

REPUBLIC OF MOLDOVA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: MOLDOVAN LEU (MDL)

POPULATION AND GEOGRAPHY

Area: 33 850 km²
Population: 3.550 million inhabitants (2017), a decrease of 0.1 % per year (2010-2015)
Density: 105 inhabitants / km²
Urban population: 41.1% of national population (2017)
Urban population growth: 0.0% (2017 vs 2016)
Capital city: Chisinau (14.4% of national population)

ECONOMIC DATA

GDP: 20.2 billion (current PPP international dollars), i.e. 5 698 dollars per inhabitant (2017)
Real GDP growth: 4.5% (2017 vs 2016)
Unemployment rate: 4.1% (2017)
Foreign direct investment, net inflows (FDI): 160.8 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.4% of GDP (2017)
HDI: 0.700 (high), rank 112

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Constitution of 1994, established Moldova as a parliamentary republic. The Parliament consists of a single-chamber of 101 members elected by universal suffrage for four years. Since 2016, the President is directly elected by universal suffrage (previously, he was elected by the Parliament) to be the Head of State for four years. The Prime Minister is nominated by the President in consultation with the parliamentary majority.

Moldova is a unitary country. Decentralisation and local government's autonomy are enshrined in the 1994 Constitution (art. 109). According to Art. 110, the territory is divided into villages, towns, districts and the autonomous territorial-unit of Gagauzia. Forming a two-tier subnational system, with a regional and a local level. The two municipalities of Chisinau and Balti have competences at both local level and regional level.

The decentralisation process in Moldova has been uneven, with several phases of stop and go. In 1994, several changes to the Soviet-model system of administration were made, although the Soviet model of administrative-territorial units remained mostly unaltered. Subsequent to the adoption of the European Charter of Local Self-Administration in 1997 and wanting to conform with European Standards, a new territorial structure and division of resources and competencies were established in 1998, which followed the Romanian model. In December 2001, the newly-elected Communist government started another round of administrative-territorial reforms which took effect in the aftermath of the 2003 local elections. The reform restored a quasi-Soviet model of territorial division of authority, and local autonomy was significantly reduced.

Several laws were passed, such as the 2003 Law on Local Public Administration and the 2003 Law on local public finance (no. 397-XV, amended in 2013) and the Law on administrative decentralisation 435/2006. The most important law is the 2006 Law on Local Public Administration (no. 436-XVI, amended in 2012). It acts as a code for the local administration system and regulates the organisation of SNGs, their competences, their internal administration, the forms of control over their activities, their property and financial resources, and the forms of association and co-operation.

After a political crisis which lasted between 2009 and 2010, a new phase started and in 2012, Moldova launched a National Decentralisation Strategy and Action Plan for 2012-2015. In accordance with the European Chart of Local Self Governance (adopted by Moldova in 1997), the strategy and action plan aimed at addressing the fiscal, financial and management challenges, which resulted partly from the high-fragmentation of the first-level government units and partly from the insufficient institutional and administrative capacity. A pilot implementation started in 2014 and was expanded to the whole country in 2015. It is estimated that only 40% of reforms have been implemented. In early 2016, it was decided that the reform would extend until 2018.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	56 cities (orase) including 13 with municipality status (<i>municipii</i>) 869 communes or villages (<i>sate</i>)		32 districts (<i>raions</i>) 2 municipalities 1 autonomous territory	
	Average municipal size: 3 840 inhabitants			
	925		35	960

OVERALL DESCRIPTION. Moldova has a complex territorial organisation that results from a series of administrative-territorial reforms that took place between 1994 and 2002. The 2002 Law on the Territorial-Administrative Structure set up the current division of a regional and local levels. It is worth noting that there is one unrecognised territorial unit (Transnistria) that does not consider itself subject to the jurisdiction of Moldova.

REGIONAL LEVEL. The regional level consists of 32 districts (*raions*), two municipalities (*Municipii* of Chisinau and Balti) and one autonomous territory (*Gagauzia*). At district level, the governing body is the district council (*Consiliul raional*) whose councillors are elected by universal suffrage for a term of four years. The district council elects a president (*presedinte*) for four years as well as an executive body called the district chair's office. The two special municipalities of Chisinau (the capital) and Balti have a dual status, municipal and regional, and carry out responsibilities of both levels. In addition, Chişinău has a special status as a capital city regulated by a new law adopted in 2016 replacing an outdated one: the law no. 136 on the Status of Chişinău Municipality. Chişinău is subdivided into five sectors. Besides the city itself, the municipality comprises 35 other suburban localities: six towns and 12 communes. Gagauzia is an autonomous region with a special statute. It has its own assembly, the Gagauzian people's assembly, which enjoys law-making powers within its own jurisdiction.

