process.

The budget documentation comprises a structured set of budget data, but the explanatory notes are poorly compiled. Since 2016, information on performance has been included as part of the budget documentation. The established goals, objectives, and performance indicators are well-defined.

The score on this chapter is *above the average*.

Score: 7.2.

I.3. Budget procedures

The draft local budget is presented to the local councillors in due time. Before the Local Council session in which the local budget is discussed and approved, the draft local budget is actively debated during consultation meetings of the special Local Council commissions. Public debates on the local budget are not being organised.

No inter-municipal cooperation (IMC) activities have been undertaken so far.

The score on this chapter is slightly *below the average*.

Score: 5.8.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Mid-year and nine-month budget execution reports are produced on a regular basis and are submitted for approval by the Local Council. Based on these reports the local budget is adjusted, if necessary.

Within one fiscal year, the local budget is subject to frequent adjustments, up to 15 times, mainly related to redistribution of the local budget balance accrued as a result of budget execution in the previous year, and to capital investment financed from sources other than the local budget. However, this situation suggests a problem in budget planning, especially in light of the current legal provisions, stipulating that within a budget year, only two budget adjustments can be approved (Art. 61 of the Public Finance and Budgetary and Fiscal Accountability Act No. 181 of 25.07.2014).

The relations between the local government and its municipal enterprise are regulated by the statute of the enterprise (approved by the Local Council). As mentioned previously, there are no mid-term or even

annual public service delivery contracts with the municipal enterprise. User charges are approved by the Local Council.

No PPP activities have been launched so far.

The score on this chapter is *below the average*. The main challenges are related to the frequent adjustment of the local budget within the budget year and the lack of regulations on municipal enterprises, that would ensure their long-term financial stability.

Score: 5.5.

CONCLUSIONS AND RECOMMENDATIONS

Colibasi village has received the average score of 5.8 points on all areas and sections of the LFB Toolkit and is 0.1 points above the average score for all pilot villages. The best score has been achieved in the area “Budgeting methods and capacity” (7.2 points), while the lowest score has been given in the areas “Fiscal strategy design” (4.5 points) and “Special Rules on Budget Adjustment and Implementation” (5.5 points).

The following **recommendations** are made to improve the situation in some areas:

- Launch an official website of the Mayor’s office in order to enhance transparency and public participation;
- Implement fully the 1C accounting package in order to comply with current PFM reform objectives;
- Expand FMIS use to the staff of subordinate local budget institutions and other parties involved in the budget process;
- Pay more attention to local staff capacity development in the area of local public finance management by keeping track (via a register) of local staff participation in trainings, as well as by elaborating and implementing a local capacity development plan;
- Explore the possibility of developing a local tax policy document, which would include a comprehensive analysis of the current local fiscal policy and potential, as well as the objectives in this area for the upcoming 3 to 5 years (related to possibilities of increasing tax rates, strengthening tax evasion measures, evaluating tax base and keeping electronic tax base registers);
- Improve tax administration and payment by issuing electronic payment notices and providing diverse forms of payment (including via bank transfer).
- Develop a local regulation regarding local tax appeal and complaint procedures;
- Finalise the local property register;
- Develop and approve as soon as possible the local social and economic development strategy, providing also for the financial cost of its implementation;
- Develop and approve an annual budget calendar, specifying the main activities in the budget process, the responsible staff and the deadlines;
- Develop and approve a local regulation, which would specify the role and responsibilities of all parties involved in the local budget process;
- Improve the process of local budget implementation in order to reduce the number of adjustments within the fiscal year, including through efficient budget planning;
- Formalise the relations with the municipal enterprise by developing and signing a mid-term service management contract/agreement.

Annex 1. Score Table for Colibasi Village

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Colibasi village	Average score for pilot villages
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	6.0	5.7
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.4	5.0
1. Transparency and public involvement	6.0	5.2
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	5.5	4.6
1.2 Approved local budget is made public (R3, R10, R17)	6.5	5.6
1.3 The report on local budget execution is made public (R16, R17)	6.0	5.5
2. Use of IT	6.3	5.9
2.1 Governance efficiency should be improved by IT (R6)	5.0	5.4
2.2 Use of FMIS (Financial Management Information System) and other IT systems	7.5	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.6	5.6
4. Local fiscal policy	6.2	6.2
4.1 Local taxes should be fair (R9)	6.0	6.6
4.2 Local taxes should generate high revenue (R9)	6.5	6.7
4.3 Number of local taxes imposed by local authorities	5.5	5.8
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	5.5	5.7
4.5 Revenue from local taxes should prevail over revenue from other sources	6.0	6.5
4.6 Tax avoidance and tax evasion should be prevented (R18)	9.0	7.6
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	7.0	6.0
Tax collection: identification of tax payers and collection rate (R25)	4.0	4.8
5. Tax administration and payment monitoring	5.0	5.0
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.0	6.0
5.2 Payment notices should provide information on tax levies (R23)	7.0	7.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	6.8	6.5
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	6.5	6.0
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	0.0
IV. LOCAL PROPERTY	6.3	5.6
7.1 Local authorities keep record of their assets and liabilities.	8.5	5.8
7.2 Regulations on municipal enterprises ensure their long-term financial stability	4.0	5.3
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	5.7	5.8
I. SOUND BUDGETING AND FISCAL PLANNING	5.8	5.9
1. Fiscal strategy design	4.5	5.5
1.1 Multi-annual budget plans (R.45)	4.5	5.5

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Colibasi village	Average score for pilot villages
2. Budgeting methods and capacity	7.2	6.3
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	7.5	6.4
2.2 Analytical sheets make the budget transparent (R. 47)	6.0	5.6
2.3 Programme-based budget implementation (R.54)	8.0	6.8
3. Budget procedures	5.8	5.9
3.1 Involvement of elected bodies (R.49, R.74)	6.5	6.0
3.2 Public budget debates	5.0	5.0
3.3 Cooperation with other local authorities (R.70)	0.0	5.4
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	5.5	5.7
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.1
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	5.3
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	4.0	4.6
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	5.8	5.7

CRISTESTI MUNICIPALITY

Project	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local expert	Marcel Blanuta
Mayor	Alexei Secieru
Area	13.9 km ²
Population	1,050 inhabitants
Local budget for 2015	MDL 1,951,000

Marcel Blanuta made a field trip to Cristesti village in order to pilot the LFB toolkit. During the visit, the local expert had opportunity to meet with the Mayor of Cristesti village, the secretary of the Local Council and the chief accountant. During the meeting, the local expert put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local expert obtained copies of supporting documents (local budget, annual financial reports, Local Council decisions, minutes of meetings, payment notices, etc.).

Based on the discussions held and the subsequent analysis, the following score was given to Cristesti village against the average score for pilot villages. The overall score of Cristesti village is almost equal to the average for pilot villages (5.8 for Cristesti village against 5.7 for pilot villages).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

Cristesti Municipality is the only municipality among pilot villages that has a website¹. On this website, the municipality is publicising all important events that happen in the Mayor's office, including those related to the local budget. In addition, the Mayor's office organises public discussions on the local draft budget and budget execution reports. The approved local budget is published both on the website and on the local billboard. The budget execution report is also available on the website, which is a unique case among pilot villages.

The only negative aspects in Cristesti Municipality are:

- The municipality does not publish its draft budget.
- The documents that are published on the website are not user-friendly (they are not provided in PDF format).

The score of Cristesti village on this chapter is the *highest* among all pilot villages.

Score: 6.7.

¹ <http://cristesti.localitati.md/>

I.2. Use of IT

As mentioned above, Cristesti Municipality made a big step ahead of all other pilot villages with the launch of its official website, which is being updated regularly. All Local Council decisions are published on the website, except draft decisions. Three persons from the Mayor's office have e-mail accounts.

Since 2016, Cristesti Municipality, like other public authorities, has been using the Financial Management Information System (FMIS). The introduction of the FMIS seems to be a challenge for all LPAs. One of the main issues in the use of the FMIS is that local budget institutions do not use the FMIS modules and all budget data is being entered by the planning specialist and the accounting department staff.

The biggest deficiency in Cristesti Municipality is the lack of accounting software. The Mayor's office accountants are keeping the books manually, on paper like in the oldest times.

The score of Cristesti village on this chapter is *higher* than the average for pilot villages.

Score: 6.5.

I.3. Capacity development of local staff

To cope with the changes in financial management, the Mayor's office staff is participating in various trainings offered by different institutions.

The Mayor's office seeks to benefit from all training opportunities and thus training is provided in a rather chaotic manner. There is no annual training plan, which would identify staff training needs. Also, no record is being kept as to the trainings staff members have participated in. For these reasons, the score given to Cristesti village on this chapter *equals* to the average for pilot villages.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

In 2015, the share of local tax revenue in total revenues amounted to 4.8%². Property tax revenue constitutes approximately 3.5%³ of total revenues. The share of own revenue was about 10.7%⁴ of the total local budget revenues. In 2015, local tax revenue increased by approximately 79%⁵ compared to 2013, which is the highest increase across pilot villages, while property tax revenue decreased by about 15%⁶. In 2016, Cristesti Municipality is levying 3 local taxes.

To prevent tax evasion, Cristesti Municipality publishes periodically the list of debtors on its billboard. Also when a citizen or an economic entity comes to the city hall to obtain some official document, they must have paid all their tax dues, if any, before being issued the document they need. In addition, the tax collector is calling debtors to remind them about payments due.

An unusual situation exists in Cristesti Municipality with regard to payment notices to residents whose property has been registered in the cadastre tax database. According to the municipal staff, these payment notices are being issued by the Territorial State Inspectorate. The municipality itself has no access to the cadastre tax database. For residents who have not registered their property, payment notices are being issued by the local tax collector.

All tax registers are kept manually. There is a register of local economic entities and a register of residents' property. All registers are being updated periodically.

2 Author's calculation: local tax revenue – MDL 93,300; total revenues – MDL 1,951,000.

3 Author's calculation: property tax revenue – MDL 69,200.

4 Author's calculation: own revenue – MDL 209,000.

5 Author's calculation: local tax revenue in 2013 – MDL 52,100.

6 Author's calculation: property tax revenue in 2013 – MDL 81,600.

Changes in local taxes (local fiscal policy) are made without any data analysis from previous years, projections or assessment of impact on the budget or on local development in upcoming years. Changes in local fiscal policy are made ad hoc without a clear vision as to the evolution of the local fiscal policy in the next 2-3 years. Therefore, the adoption of a strategic document containing mid-term local fiscal policy objectives is desirable.

The score of Cristesti village on this chapter is slightly *higher* than the average for pilot villages.

Score: 6.4.

II.2. Tax administration and payment monitoring

The situation regarding tax administration and payment monitoring in Cristesti village is similar to other pilot villages. No complaint or appeal procedure for the amount of imposed taxes exists in the municipality. According to the Mayor's office staff, there are few such cases and people usually come to the city hall, if they have questions regarding the amount of imposed taxes. In addition, property tax payment notices are prepared manually and some compulsory elements of local tax claims such as payment methods, consequences of delay or non-payment, or deadlines for lodging a complaint are missing.

The score of Cristesti village on this chapter *equals* to the average for pilot villages.

Score: 5.0.

III. CAPITAL BUDGET FINANCING

Cristesti Municipality is making use of all possible sources to finance capital investment, apart from borrowing. Funds for different sectors have been raised from both national (National Ecological Fund, Energy Efficiency Fund and the local budget) and international sources (one donor). According to the local budget execution report, in 2015, Cristesti Municipality has spent an average of about MDL 1,000⁷ per capita on capital investment. The share of capital investment in the total local budget expenditures amounted to approximately 36%⁸.

The score of Cristesti village on this chapter is *lower* than the average for pilot villages due to the limited sources of funding used to finance capital investment.

Score: 5.5.

IV. LOCAL PROPERTY

Cristesti Municipality has 4 budget institutions (including the Mayor's office) and one municipal enterprise in its subordination. The municipal enterprise is co-owned by Cristesti Municipality. The municipal property (water pipeline) was transferred to the municipal enterprise under a bailment agreement. The balance sheet of the municipality is a consolidated one. All public property is listed on the balance sheet, except for public land. The value of the local non-financial assets is regularly updated. Once a year, an inventory report is prepared for each subordinate institution but no consolidated report is issued.

Cristesti Municipality has signed a contract with the municipal enterprise for solid waste management. No property register exists.

The score of Cristesti village on this chapter is *higher* than the average for pilot villages.

Score: 6.3.

7 Author's calculation: total capital investment – MDL 1,025,300; population – 1,050 inhabitants.

8 Author's calculation: total expenditures – MDL 2,847,700.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

All budgets elaborated by Cristesti Municipality are based on the national macroeconomic policies. This applies to all local public authorities. Cristesti Municipality has no local development strategy. Therefore, no connection exists between budget and local development strategy.

The score on this chapter is the *lowest* among pilot villages.

Score: 4.0.

I.2. Budgeting methods and capacity

All stakeholders participate in the process of budget elaboration, including staff from subordinate budget institutions. Performance indicators are part of the budget documentation. Goals and objectives are also identified.

One weakness is that there is no annual budget calendar specifying actions to be performed, responsible persons, and deadlines. The performance indicators are not well-defined but this seems to result from lack of experience, rather than capacity, given that 2016 was the first year in which local authorities had to present programme-based budgets.

Also, Cristesti Municipality staff should use more analytical data in the budget proposal. Budget proposals should be based on impact assessment of different options. Any tax policy proposals should also be accompanied by impact assessment.

The score of Cristesti village on this chapter is almost *equal* to the average for pilot villages.

Score: 6.2.

I.3. Budget procedures

The draft budget with its explanatory note and all annexes are presented to the councillors within two weeks before the Local Council session. The population may participate in the debate on the draft budget during the Local Council session. Usually, the budget process is initiated upon a proposal by the Mayor who assigns a working group responsible for elaborating the draft budget. In the case of Cristesti Municipality, no such proposal is issued by the Mayor.

Cristesti Municipality is cooperating with other LPAs based on cooperation agreements. The municipal enterprise offers services to other LPAs as well. Currently, Cristesti Municipality is negotiating another inter-municipal cooperation agreement regarding fire rescue services.

The score of Cristesti village on this chapter is *higher* than the average for pilot villages.

Score: 6.5.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

The mid-year and nine-month budget execution reports are being presented to the Local Council in due time. Based on these reports the local budget is adjusted, if necessary.

Within one fiscal year, the local budget is subject to up to 5 adjustments. In most cases, adjustments involve capital investment financed from sources other than the local budget.

As mentioned above, Cristesti Municipality co-owns the municipal enterprise. There is an agreement between the local government and the municipal enterprise that regulates their relations. The agreement also specifies the cost of services, which the municipal enterprise provides to the population.

No PPPs have been established so far.

The score of Cristesti village on this chapter is *higher* than the average for pilot villages.

Score: 6.0.

CONCLUSIONS AND RECOMMENDATIONS

Cristesti village has received an average score of 5.8 points, which is 0.1 points above the average score for pilot villages. Cristesti village has achieved its highest score – 6.7 points – in the area “Transparency and public involvement”. This is the highest score on this chapter among all pilot villages. The lowest scores – 4.0 points – have been received in the areas “Capacity development of local staff” and “Fiscal strategy design”.

The following recommendations are made to improve the situation in some areas:

- Publish not only the final version but also the draft of the local budget on the website of Cristesti Municipality.
- Publish all documents on the website in PDF format so that they could be easily accessible to the users.
- Make all necessary effort to automate bookkeeping in the Mayor’s office.
- Establish a procedure for tracking all trainings the Mayor’s office staff has participated in. Maybe it would be useful to explore the possibility of keeping a training register to record who participated in the trainings, when and where the trainings were performed, who provided the trainings, etc. Such a register would help identify the need for additional staff training and the related cost.
- Provide additional training on FMIS operation in particular for the staff of subordinate budget institutions. This recommendation applies to institutions at the national level because the FMIS was recently implemented by the Ministry of Finance.
- Explore the possibility to obtain access to the tax cadastre database in order to issue payment notices electronically.
- Explore the possibility to develop a mid-term local tax policy.
- Revise payment notice forms so that they might include information on what happens if taxes are not paid on time, whom taxpayers should contact if they do not agree with the amount of imposed taxes, etc. This recommendation rather applies to the Ministry of Finance because the payment notice form is approved at the national level.
- Adopt a budget calendar specifying actions to be performed, responsible persons, and deadlines.
- Establish a local property register.
- Explore the possibility to elaborate a strategic local development plan.
- Explore the possibility to compile a consolidated inventory list.

Annex 1. Score Table for Cristesti Village

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Average score for Cristesti village	Average score for pilot villages
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	5.8	5.7
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.7	5.0
1. Transparency and public involvement	6.7	5.2
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	4.0	4.6
1.2 Approved local budget is made public (R3, R10, R17)	8.0	5.6
1.3 The report on local budget execution is made public (R16, R17)	8.0	5.5
2. Use of IT	6.5	5.9
2.1 Governance efficiency should be improved by IT (R6)	8.0	5.4
2.2 Use of FMIS (Financial Management Information System) and other IT systems	5.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. Local Taxation	5.7	5.6
4. Local fiscal policy	6.4	6.2
4.1 Local taxes should be fair (R9)	6.0	6.6
4.2 Local taxes should generate high revenue (R9)	7.5	6.7
4.3 Number of local taxes imposed by local authorities	5.5	5.8
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	6.0	5.7
4.5 Revenue from local taxes should prevail over revenue from other sources	6.5	6.5
4.6 Tax avoidance and tax evasion should be prevented (R18)	8.0	7.6
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	7.0	6.0
4.8 Tax collection: identification of tax payers and collection rate (R25)	5.0	4.8
5. Tax administration and payment monitoring	5.0	5.0
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.0	6.0
5.2 Payment notices should provide information on tax levies (R23)	7.0	7.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	5.5	6.5
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	4.0	6.0
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	0.0
IV. LOCAL PROPERTY	6.3	5.6
7.1 Local authorities keep record of their assets and liabilities.	6.0	5.8
7.2 Regulations on municipal enterprises ensure their long-term financial stability	6.5	5.3
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	5.8	5.8
I. SOUND BUDGETING AND FISCAL PLANNING	5.6	5.9
1. Fiscal strategy design	4.0	5.5
1.1 Multi-annual budget plans (R.45)	4.0	5.5
2. Budgeting methods and capacity	6.2	6.3
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	4.5	6.4

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Average score for Cristesti village	Average score for pilot villages
2.2 Analytical sheets make the budget transparent (R. 47)	6.0	5.6
2.3 Programme-based budget implementation (R.54)	8.0	6.8
3. Budget procedures	6.5	5.9
3.1 Involvement of elected bodies (R.49, R.74)	5.5	6.0
3.2 Public budget debates	7.0	5.0
3.3 Cooperation with other local authorities (R.70)	7.0	5.4
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	6.0	5.7
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.5	7.1
4.2 Budget adjustment during the year is limited. (R. 78)	5.0	5.3
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	5.5	4.6
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	5.8	5.7

EDINET MUNICIPALITY

Project:	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local expert:	Marcel Blanuta
Mayor:	Constantin Cojocaru
Area:	63.6 km ²
Population:	20,039 inhabitants
Local budget for 2015:	MDL 27,977,200

Marcel Blanuta made a field trip to the town of Edinet in order to pilot the LFB toolkit. During the visit, the local experts had the opportunity to discuss with the Mayor and deputy mayors of Edinet Municipality, the chief accountant, the secretary of the Local Council, the economist, and the local tax collector. During the meeting, the local expert put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local expert obtained copies of supporting documents (local budget, annual financial reports, Local Council decisions, payment notices, capital investment list, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, the following score was given to Edinet Municipality against the average score for pilot towns. The overall score of the municipality is higher than average for pilot municipalities (6.9 for Edinet Municipality against 6.4 for pilot towns).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

The Mayor's office invests a lot of effort to involve the public in the budget process of Edinet Municipality. To this end, the Mayor's office organises public debates on budget development and budget execution. The approved local budget is published in the local newspapers. In addition, the Mayor's office uses the billboards to inform the public on budget performance.

