

Local Government System and Finances in the Republic of Moldova



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Overview of this talk



- **Background of Local Governance**
 - Legislation, Structure, and Competences
- **Local Government Budget Structure**
 - Revenues and Expenditures
- **Issues of Local Governments**
 - Frictions and Inefficiencies
- **Current Reforms**
 - Decentralization



Republic of Moldova

Parliamentary Republic

Population: 3.58m

Territory: 33,843 sq. km.

Borders: Ukraine,
Romania

Capital: Chisinau (.76 m)

Currency: Moldovan Leu
(1 EUR = 20 MDL)

Language: Romanian



General data

5 regions:

North, Center, South,
Chisinau, and ATU
Gagauzia

35 LGUs 2nd tier:

2 Municipalities
(Chisinau and Balti)

32 Raions and
Districts

1 Autonomous
Territorial Units
(Gagauzia)

898 LGUs 1st tier

864 communes
(villages)

32 district residence
towns

Administrative territorial organization and local governance



Administrative Territorial Organization



- A very fragmented system
- Average Population in first level LGU: 2850
 - By Law on ATO, minimum required number of residents for ATU is 1,500
 - However, 1/3 have a population smaller than 1,500, while 86% have a population smaller than 5,000 inhabitants
- As such, LPAs have limited administrative capacity to fulfill their functions
 - Insufficient financial resources
 - Limited size of localities
 - Reduced managerial capacity (recruiting skill is difficult)
 - Higher per capita costs of service delivery (diseconomies of scale: 250 MDL/capita in smaller municipalities, 50 MDL/capita in larger municipalities)
- The majority of local governments have merely a representation rather than service provision

Legislation



- **Legal principles and institutional framework for local communities functions**
 - Constitution of RM (1994): Local public administration (art. 109), Administrative territorial organization (art. 110, 111), General principles on local organization and district councils (art. 112, 113), Public budget (131) and fiscal principles (132)
- **Local governments finances:**
 - Constitution of Republic of Moldova, Law No. 436-XVI on Local Public Administration, of 28 December 2006, Law No. 397-XV on Local Public Finance, of 16 October 2003, Tax Code of Republic of Moldova, No. 1163 of 24 April 1997, Law No. 847-XIII on the Budget System and the Budgetary Process, of 24 May 1996., Law No. 419-XVI on Public Debt, State Guarantees and State Refinancing, of 22 December 2006, Law No. 229 on Public Internal Financial Control, of September 23, 2010.
- **These laws also define competences, responsibilities, and functions of local governments**

Budget Structure

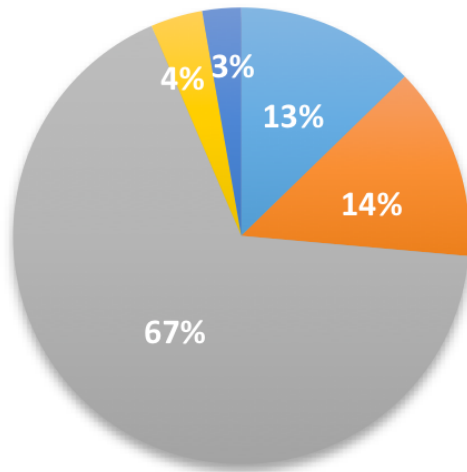


- **Revenue Structure**
 - Own budget revenues (local taxes and fees, property tax, other fiscal and non-fiscal revenues)
 - Shared taxes and fees
 - Special means (special funds)
 - Transfers (from the state budget)
 - Grants Borrowings
 - Revenues from property sales and privatization

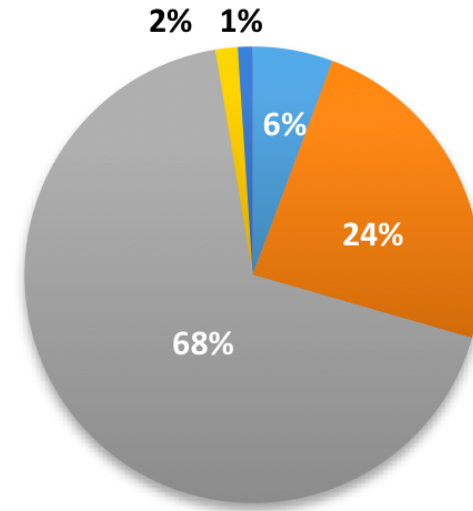
Revenue Structure (2014)