Gagauzia is also governed by a governor who is elected by direct universal suffrage for a period of four years. The Permanent executive power in Gagauz-Yeri is exercised by an executive committee.

MUNICIPAL LEVEL AND INTER-MUNICIPAL COOPERATION. The local level comprises two main types of local governments: 56 cities (*orase*) including 13 that have municipality status (*municipii*) and 869 communes or villages. Cities and communes can comprise localities that are not self-governing (there were 1 533 localities in 2018). There are 633 other villages, which are thus administratively part of either cities or communes. Towns are designated as “municipalities” on account of their special economic, socio-cultural, scientific and administrative significance to the country. The number of municipalities include Chişinău, Bălţi and Comrat. The governing body is the local council (*consiliu local*) made up of councillors elected via universal and direct elections for a four-year term and the mayor (*primar*), seconded by the mayor's office (*primarie*), who is also elected by direct universal suffrage for four years. In Chisinau, the mayor is called “mayor general”. The localities that are part of the Capital city have their local city halls but are coordinated by the municipal council.

The Moldovan local system is very fragmented. The average size of municipalities is 3 840 inhabitants, versus 5 900 in the EU28. According to the Law on the Territorial-Administrative Structure, a municipality must have a minimum population size before it can form a local government (1 500). There is no policy promoting mergers but instead municipalities are encouraged to cooperate among themselves. Inter-municipal cooperation is regulated by the 2006 Law on administrative decentralisation. Local governments can cooperate on regulatory functions, community services (e.g. education and social services), public utilities and their infrastructure (e.g. water and sewerage), general administrative functions (human resources, local financial management, procurement, etc.). They may sign contracts and agreements, create joint, single- or multi-purpose functional enterprises, or create associative bodies with independent legal “personality”, in the aim of enhancing integrated territorial cooperation.

STATE TERRITORIAL ADMINISTRATION. The central government has deconcentrated authorities subordinated to ministries whose functions are regulated by the 2016 Government Regulation no. 266. Following the adoption of the Law on Regional Development in the Republic of Moldova (2006), five development regions were set up. They do not represent administrative jurisdictions and are mostly used in the context of planning, evaluating and implementing regional development policies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

SNG responsibilities are not laid out by the constitution, but they are identified in different laws, including law no. 436-XVI on Local Public Administration, law no. 435-XVI on Administrative Decentralisation and the Law on Public Finance. According to the law, all first-level local authorities have the same set of responsibilities, irrespective of their size, institutional, administrative or fiscal capacity. At the regional level, the only case of asymmetry in terms of functions is the “special autonomy” of Gagauzia. SNGs have two types of responsibilities: delegated and exclusive. In practice, the assignment of responsibilities between the regional and the local level is imprecise, as well as between SNGs and central government entities or state-owned enterprises. In particular, the delimitation of the competences among the first and second level authorities is unclear, contradictory, and in some cases even lacking. Besides inter-municipal cooperation, the Law on public-private partnerships, the Law on concessions and the Law on local public communal services provide the legal grounds for the establishment of PPPs or municipal enterprises.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration; Coordination of local councils' activities	Internal administration; Local property management
2. Public order and safety		Fire protection
3. Economic affairs/transport	Regional roads; Regional public transport; Economic development support; Energy	Local roads; Local public transport; Local gas and heating distribution
4. Environmental protection	Protection of natural resources	Waste management; Sewerage systems
5. Housing and community amenities	Spatial planning	Urban and spatial planning; Water supply; Parks and green spaces; Cemeteries; Social housing; Public sanitation
6. Health		
7. Recreation, culture & religion	Sports; Youth programs; Theatres; TV stations; Libraries and other cultural institutions	Libraries; Museums and other cultural institutions; Local cultural programs; Sports
8. Education	Construction and maintenance of primary schools, gymnasiums, lyceums, after-school and other educational institutions, boarding schools; Remuneration of staff (including teachers)	Construction and maintenance of kindergartens
9. Social protection	Social protection and maintenance of social institutions	Housing construction and other facilities for socially vulnerable groups as well as for other population categories

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: one autonomous territorial unit, 32 raions, Chisinau and Balti, municipalities, cities, villages, and around 8 400 local government budgetary organisations.