However, despite these efforts, the Mayor's office still has some deficiencies in budget transparency. In particular, at the time of the visit, the draft budget and the approved budget for 2016 had not yet been published on the website. Even the budget approval decision of the Local Council was not available on the website. The budget execution report for 2015 cannot be found on the website either. All public debates should be documented in Minutes. The absence of such Minutes makes it impossible to verify the validity of the statements made by the Mayor's office staff.

The score of Edinet Municipality on this chapter is *higher* than the average for pilot municipalities.

Score: 7.3.

I.2. Use of IT

Edinet was one of the first municipalities in the Republic of Moldova to launch a website. Today, the Mayor's office staff is making almost full use of the website⁹. The municipality also has a common e-mail account that can be used by the public to address questions. In addition, each staff member has his or her own e-mail account.

Since 2016, Edinet Municipality, like other public authorities, has been using the Financial Management Information System (FMIS). The introduction of the FMIS seems to be a challenge for all LPAs. One of the main issues in the use of the FMIS is that local budget institutions do not use the FMIS modules and all budget data is being entered by the planning specialist and the accounting department staff.

Edinet Municipality is using accounting software for its bookkeeping but not for all accounting operations. The chief accountant mentioned that the municipality was planning to shift to another software package that would be fully used.

The score of Edinet Municipality on this chapter is *higher* than the average for pilot municipalities.

Score: 7.0.

I.3. Capacity development of local staff

To cope with the changes in financial management, the Mayor's office staff is participating in various trainings offered by different institutions. All training is done in a chaotic manner. There is no annual training plan, which would identify staff training needs. Also, no record is being kept as to the trainings staff members have participated in.

This situation is similar in all municipalities in which the toolkit was piloted. That is why the score given to Edinet Municipality on this chapter *equals* to the average for pilot municipalities.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

The score of Edinet Municipality on this chapter is the *highest* among all pilot municipalities. The score reflects positive practices that were not witnessed in other municipalities. Edinet Municipality has signed a collaboration agreement with the Territorial Tax Inspectorate to prevent tax evasion. The Edinet Mayor's office has established a local tax evasion prevention system when issuing authorisation for local companies. Edinet Municipality maintains local tax base databases.

The score achieved by Edinet Municipality is also justified by the fact that in 2015, the share of local tax revenue in total revenues was the highest among all pilot municipalities, amounting to approximately 10.8%¹⁰. Property tax revenue constitutes approximately 4.8%¹¹ of total revenues. The share of own revenue was about 21.4%¹² of the total local budget revenues. In 2015, local tax revenue has increased by about 6%¹³ compared to 2013, while property tax revenue has increased by about 34%¹⁴. In 2016, Edinet Municipality is levying 10 local taxes.

Changes in local taxes (local fiscal policy) are made without any data analysis from previous years, projections or assessment of impact on the budget or on local development in upcoming years. Changes in local fiscal policy are made ad hoc without a clear vision as to the evolution of the local fiscal policy in the next

⁹ <http://primariaedinet.md>

¹⁰ Author's calculation: local tax revenue – MDL 3,029,500; total revenues – MDL 27,977,200.

¹¹ Author's calculation: property tax revenue – MDL 1,337,000.

¹² Author's calculation: own revenue – MDL 5,990,600.

¹³ Author's calculation: local tax revenue in 2013 – MDL 2,860,900.

¹⁴ Author's calculation: property tax revenue in 2013 – MDL 994,900.

2-3 years. Therefore, the adoption of a strategic document containing mid-term local fiscal policy objectives is desirable.

The score of Edinet Municipality on this chapter is much *higher* than the average for pilot municipalities.

Score: 8.2.

II.2. Tax administration and payment monitoring

As with the previous chapter, on this chapter Edinet Municipality received the *highest* score among pilot municipalities. This is largely due to the existence of diverse payment methods for local taxes and many compulsory elements of local tax claims.

Nevertheless, the score is far from the maximum because no complaint or appeal procedure for the amount of imposed taxes exists in the municipality. The situation is similar in all pilot municipalities. According to the Mayor's office staff, there are few such cases and people usually come to the city hall, if they have questions regarding the amount of imposed taxes.

The score of Edinet Municipality on this chapter is *higher* than the average for pilot municipalities.

Score: 6.7.

III. CAPITAL BUDGET FINANCING

Edinet Municipality is making use of all possible sources to finance capital investment, apart from borrowing. Funds for different sectors have been raised from both national (local revenue, Road Fund, Social Investment Fund, Regional Development Fund) and international sources (UNDP). According to the local budget execution report, in 2015, Edinet Municipality has spent an average of about MDL 100¹⁵ per capita on capital investment. The share of capital investment in the total local budget expenditures amounted to approximately 8%¹⁶.

The score of Edinet Municipality on this chapter is *lower* than the average for pilot municipalities.

Score: 6.3.

IV. LOCAL PROPERTY

Edinet Municipality has 18 budget institutions (including the Mayor's office) and 5 municipal enterprises in its subordination. The balance sheet of the municipality is a consolidated one. The value of the local non-financial assets is regularly updated. An inventory report is issued once a year.

One weakness is that not all local property is listed on the balance sheet (the land is not included). No property register exists yet. According to the responsible staff, work on the register is underway. There is no consolidated inventory report.

The score of Edinet Municipality on this chapter is *higher* than the average for pilot municipalities.

Score: 6.0.

¹⁵ Author's calculation: total capital investment – MDL 2,128,200; population – 20,039 inhabitants.

¹⁶ Author's calculation: total expenditures – MDL 27,166,200.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

All budgets elaborated by Edinet Municipality are based on the national macroeconomic policies. This applies to all local public authorities. Edinet Municipality has elaborated a local development strategy for the period 2015-2020. However, the strategy contains no information on the evolution of the local tax policy for the proposed period.

Annual budgets are generally linked to the strategy. The strategy contains an action plan and financing sources. In addition to the local budget, the strategy envisages financing activities from sources like the state budget, national funds and international sources. Activities planned to be financed from the local budget are taken into consideration in the process of draft budget elaboration. These activities, however, are mainly co-financed from other sources, and their implementation depends on the availability of funds.

The score on this chapter is the *highest* among pilot municipalities.

Score: 8.5.

I.2. Budgeting methods and capacity

The budgeting methods and Mayor's office capacity in budget preparation is one of the *best* among pilot municipalities. All stakeholders participate in the process of budget elaboration, including staff from subordinate budget institutions and municipal enterprises. A budget calendar is approved each year, specifying actions to be performed, responsible persons, and deadlines. Budget proposals are developed using the performance-based budgeting methodology (with goals, objectives and performance indicators identified) and are part of the budget documentation.

One weakness is that performance indicators are not well-defined. However, this seems to result from lack of experience, rather than capacity, given that 2016 was the first year in which local authorities had to present programme-based budgets.

Also, Edinet Municipality staff should use more analytical data in the budget proposal. Budget proposals should be based on impact assessment of different options. Any tax policy proposals should also be accompanied by impact assessment.

Score: 8.5.

I.3. Budget procedures

The Edinet Mayor's office has established well-functioning budget procedures. The draft budget with its explanatory note and all annexes are presented to the councillors within two weeks before the Local Council session.

Before being submitted to the Local Council, the draft budget is also actively discussed in the Budget Commission.

One weakness is that the draft budget is not published on the Mayor's office website. The population may have access to the draft budget only through the councillors.

The score of Edinet Municipality on this chapter is the *highest* among all pilot municipalities.

Score: 8.5.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

The mid-year and nine-month budget execution reports are being presented to the Local Council in due time. Based on these reports the local budget is adjusted, if necessary. Unfortunately, Local Council decisions or Minutes of meetings are not available on the website and were not presented by the Mayor's office staff.

Within one fiscal year, the local budget is subject to up to 5 adjustments. In most cases, adjustments involve capital investment financed from sources other than the local budget.

The relations between the local government and the municipal enterprises are a different matter. As mentioned above, Edinet Municipality owns 5 municipal enterprises. According to the Mayor's office staff, an agreement has been signed between the Local Council and one of the municipal enterprises. However, when requested, this agreement was not presented to the expert.

All relations between the local government and the municipal enterprises are regulated by the enterprises' statutes. With possibly one exception mentioned above, there are no agreements regulating the relationship between the local government and the municipal enterprises.

No PPPs have been established so far.

The score of Edinet Municipality on this chapter *equals* to the average for pilot municipalities.

Score: 6.2.

CONCLUSIONS AND RECOMMENDATIONS

The Edinet municipality has received the *second highest* average score of 6.9 points among pilot municipalities and is 0.5 points above the average score for pilot municipalities. The highest score received by Edinet Municipality – 8.5 points – is in the area “Sound Budgeting and Fiscal Planning”, while the lowest – 6.0 points – in “Local Property”.

The following recommendations are made to improve the situation in some areas:

1. Use Edinet Municipality website more extensively to enhance transparency in local financial management. The fact that the approved local budget and budget execution reports are not available on the website is a significant gap in transparency. Actually, the website has a separate section on local budget but it contains only the budgets for 2011, 2012 and 2014. The section needs to be updated to include not only the approved budget but also the budget execution reports, the draft budget submitted to the Local Council for discussion, and all Minutes of Local Council sessions related to the local budget.
2. Establish a procedure for tracking all trainings the Mayor's office staff has participated in. Maybe it would be useful to explore the possibility of keeping a training register to record who participated in the trainings, when and where the trainings were performed, who provided the trainings, etc. Such a register would help identify the need for additional staff training and the related cost.
3. Provide additional training on FMIS operation in particular for the staff of subordinate budget institutions. This recommendation applies to institutions at the national level because the FMIS was recently implemented by the Ministry of Finance.
4. Implement all modules of the 1C accounting package for bookkeeping.
5. Explore the possibility to develop a mid-term local tax policy. The existing Local Development Strategy for 2015-2020 provides no information on the evolution of the local tax policy for the proposed period. It mentions only that the municipality would grant tax allowances to those who would invest in solving social problems.
6. Revise payment notice forms so that they might include information on what happens if taxes are not paid on time, whom taxpayers should contact if they do not agree with the amount of imposed taxes, etc. This recommendation rather applies to the Ministry of Finance because the payment notice form is approved at the national level.

7. Finalise the local property register as soon as possible in order to have a clear picture on the property Edinet Municipality is responsible for.
8. Explore the possibility to compile a consolidated inventory list.
9. Include public land in the balance sheet.
10. Formalise the relations with the municipal enterprises by elaborating and signing agreements.

Annex 1. Score Table for Edinet Municipality

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Edinet Municipality	Average score for pilot towns
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	6.4	6.0
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	6.1.	5.7
1. Transparency and public involvement	7.3	6.5
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	6.0	6.6
1.2 Approved local budget is made public (R3, R10, R17)	8.0	7.0
1.3 The report on local budget execution is made public (R16, R17)	8.0	6.0
2. Use of IT	7.0	6.7
2.1 Governance efficiency should be improved by IT (R6)	8.0	6.9
2.2 Use of FMIS (Financial Management Information System) and other IT systems	6.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	7.4	6.3
4. Local fiscal policy	8.2	6.8
4.1 Local taxes should be fair (R9)	7.0	7.0
4.2 Local taxes should generate high revenue (R9)	8.5	7.7
4.3 Number of local taxes imposed by local authorities	7.5	7.2
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	8.0	6.7
4.5 Revenue from local taxes should prevail over revenue from other sources	8.0	7.2
4.6 Tax avoidance and tax evasion should be prevented (R18)	9.5	6.4
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	10.0	6.2
4.8 Tax collection: identification of tax payers and collection rate (R25)	7.0	5.6
5. Tax administration and payment monitoring	6.7	5.9
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	10.0	7.8
5.2 Payment notices should provide information on tax levies (R23)	8.0	8.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	6.3	6.6
6.1 Local capital investment is managed efficiently	7.0	6.6
6.2 Local capital expenditures are funded by diverse sources	5.5	6.4
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	7.8
IV. LOCAL PROPERTY	6.0	5.3
7.1 Local authorities keep record of their assets and liabilities.	8.5	6.7
7.2 Regulations on municipal enterprises ensure their long-term financial stability	3.5	3.9
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	7.3	6.7
I. SOUND BUDGETING AND FISCAL PLANNING	8.5	7.2
1. Fiscal strategy design	8.5	7.2
1.1 Multi-annual budget plans (R.45)	8.5	7.2
2. Budgeting methods and capacity	8.5	7.0
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	7.5	5.8

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Score for Edinet Municipality	Average score for pilot towns
2.2 Analytical sheets make the budget transparent (R. 47)	9.0	7.3
2.3 Programme-based budget implementation (R.54)	9.0	7.9
3. Budget procedures	8.5	7.3
3.1 Involvement of elected bodies (R.49, R.74)	8.5	7.0
3.2 Public budget debates	8.5	7.5
3.3 Cooperation with other local authorities (R.70)	0.0	0.0
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	6.2	6.2
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	8.0	7.6
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	6.2
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	5.0	4.7
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	6.9	6.3

FESTELITA MUNICIPALITY

Project	Piloting Local Finance Benchmarks in Moldova
Local expert	Alexandru Osadci
Mayor	Nicolae Tudoreanu
Region	Stefan Voda
Population	2,936 inhabitants
Local budget	MDL 5,199,600

On April 11, 2016, local expert Alexandru Osadci made a field trip to Festelita Municipality, Stefan Voda Region, under the Council of Europe project for piloting LFB. During the visit, the local expert met and had the opportunity to discuss with the Mayor of Festelita, the chief accountant, the secretary of the Local Council, the local tax collector, the cadastre engineer, as well as with a few heads of subordinate institutions (kindergarten, school, etc.). During the meeting, the local expert put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local expert obtained copies of financial reports, Local Council's decisions, budgeting and local taxes documents and other supporting documents.

Based on the discussions held and the subsequent analysis, the following score was given to Festelita Municipality against the average score for pilot municipalities (see annex for more details). The overall score of the municipality is slightly lower than the average for pilot municipalities (5.4 for Festelita Municipality against an average of 5.7 for pilot municipalities).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

To ensure transparency, the Mayor's office is posting important decisions, including on budget and finance issues, on the information boards at the city hall. This applies to both decisions and supporting documents (data and figures). According to the Mayor's office staff, more advanced transparency measures are being hampered by the generally low interest of the public in community affairs, including budget process and financial issues. Attempts have been made to organise public hearings before budget approval, however again without much interest on behalf of the population. The Municipality's website and Facebook page are currently non-operational, but according to the Mayor's office staff, the website is ready to be launched in the nearest future.

The Local Council has three commissions, including one on finance and budget. The budget is discussed at the commissions and is approved by Council. However, even Local councillors show rather limited interest in budget matters mainly because the local government has very few resources at its discretion. All available resources are being spent either on recurrent expenses or on special purpose transfers. The Local Council sessions are generally open to the public.

The score is below the average: 4.0.

I.2. Use of IT

All employees have access to the Mayor's office main e-mail account. However, apart from the accountant, few people have personal e-mail accounts and communication, including with the Local Council, is being

carried out on paper. The 1C accounting package has been introduced to the Mayor's office only recently. Previously, the municipality used a software called Bit Generator, licensed by the Ministry of Finance, with some basic training and support on behalf of the Ministry. The introduction of the FMIS this year was accompanied by significant functionality problems, most of which have not been resolved so far. The FMIS is seen as the most important tool to provide electronic information in the future. The FMIS is operated by the accountant under the Mayor's guidance. The Mayor also has access to the FMIS. The rest of the staff just provides FMIS-related information to the accountant.

The score is below the average: 5.3.

I.3. Capacity development

Generally, training is rather limited and involves mostly newly introduced tools and instruments such as FMIS, performance-based budgeting, new system of local finance (draft legislative amendments in local finance from 2013), introduction of the IBAN banking account code. Trainings have been provided mainly by the Regional Finance Division and the Ministry of Finance. No trainings driven or organised by donors have been provided, apart from the 2013 training on the new system of local finance led by CALM. In 2016, CALM is planning to organise also one training session on performance-based budgeting.

In 2015, the Mayor's office staff has participated in three trainings in total. Ad-hoc consultations with the Regional Finance Division are also being practiced, either over the phone or at the office of the Regional Finance Division. Key local actors such as the Local Council secretary and the local councillors have never been involved in any training programmes.

The score equals to the average (4.0) due to the very limited number of targeted trainings available even on ad-hoc basis, as is the case in all other municipalities surveyed.

II. LOCAL TAXATION

II.4. Local fiscal policy

Tax exemptions are granted from time to time to economic agents' start-ups and to vulnerable households. However, they are offered on one-time, ad-hoc basis. Different tax rates apply to natural and legal persons. The real estate tax rate for natural persons, for instance, is 0.3%, while legal persons are charged with a 0.1% rate. The difference is explained by the fact that commercial real estate property has been appraised more recently and more precisely, than private property. Actually, the real estate owned by natural persons has two tax bases: one related to area in square meters, and the other to economic value, which is extremely obsolete (dating back to the 1980s and 1990s). Due to the obsolete appraisal value, income generated from real estate tax is rather minor (about 2% of the municipality's own revenue).

At the same time, due to a variety of real estate and land tax allowances and exemptions granted by the central authorities, the municipality is losing significant resources (at least 8% in potential own revenue). Moreover, such allowances tend to increase every year, inflicting even greater losses to the municipality.

In addition to real estate tax and land tax (the latter being a general or national tax under Moldovan legislation), three other local taxes are levied: commercial tax, maintenance tax, and waste disposal tax. Losses from tax evasion are minimal (about MDL 10,000 per year – EUR 450) and result mainly from taxpayers who do not live in the community.

The municipality incurs significant losses in revenue due to the fact that many residents work outside the community and pay their PIT at the place of work, rather than at the place of residence. A taxpayers' register exists only for local taxes. Data on PIT tax base is not available to the local authorities and the Tax Inspectorate is reluctant to provide any information.