Ist level local governments



IInd level local governments



Own revenues

Shared taxes and fees

Transfers

Special means

Grants

Own revenues

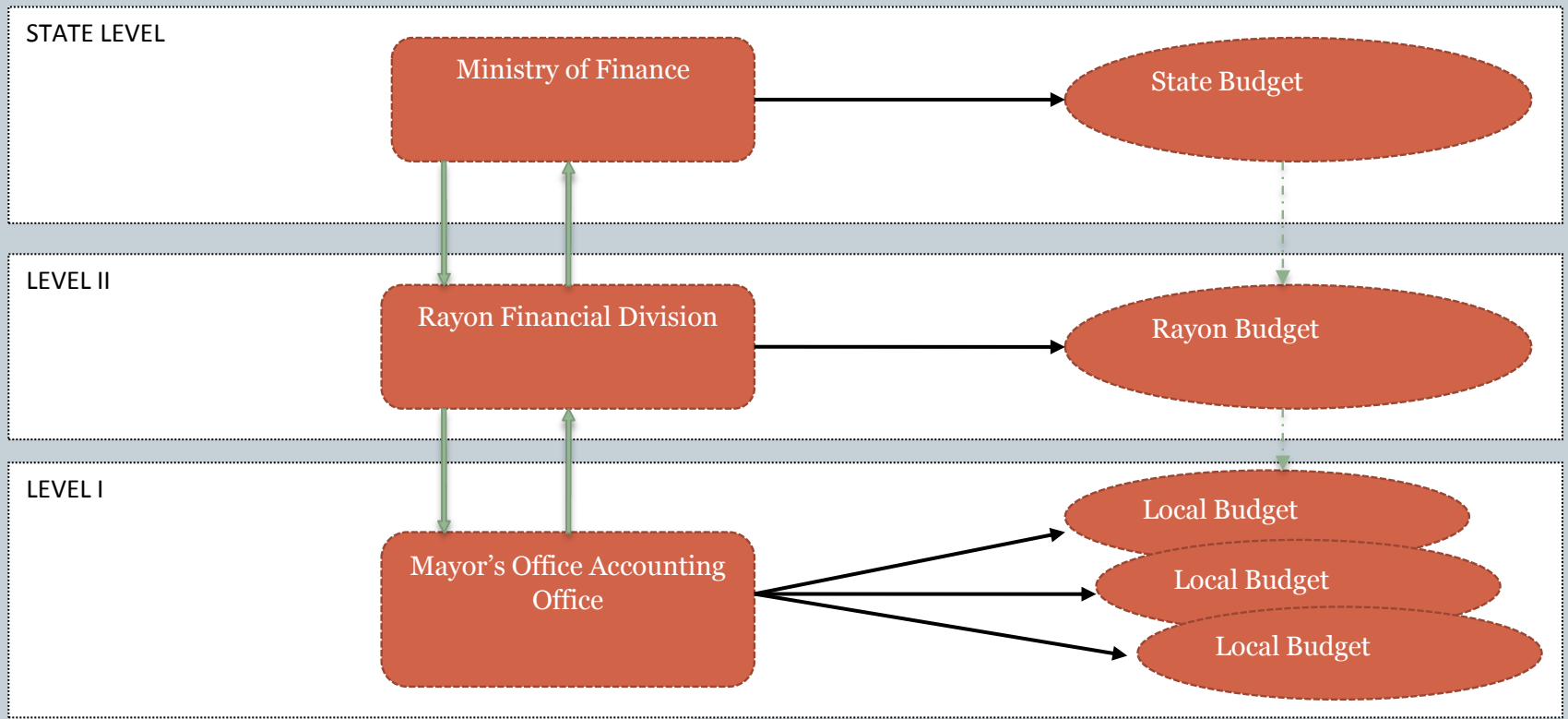
Shared taxes and fees

Transfers

Special means

Grants

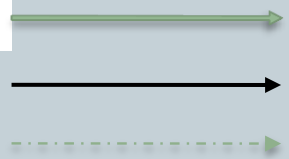
Transfers before fiscal decentralization