SNA 2008

Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

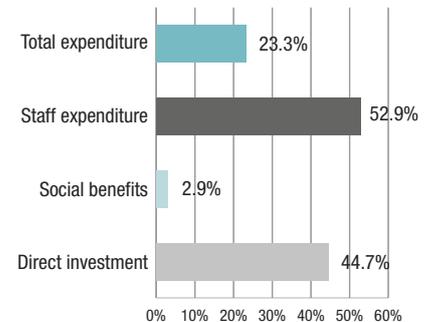
GENERAL INTRODUCTION. The most important laws related to SNG finance are law no. 397-XV on Local Public Finance of 16 October 2003; the Tax Code of the Republic of Moldova No. 1163 of 24 April 1997, law no. 847-XIII on the Budget System and Budgetary Process and the Local Public Administration Act of 2006. The Law on Public Administration stipulates that SNGs enjoy financial autonomy and can take the initiative on matters pertaining to local administration. However, despite a new local government finance system which came in force on 1 January 2015, based on the 2013 amendments to the 2003 Law on Local Public Finance, three key indicators of local autonomy (autonomy over local budget; control over local revenues; authority to determine local expenditures), show that budgetary processes in particular in Moldova is still centralised to a great extent.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	447	8.4%	100%	
Incl. current expenditure	351	6.6%	78.4%	
Staff expenditure	229	4.3%	51.3%	
Intermediate consumption	81	1.5%	18.2%	
Social expenditure	19	0.3%	4.2%	
Subsidies and current transfers	19	0.4%	4.2%	
Financial charges	3	0.0%	0.6%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	97	1.8%	21.6%	
Capital transfers	1	0.0%	0.2%	
Direct investment (or GFCF)	96	1.8%	21.5%	

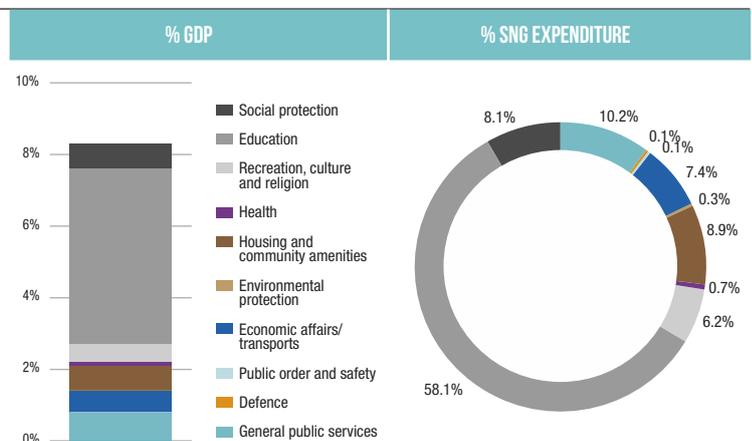


EXPENDITURE. SNG expenditure in Moldova as a share of GDP and public expenditure in 2016 are low, much below the EU28 averages (15.5% of GDP and 33.4% of public expenditure). SNG expenditure is mostly comprised of current expenditure (78.4% of their expenditure) of which 51% are related to staff expenditure. SNGs are important public employers: SNG staff spending accounted for 53% of total public staff spending (vs 50.9% in the EU28). In fact, execution of national education budget is mainly done through SNGs budgets (including salaries of educational staff), without decision-making power on these financial flows.

DIRECT INVESTMENT. SNGs are significant investors: 21.5% of their expenditure was dedicated to investment in 2016 (vs 8.7% in the EU28). In 2016, SNG investment accounted for a high share of the total public investment: 44.7% vs 50.9% in the EU28. Between 2008 and 2013, up to 78% of local capital expenditure was financed through fiscal transfers (budget fund) from the central government, and 5% from transfers from special funds (Social Fund, Ecological Fund, Energy Efficiency Fund).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is by far the most important SNG budget item in Moldova, representing 58.1% of total SNG expenditure in 2016 and 44.3% of consolidated public expenditure in education. This reflects the responsibilities of the raions and municipalities in the construction and maintenance of educational facilities. Concerning staff and teachers salaries, SNGs have no control as salaries are determined by the central government. With the recently-implemented school financing reform, half of the expenditures at the local level are carried out by the second-tier level (raions). Raion governments accounted for two-thirds of SNG expenditure on education in 2013 (compared with less than 10% in 2012). Three other sectors account for the same share of SNG spending: social protection, housing and community amenities and economic affairs/transport. Expenditure on social benefits are also mostly carried by the raions. In this area, SNGs have little decision-making power over social policies.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	477	8.9%	26.2%	
Tax revenue	123	2.3%	10.6%	25.8%
Grants and subsidies	334	6.2%		70.2%
Tariffs and fees	15	0.3%		3.2%
Property income	4	0.1%		0.9%
Other revenues	0	0.0%		0.0%

OVERALL DESCRIPTION. Grants and subsidies represent the most important source of SNG revenue, accounting for a very large share of SNG revenue: 70.2% compared to 44.1% in the EU28. Consequently, the share of tax is limited (25.8% vs 41.1% in the EU28) while other sources of income, such as tariffs and fees, account for a small portion of SNG revenue. The 2013 amendments to the Law on Local Public Finances, implemented from 2015,

introduced changes to the allocation of transfers to local governments and local budget formulation. The principle of balancing local expenditures to a certain minimum level, established nationwide, was replaced with a new formula focusing on local fiscal capacity. Local government powers over taxes on economic activities (corporate income and wage taxes) have been removed.