Another significant problem is cash deficit, which is particularly serious in the first 4-5 months of the year due to uneven income flow from major local taxes related to agricultural activities. This results in payment arrears, including in the transfer of salaries. The problem has been communicated to the Ministry of Finance but has not been resolved yet.

The municipality is receiving a considerable share of its resources from the Compensation Fund supporting local finance reform (MDL 109,000 in 2015). However, 2016 is the last year in which the Fund will be operational. As of 2017, new sources of funding would need to be found.

Tax rates are increased from time to time, however all additional revenue is devoured by inflation, so in real terms income from tax collection is not increasing.

Generally, the share of tax revenue in the local budget is rather small on all taxes. For example, PIT comprises merely 5% of the local budget, real estate tax even less – 3.2% (way below the average). The total share of local taxes and fees in the local budget is 3.5% (below the average), reaching 11% together with real estate tax and land tax (again below the average). Accordingly, the share of special purpose transfers is very high – 64.4% (the highest among pilot municipalities).

The score is below the average: 5.6.

II.5. Tax administration and payment monitoring

The standard notification form is used. Taxes are mostly paid at the Mayor's office. Payments via bank transfer or post order are not common because no such institutions exist in the village. The majority of real estate tax payments (about 60% of the total) are being made by the first deadline when a discount is offered. This, however, creates financial difficulties for the municipality since taxes paid in the first half of year entail a 15% discount under the law. This results in significant losses for the local budget. After the expiration of the tax submission deadline, both written (free-form letter) and verbal announcements and notices are being made to remind taxpayers. Generally, tax collection is high (above 90%), potential full collection being hampered by the fact that some people are absent from the community and their place of residence. In the majority of cases, economic agents pay their taxes via bank transfer to the Mayor's office account. However, cash payments are also common.

All municipal staff PIT payments are collected by the Mayor's office and transferred to the central government accounts; 75% of the amount is then returned to the Mayor's office. The Mayor's office has no control whatsoever over PIT payments from the private sector and no information.

The municipality has one general regulation on taxes and tax collections. It contains no provisions regarding complaints but there are virtually no complaints related to tax calculation. Very rarely claims for tax exemptions or allowances are being made by particular vulnerable persons or households on the account of their specific social status.

The score equals to the average for pilot municipalities: 5.0

III. CAPITAL INVESTMENT

Regardless of its size and scarce, even austere budget, Festelita Municipality has been able to raise significant resources for capital investment. In 2015, for instance, capital investment accounted for 130% of the total operational budget. Only the reconstruction of the central street in Festelita Municipality amounted to nearly three annual local budgets. However, the road is considered to be of regional significance and is listed on the balance sheet and property of the 2nd tier of administration, Stefan Voda Region.

Resources for recent capital investment projects have been raised mainly from the Ecological Fund, the Road Fund and some international donors such as the UNDP JILDP and the Government of Romania through the Moldova Social Investment Fund. The main sectors for capital investment included water and sanitation (water and sewerage systems), local roads, IMC on street lighting and kindergartens. The majority of funding is coming from national sources. Festelita Municipality is part of the EU Covenant of Mayors, which helped elaborate the SEAP (Sustainable Energy Action Plan).

The source of co-financing for capital investment projects is local revenue generated from sale of municipal property and other infrastructure. As a rule, these resources are used for project co-financing, but sometimes also cover cash deficits during the peak season.

Festelita Municipality has not benefited from any loans, the main constraint according to bank officials being the unstable and modest flow of own revenue. Project documentation for both national and international capital investment projects has been written by the Mayor himself. More complex documents such as feasibility studies have not been required so far.

The score is significantly above the average: 7.5.

IV. PROPERTY

According to the Mayor, the lack of clarity as to the public property of the private and public domains constitutes a serious problem as it limits the possibility of the local government to raise additional revenue from property sales. Not all public property is registered. Private property in the vast majority of cases is registered. Real estate property as well as the property of the Mayor's office has not been appraised. Only the property of commercial entities has undergone more precise appraisal recently. The appraisal value of property is being revised on very rare occasions as there is neither capacity, nor financial resources at the Mayor's office to conduct property appraisals.

Currently, there is one operational municipal enterprise in the area of water supply and waste removal, which operates at loss. The enterprise has six permanent employees as the market seems to be rather limited.

Water tariffs are different for natural and legal persons (12 MDL for the former and 20 MDL for the latter). Tariffs have been approved by the Local Council and are being collected by the municipal enterprise.

There is no contract between the Mayor's office and the municipal enterprise specifying general service delivery and performance indicators. The Statute of the municipal enterprise regulates these matters to some extent. The enterprise has concluded separate contracts with natural and legal persons. Payments are made directly to enterprise, in cash by natural persons and via bank transfer by legal persons. The sewerage project financed by the Ecological Fund is currently in its final stage of implementation. All property and networks belonging to Festelita Municipality are managed by the municipal enterprise. There have been no direct subsidies for the municipal enterprise, although it is fair to say that all projects in the field of water supply and waste disposal have been contributing with networks and equipment to the efficiency and operation of the municipal enterprise.

The score is below the average: 3.3.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

The local budget is based on the macroeconomic projections provided by the Ministry of Finance. The budget is compiled using three-year control figures, however this seem to be rather useless, since budget projections change substantially each year. This creates serious problems when budget projections for the next year are being reduced and actual funds and resources are less than expected.

There are three fundamental strategic documents: the Local Development Strategy 2014-2019, the Ecology Strategy and the EU Covenant of Mayors SEAP (Strategic Energy Action Plan). These documents essentially serve as a basis for raising funds for capital investment in particular. They are less applicable to standard budget procedures as nothing else is budgeted except fixed recurrent expenses and even these are sometimes underfunded due to inadequate financial resources. The Local Development Strategy was elaborated with the support of the UNDP JILDLP under the participatory process.

The score is above the average: 6.5.

I.2. Budgeting methods and capacity

Due to limited staff at the Mayor's office, all employees are involved in budget preparation under the leadership of the accountant and the guidance of the Mayor. This includes also the staff of subordinate institutions. Performance evaluation is carried out twice a year but involves mainly staff performance, rather than financial performance. With the adoption of performance-based budgeting, more consistent and targeted methods for evaluating budget performance will be introduced.

However, due to limited financial resources and almost zero resources available at the discretion of the Local Council, not much can be done under the current conditions. All relevant criteria have been adopted according to the standard set of performance-based budgeting documents received from the Ministry of Finance. This applies to other documents as well. Brief explanatory notes and clarifications by the Mayor are a standard part of the budget documentation.

The score is above the average: 7.0.

I.3 Budget procedures

Budget documents are presented by programme approved by the Local Council, following the annual calendar of the Ministry of Finance. Local commissions and the Local Council have at least three weeks for deliberations and discussions on the draft budget. All necessary explanations are being provided. The Mayor is present at all local commission sessions. The main forum for exchange of opinions is the information board at the Mayor's office building. However, over the years no requests or proposals have been brought to the attention of the Local Council or the Mayor. In fact, even local councillors seem to have little interest in budget discussions, since very few things can be changed or improved.

Festelita Municipality is participating in an inter-municipal cooperation project on street lighting, involving two other neighbouring municipalities (Ermoclia and Popeasca). The IMC project was launched with the support of the UNDP JILD. So far, all capital investment under the project has been completed, an inter-municipal enterprise has been registered, all necessary documentation has been elaborated, and the management of the enterprise has been selected in an open call. Some issues related to tariffs remain to be clarified at both local and national level, since no specific legislative provisions exist on street lighting tariffs. Potential solutions seem to have been identified at both local and national level, and involve the introduction of street lighting tariff or tax. All three municipalities have equal share in the inter-municipal enterprise. The headquarters of the enterprise is located in Ermoclia Municipality. The enterprise will conclude separate contracts with each of the three local governments.

The score is below the average mainly due to limited transparency: 5.0.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Budget adjustments are quite rare (one in 2015 and this seems to be the general trend). The reasons for adjusting the budget differ but have to do mainly with changes in revenue, reduced transfers from the state budget, increase in own revenue during the year or attracted funds for capital investment. The local government is issuing all standard budget execution reports: six-month, nine-month, annual. Budget adjustments are rather self-explanatory and straightforward, and no explanatory notes are compiled or published.

Apart from tariffs, additional sources of financing for the municipal enterprise are coming from water pipe connection fees and metering costs. There have been no direct subsidies or other sources of revenue. Water losses, including illegal connections, seem to be quite common and have a negative impact on the efficiency of the municipal enterprise. Another factor affecting efficiency, according to the Mayor, is the lack of training and the limited capacity of the enterprise's management, which needs to be improved urgently.

PPPs, in the narrow sense of the term, have not been implemented. However, in one case, a concession of land (for 31 years) was granted to a private investor for the construction of a solid waste plant. This, however, has brought no benefit so far, since construction is yet to begin. No public services in the municipality have been assigned to private operators.

The score is below the average: 5.3.

CONCLUSIONS AND RECOMMENDATIONS

- The Festelita Mayor's office, the Local Council and the local government as a whole face rather serious financial problems, which need to be solved urgently. Some of these difficulties need to be addressed at the national level, while others arise from policy deficiencies coupled with rather poor financial conditions locally. These include in particular cash deficits, which is a characteristic problem for many small rural communities in Moldova, high losses in local revenue due to tax exemptions and allowances granted at the national level, limited local tax base hampered by inadequate property appraisal and very low property tax rates (another common problem in small rural communities), and lack of motivation to attract businesses and promote economic activity (including due to small revenue from PIT collection).
- The level of transparency to some extent reflects the level of public interest in community affairs and the lack of opportunities or alternative ways of spending the local budget when local resources are not enough even to cover recurrent expenses. Nevertheless, even in these conditions, a website or a Facebook page could improve transparency, facilitate regular communication, and serve as an alternative forum for local problems, like in many other rural communities in Moldova.
- Inadequate property appraisal is probably the major local finance issue requiring some urgent intervention on behalf of national policy-makers.
- Communication with the Central Tax Inspectorate is a must in order to consolidate information and PIT collection. According to the Mayor's office, potential sharing of CIT could also be a potential solution.
- Capital investment is one of the major achievements and indeed resources raised are significant both from national and international sources, particularly taking into account capacity and staff constraints at the Mayor's office. At the same time, problems related to property (including delimitation, registration, appraisal, municipal enterprises) are undermining the potential for capital investment and fund-raising nationally and internationally.
- Local tax policy might explore potential possibilities for increasing tax rates, changing the tax base, and improving existing internal policies regarding real estate tax and PIT. It is by no means easy but some potential gains might be possible both under the current legislation and under the policies currently being discussed at the central level – provision of real estate appraisal authority to local governments, PIT sharing based on place of residence, etc.

Annex 1. Score Table for Festelita Municipality

SECTION and AREA (with reference to recommendation numbers)	Festelita Municipality	AVERAGE
FINANCIAL RESOURCES	5.1	5.7
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	4.4	5.0
1. Transparency and public involvement	4.0	5.2
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	4.0	4.6
1.2 Approved local budget is made public (R3, R10, R17)	4.0	5.6
1.3 The report on local budget execution is made public (R16, R17)	4.0	5.5
2. Use of IT	5.3	5.9
2.1 Governance efficiency should be improved by IT (R6)	4.0	5.4
2.2 Use of FMIS (Financial Management Information System) and other IT systems	6.5	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.3	5.6
4. Local fiscal policy	5.6	6.2
4.1 Local taxes should be fair (R9)	6.0	6.6
4.2 Local taxes should generate high revenue (R9)	6.5	6.7
4.3 Number of local taxes imposed by local authorities	5.5	5.8
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	5.5	5.7
4.5 Revenue from local taxes should prevail over revenue from other sources	5.0	6.5
4.6 Tax avoidance and tax evasion should be prevented (R18)	6.5	7.6
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	4.0	6.0
4.8 Tax collection: identification of tax payers and collection rate (R25)	6.0	4.8
5. Tax administration and payment monitoring	5.0	5.0
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.0	6.0
5.2 Payment notices should provide information on tax levies (R23)	7.0	7.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	7.5	6.5
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	8.0	6.0
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	0.0
IV. LOCAL PROPERTY	3.3	5.6
7.1 Local authorities keep record of their assets and liabilities.	3.0	5.8
7.2 Regulations on municipal enterprises ensure their long-term financial stability	3.5	5.3
FINANCIAL MANAGEMENT	5.8	5.8
I. SOUND BUDGETING AND FISCAL PLANNING	6.2	5.9
1. Fiscal strategy design	6.5	5.5
1.1 Multi-annual budget plans (R.45)	6.5	5.5
2. Budgeting methods and capacity	7.0	6.3
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	7.0	6.4
2.2 Analytical sheets make the budget transparent (R. 47)	7.0	5.6

SECTION and AREA (with reference to recommendation numbers)	Festelita Municipality	AVERAGE
2.3 Programme-based budget implementation (R.54)	7.0	6.8
3. Budget procedures	5.0	5.9
3.1 Involvement of elected bodies (R.49, R.74)	5.0	6.0
3.2 Public budget debates	3.0	5.0
3.3 Cooperation with other local authorities (R.70)	7.0	5.4
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	5.3	5.7
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.1
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	5.3
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	3.5	4.6
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
AVERAGE FOR FESTELITA	5.4	5.7
AVERAGE FOR PILOT TOWNS	5.7	-

IALOVENI MUNICIPALITY

Project	Piloting Local Finance Benchmarks in Moldova
Local experts	Marcel Blanuta, Alexandru Osadci
Mayor	Sergiu Armaşu
Area	31.6 km ²
Population	15,826 inhabitants
Density	496.8 per km ²
Local budget	MDL 23,842,600 (2015)

On March 10, 2016, Marcel Blanuta and Alexandru Osadci made a field trip to Ialoveni in order to pilot the LFB. During the visit, local experts had opportunity to discuss with one of the Deputy Mayors, the planning specialist, the chief accountant, and two tax collectors. The Mayor was not able to attend the meeting because on the day of the visit, he had left for a business trip to Romania. During the meeting, the local experts put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local experts obtained copies of documents (local government budget, Local Council resolutions, organisational chart, local tax policy decisions, capital investment list, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, an average score of 5.7 points was assigned to Ialoveni Municipality. Compared to the average score for pilot towns (6.4 points) the overall score of Ialoveni Municipality is slightly lower (by 0.7 points) (see annex for more details).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

Several important steps have been taken to improve budget process transparency. Local Council sessions are being filmed and videos are uploaded to a special Youtube account. The videos are uploaded by a local journalist. Some attempts have been made to organise broader public discussions on the financial and budget issues. However, the general public seems to have limited interest in local affairs, apart from taxation. In addition, the draft local budget is being posted on the Facebook page of Ialoveni Municipality and on the billboard at the Mayor's office. According to the Mayor's office staff, the draft budget is also being posted on the municipality's website. However, this could not be verified because at the time of the visit, the website was non-operational due to restructuring. The budget explanatory note and, selectively, some annexes with data tables are also being posted on the Facebook page in the framework of public consultations. Public consultations via website and Facebook are carried out continuously. The approved budget, the approval decision and all the annexes are being published online. The budget execution report for the 9-month period was approved at a Local Council session that was open to the public. Local media are also being used for publicity and public consultations.

The score of Ialoveni Municipality on this chapter is slightly below the average. One of the main problems is that the website was not operational at the time of the visit. Nevertheless, local authorities are making consistent steps towards increasing transparency and public involvement.

Score: 6.0.

I.2. Use of IT

IT equipment is used on a daily basis. All employees have e-mail accounts, including those from subordinate institutions – kindergartens, etc. No corporate domain exists, hence, municipal staff use public open access domains. The content of the website could not be verified. The Facebook page is being regularly updated and contains community information, as well as the main Local Council decisions and public discussions. Accounting has long benefited from the 1C accounting package. However, the balance sheets are compiled manually.

The introduction of the FIMS (Financial Information Management System) in 2016 created significant challenges for the Mayor's office, which have not been resolved so far. The score is slightly below the average due to the manual preparation of the balance sheet and the non-operational website.

Score: 6.3.

I.3. Capacity development

To cope with the difficulties created by the introduction of new accounting and financial systems and instruments, including the FIMS, and performance-based budgeting, the Ialoveni Mayor's office actively sought capacity development support from both national and international partners. Several trainings were provided by the regional finance division on practical issues including related to the FIMS, while international partners USAID and UNDP delivered trainings related to performance-based budgeting and local finance. The capacity development score of Ialoveni Municipality corresponds to the average and reflects the challenges of ad-hoc training based on the availability of training programmes offered by state institutions or international organisations. There is no capacity development plan and no record of the trainings each person has attended.

Score: 4.0.

II. LOCAL TAXATION

II.4. Local fiscal policy

The local fiscal policy is quite diverse but does not seem to be influenced too much by the Mayor's office or by the local government directly. The number of taxes collected by the Mayor's office is limited, while quotas are underachieved (below the maximum established in legislation) for example for real estate tax (0.2% for apartments and 0.05% for private residences). Many taxes are being collected or supervised by the State Tax Inspectorate. The lower tax rate for private residences is generally explained by the fact that their appraisals have been updated and therefore, generate higher absolute collections per household.

The share of PIT (Personal Income Tax) in total revenues is 14.2% (above the average for pilot municipalities). Very high collections are coming from two main sources: dividend tax (16% in 2015) and tax on commercial activities (17% in 2015). This is explained by the fact that many companies are located in Ialoveni Municipality and according to the Mayor's office, the municipality has lost significant revenue after CIT was taken away from LGs. The share of real estate tax and property tax in total local revenues is 15.7% (at the average for pilot municipalities), although there is still much untapped potential on both tax rate and tax base for real estate tax. The total share of local taxes is 6% (average). The share of special purpose transfers is 55.8% (for recurrent expenditures).

As a rule, no local tax exemptions are granted (at least not in 2015) except for one-time exemptions or allowances for particularly vulnerable people. The Mayor's office employs two tax inspectors who are responsible for local tax collection, hence, the cost of tax collection is minimal. Tax inspectors deliver payment notices door-to-door in order to avoid postage costs. The tax collection rate is quite high (88.5% for PIT, for instance).

There is limited access to tax base databases available at other public authorities. Such databases are being consulted mainly on ad-hoc basis, usually once a year. However, information on a considerable part of

the tax base is missing, also due to problems with property registration. Tax rates have not been updated recently. Only taxes on gas companies and casinos have been increased, while the rest have remained unchanged. At the same time, the town seems to be influenced significantly by the abolition of CIT-sharing with LGs.

The waste removal tax is being collected by the Mayor's office and this seems to be providing significant collection benefits due to the fact that in Moldova, local governments are much more interested in tax collections than municipal enterprises. The collected tax is then transferred to the municipal enterprise responsible for waste removal. The overall score of Ialoveni Municipality on this chapter is below the average, mainly due to the lack of information on tax base and taxpayers.

Score: 5.8.

II.5. Tax administration and payment monitoring

Information and decisions on taxes and payment deadlines is communicated to taxpayers via the local newspaper. At the same time, no tax-related information seems to exist on the Facebook page of the Mayor's office, while the website was temporarily down and could not be verified. The forms of payment are somewhat limited. Normally, taxes are paid via bank transfer, while property tax and land tax paid by the population are collected directly at the Mayor's office. Standard payment notices exist only for property tax and land tax paid by the population.