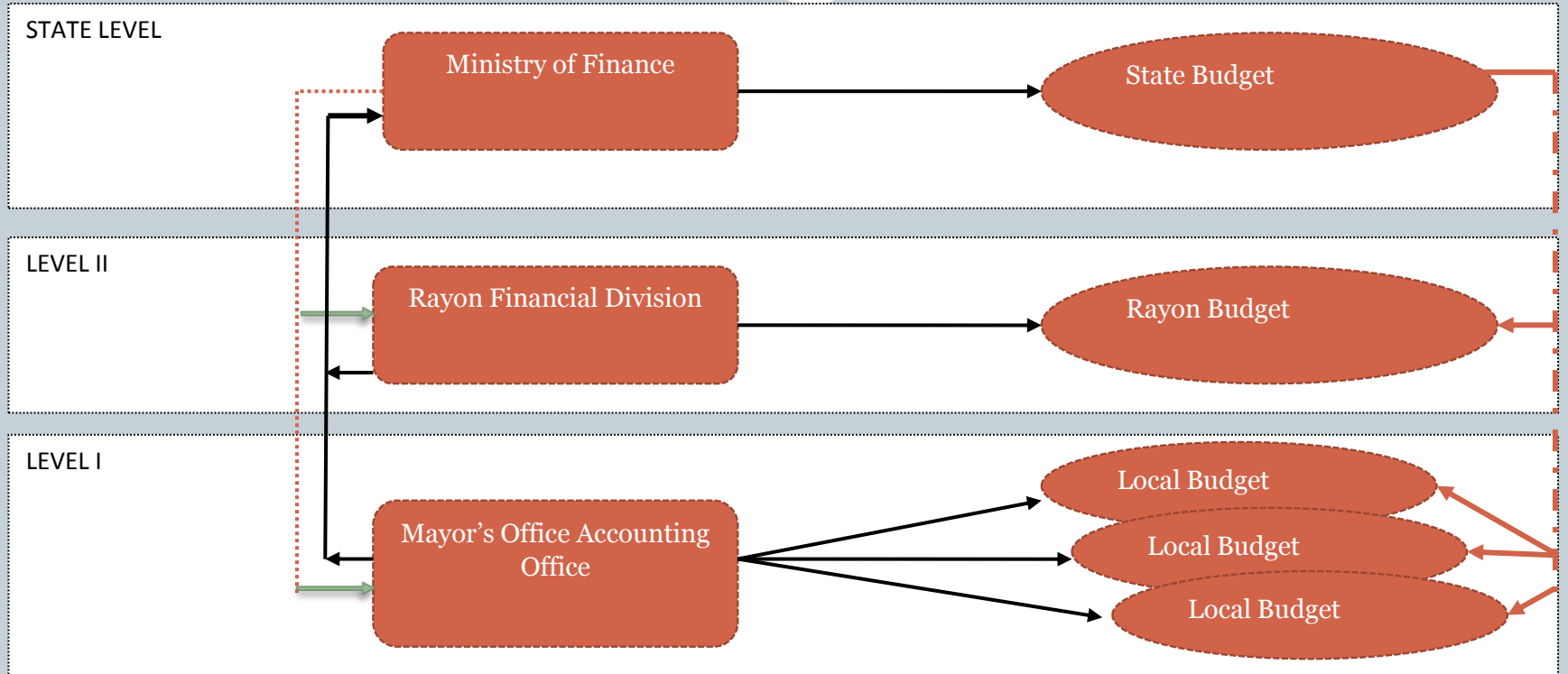
Methodological Notes

Revenue and expenditure estimations

Transfers from one level to other



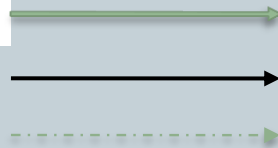
Transfers after Fiscal Decentralization



Methodological Notes

Revenue and expenditure estimations

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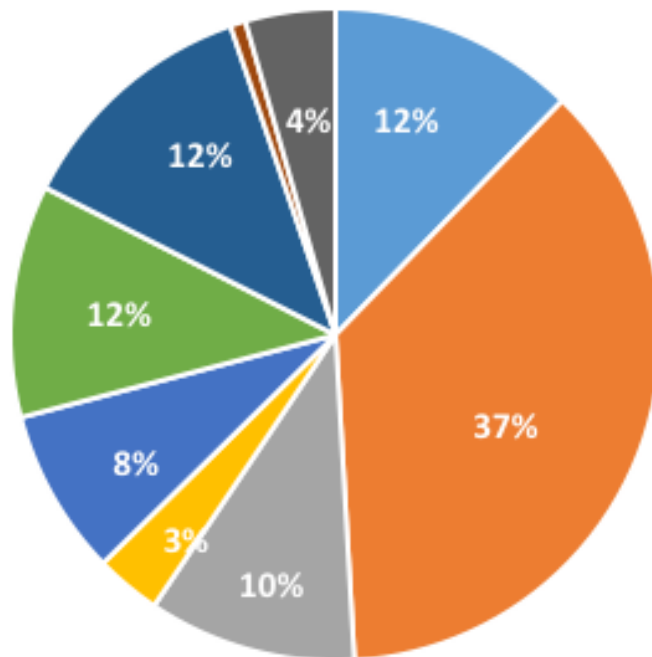
Budget Expenditures



- **Classifications:**

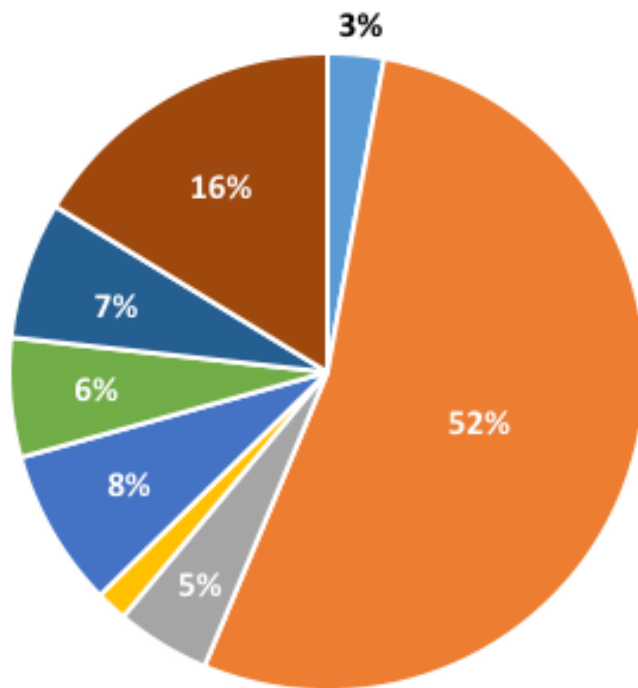
- organizational expenditures clasified by local and central governments (first level local governments, second level local governments, central governments, municipalities)
- functional expenditures clasified by their functions(ex. Education, social, cultural etc.)
- economical expenditures clasified in 2 main groups current expenditures and capital expenditures.
- program based budgeting represent multi-years clasification of the expenditures by programs/ projects.

Budget expenditures, tier 1 (2014)



- Servicii de stat cu destinație generală
- Învățămînt
- Cultura, arta și sport
- Asigurarea și asistența socială
- Protecția mediului
- Transporturi și gospodăria drumurilor
- Gospodăria comunală
- Complexul pentru combustibil și energie

Budget Expenditures, tier 2 (2014)



- Servicii de stat cu destinație generală
- Învățămînt
- Cultura, arta și sport
- Ocrotirea sănătății
- Asigurarea și asistența socială
- Transporturi și gospodăria drumurilor
- Gospodăria comunală
- Activitățile și serviciile neatribuite la alte grupe principale

Local Government Main Issues



- A weak local fiscal system and the lack of information about taxpayers, that lead to missing of major sources of income;
- Lack of knowledge in attracting external financing
- A weak public procurement management;
- Lack of capacity to attract investors
- A low level of transparency of local government's activity;
- For the majority of local governments the expenditures exceed revenues, and is a lack of resources for capital investments;
- Financial resources are not used efficiently;
- A low level of collection of own revenues to local budgets.
- Lack of resources for capital investments

Current Reforms



- **Decentralization Reform**
 - Pilot Implementation in 2014
 - Currently implemented across country
- **Territorial Administrative Organization reform**
 - Agenda for 2015, after local elections
 - Very difficult political subject...