Due to the lack of population property registration at the cadastre office, tax collectors have to fill out the standard payment notice form used by all local governments manually. No procedure for lodging complaints or requesting clarifications related to taxes has been established. According to the tax collector, taxpayers are addressing their complaints to the Mayor's office and in some rare cases, if they are not satisfied, to the cadastre office. Conflicts are rare to non-existent.

The score of Ialoveni Municipality on this chapter is below the average due to inadequate information for the general public on local taxes (non-functioning website, Facebook) and lacking complaints procedures.

Score: 5.5.

III. CAPITAL INVESTMENT

Historically, Ialoveni Municipality has been quite efficient in raising funds for capital investment, benefiting from its strategic position, including in terms of geography. Funds raised have been co-financed with revenue from the sale of real estate belonging to the municipality. Funds for different sectors have been attracted from both national and international sources. In 2015, however, due to a variety of national problems, the municipality faced significant challenges in raising funds.

At the same time, information on capital investment is rather limited and no consolidated financial statement exists.

Commercial loans have not been contracted by the municipality. The score is below the average.

Score: 6.3.

IV. PROPERTY

Property appraisal and registration is ongoing. Significant deficits still exist with regard to both municipal and private property. Not all municipal property has been registered yet, as the process is being carried out in stages. Appraisals have been made based on specific assessment needs (privatisation, projects, capital investment, etc.). Appraisal and registration are being carried out on ad-hoc basis, although there is a thorough recognition of their usefulness on behalf of the Mayor's office. There are few municipal enterprises (local market, communal services), which operate at a loss. Their relations with the municipality have not been regulated in any formal way and are based only on their Statute and the reports they submit to the Local Council. Water services are being provided by Apa Canal Chisinau under a previously signed memorandum. Currently, a contract is being negotiated.

The score is below the average due to deficits in property appraisal and registration, as well as due to the lack of structured relations with the municipal enterprises.

Score: 4.8.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

According to the new performance-based budgeting procedures, control figures are based on multi-annual projections and are drawn up for three years. A Social and Economic Community Development Strategy, 2015-2020, has been adopted and serves as a basis for fund raising and multi-annual planning and budgeting. The Strategy is being discussed and information sessions are being organised with the population, particularly on the capital investment component. The Strategy also provides a basis for discussions and public consultations on different issues related to local development. The score is below the average mainly due to the fact that the Community Development Strategy is not accessible to the public and there is no immediate connection between the Strategy and the local budget.

Score: 6.0.

I.2. Budgeting methods and capacity

Budget planning activities are coordinated by the planning specialist who is also responsible for entering data in the FIMS under the guidance and leadership of the Mayor. The Mayor's office employees and the staff of subordinate institutions are also involved in the budget process on particular issues of their concern.

The explanatory note and the major annexes are being published for public consultations. The explanatory note is not only sufficiently comprehensive but is also written in an accessible language, seeking to involve the general public in the process of public consultations.

Performance-based budgeting is based on the standard table and models received from the Ministry of Finance.

The score is below the average due to less structured and limited involvement of staff in budgeting, as well as the limited or general information accessible to different parties in the budget process.

Score: 5.8.

I.3 Budget procedures

The draft budget is being submitted by the Mayor to each of the three Local Council commissions, as well as to the Local Council. The explanatory note and the major annexes are being posted on the municipality's website and Facebook page and opinions are solicited from the general public. In addition to these forums, public discussions on the draft budget have also been organised, although public involvement seems to be rather low. Many issues related to budget transparency could not be verified at the time of the visit because the website was not operational. The same refers to the open forums.

No cooperation with other municipalities exists, except for the water sector only. Water services are being managed by the Chisinau Municipality, which is also responsible for water supply in Ialoveni. However, the decision on this issue was taken by central authorities. A memorandum with Chisinau Municipality has been signed, but it is rather general and does not contain service provision or performance criteria, or division of responsibilities. Currently, more specific provisions and more detailed agreement on service delivery is being negotiated with Chisinau Municipality. Other collaborations with neighbouring municipi-

palties (e.g. trolley bus line with Chisinau, road with Milestii Mici) have also been sought but have not been realised yet.

The score is below the average.

Score: 6.5.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Budget execution reports are being presented to the Local Council. However, only budget adjustment decisions are being published. The budget is adjusted rather often (up to six times a year). Budget adjustments are being justified in detail verbally by the Mayor and relate mostly to capital investment and funds raised, including from the privatisation of infrastructure.

There are no service delivery contracts with municipal enterprises and relations are mostly regulated by the Statute. The financing of municipal enterprises is based on taxes and tariffs. No general subsidies are allocated to municipal enterprises. Tariffs are being revised in an ad-hoc manner, mostly due to inflation or other factors. No PPPs have been established so far. Public transportation with mini-buses is provided by a private company.

The score is below the average due to large number of budget adjustments, limited justification available in writing, as well as lack of verifiable transparency of budget adjustment.

Score: 5.5.

CONCLUSIONS AND RECOMMENDATIONS

- Ialoveni Municipality is a rather well-developed community benefiting significantly both from its geographical position and from existing economic and industrial potential. The availability of high-value property allowed for significant capital investment from local, national and international sources.
- However, the level of economic development does not benefit the local fiscal base enough, mainly because tax collections and tax rates for businesses and companies are generally quite limited for towns due to existing national fiscal policies (no CIT sharing, low PIT sharing – 20%, tax exemptions, etc.). Ialoveni Municipality also lost revenue due to the abolition of CIT-sharing with local governments, though significant tax/revenue collections are coming from dividend tax and tax on commercial activities.
- The municipality is rather keen on increasing transparency and improving communication with the citizens through all available means. At the same time, several explicit elements of transparency were missing at the time of verification – functional website, availability of budget projections and budget execution data, even information about local taxes was not widely available.
- There are still some significant deficits in property registration and appraisal. A lot of real estate and land have not even been accounted for yet. Further efforts in property registration and appraisal would probably require more cooperation with central registration agencies (cadastre, etc.).
- The number of tax inspectors seems to be small for the quite high share of local taxes in total revenues. Tax inspectors are very busy during the “peak” season. Tax base and collection analysis, existing tax rates, as well as tax collection opportunities could be consolidated.
- The share of PIT and other business-related taxes (dividend tax and tax on commercial activities) is quite high. At the same time, community potential seems much higher and is being significantly undermined by both low tax rates/quotas applicable to towns (20%) and high tax evasions including due to very limited influence of municipal authorities on tax collections. It would be worthwhile to seek cooperation between local and national tax collection offices, particularly on PIT.
- Municipal enterprises seem to be at a rather rudimentary stage with significant problems both operational and financial. Contracts are missing and the organisation seems to leave much space for improvement.

Annex 1. Score Table for Ialoveni Municipality

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Ialoveni Municipality	Average score for pilot towns
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	5.5	6.1.
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.4	5.8
1. Transparency and public involvement	6.0	6.6
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	6.0	6.7
1.2 Approved local budget is made public (R3, R10, R17)	6.0	7.0
1.3 The report on local budget execution is made public (R16, R17)	6.0	6.2
2. Use of IT	6.3	6.7
2.1 Governance efficiency should be improved by IT (R6)	4.0	6.9
2.2 Use of FMIS (Financial Management Information System) and other IT systems	8.5	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.6	6.3
4. Local fiscal policy	5.8	6.8
4.1 Local taxes should be fair (R9)	7.0	7.0
4.2 Local taxes should generate high revenue (R9)	6.5	7.7
4.3 Number of local taxes imposed by local authorities	6.5	7.2
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	6.0	6.7
4.5 Revenue from local taxes should prevail over revenue from other sources	7.0	7.2
4.6 Tax avoidance and tax evasion should be prevented (R18)	5.0	6.4
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	4.0	6.2
4.8 Tax collection: identification of tax payers and collection rate (R25)	4.0	5.6
5. Tax administration and payment monitoring	5.5	5.9
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.5	7.8
5.2 Payment notices should provide information on tax levies (R23)	8.0	8.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	6.3	6.9
6.1 Local capital investment is managed efficiently	6.5	7.0
6.2 Local capital expenditures are funded by diverse sources	6.0	6.6
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	7.8
IV. LOCAL PROPERTY	4.8	5.3
7.1 Local authorities keep record of their assets and liabilities.	6.0	6.7
7.2 Regulations on municipal enterprises ensure their long-term financial stability	3.5	3.9
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	5.8	6.7
I. SOUND BUDGETING AND FISCAL PLANNING	6.1.	7.2
1. Fiscal strategy design	6.0	7.2
1.1 Multi-annual budget plans (R.45)	6.0	7.2
2. Budgeting methods and capacity	5.8	7.0
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	4.5	5.8

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Ialoveni Municipality	Average score for pilot towns
2.2 Analytical sheets make the budget transparent (R. 47)	6.0	7.3
2.3 Programme-based budget implementation (R.54)	7.0	7.9
3. Budget procedures	6.5	7.4
3.1 Involvement of elected bodies (R.49, R.74)	6.0	7.1
3.2 Public budget debates	7.0	7.6
3.3 Cooperation with other local authorities (R.70)	0.0	0.0
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	5.5	6.2
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.6
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	6.2
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	4.0	4.7
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
AVERAGE SCORE FOR IALOVENI MUNICIPALITY	5.7	6.4
AVERAGE FOR PILOT TOWNS	6.4	-

PERSECINA MUNICIPALITY

Project	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local experts	Marcel Blanuta, Diana Toma
Mayor	Nicolae Buzu
Area	52.6 km ²
Population	8,141 inhabitants
Local budget for 2015	MDL 8,545,200

Marcel Blanuta and Diana Toma made a field trip to Persecina village in order to pilot the LFB toolkit. During the visit, the local experts had the opportunity to discuss with the Mayor and deputy mayor of Persecina village, the chief accountant, the secretary of the Local Council, and the local tax collector. During the meeting, the local experts put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local experts obtained copies of supporting documents (local budget, annual financial reports, Local Council decisions, minutes of meetings, payment notices, capital investment list, approved local regulations, etc.).

As a result of the discussions and the analysis carried out, the following score was given to Persecina village against the average score for piloted villages. The overall score of Persecina is higher than the average for pilot villages (6.8 for Persecina village against 5.7 for pilot villages).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

The Mayor's office invests a lot of effort to involve the public in the budget process of Persecina village. To this end, the Mayor's office organises public debates on budget development and budget execution. The approved local budget is published in the local newspaper. In addition, the Mayor's office uses social networks to inform the public about the budget and the performance achieved. The budget is also posted on the city hall billboard.

However, despite these efforts, the Mayor's office still has some deficiencies in budget transparency. At the time of the visit, for instance, Persecina Municipality had no website.

The score of Persecina Municipality on this chapter is *slightly higher* than the average for pilot villages.

Score: 5.5.

I.2. Use of IT

Persecina Municipality was one of the first rural municipalities in the Republic of Moldova to implement a software application for bookkeeping. Today, all financial reports are prepared using this application. The municipality also has a common e-mail account that is used by the public to address questions. In addition, all staff members have their own e-mail accounts.

Since 2016, Peresecina Municipality, like other public authorities, has been using the Financial Management Information System (FMIS). The introduction of the FMIS seems to be a challenge for all LPAs. One of the main issues in the use of the FMIS is that local budget institutions do not use the FMIS modules and all budget data is being entered by the planning specialist and the accounting department staff.

A serious weakness in Peresecina Municipality is the absence of a website. To compensate somehow, the Mayor's office makes extensive use of social networks. Nevertheless, the existence of a website would go a long way to improving budget transparency.

The score of Peresecina Municipality on this chapter is *higher* than the average for pilot villages.

Score: 6.5.

I.3. Capacity development of local staff

To cope with the changes in financial management, the Mayor's office staff is participating in various trainings offered by different institutions. It should be mentioned that the Mayor's office staff has received huge training assistance from the regional financial division on draft budget preparation according to the new rules.

The Mayor's office seeks to benefit from all training opportunities and thus training is provided in a rather chaotic manner. There is no annual training plan, which would identify staff training needs. Also, no record is being kept as to the trainings staff members have participated in. This situation is similar in all municipalities in which the toolkit was piloted. That is why the score given to Peresecina Municipality on this chapter *equals* to the average for pilot municipalities.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

The score of Peresecina Municipality on this chapter is the *highest* among all pilot villages. Peresecina Municipality has successfully implemented an anti-tax evasion system. Periodically, the municipality is issuing notices to economic entities that have arrears to local budget. Notices specify the amount due and the payment deadline. Peresecina Municipality maintains local tax base databases.

The score achieved by Peresecina Municipality is also justified by the fact that in 2015, the share of local tax revenue in total revenues was the highest among all pilot villages, amounting to approximately 6.3%¹⁷. Property tax revenue constitutes approximately 4.3%¹⁸ of total revenues. The share of own revenue is one of the highest among pilot villages (11.8%¹⁹ of the total local budget revenue). It should be mentioned that compared to 2013, in 2015, local tax revenue has increased by about 36%²⁰, while property tax revenue has increased only by 2%²¹. In 2016, Peresecina Municipality is levying 6 local taxes.

However, there are some difficulties, which have prevented granting the maximum possible score. Changes in local taxes (local fiscal policy) are made without any data analysis from previous years, projections or assessment of impact on the budget or on local development in upcoming years. Changes in local fiscal policy are made ad hoc without a clear vision as to the evolution of the local fiscal policy in the next 2-3 years. Therefore, the adoption of a strategic document containing mid-term local fiscal policy objectives is desirable.

The assigned score for Peresecina for this chapter is *higher* than average on all pilot villages.

Score: 6.8.

¹⁷ Author's calculation: local tax revenue – MDL 538,600; total revenues – MDL 8,545,200.

¹⁸ Author's calculation: property tax revenue – MDL 369,400.

¹⁹ Author's calculation: own revenue – MDL 1,010,100.

²⁰ Author's calculation: local tax revenue in 2013 – MDL 397,000.

²¹ Author's calculation: property tax revenue in 2013 – MDL 363,800.

II.2. Tax administration and payment monitoring

The situation regarding tax administration and payment monitoring in Peresecina village is similar to other pilot villages. No complaint or appeal procedure for the amount of imposed taxes exists in the municipality. According to the Mayor's office staff, there are few such cases and people usually come to the city hall, if they have questions regarding the amount of imposed taxes. In addition, property tax payment notices are prepared manually and some compulsory elements of local tax claims such as consequences of delay or non-payment, or deadlines for lodging a complaint are missing.

The score of Peresecina village on this chapter *equals* to the average for pilot villages.

Score: 5.0.

III. CAPITAL BUDGET FINANCING

Peresecina Municipality is making use of all possible sources to finance capital investment, apart from borrowing. Funds for different sectors have been raised from both national (state budget, National Ecological Fund, Road Fund, Social Investment Fund) and international sources (UNDP). According to the local budget execution report, in 2015, Peresecina Municipality has spent an average of about MDL 400²² per capita on capital investment. The share of capital investment in the total local budget expenditures amounted to approximately 33%²³.

The assigned score for Peresecina for this chapter is *higher* than average on all pilot villages.

Score: 7.3.

IV. LOCAL PROPERTY

Peresecina Municipality has 5 budget institutions (including the Mayor's office) and one municipal enterprise in its subordination. The municipal enterprise is co-owned with three other municipalities. The balance sheet of the municipality is a consolidated one. The value of the local non-financial assets is regularly updated. An inventory report is issued once a year. Peresecina Municipality has signed an agreement with the municipal enterprise for managing the local market. There is also an inter-community association agreement signed by four municipalities for the creation of a municipal enterprise to provide public services to the municipalities. The Mayor's office is developing also a consolidated inventory report based on separate inventory reports for each subordinate institution.

No property register exists yet. According to the responsible staff, work on the register is underway.

The assigned score for Peresecina for this chapter is *higher* than average on all pilot villages.

Score: 8.5.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

All budgets elaborated by Peresecina Municipality are based on the national macroeconomic policies. This applies to all local public authorities. Peresecina Municipality has elaborated a local development strategy for the period 2013-2017.

Annual budgets are generally linked to the strategy. The strategy contains an action plan and financing sources. In addition to the local budget, the strategy envisages financing activities from sources like the

²² Author's calculation: total capital investment – MDL 3,512,000; population – 8,141 inhabitants.

²³ Author's calculation: total expenditures – MDL 10,565,000.

state budget, national funds and international sources. Activities planned to be financed from the local budget are taken into consideration in the process of draft budget elaboration. These activities, however, are mainly co-financed from other sources, and their implementation depends on the availability of funds.

The score on this chapter is the *highest* among pilot villages.

Score: 7.5.

I.2. Budgeting methods and capacity

The budgeting methods and Mayor's office capacity in budget preparation is the *best* among pilot villages. All stakeholders participate in the process of budget elaboration, including staff from subordinate budget institutions and municipal enterprises. A budget calendar is approved each year, specifying actions to be performed, responsible persons, and deadlines. Budget proposals are developed using the performance-based budgeting methodology (with goals, objectives and performance indicators identified) and are part of the budget documentation.

One weakness is that performance indicators are not well-defined. However, this seems to result from lack of experience, rather than capacity, given that 2016 was the first year in which local authorities had to present performance- and programme-based budgets. Also, Peresecina Municipality staff should use more analytical data in the budget proposal. Budget proposals should be based on impact assessment of different options. Any tax policy proposals should also be accompanied by impact assessment.

Score: 7.3.

I.3. Budget procedures

The Peresecina Mayor's office has established well-functioning budget procedures. The draft budget with its explanatory note and all annexes are presented to the councillors within two weeks before the Local Council session. The budget process is initiated upon a proposal by the Mayor. Before being submitted to the Local Council, the draft budget is also actively discussed in the Budget Commission. The population may participate in the debate on the draft budget during the Local Council session.

As mentioned above, there is an inter-municipal cooperation agreement for the creation of a municipal enterprise. The enterprise would provide public services such as water supply and sanitation. The agreement specifies the obligations and responsibilities of the parties. It also stipulates the type of services the municipal enterprise should provide.

The score of Peresecina Municipality on this chapter is the *highest* among all pilot villages.

Score: 7.7.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

The mid-year and nine-month budget execution reports are being presented to the Local Council in due time. Based on these reports the local budget is adjusted, if necessary.

Within one fiscal year, the local budget is subject to up to 6 adjustments. In most cases, adjustments involve capital investment financed from sources other than the local budget.

The relations between the local government and the municipal enterprise are a different matter. As mentioned above, Peresecina Municipality co-owns the municipal enterprise. An inter-municipal agreement regulates the relations between the enterprise and the co-owners. In addition, a Regulation on service provision to municipalities was developed and approved.

No PPPs have been established so far, but some action has been taken to develop a PPP for a photovoltaic park and for street lighting.

The score of Peresecina Municipality on this chapter is the *highest* among all pilot villages.

Score: 6.3.

CONCLUSIONS AND RECOMMENDATIONS

Peresecina village has received the highest average score of 6.8 points, which is 1.1 points above the average score for pilot villages. The highest score received by Peresecina Municipality is in the area “Local property” with 8.5 points, while the lowest is in “Capacity development of local staff” with 4.0 points.

The following recommendations are made to improve the situation in some areas:

1. Peresecina Municipality needs to launch its own website to improve transparency of local government activities, in general, and of financial management, in particular.
2. Establish a procedure for tracking all trainings the Mayor’s office staff has participated in. Maybe it would be useful to explore the possibility of keeping a training register to record who participated in the trainings, when and where the trainings were performed, who provided the trainings, etc. Such a register would help identify the need for additional staff training and the related cost.
3. Provide additional training on FMIS operation in particular for the staff of subordinate budget institutions. This recommendation applies to institutions at the national level because the FMIS was recently implemented by the Ministry of Finance.
4. Explore the possibility to obtain access to the tax cadastre database in order to issue payment notices electronically.
5. Explore the possibility to develop a mid-term local tax policy.
6. Revise payment notice forms so that they might include information on what happens if taxes are not paid on time, whom taxpayers should contact if they do not agree with the amount of imposed taxes, etc. This recommendation rather applies to the Ministry of Finance because the payment notice form is approved at the national level.
7. Peresecina Municipality has started developing a local property register. So the recommendation is to finalise the local property register as soon as possible in order to have a clear picture on the property Peresecina Municipality is responsible for.

Annex 1. Score for Peresecina village

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Average score for Peresecina village	Average score for pilot villages
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	6.7	5.7
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.3	5.0
1. Transparency and public involvement	5.5	5.2
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	6.0	4.6
1.2 Approved local budget is made public (R3, R10, R17)	5.0	5.6
1.3 The report on local budget execution is made public (R16, R17)	5.5	5.5
2. Use of IT	6.5	5.9
2.1 Governance efficiency should be improved by IT (R6)	6.0	5.4
2.2 Use of FMIS (Financial Management Information System) and other IT systems	7.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.9	5.6
4. Local fiscal policy	6.8	6.2
4.1 Local taxes should be fair (R9)	7.0	6.6
4.2 Local taxes should generate high revenue (R9)	8.5	6.7
4.3 Number of local taxes imposed by local authorities	6.5	5.8
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	7.0	5.7
4.5 Revenue from local taxes should prevail over revenue from other sources	7.0	6.5
4.6 Tax avoidance and tax evasion should be prevented (R18)	8.0	7.6
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	5.5	6.0
4.8 Tax collection: identification of tax payers and collection rate (R25)	4.5	4.8
5. Tax administration and payment monitoring	5.0	5.0
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.0	6.0
5.2 Payment notices should provide information on tax levies (R23)	7.0	7.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	7.3	6.5
6.1 Local capital investment is managed efficiently	7.0	7.0
6.2 Local capital expenditures are funded by diverse sources	7.5	6.0
6.3 Capital borrowing complies with limits imposed by the national legislation	0.0	0.0
IV. LOCAL PROPERTY	8.5	5.6
7.1 Local authorities keep record of their assets and liabilities.	8.5	5.8
7.2 Regulations on municipal enterprises ensure their long-term financial stability	8.5	5.3
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	6.9	5.8
I. SOUND BUDGETING AND FISCAL PLANNING	7.5	5.9
1. Fiscal strategy design	7.5	5.5
1.1 Multi-annual budget plans (R.45)	7.5	5.5
2. Budgeting methods and capacity	7.3	6.3
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	8.0	6.4

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Average score for Persecina village	Average score for pilot villages
2.2 Analytical sheets make the budget transparent (R. 47)	6.0	5.6
2.3 Programme-based budget implementation (R.54)	8.0	6.8
3. Budget procedures	7.7	5.9
3.1 Involvement of elected bodies (R.49, R.74)	7.5	6.0
3.2 Public budget debates	7.0	5.0
3.3 Cooperation with other local authorities (R.70)	8.5	5.4
4. Special Rules on Budget Adjustment and Implementation	6.3	5.7
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.1
4.2 Budget adjustment during the year is limited. (R. 78)	6.0	5.3
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	6.0	4.6
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	6.8	5.7

STRASENI MUNICIPALITY

Project	Strengthening institutional frameworks for local governance programme – Local Finance Benchmarking toolkit adaptation and piloting
Local experts	Diana Toma, Alexandru Osadci
Mayor	Valentina Casian
Area	60.83 km ²
Population	20,290 inhabitants
Local budget for 2015	MDL 30,835,100

On March 22, 2016, Diana Toma and Alexandru Osadci made a field trip to Straseni town in order to pilot the LFB toolkit. During the visit, the local experts met with the Mayor of Straseni Municipality, the chief accountant, the secretary of the Local Council and the local tax collector. The local experts discussed with the responsible persons topics related to the LFB toolkit and obtained copies of supporting documents (including the local budget, annual financial reports, Local Council decisions, payment notices, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, the overall score given to Straseni Municipality is lower than the average for pilot towns (5.9 for Straseni Municipality compared to an average of 6.4 – see annex 1).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

In the period 2012-2015, Straseni Mayor's office has organised public hearings on the draft local budget with the participation of all interested parties. The draft local budget is also being debated at the meetings of the Economic Council (an entity under the Mayor's subordination).

In order to ensure the public access to local budget documentation (the draft and approved local budget, the execution report), communication instruments such as Facebook and local newspaper announcements are being used, while the official website of the municipality (www.straseni.md) is not updated in this regard.

The score for Straseni municipality on this chapter is *below the average*. Among the main challenges is the inadequate information related to the local budget available on the official website.

Score: 5.3.

I.2. Use of IT

The website of Straseni Municipality (www.straseni.md) is insufficiently maintained and updated. The draft and final versions of the Local Council decisions are not published online. Most of the Mayor's office staff use an e-mail address, which facilitates internal and external communication.

The implementation in Straseni of the Financial Management Information System (FMIS), introduced during the elaboration of the 2016 budget, was carried out without significant difficulties, due to the assis-

tance provided by the financial division of the 2nd tier of administration (region). However, local budget institutions do not use the FMIS modules and all budget data is being entered by the chief accountant.

Straseni Municipality uses the 1C accounting package only partially for its bookkeeping.

The score for Straseni Municipality on this chapter *is below the average*.

Score: 5.8.

I.3. Capacity development of local staff

The Mayor's office staff participate in various financial management trainings organised by different partners (the Financial Division of the 2nd tier of administration (region), CALM, etc). During 2015, they have benefited significantly from trainings provided under the USAID LGSP project. Similar to other municipalities, there are no current plans or local budget allocations for capacity development, considering the comprehensive Public Financial Management (PFM) reform that is currently underway.

The score on this chapter *equals to the average*. The main challenge is the lack of a local capacity building plan and the ad-hoc and limited trainings for all staff dealing with local finance management.

Score: 4.0.

II. LOCAL TAXATION

II.1. Local tax policy

Apart from real estate and land taxes, Straseni Municipality has approved 9 local taxes for 2016. Explicit and abundant information on local tax rates and other elements of taxation is being provided in the annual Local Council decision on local taxes, which is published online.

Few local tax exemptions are being granted, mainly for social purposes or for the promotion of local economic activities. However, there is no impact assessment regarding these exemptions.

There are two tax collectors in the Straseni Mayor's office who are in charge with property tax collection from residents and the collection of the sanitation fee. Similar to all other municipalities, all other local taxes are being collected by the Territorial State Tax Inspectorate, as these apply only to legal entities.

In 2015, the share of Straseni Municipality's own revenue was the lowest among all pilot towns (14.7% of the total local budget). The share of local taxes amounts to 7.7% (being also one of the lowest shares), while property tax accounts for only about 3.8% of the total revenues.

It is worth mentioning that in Straseni Municipality, the revenue generated from local taxes has increased by almost 24.1% in 2015 compared to 2013, while the revenue from property taxes has decreased by 6.4%. This means that the municipality still has not benefited much from the incentives offered by the amendments to the Local Public Finance Act (in force as of 2015). Even though revenue generated from local and property taxes has been evaluated recently, tax rates have not been reviewed for quite some time (there are no major changes in 2016 compared to 2013 regarding approved local and property tax rates).

Some measures regarding tax avoidance and tax evasion are currently being taken. In case property taxes are not paid on time, reminders are being sent to the residents, also the local tax collectors conduct field visits to the taxpayers' residence. However, some problems exist with regard to people who are currently abroad or are absent from their place of residence for a long time. Although local tax collectors do not have the necessary leverage to influence local tax collection, legal entities are being reminded by phone in case of arrears.

Information on tax base and taxpayers' registers are being updated in cooperation with the Territorial Cadastre Office, which is assessed as a positive practice. This is not the case with the perceived cooperation with the Territorial State Tax Inspectorate, mainly due to limited access to shared information (e.g. database of economic agents).

The score on local fiscal policy is *below the average*. The main challenges include limited use of local fiscal potential, limited fiscal policy conceptualisation, and limited integration of data on the fiscal base from all sources.

Score: 6.3.

II.2. Tax administration and payment monitoring

The situation regarding tax administration and payment monitoring in Straseni Municipality is similar to other pilot towns. A standard fiscal notification system for property tax (annually, in April-May) and sanitation fee is in place. One of the problems is that local and property taxes can be paid only in cash (at the Mayor's office). Many compulsory elements of local tax claims are present, but they are being filled in manually. As in all pilot municipalities, there is no complaint or appeal procedure for the amount of imposed taxes.

The score on this chapter is *below the average*. The main challenges include the lack of diverse payment options for local taxes and the regulation of tax appeal and complaint procedures.

Score: 5.5.

III. CAPITAL BUDGET FINANCING

Straseni Municipality benefits from diverse sources for financing local capital investment projects, including the local budget (mainly revenue from sale or privatisation of public property). Other sources for funding are mainly the central government funds (Environment Fund, Road Fund, Social Investment Fund, Energy Efficiency Fund). Capital expenditures are included in the local budget only based on actual contracts. Usually, capital investment projects are completed within the forecast budget.

Some of the capital investment projects are also being financed through borrowing. The municipality has benefited from a loan for the construction of three boiler houses (for the subordinate budget institutions) under the Energy-II Project (the payback period is 2007-2018). Also, in 2014 the municipality contracted a loan for road construction from a commercial bank, which was shortly paid back. Although the local total debt complies with the limits imposed by the national legislation, the municipality has not approved the ceiling on the local debt limits for 2015-2016 (according to the current legal provisions this should be part of the annual budget decision).

According to local budget execution report for 2015, the share of capital expenditures in the local budget was approximately 37.7%. Capital expenditures per capita were about MDL 800.

The score on this chapter is *below the average*.

Score: 6.5.

IV. LOCAL PROPERTY

Straseni Municipality has 10 budget institutions and three municipal enterprises in its subordination. The balance sheet of the municipality is a consolidated one, but is being compiled manually. The value of the local non-financial assets is regularly updated. Inventory reports are being prepared separately for each of the local budget institutions. There is no consolidated inventory report.

In 2014-2015, a mass registration of public property took place (about 80% has already been registered). However, land registration still constitutes a problem.

The activity of the municipal enterprises is largely regulated by their statutes, which are approved by the Local Council. There are no mid-term or even annual contracts with the municipal enterprises for public service delivery, apart from those for services contracted directly for subordinate budget institutions. No subsidies for services provided by the municipal enterprise are being allocated from the local budget.

The score of Straseni Municipality on this chapter is *below the average*. The main challenges are related to the lack of regulations on municipal enterprises that would ensure their long-term financial stability.

Score: 4.5.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

The local social and economic development strategy covers the period 2014-2020. Although it is a rather comprehensive document, the strategy, however, does not contain the estimated financial costs for its implementation. Also, the connection between the objectives set in the strategy and the annual local budget is constrained by limited financial resources. The local budget is developed taking into account the macroeconomic indicators from the Ministry of Finance, and in addition to figures for the upcoming year, it also includes projections for the next two years.

The score on this chapter is *above the average*.

Score: 7.5.

I.2. Budgeting methods and capacity

The main participants in the budget process are the Mayor, the staff of the accounting division, the secretary of the Local Council, with the technical support of the local tax collectors and the staff of the subordinate budget institutions. The budget process is being conducted in an ad-hoc manner, as no annual budget calendar or regulation has been approved.

The budget documentation comprises the budget data, as well as explanatory notes. Since 2016, information on performance has been included as part of the budget documentation. The established goals, objectives and performance indicators are specified, but there is still room for improvement.

The score on this chapter is *below the average*. The main challenges involve regulating the role and responsibilities of all parties involved in the local budget process.

Score: 6.2.

I.3. Budget procedures

The draft local budget, including an explanatory note and all annexes, is presented to the local councillors in due time. Before the Local Council session in which the local budget is discussed and approved, the draft local budget is actively debated during consultation meetings of the (three) special Local Council commissions.

In addition to this, public hearings on the draft local budget with the participation of all interested parties are being organised.

No inter-municipal cooperation (IMC) activities have been undertaken so far.

The score on this chapter is *above the average*.

Score: 7.5.

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Mid-year and nine-month budget execution reports are produced on a regular basis and are submitted for approval by the Local Council. Based on these reports the local budget is adjusted, if necessary. Within one fiscal year, the local budget is subject to up to 6 adjustments, mainly related to capital investment financed from other sources than the local budget.

The relations between the local government and its municipal enterprises are regulated by the statutes of the enterprises (approved by the Local Council). As mentioned previously, there are no mid-term or even

annual public service delivery contracts with the municipal enterprise. User charges are approved by the Local Council.

No PPP have been established so far, but there are several Local Council's decisions regarding the initiation of PPP activities.

The score on this chapter is *below the average*.

Score: 5.5.

CONCLUSIONS AND RECOMMENDATIONS

Straseni Municipality has received the average score of 5.9 points for all areas and sections of the LFB Toolkit and is 0.5 points below the average score for all pilot towns. The best score has been achieved in the area "Budgeting procedures" (7.5 points), while the worst scores have been assigned for the areas "Transparency and public involvement" (5.3 points) and "Local property" (4.5 points).

The following recommendations are made to improve the situation in some areas:

- Ensure that the official website of the municipality is properly maintained and regularly updated;
- Implement fully the 1C accounting package in order to comply with current PFM reform objectives;
- Expand FMIS use to the staff of subordinate local budget institutions and other parties involved in the budget process;
- Pay more attention to local staff capacity development in the area of local public finance management by keeping track (via a register) of local staff participation in trainings, as well as by elaborating and implementing a local capacity development plan;
- Explore the possibility of developing a local tax policy document, which would include a comprehensive analysis of the current local fiscal policy and potential, as well as the objectives in this area for the upcoming 3 to 5 years (related to possibilities of increasing tax rates, strengthening tax evasion measures, evaluating tax base and keeping electronic tax base registers);
- Improve tax administration and payment by issuing electronic payment notices and providing diverse forms of payment (including via bank transfer).
- Develop a local regulation regarding local tax appeal and complaint procedures;
- Prepare a consolidated inventory report, based on the inventory reports of the local budget institutions;
- Finalise the local property register;
- Improve budget planning and implementation processes by strengthening the connection between annual local budget and priorities set in policy documents (including the local social and economic development strategy);
- Develop and approve an annual budget calendar, specifying the main activities in the budget process, the responsible staff and the deadlines;
- Develop and approve a local regulation, which would specify the role and responsibilities of all parties involved in the local budget process;
- Formalise the relations with the municipal enterprises by developing and signing mid-term service management contracts/agreements.

Annex 1. Score Table for Straseni Municipality

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Straseni Municipality	
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	5.5	6.1.
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.0	5.8
1. Transparency and public involvement	5.3	6.6
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	6.0	6.7
1.2 Approved local budget is made public (R3, R10, R17)	5.0	7.0
1.3 The report on local budget execution is made public (R16, R17)	5.0	6.2
2. Use of IT	5.8	6.7
2.1 Governance efficiency should be improved by IT (R6)	5.5	6.9
2.2 Use of FMIS (Financial Management Information System) and other IT systems	6.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	5.9	6.3
4. Local fiscal policy	6.3	6.8
4.1 Local taxes should be fair (R9)	7.0	7.0
4.2 Local taxes should generate high revenue (R9)	7.0	7.7
4.3 Number of local taxes imposed by local authorities	7.0	7.2
4.4 The mix of local revenue from property of business enterprises and natural persons/ residents should be balanced	6.0	6.7
4.5 Revenue from local taxes should prevail over revenue from other sources	6.5	7.2
4.6 Tax avoidance and tax evasion should be prevented (R18)	6.0	6.4
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	5.5	6.2
4.8 Tax collection: identification of tax payers and collection rate (R25)	5.5	5.6
5. Tax administration and payment monitoring	5.5	5.9
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	6.5	7.8
5.2 Payment notices should provide information on tax levies (R23)	8.0	8.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	6.5	6.9
6.1 Local capital investment is managed efficiently	6.5	7.0
6.2 Local capital expenditures are funded by diverse sources	6.5	6.6
6.3 Capital borrowing complies with limits imposed by the national legislation	6.5	7.8
IV. LOCAL PROPERTY	4.5	5.3
7.1 Local authorities keep record of their assets and liabilities.	6.0	6.7
7.2 Regulations on municipal enterprises ensure their long-term financial stability	3.0	3.9
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	6.3	6.7
I. SOUND BUDGETING AND FISCAL PLANNING	7.1	7.2
1. Fiscal strategy design	7.5	7.2
1.1 Multi-annual budget plans (R.45)	7.5	7.2
2. Budgeting methods and capacity	6.2	7.0
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	4.5	5.8
2.2 Analytical sheets make the budget transparent (R. 47)	6.0	7.3

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Straseni Municipality	
2.3 Programme-based budget implementation (R.54)	8.0	7.9
3. Budget procedures	7.5	7.4
3.1 Involvement of elected bodies (R.49, R.74)	7.0	7.1
3.2 Public budget debates	8.0	7.6
3.3 Cooperation with other local authorities (R.70)	0.0	0.0
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	5.5	6.2
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.6
4.2 Budget adjustment during the year is limited. (R. 78)	5.5	6.2
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	4.0	4.7
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
TOTAL SCORE	5.9	6.4

UNGHENI MUNICIPALITY

Project	Piloting Local Finance Benchmarks in Moldova
Local experts	Diana Toma, Alexandru Osadci
Mayor	Alexandru Ambros
Area	16.4 km ² (6.3 sq mi)
Population	32,807 inhabitants
Density	2,300/km ² (6,100/sq mi)
Local budget for 2015 MDL	71,076,500

Alexandru Osadci and Diana Toma made a field trip to Ungheni city in order to pilot the LFB toolkit. During the visit, the local experts had the opportunity to discuss with the deputy mayor of Ungheni Municipality, the chief accountant, the secretary of the Local Council, the economist, the local tax collector, and the investment expert. During the meeting, the local experts put forward questions related to the LFB Toolkit and got answers from the responsible persons. In addition, the local experts obtained copies of supporting documents (local budget, annual financial reports, Local Council decisions, minutes of meetings, organisational chart, payment notices, capital investment list, approved local regulations, etc.).

Based on the discussions held and the subsequent analysis, the following score was given to Ungheni Municipality against the average score for pilot towns. The overall score of the municipality is slightly higher than the average for pilot municipalities (6,5 for Ungheni Municipality against an average of 6,4 for pilot towns).

A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES

I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES

I.1. Transparency and public involvement

The level of both transparency and public involvement in budget discussions is quite high. In 2015, three public debates were organised to discuss the local budget. At the same time, the level of interest of the population with regard to the local budget seems to be quite low. The official website of the Mayor's office (<http://ungheni.md/>) provides access to all Local Council decisions, including those related to the budget, but not to raw budget data, annexes, explanatory notes, and other budget documentation. As regards budget execution, again only the decision of the Local Council is being published, but not current data, tables, annexes, etc. Meanwhile, other communication channels are also being used, such as announcements on Facebook and in the local media. A regulation on the transparency of the local decision-making process is in place. The regulation has been posted on the Mayor's office website. Under the EU-financed project, a Citizens' Information Centre was established, providing, among others, consultations on financial and tax issues in the context of public service decentralisation and modernisation.

The score of Ungheni on this chapter (6.2) more or less corresponds to the average. The main deficit is that budget documentation is not being posted on the website.

I.2. Use of IT

IT equipment and electronic systems/packages are being sufficiently utilised, including the 1C accounting package and Financial Management Information System (FMIS). All staff at the Mayor's office use computers. However, no corporate domain email accounts are available. Three persons have access to FMIS, but

budget data is being entered only by the planning specialist. The website of the Mayor's office is being regularly maintained and updated, including the leading community news section that is renewed on a daily basis. The same applies to the Facebook page of the Mayor's office. Other sources of information (TV, radio, newspapers) are being used to a limited extent.

The score on this chapter more or less corresponds to the average (6.5). Comprehensive FMIS use is still the major problem, as is nationwide, mainly because its implementation began in 2016.

I.3. Capacity development

Capacity is being built on ad-hoc basis. One of the major sources of support is the financial division of the 2nd tier of administration (region). Meanwhile, staff has benefited significantly from training organised by different donors/projects – the USAID (Local Government Support Project in Moldova – LGSP), the UNDP (Joint Integrated Local Development programme – JILD), and others. There are no capacity building plans and no capacity building is being undertaken with the Mayor's office own resources. Staff has also benefited from training on performance-based budgeting methodology organised by the Ministry of Finance with the support of UNDP Bratislava. Several trainings are being carried out with the support of the Public Administration Academy.

The score on this chapter (4.0) corresponds to the average; the main challenge is the ad-hoc and limited availability of capacity building events for all staff dealing with local finance management.

II. LOCAL TAXATION

II.4. Local fiscal policy

Local tax policy is sufficiently diverse and comprehensive. Apart from real estate and land taxes, 10 other local taxes are also being collected. Explicit and abundant information on tax policy, tax rate, and other elements of taxation is being provided in the Local Council decision on local taxes, which is available on the Mayor's office website. The collection rate for taxes collected locally (sanitation tax, for example) is up to 95%. There are different rates for real estate tax for natural and legal persons (0.2% versus 0.1%, respectively). All other taxes are being applied in a rather equal manner. There are no local tax exemptions normally, but rather one-time lump sum material aid is being practiced. However, people with disabilities are exempt from solid waste tax. Local taxes constitute a relatively fair share of the local budget – 10% (above the average for the pilot municipalities). Own revenue, including property tax and other taxes and fees, represents approximately 15.4% of the total local budget revenue (which corresponds to the average for the pilot municipalities). The share of general purpose transfers is 2.5% (significantly below the average for the pilot municipalities), while the share of special purpose transfers is 53.1% (and corresponds to the average for the pilot municipalities). Special purpose transfers for education and other special needs represent about 42.6%, while the transfers for capital investment projects from the state budget and central government funds are about 10.5% from the total local budget.

There are four tax collectors in the Ungheni Mayor's office, however they are in charge of the collection of property tax from residents and solid waste tax, while the remaining local taxes are being collected by the Territorial State Tax Inspectorate.

Tax evasion is virtually non-existent. Problems in tax collection, however, exist for persons living abroad, emigrants or people who are absent from their place of residence for a long time. Information on tax base and taxpayers registers is relatively up-to-date, owing in part to the cooperation of the cadastre office. A taxpayers' register is also being maintained locally. More problematic is the situation with economic agents. Real estate tax rates have been increasing (from 0.07% in 2006 to 0.2% in 2016). The rates on local taxes are also being reviewed and approved on a yearly basis. In addition, it is worth mentioning that following the incentives offered with amendments to the Local Public Finance Act (enacted as of 2015), the collections from local taxes in the Ungheni municipality has increased by almost 35% in 2015, compared to 2013.

The score for local fiscal policy is slightly higher than the average (7.0). The main challenges include limited use of local fiscal potential, limited fiscal policy conceptualisation, and limited integration of data on the fiscal base from all sources.

II.5. Tax administration and payment monitoring

A standard notification system on property tax and solid waste tax dues is in place. Amounts, tax details and all relevant information are indicated on the standard form. Approximately 60% of property tax dues are collected after first notification, while after second notification and additional reminders to taxpayers, collection rate increases up to 80%. The rate of local tax collection, which is carried out by the Territorial State Tax Inspectorate, is generally very high – 98%. Various payment options exist for real estate tax, including bank transfer, post order or cash at the Mayor's office. Complaints and appeal procedures are rather simple and are not subject to special regulation. Normally, taxpayers address tax inspectors or the Mayor directly for clarifications related to the estimated tax amount. Rarely does it come to serious disputes when the parties fail to reach agreement on the amount due.

The score is slightly above the average (6.0). Main challenges include the consolidation of tax appeal and complaints regulations and procedures.

III. CAPITAL INVESTMENT

The Ungheni Municipality has raised quite significant amount of capital investment both from internal and external sources. Many projects financed from external sources have been implemented with the support of the EU, including the Cross-border Cooperation Programme, Slovak Aid and UNDP. Most resources from national funds have been attracted from the Road Fund, the Ecological Fund and the Energy Efficiency Fund. Capital investment projects are being included in the local budget only based on actually concluded contracts and provided firm commitments have been made. Resources raised from privatisation of land and real estate form the source of project co-financing. The share of capital investment projects in the local budget is quite high. The municipality has benefited from commercial loans from Moldovan commercial banks. A positive initiative put into operation in Ungheni is the implementation of social and awareness-raising projects financed from the local budget or from attracted funds and resources through the Community Foundation established in 2008 by the Mayor's office and focusing on the implementation of community initiatives. The share of transfers and grants for capital investment in the local budget is rather high – about 23%. The share of central government funds in the capital investment budget is 10.5%, while grants from external sources form 10.2%.

The capital investment score is well above the national average (8.3).

IV. PROPERTY

Property registering still constitutes a problem, although communication with the cadastre office has been streamlined with the cadastral engineer's access to the cadastre database being ensured with a personal password. Annual property inventories are being taken. The main problem involves properties without owners or properties that have not been registered by the owners, mainly because of their limited presence in the country.

There are several municipal enterprises in Ungheni, which provide traditional services for such entities – water supply, waste disposal, communal services. No service provision contracts with municipal enterprises exist apart from those involving services contracted directly for municipal sub-divisions and entities. All operations are regulated by the statutes of these enterprises, which are approved by the Local Council. There seem to be no problems with ANRE so far in establishing water tariffs, though previously there were serious differences of opinion on energy tariffs. As a rule, municipal enterprises operate at a loss; however, no direct subsidies are provided to them. Few municipal enterprises have contracted loans on their own from international institutions (EBRD).

The score on the property chapter is below the average (4.8). The main challenges involve the formalisation of relations and normalisation of the operation of municipal enterprises.

B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES

I. SOUND BUDGETING AND FISCAL PLANNING

I.1. Fiscal strategy design

The Local Community Development Strategy covers the period 2014-2030. However, the Strategy has not been made available on the Mayor's office website. The Strategy contains project fiches detailing the main community priorities waiting for adequate capital financing from national or international sources. Normally, the Strategy priorities, including those involving capital investment, form the basis of the capital investment component in the local budget. Local budgeting is based on multi-annual budget projections handed down from the central authorities. Multi-annual budget control figures for 2016-2018 have also been compiled.

The score on this chapter is slightly below the average (7.0). The main challenge is the limited connection between national and local strategic documents and the local budget.

I.2. Budgeting methods and capacity

The main participants in the budget process are the planning specialist, the chief accountant and the Mayor with the technical support of deputy mayors, tax inspectors, and subordinate institutions' staff (kindergartens, specialised schools, social centres). There is a local accounting policy regulation for subordinate institutions. Budget analysis for previous periods is being performed in an ad-hoc manner and necessary modifications are being made for next budget period. With the introduction of performance-based budgeting a standard, yet minimal, set of documents has been elaborated and approved. The introduction of performance based-budgeting brought some confusion, although the general assessment is that in the long run this would prove a positive process. The set of budget documents contains one general explanatory note for the entire package but no specific remarks for each programme; summary data tables and separate data tables for each sub-programme are also provided, including a set of performance indicators. Performance-based budgeting continues to be a challenge.

The score on this chapter is below the average (6.0).

I.3 Budget procedures

Budget information is presented to the Local Council commissions, including the Finance and Budget Commission, in hard copy within the established deadlines. Debates in the Commission are complemented by open discussions with the population. According to the local regulation on transparency in decision-making, opinions expressed during public hearings are documented and presented in a protocol, which has to include also recommendations to Mayor's office officials. Apart from public debates, opinions, suggestions and recommendations are also expressed on the official website and the Facebook page of the Mayor's office, which are being regularly updated. No direct IMC activities have been carried out so far, but the Ungheni and Orhei regions cooperated on one project related to strengthening local government capacity in decentralisation.

Transparency and participation in budgeting continues to be a challenge; the score on this chapter is below the average (6.8).

II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION

Budget execution reports for six- and nine-month periods are sufficiently informative and comprehensive, although explanatory notes are rather general. Budget adjustment decisions are approved by the Commissions and then by the Local Council upon submission by the Mayor. In 2015, three budget adjustments were passed, mainly related to capital investment projects. Normally, draft adjustment decisions contain only data tables, while detailed explanation is being provided by the Mayor upon submission. Local Coun-

cil decisions are posted on the Mayor's office website, but the actual data tables with figures and explanations are not provided.

The performance of municipal enterprises is being evaluated by the Local Council to which the municipal enterprises present their financial reports. Given that there are no contracts between municipal enterprises and the Mayor's office, the main reference documents for service performance are the municipal enterprises' financial reports and statutes. Financing sources for municipal enterprises are being approved on ad-hoc basis, not necessarily annually, while approval refers only to changes.

For the time being there are no PPP in the narrow sense of the word. There was one initiative which was not brought to fruition due to certain misunderstandings with the private partner.

The score on this chapter is above the average (6.7). Relations between municipal authorities and municipal enterprises continue to be a challenge.

CONCLUSIONS AND RECOMMENDATIONS

- The Ungheni Mayor's office is capitalising significantly on its strategic location and general funding opportunities available for financing both recurrent expenditures and capital investment.
- However, local fiscal policy could benefit from consolidation, which can be achieved through some rational combination of local fiscal effort and improvement of national fiscal policies. This, first of all, applies to the low rate of real estate tax collection (2.3% due to inadequate and underestimated tax base and relatively small tax base) and the modest PIT collection rates (10% of local budget revenue), which could be explained with the small quota of towns in sharing this tax (20%), the inadequate information on the tax base, the modest collection rate of the central Tax Inspectorate due to tax evasions, the limited interest in the final outcome, etc. At the same time, current real estate tax rates are below the maximum levels allowed by law, hence, there is untapped potential in this area.
- Being a serious large-scale beneficiary of capital investment, the Ungheni Municipality has a rather high share of transfers and grants in the total budget. This does not constitute a problem *per se* but suggests a rather unpredictable and irregular financial flows from different sources. At the same time, the fund raising record and the absolute volume of funds and projects implemented is rather impressive. Worth praising is also the funding of social and community initiatives by the Mayor's office through Community Foundation.
- Land and property registration still needs some attention, as do other elements of tax base substantiation (register of commercial enterprises, of taxpayers, etc.)
- Some significant work has been done towards improvement of transparency and efforts in this area are continuing. The main deficits that remain unaddressed involve the lack of online access to the Local Development Strategy and the lack of information on budget planning and execution (data tables and figures). The content of explanatory notes needs to be improved significantly in order to become more comprehensible to citizens. Protocols of public hearings should be explicit and accessible online. Transparency regulations are somewhat vague and do not prescribe when, in which cases and in what format should public hearings be organised. Also they do not contain specific provisions requiring that budget information be published online. At the same time, the availability of extensive information on local taxes and abundant information on current and already implemented projects on the Mayor's office website deserves praise. The regular news updates on both the website and the Facebook page of the Mayor's office are also a rather positive finding.
- There seem to be certain difficulties at the initial stages of implementation of new tools, such as FMIS and performance-based budgeting methodology. Streamlined communication both with relevant Moldovan authorities, as well as with international partners is required on this chapter. Moreover, given that training opportunities are also coming from these two sources;
- Tax collection involves rather low cost compared to generated revenue. Still, local tax collectors should pay more attention to the dynamics of the tax base and to the cooperation with other institutions maintaining tax base registers (cadastre, tax inspectorate, etc.);

- Significant problems exist with regard to municipal enterprises, both in terms of their operational results (loss) and in terms of their relationship with the municipal authorities, performance evaluation and consolidation. To a great extent this situation is common for Moldova and constitutes an inheritance from the past. However, as decentralisation trends deepened on the ground, new instruments for solving these problems emerged, including those envisaged in the Water Service Act adopted by Parliament in 2013, which provides for contractual relations with and contract-based performance evaluation of municipal enterprises. More importantly, some serious thinking needs to be done on the new models of local service organisation. Municipal enterprises seem to be quite an obsolete form of service delivery and could potentially be replaced by other organisational and legal forms. At the same time, the collection of tariffs and fees by the Mayor's office and not by the municipal enterprises often brings much better results due to the much greater interest and involvement of the Mayor's office.

Annex 1. Score Table for Ungheni Municipality

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Ungheni Municipality	AVERAGE
A. FINANCIAL RESOURCES OF LOCAL AUTHORITIES	6.3	6.1.
I. GENERAL PRINCIPLES OF LOCAL FISCAL POLICIES	5.6	5.8
1. Transparency and public involvement	6.2	6.6
1.1 Draft budget developed by local authorities should be open and discussed publicly (R2, R3, R10, R15, R17)	6.5	6.7
1.2 Approved local budget is made public (R3, R10, R17)	6.0	7.0
1.3 The report on local budget execution is made public (R16, R17)	6.0	6.2
2. Use of IT	6.5	6.7
2.1 Governance efficiency should be improved by IT (R6)	7.0	6.9
2.2 Use of FMIS (Financial Management Information System) and other IT systems	6.0	6.4
3. Capacity development of local staff	4.0	4.0
3.1 Training in various forms is needed for the local staff (R7)	4.0	4.0
II. LOCAL TAXATION	6.5	6.3
4. Local fiscal policy	7.0	6.8
4.1 Local taxes should be fair (R9)	7.0	7.0
4.2 Local taxes should generate high revenue (R9)	8.0	7.7
4.3 Number of local taxes imposed by local authorities	7.5	7.2
4.4 The mix of local revenue from property of business enterprises and natural persons/residents should be balanced	7.5	6.7
4.5 Revenue from local taxes should prevail over revenue from other sources	7.0	7.2
4.6 Tax avoidance and tax evasion should be prevented (R18)	7.0	6.4
4.7 Information on the tax base should be updated and has to be founded on legitimate sources (R19)	6.0	6.2
4.8 Tax collection: identification of tax payers and collection rate (R25)	6.0	5.6
5. Tax administration and payment monitoring	6.0	5.9
5.1 Tax administration should be simple: few formalities, least administrative efforts by tax payers, easy payment systems (R22, R23)	8.0	7.8
5.2 Payment notices should provide information on tax levies (R23)	8.0	8.0
5.3 Complaint procedures should be clear (R23, R24)	2.0	2.0
III. CAPITAL BUDGET FINANCING	8.3	6.9
6.1 Local capital investment is managed efficiently	8.0	7.0
6.2 Local capital expenditures are funded by diverse sources	8.0	6.6
6.3 Capital borrowing complies with limits imposed by the national legislation	9.0	7.8
IV. LOCAL PROPERTY	4.8	5.3
7.1 Local authorities keep record of their assets and liabilities.	6.0	6.7
7.2 Regulations on municipal enterprises ensure their long-term financial stability	3.5	3.9
B. FINANCIAL MANAGEMENT OF LOCAL AUTHORITIES	6.6	6.7
I. SOUND BUDGETING AND FISCAL PLANNING	6.6	7.2
1. Fiscal strategy design	7.0	7.2
1.1 Multi-annual budget plans (R.45)	7.0	7.2
2. Budgeting methods and capacity	6.0	7.0
2.1 Technical capacity in budget preparation procedure. (R. 46, 57, 58)	5.0	5.8
2.2 Analytical sheets make the budget transparent (R. 47)	6.5	7.3

SECTION and AREA (with reference to recommendation numbers Rec(2004)1 and Rec(2005)1)	Ungheni Municipality	AVERAGE
2.3 Programme-based budget implementation (R.54)	6.5	7.9
3. Budget procedures	6.8	7.4
3.1 Involvement of elected bodies (R.49, R.74)	7.0	7.1
3.2 Public budget debates	6.5	7.6
3.3 Cooperation with other local authorities (R.70)	0.0	0.0
II. SPECIAL RULES ON BUDGET ADJUSTMENT AND IMPLEMENTATION	6.7	6.2
4.1 Regular monitoring keeps track of budget implementation (R.76, 77)	7.0	7.6
4.2 Budget adjustment during the year is limited. (R. 78)	9.0	6.2
4.3 Relations between the local government and its municipal enterprises are regulated by transparent agreements	4.0	4.7
4.4 Special consideration has to guarantee PPP projects (R.72)	0.0	0.0
AVERAGE FOR UNGHENI	6.5	6.4
AVERAGE FOR PILOT TOWNS	6.4	-

Lessons learned and recommendations

Authors:

Marcel BLANUTA,
Alexandru OSADCI,
Diana TOMA
(Moldovan expert team)

Gábor PÉTERI

Piloting Local Finance Benchmarking Toolkit in Moldova

I. BACKGROUND

Thematic programme “Strengthening institutional frameworks for local governance” is part of a regional programme implemented by the Centre of Expertise for Local Government Reform, Directorate General of Democracy (DG II), Council of Europe under the CoE/EU Eastern Partnership Programmatic Cooperation Framework (PCF) during 2015 – 2017 in the Eastern Partnership Countries.

On January 8, 2004, the Committee of Ministers of the Council of Europe approved Recommendation Rec(2004)1 to member states on financial and budgetary management at local and regional levels. Later, on January 19, 2005, the Committee of Ministers of the Council of Europe approved Recommendation Rec(2005)1 to member states on the financial resources of local and regional authorities.

Based on these recommendations, the Centre of Expertise for Local Government Reform of the Council of Europe developed the Local Finance Benchmarking Toolkit. The aim of the Toolkit is to identify and establish best practices in local financing.

The Toolkit identifies an extensive number of activities/indicators regarding best practices, and structures them according to strategic sections and areas. The structure of sections and areas is based on Recommendations Rec(2004)1 and Rec(2005)1 relating to:

1. Benchmarks of financial resources of local authorities.
2. Benchmarks of financial management of local and regional authorities.

In December 2015, a group of three local experts comprising: Marcel Blanuta, Diana Toma and Alexandru Osadci, was contracted to pilot LFB Toolkit in Moldova.

II. PILOTING LFB TOOLKIT

In December 2015, the CoE organised a round-table discussion aimed at launching the piloting LFB Toolkit in Moldova. Representatives of the selected pilot municipalities, partners, international experts, and contracted local experts were invited to participate in the round-table discussion.

Soon after the conclusion of the round-table discussion, the local experts took action in order to pilot the LFB Toolkit. The objectives of the local experts were to:

1. Adapt the Local Finance Benchmarking Toolkit to the reality and needs of local authorities of the Republic of Moldova;
2. Pilot the adapted LFB Toolkit in the selected municipalities.

The adaptation of the LFB Toolkit involved two phases:

1. Adaptation of the LFB Toolkit for piloting;
2. Adjustment of the LFB Toolkit based on piloting results.

As a result of the actions taken, a Toolkit adapted to the conditions of the Republic of Moldova has been produced. The adapted Toolkit is attached to this report.

In addition to the adapted Toolkit, local experts developed a score methodology to be applied for assessment. The methodology is attached to this report.

When the LFB Toolkit was adapted for piloting, a calendar for field trips to municipalities was developed by the local consultant in cooperation with the mayors of the pilot municipalities. The adjusted final calendar is presented below.

Nr. d/o	Localities	Date									Experts
		10.03.2016	15.03.2016	17.03.2016	22.03.2016	28.03.2016	30.03.2016	01.04.2016	11.04.2016	13.04.2016	
1	Ialoveni	■									Marcel Blanuța Alexandru Osadci
2	Cimislia		■								Marcel Blanuța Diana Toma
3	Peresecina, Orhei			■							Marcel Blanuța Diana Toma
4	Straseni				■						Diana Toma Alexandru Osadci
5	Cristesti, Nisporeni				■						Marcel Blanuța
6	Ungheni					■					Diana Toma Alexandru Osadci
7	Colibasi, Cahul						■				Marcel Blanuța Diana Toma
8	Edinet							■			Marcel Blanuța
9	Festelita, Stefan-Voda								■		Alexandru Osadci
10	Besghioz, Ceadir-Lunga									■	Alexandru Osadci

Keeping to the calendar, the local experts made field trips to the municipalities individually or in a team of two, depending of the municipality. One week before each field trip, a list of documents to be prepared for inspection by the experts was sent to the municipalities. Unfortunately, only few municipalities had prepared the documents specified in the list for presentation.

During the visits, the local experts met with the Mayor of each municipality, the chief accountant, the planning specialist, the local tax collectors, and the property registration specialist. The local experts discussed with the responsible persons topics related to the LFB Toolkit and obtained copies of supporting documents (including the local budget, annual financial reports, Local Council decisions, payment notices, capital investments list, approved local regulations, etc.). At the end of each trip, a Mission report was developed and presented to the CoE.

When all field trips were completed, the local experts analysed collected data and assigned scores to each pilot municipality following the score methodology. A report with the results of each municipality was produced by the experts. The reports were presented to the municipalities for feedback and comments. A period of one week was given to municipalities to submit their feedback. Only few municipalities came back with comments and their reports were adjusted accordingly.

In addition to piloting the LFB Toolkit, the experts compiled a database for the 10 pilot municipalities. The database is attached to this report.

At the end of the project, a closing round-table discussion was organised. Invited participants included the same stakeholders who had attended the opening round-table discussion. The goal of this event was to summarise the results of LFB Toolkit piloting in Moldova. The main objectives were to:

1. Report on LFB pilot project activities in Moldova;
2. Obtain feedback from evaluated municipalities;
3. Discuss prospects for LFB continuation in Moldova.

III. PILOTING RESULTS

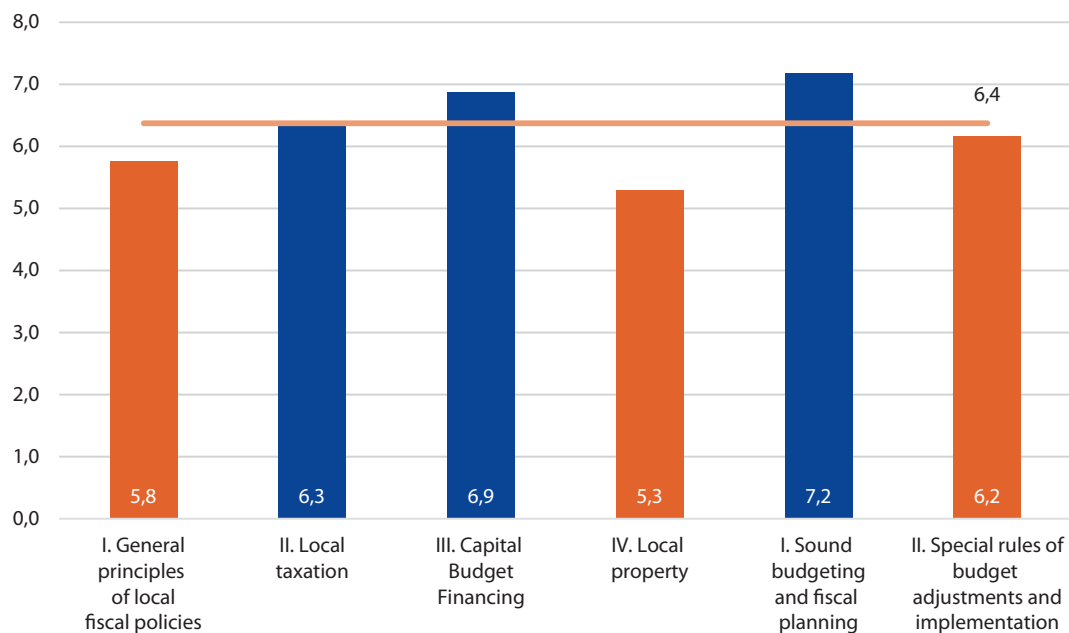
All pilot municipalities were divided in two groups: towns and villages. Each group consists of five municipalities as following:

- Towns: Ungheni, Straseni, Ialoveni, Cimislia, and Edinet.
- Villages: Peresecina, Festelita, Cristesti, Besghioz, and Colibasi.

PILOTING RESULTS FOR TOWNS

The average score of pilot towns is 6.4 points. The results are summarised in the figure below.

Figure 1. Score by main sections for towns



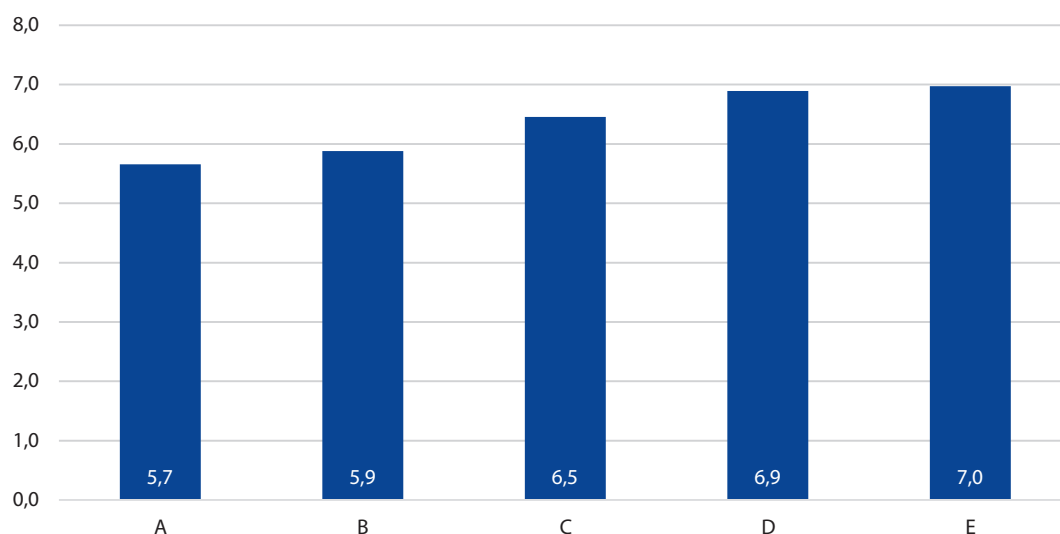
The lowest score obtained by towns is in the “Local property” section with 5.3 points, which is 1.1 points below the average. The main challenges of the towns in this section are:

1. Existence of local property register.
2. Not all LPAs have titles to long-term assets such as land, social infrastructure, parks.
3. Not all public property is part of the balance sheet.
4. Some LPAs do not have a consolidated balance sheet containing municipal enterprises’ property.

On the other hand, the highest score obtained by the towns is in the “Sound Budgeting and Fiscal Planning” section with 7.2 points, which is 0.8 points above the average. This score has been achieved mainly due to the existence of a legal framework, regulating the budget process. The Ministry of Finance has described in much detail how to proceed with draft budget development. In 2016, LPAs applied programme-based budgeting for the first time and the pilot towns fared well.

If we are to rank towns by score, the lowest score obtained by a pilot municipality is 5.7 points, while the highest is 7 points.

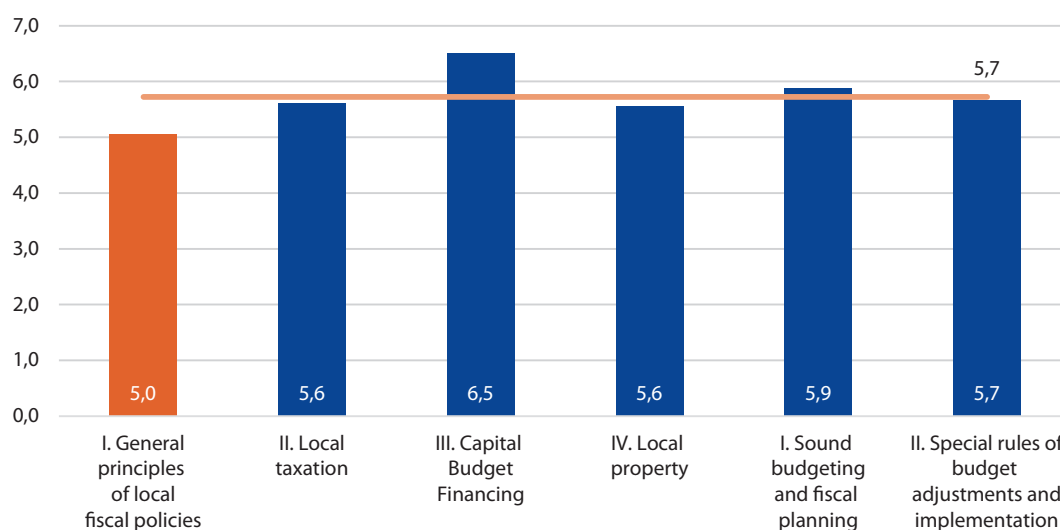
Figure 2. Score by towns



PILOTING RESULTS FOR VILLAGES

The average score of pilot villages is 5.7 points. The results are summarised in the figure below.

Figure 3. Score by main sections for villages



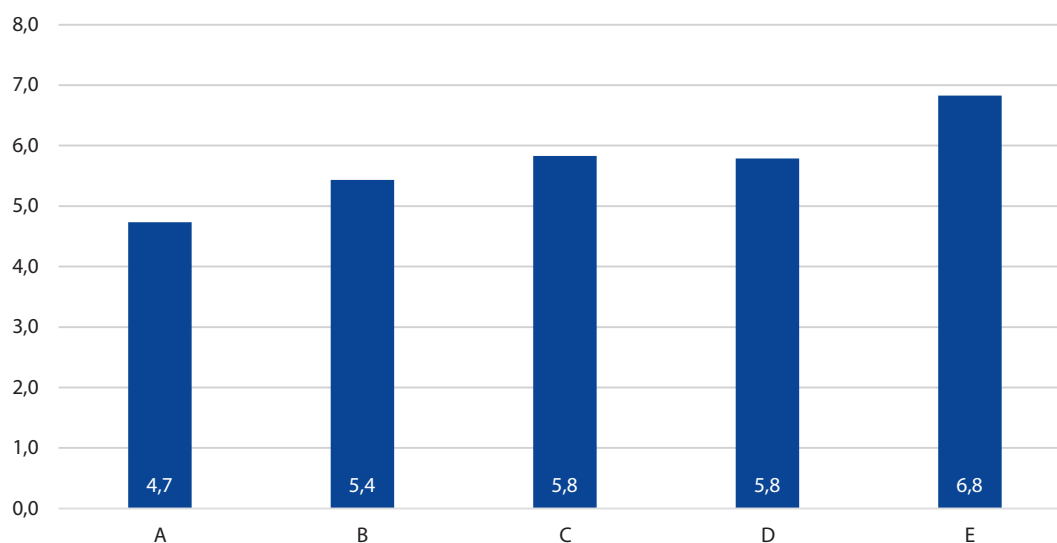
The lowest score obtained by villages is in the “General Principles of Local Policies” section with 5.0 points. This score has been obtained mainly due to lack of transparency and limited use of IT. Almost none of the pilot villages has a website on which to publicise budget-related information while those who have do not update the information regularly.

Use of IT is a serious challenge for some villages. Rural municipalities have no access to the tax cadastre database and surprisingly enough still keep their books manually.

The highest score achieved by villages is in the “Capital Budget Financing” section with 6.5 points. This score reflects the fact that some villages have managed to attract additional capital financing from sources other than local revenue.

If we are to rank villages by score, the lowest score is 4.7 points, while the highest is 6.8 points.

Figure 4. Score by villages



The villages that rank lowest, have room for improvement in order to achieve at least the results of highest ranking villages.

TOWNS VS. VILLAGES

A comparative analysis of the scores obtained by towns and villages is summarised in the table below.

Table 1. Comparative analysis towns vs. villages

	I. General Principles of Local Fiscal Policies	II. Local Taxation	III. Capital Budget Financing	IV. Local Property	I. Sound Budgeting and Fiscal Planning	II. Special Rules on Budget Adjustment and Implementation	Average
Towns	5.8	6.3	6.9	5.3	7.2	6.2	6.4
Villages	5.0	5.6	6.5	5.6	5.9	5.7	5.7

In almost all sections, towns obtained better scores than villages. Only in the “Local property” section, the average score of villages is slightly higher than that of towns. The difference is explained by the fact that villages have less property than towns and property management is easier: villages have fewer municipal enterprises, fewer public buildings and/or less land than towns.

IV. FINDINGS

The LFB Toolkit is a useful tool for comparative analysis between municipalities, and a sort of mirror for municipalities themselves. It helps to understand what is done well and what could be improved.

The main findings of the LFB Toolkit piloting exercise are presented below:

1. *Low transparency of decision making.* Some municipalities do not have websites to ensure long-term transparency of local government. The billboards and social network accounts used by some municipalities do not ensure transparency of decision making.
2. *Limited use of IT.* The pilot municipalities do not make efficient use of available IT. Local experts were surprised to find that none of the villages had access to the tax cadastre database and all payment notices for property tax were issued manually. Also, it was astonishing to find that in almost all municipalities (with few exceptions) the books were kept manually or the existing accounting software was not fully used.
3. *Absence of local tax policy for the mid term.* Local governments should change their approach of ad-hoc tax policy. The existence of a document describing the vision and approach of the local tax

policy for the mid term and specifying the evolution of local taxes and fees in the next 3 years, is desirable for both corporate and private taxpayers.

4. *Lack of local property register.* None of the pilot municipalities has a local property register. The difference is that some of them have taken actions to compile a local property register, while others are just at the beginning.
5. *Poor relations between LGs and municipal enterprises.* With some exceptions, the regulation of the relationship between LGs and municipal enterprises is limited to the Statutes of municipal enterprises. No contracts or agreements specifying the parties' obligations and responsibilities have been concluded.
6. *The value of real estate property is underestimated.* Local governments lose a significant share of their revenue from property tax due to undervalued real estate property. Recent changes to the legal framework give local authorities the right to finance the appraisal and re-appraisal of property.
7. *Low level of local tax database development.* Most local taxes are administrated by the territorial tax office. Hence, local authorities have no access to the local tax database maintained by the territorial tax office. This situation makes local authorities develop their own tax databases, and most of these are kept on paper. In some municipalities, local authorities were unable to present even something resembling a tax database. Local authorities face additional problems with is the introduction of the new sanitation tax. To levy this tax, local authorities need data on the permanent population of the municipality. Such data are available in the population register maintained by a central authority. Some local governments took action by contacting this central authority in order to obtain access to the database but unfortunately with no success so far. Like with the property register, some local authorities have began to develop their own population databases but these have much weaknesses compared to the population register.

V. RECOMMENDATIONS

Based on the findings mentioned above, the following recommendations are made:

1. *Local authorities should launch websites and upload as much information as possible on them.* The availability of a website does not guarantee a good level of transparency, if data are not regularly updated. In addition, local authorities should continue using social networks.
2. *Local authorities should obtain specialised IT and use it fully.* Accounting software should be available in each municipality and should be used fully. Also, access to the tax cadastre database for each municipality is a must. Use e-mail as much as possible in internal and external communication.
3. *Local authorities should invest efforts in developing a local tax policy.* The existence of such document will also increase the transparency and predictability of local government decisions on local taxation.
4. *Local property register.* The existence of local property register might bring additional funds to the local budget. When local authorities do not know what property they possess, they can hardly generate revenue from their assets.
5. *LGs should formalise their relationship with municipal enterprises.* The Statutes of municipal enterprises cannot adequately regulate all responsibilities and obligations that may arise in the relationship between LGs and municipal enterprises.
6. *Start to budget funds for property re-appraisal.* In order to increase revenue from property tax, LGs should start to budget funds and re-appraise the real estate property on their territory. Donors' funds should also be explored as a potential source.
7. *Develop/access to tax database.* This recommendation rather applies to the central government. Local authorities should be given access to existing tax databases kept by central authorities at no additional costs. Local authorities should have access not only as users but also as administrators. This applies in particular to the database kept by the Tax Office and the Population Register. In addition, the central government should establish a link between the tax database and the state border police database. Upon entering the country, each person could be "screened" for tax arrears and in case of a positive result, be notified and asked to contact the local authorities or another public institution to

settle the issue. Upon leaving the country, each person could also be “screened” and in case of a positive result, could be denied exit until the arrears are settled in full. Such an integration of databases would help solve the problem with property tax arrears in particular. The growing migration trend each year leads to an increase in arrears on this tax.

Further specific recommendations are provided in Annex 1.

VI. FOLLOW-UP ACTIONS

1. *Presenting the results (web-based application).* A website should be developed to post LFB results. The website could be developed by the host organisation.
2. *Hosting and promoting the LFB toolkit.* As agreed on the closing round-table discussion. The host organisation will be CALM (Congress of Local Authorities from Moldova). CALM should start to promote the LFB Toolkit and invite additional municipalities to join this exercise.
3. *Developing benchmarking capacity: manual, procedures, pool of local experts, funding options.* CALM would be better positioned to further develop the LFB Toolkit and identify a group of local experts that would exercise LFB further, as well as a source to fund these exercises.
4. *Inviting municipalities to the benchmarking “club”.* As mentioned above, CALM will be investigating opportunities to invite additional municipalities to join the LFB exercise by explaining the benefits the LFB is offering.
5. *Using and updating the finance database/indicators.* The database is essential for LFB continuation. A database of local finance indicators should be developed and CALM will endeavor to ensure that these indicators are regularly updated. The database should be structured as a web-based application.

Annex 1. Conclusions and recommendations for public policy

BASIC CONCLUSIONS

Among those studied, the most problematic areas affecting local fiscal policy are:

1. Property registration and property appraisal (score 4.7 – 6.2 for towns and 6.0 for villages);
2. Lack of proactive approach to local fiscal policy caused by both national and local factors (score 4.8 – 5.6 for towns and 4.8 for villages);
3. Lack of tax base documentation/registration and lack of correlation between various local tax base sources/data (score 4.7 – 6.2 for towns and 6.0 for villages);
4. Low transparency of decision making (website, Facebook, consultations with the population, complexity of documents presented and published, etc.) (score 1.0 – 6.6 for towns and 5.2 for villages);
5. Limited use of information systems and financial instruments (1C accounting package, FMIS, programme-based budgeting, e-mail availability, access to these tools by municipal staff, etc.) (score 2.0 – 6.7 for towns and 5.9 for villages);
6. Municipal enterprises (MEs): functionality, relations between MEs and local governments (LG), efficiency, organisation (score 7.2 – 3.9 for towns and 5.3 for villages).

Among those studied, the most problematic areas related to national fiscal policy are:

1. Lack of financial resources locally, especially at the discretion of LGs, which in turn undermines public interest in local government;
2. Serious constraints related to local fiscal policy – ceilings, quotas on main taxes (real estate tax, land tax);
3. Impediments to liberalisation and formal or informal capping of local taxes;

4. Significant and persistent loss of revenue due to generous tax exemptions granted by the central government;
5. Low share of towns in PIT (20%) on the background of high tax evasions, which does not promote local economic development.

RECOMMENDATIONS ON LOCAL FISCAL POLICY

- Transparency (score 6.6 for towns and 5.2 for villages). Simple and low-cost measures can be undertaken towards raising the level of transparency such as:
 - Launching and maintaining a website and a Facebook page that give access to major draft decisions and approved decisions would provide more information and ensure higher involvement of the public in community affairs (in both villages and towns).
 - Also it would be helpful to inform community population about all Local Council meetings, especially on key issues, and to ensure open access to these meetings.
- Information Systems and new financial instruments
 - Communication with both central and regional authorities in the Republic of Moldova, as well as with international partners, is needed on the organisation of trainings or ad-hoc support on specific issues related to the introduction of these instruments.
 - The FMIS should be seen not only as a mandatory tool but also as a useful reporting, financial analysis and commitment-tracking instrument for LGs.
 - Use of the 1C accounting package is an urgent need. The connection between the 1C accounting package and the FMIS needs to be ensured with the support of central and regional authorities, and possibly with the involvement of the development partners.
 - E-mail accounts should ideally be available to all LG staff.
- Local fiscal policy (score 6.8 for towns and 6.2 for villages). Even though local fiscal policy has some serious constraints stemming from the national fiscal policy, certain measures still can be considered locally such as:
 - Tax collectors may pay more attention to the dynamics of the tax base and to cooperation with other institutions keeping tax registers (cadastre, tax inspectorate, etc.). It would be worthwhile to explore possibilities for increasing the number of tax collectors, where possible, or even contracting/hiring a fiscal/financial analyst.
 - The tax base and all data related to the existing tax base constitute a source of income, which has been rather untapped so far.
 - Property tax rates and collections are extremely low and do not reach the ceilings established by the legislation. It is worthwhile to revise these rates in each municipality. For rural communities where there are no established thresholds for this tax, potential reserves for higher income generation from this tax could be explored.
 - Local tax rates and local tax collections are often extremely low. It is worthwhile to revise rates in combination with consolidation of data/information on the tax base, including by studying the experience of other communities.
 - Raising funds and negotiating projects with national public investment funds, as well as with international donors, can include as a separate component or even as a separate project, the increase of the tax base. Such a project can envisage expenses for real estate and cadastre registration or for enhancing cooperation with institutions/agencies empowered with tax base registration.
- Municipal enterprises (score 3.9 for towns and 5.3 for villages) raise concerns both with regard to their operating results (losses), as well as to the regulatory basis of the relations between LGs and operators, performance assessment and strengthening of operators. To a significant extent this situation is common for Moldova and is a legacy of the past.
 - Meanwhile, several decentralisation trends in the country are offering some new incentives for solving these problems, including those envisaged in the Water Service Act adopted by Parliament in 2013, which provides for contracts between LGs and operators and performance evaluation of municipal enterprises.

- A serious review needs to be carried out on new ways local service organisation. Municipal enterprises seem to be quite an obsolete form of service delivery and could potentially be replaced by other organisational and legal forms.
- Meanwhile, the collection of payments and fees by the Mayor's office and not by municipal enterprises often bring much better results due to higher interest and involvement of the LG.

RECOMMENDATIONS FOR NATIONAL POLICY

- Local fiscal policy could benefit significantly from improved national fiscal policy. Moreover, some significant efforts are urgently required to mitigate negative financial consequences that will emerge after expiration in 2016 of the Compensation Fund established in the framework of local finance reform, as well as the impact of multiple tax exemptions generously granted by the central government at the expense of local public administration.
- Some potential gains might be possible both under the current legislation and under the policies currently being discussed at the central level, such as provision of real estate appraisal authority to local governments (Fiscal Policy 2016), personal income tax (PIT) sharing based on place of residence, etc.
- At the same time, other sources of income are needed to improve the situation of LGs, such as, for instance, raising the share/rate of PIT shared with towns, which is currently only 20%. Coupled with related tax evasions, this tax seriously undermines motivation for local economic development. Another possible measure noted by mayors towards promoting economic development and attracting investment, is sharing corporate income tax (CIT) with LGs.
- Land tax, which is an important source of income for rural communities, has not been changed for 10 years and the collections are extremely poor, with significant untapped potential. Especially considering the fact that in Europe both land tax and real estate tax are local taxes, and rates are at the full discretion of LGs. At least the land tax rate should be increased in line with the initial proposal of the Ministry of Finance (15%) for 2016 under the Fiscal and Budget Policy.
- The appraisal and registration of property and buildings require particular attention since they hold significant potential for increasing the local tax base. Real estate appraisal and registration is the best way to increase the local tax base. At the same time, the cooperation between local governments and institutions responsible for recording and registering different types of property should be strengthened by modifying existing legislation towards general availability and full access to information at least for public administrations at all levels (e.g. register of business enterprises, local taxpayers' register, etc.)
- In rural communities, cash shortages and uneven financial inflows and outflows throughout the year constitute a particular problem. In communities where local revenue comes mainly from taxes on specific agricultural activities, the gap between collections and disbursement of financial resources is significant in the beginning of the year (winter-spring). For these communities, a different schedule of transfers from the state budget could be considered with some advance payments at the beginning of the year and a smaller share of transfers at the end of the year (especially in the fall).
- Municipal Enterprises (MEs) constitute a serious long-term problem, which must be addressed most seriously and in the shortest time both at local and central level. At the central level, steps should be identified and implemented towards general rethinking and possibly encouraging/motivating changes in the form of organisation of MEs.
- Capital investment and investment projects seem to be an area with the most spectacular performance among all. Nevertheless, at least two concerns related to national policy were raised with regard to public and private investment. The first one is quite obvious and widely known and involves the politically biased nature of the selection and approval of capital investment projects by national investment funds. The second one relates to the problems LGs encounter in attracting private investment and namely, the negative influence of certain private interests either at national, regional or local levels, which prevent massive investment in Moldova. Both issues are currently being targeted by the Moldovan Government, but measures to counter such practices should be more comprehensive and more consistent and should be implemented much more urgently.

Adapting and piloting the Local Finance Benchmarking Toolkit in Moldova

ADAPTATION OF THE STANDARD LFB TOOLKIT

The standard Local Finance Benchmarks were adapted in Moldova in two stages. The final version follows the structure of the original toolkit by identifying sections and areas with a serial number in a hierarchical order. During this adaptation process, 27 areas of LFB were identified, so approximately one third of the standard LFB items were accepted.

Among the areas related to local *financial resources*, the section on fees and user charges was omitted. The area on capital budget financing was significantly reduced (40%), primarily because the items on borrowing and diverse sources of capital investment financing are not relevant to Moldova. In the other cases, approximately half of the areas were accepted.

In local *financial management*, several issues on budgeting and fiscal planning were not used (38% of areas adapted). In budget implementation and control, a number of institutions and procedures, such as independent audit, service contracts, use of external contracts, are missing in Moldova, so even more areas were dropped from the standard toolkit here.

Following the adaptation of these benchmarking areas, relevant activities were identified. 71 indicators were selected from the options offered by the standard toolkit. These measurable activities provide a good basis for analysis and comparison. The verification documents mostly followed the sources offered by the standard toolkit.

The scoring method in Moldova was based on the approach of the Basque LFB project. So three factors were taken into consideration: 1. implementation of the measured activity (max. 60% of the total scores), 2. level of formalisation of the assessed action (max. 20%) and 3. the quality of evidences provided (max. 20%).

In order to make the score objective, the specific policy decisions (e.g. giving tax allowances, borrowing) should be evaluated in the local context: for example, tax exemptions for LED purposes score higher if they are not very selective, support fairness, do not harm effectiveness, etc. If an indicator cannot be evaluated (e.g. no borrowing at all, so the limits cannot be evaluated), then that item should be dropped.

During the adaptation stage, a launching workshop and an expert meeting were organised and a selected pilot municipality was visited. The LFB drafting and adaptation was implemented in several rounds of exchanges on methods, comments and reviews of the draft toolkits.

The tasks and responsibilities of the future *host organisation* were also specified. The partner organisation received the adapted version of the standard Local Finance Benchmarking (LFB) Toolkit in English and in Romanian, the results of LFB survey, and the reports on the pilot municipalities. CALM (Congress of Local Authorities from Moldova), the local government association, has the right to use the final, revised version of the LFB toolkit (copyright will remain with the CoE). In return, the partner organisation hosted the local LFB project during adaptation and piloting, and organised the launching workshop and a closing round-table discussion in cooperation with the CoE. It was agreed that the host organisation would promote the LFB programme and would design long-term plans for the LFB implementation programme to ensure the sustainability of the LFB (organisational forms, management scheme, options for financing, publicity, advocacy).

PILOTING THE TOOLKIT

The pilot municipalities were selected by CALM, the partner local government association. Among the ten municipalities, there were five bigger towns (Straseni, Edinet, Cimislia, Ungheni, Ialoveni) and villages with population below 7,000 (Colibasi, Preresecina, Festelita, Besghioz (Gagauzia), Cristesti).

Cooperation with the pilot municipalities was planned by specifying the services provided by the LFB project. The participating municipalities received the filled in adapted Local Finance Benchmarking survey together with a specific report with recommendations on local revenue policies and financial management practices.

In return, the pilot municipalities participated actively in the LFB project, commented on the draft version of the adapted LFB toolkit, assisted local experts in implementing the LFB survey by providing the requested information (municipal documents, data, etc.).

CALM, the host organisation, notified the participating pilot municipalities in writing about the actual start of the fieldwork in the period of March and April. The local governments were notified about the scheduled visits of the LFB experts. The list of documents needed for benchmarking local finances was shared with the local governments in advance. In the field of budgeting, budget implementation and local taxation, the minutes of local commission and local council meetings were requested. In addition, regulations on budgeting procedures, accounting rules, budget documents, regulations on local taxes, service performance reports, databases, audit reports, codes of conduct, procurement regulations, conflict of interest regulations, local statutes, organisational charts, information on municipal staff, statistics on municipal IT were collected. Additional information was gathered from municipal websites and local government fiscal statistics.

According to the LFB survey results, the highest scores were given to the following sections of local financial resources and financial management: capital budget financing (average score of towns and municipalities: 6.7), budgeting methods (6.6) and budgeting procedures (6.5). The lowest scores, where there is room for improvement, are as follows: local property management (5.4), local fiscal policy design (5.4), local staff capacity development (4.0). There are visible differences between the pilots: the best performing one had an overall average score of 7.0, while the lowest average score was 4.7.

Towns usually perform better than villages in fiscal strategy design, budgeting procedures, transparency and involvement of the general public. Villages were scored higher in cooperation with other municipalities and established regulations on municipal companies.

Based on the ten municipal reports, *general policy lessons* were formulated for CALM and for the MoF. These proposals are based on the evidence collected during the piloting and focus on the areas where towns and villages received low scores. In *towns*, systemic changes are needed primarily in the following areas:

1. *tax administration*: local governments have no established complaint procedures and during tax collection, taxpayers are not properly identified, the collection rate trends are not analysed;
2. *local asset management*: property management practices and the contractual relations between the client municipality and the contracted municipal enterprise are important;
3. *municipal training and capacity development*: diverse training for the local staff should be provided in those areas where it is needed the most (legal, financial, organisation) and technical capacity development is needed in budget preparation.

In village municipalities, the areas of improvement (with the lowest scores) are the following:

1. *revenue administration*;
2. *local property management*;
3. *public budgeting*: draft budgets should be made public, including all background data and analytical sheets, information should be actively collected from citizens, approved budgets and budget reports have to be publicised through various channels, multi-annual budgets should identify budget objectives and their fiscal consequences;

4. *other diverse issues*: information technology should be used more comprehensively, municipal cooperation is needed, and local budgets seem to be modified too often.

CLOSING THE LFB PROJECT

The reports on the pilot municipalities and some general lessons for future policy changes were presented at the closing round-table discussion. The participating pilot municipalities accepted the findings and the recommendations, formulated by the local expert team.

The policy lessons were not directly linked to the LFB results, which led to a debate on how benchmarking can support CALM in the future. It was agreed that this LFB survey can mostly support participating local governments, rather than regulatory changes. However, the revised version of the policy lessons identified key areas of intervention.

It was discussed with CALM, as a host organisation, that the LFB pilot results will be made public. The LFB project will provide assistance in developing the web application for presenting the project results.

No specific plans were made on how the benchmarking project can be further promoted and continued. The local government association seemed to be more interested in developing the local tax database and indicators.

Annex 1. Policy lessons from the Local Finance Benchmarking survey

The LFB survey primarily aims to support comparison of financial resources and financial management practices of local governments. However, when in some areas, all evaluated municipalities score low, this indicates systemic problems in these areas. Below, we briefly summarise the most problematic areas of local finance benchmarking in Moldova. Addressing them might require coordinated actions of legal, regulatory changes, capacity development or perhaps simply more funds are needed.

As the issues in towns and villages are rather different, they will be discussed separately. The most problematic LFB toolkit items are grouped, so for the purposes of this summary they are not ranked. The missing areas of local finance benchmarking, which were scored zero are not included in this summary. References will be made to the specific items of the two sets of Recommendations on local finances.

Towns: systemic changes needed on

- ***tax administration***
- ***local property management***
- ***municipal training and capacity development***

Two items scored low in the field of *tax administration*: local governments have no established complaint procedures (Financial Resources (FR) 5.3) and during tax collection taxpayers are not properly identified, the trends in collection rate are not analysed (FR 4.8). These two issues are related to the Recommendations on financial resources No. 23-25. They require that taxpayers be allowed to check the accuracy of their tax bills and that procedures for complaints and appeals are established. All these aspects of tax administration should be part of regular tax audits, when local governments review tax collection costs and assess incentives.

Some issues of *local government asset management* also scored low. In the section on property management (FR 7.2) and the special rules of budget implementation (Financial management (FM) 4.3), the contractual relations between the client municipality and the contracted municipal enterprise are considered as important ones. These contracts should include specification on service performance, the level and forms of compensation, preferably for a longer period.

The third area with low scores involves *training and capacity development* of municipal staff. Local governments should provide diverse training for local staff (FR 3.1) in those areas where it is needed the most

(legal, financial, organisation, see the Recommendations, No. 7.). The other related area is technical capacity development for budget preparations (FM 2.1). This benchmarking indicator is based on the Recommendations on budget procedures No. 46, 57 and 58. They emphasise the importance of a specialised budgetary unit, which is familiar with the budgets of all spending departments and is able to manage internal debates on the budget. Special expertise is needed for discussing budget proposals with the persons responsible for the overall financing issues, such as balanced budget, revenue and debt.

Villages: areas of improvement include

- **revenue administration**
- **local property management**
- **public budgeting**
- **other diverse issues**

In small-size municipalities, several LFB items scored low. Some of these issues cannot be grouped, which shows that rural municipalities have rather diverse problems in fiscal resources and financial management.

The first problematic area is *revenue administration*, similarly to the areas of improvement in towns. The complaint procedures (FR 5.3) are not clearly formulated here, either and tax collection lacks proper identification of tax payers and analysis of collection rate trends (FR 4.8).

Local government *capacity development* ranked low in all pilot municipalities. The simple indicator of annual staff days spent at training courses (FR 3.1) shows how diverse and well-organised the municipal training policy is.

Similarly to the towns, *local property management* lacked regulated long-term relations with municipal enterprises (FR 7.2) and transparent agreements (FM 4.3) between the local government and the service organisation.

Several issues of *public budgeting* scored low in the villages. As a basic condition of proper inclusive budgeting, draft budgets should be made public (FR 1.1) including all background data and analytical sheets (FM 2.2). Information should be actively collected from the citizens (FM 3.2). Approved budgets (FM 1.2) and budget reports have to be publicised through various channels (FM 1.3). Multi-annual budgets (two-four years) should identify budget objectives, their medium-term fiscal consequences and the costs related to approved budget priorities (see Recommendations No. 45).

The last group with low scores covers diverse issues of finance resources and financial management. *Information technology* should be used more comprehensively by the local governments (FR 2.1). It should support management decisions, combining various local databases and information systems both horizontally and vertically (Recommendation No. 6). *Municipal cooperation* (FM 3.3) both with neighbouring local governments and with partners within the administrative hierarchy scored low. Local government budgets seem to be *modified too often* (FM 4.2).