TAX REVENUE. Despite the existing legal provisions, local government bodies continue to suffer from an insufficient tax base. SNG tax revenues represented only 2.3% of GDP in 2016 and 10.6% of public tax revenues, two ratios well below the EU28 (6.4% of GDP and 24.0% of public tax revenue). In addition to being limited, tax revenues are mainly shared, leaving few taxation power to SNGs since they have no power to regulate, manage or collect those taxes. Finally, while first-level local authorities can receive own-source taxes and fees, second-level authorities have no own-source taxes but can collect only fees. However, Gagauzia benefits 100% of revenues generated on its territory by wage, income, VAT and excise taxes.

Changes in the Law on Local Public Finance in 2013 modified tax sharing arrangements. Until 2014, a percentage of both the personal income tax (PIT) and corporate income tax (CIT) was allocated to SNGs. Now, the whole CIT goes to the state budget while the PIT in the territory of the administrative-territorial unit is redistributed, according to a share which differs: 20% of the PIT in the case of villages and cities that are capitals of the Raions, 75% for towns and cities with the status of municipality, 50% for Chisinau 45% for Balti. Revenues from PIT assigned to the SNG budget represented 1.3% of GDP, 58.3% of SNG tax revenue and 15% of total SNG revenue.

The main own-source tax is the recurrent tax on immovable property (land and buildings) which is paid by both individuals and legal persons. It is calculated from the estimated cadastral value of the property (however, only 20% of local assets have been registered with the Cadastre Agency). The rate is established according to the type of property. Local authorities can establish their rate within a minimum and a maximum established by the tax code. In general, local authorities set property tax rates at the minimum in villages and communes, while in cities the rates are slightly higher. In 2016, the property tax accounted for 5.9% of SNG tax revenue, 1.5% of SNG total revenue in and 0.1% of GDP, which was well below the OECD average (1.1% of GDP in 2016). If the recurrent tax on net wealth is added, taxes related to property would amount to 12% of SNG tax revenue. Other local taxes are an entrepreneurial patent, a tax on natural resources, the inheritance tax and miscellaneous taxes on goods and services, which amounted to 25% of SNG tax revenue in 2016.

GRANTS AND SUBSIDIES. SNGs can benefit from two types of financial transfers: general purpose transfers (*echilibrium*), financed from the Equalisation Fund and special purpose transfers, financed from the central budget. In 2016, around 13% of transfers were general purpose transfers while 87% were earmarked transfers. Overall, only 5.6% were capital grants, compared to 94.4% of current grants.

Fiscal equalisation mechanisms are in place in Moldova, and they ensure that mandatory and basic services are provided in all regions. General balance transfers are allocated according to equalisation formulas, stipulated in the Law on Local Public Finance, one for the regional level and the other for the local level. For the local level, allocation of funds is carried out in inverse proportion to the fiscal capacity per inhabitant multiplied by 1.3 and in direct proportion to the population and area. For the regions, transfers are calculated according to a formula where two indicators are used: the population and the district size.

Special transfers from the budget are revenues obtained by public institutions, under conditions approved by the regulatory acts. These transfers are allocated to SNG budgets for funding of education and the competences delegated to SNGs by the Parliament on the Government's proposal. In addition, there are different special funds, from which local authorities may receive specific grants such as the regional development fund, the environmental fund, the energy efficiency fund and the special fund for construction and maintenance of roads.

OTHER REVENUES. Tariffs and fees accounted for only 3.2% of SNG revenues in 2016, which is low compared with international standards (11.6% on average in EU28). Local fees can only be imposed, modified or cancelled exclusively by amending and supplementing the tax code. However, SNGs can collect multiple fees such as fees on natural resources, parking and parking lot fees, market, accommodation and resort fees, commercial and social services, solid waste removal, water distribution, advertising services and so on. SNGs also receive revenues from fines and penalties related to administrative sanctions. Revenues from property income (0.9% vs 1.2% in the EU28) include rents from the use of public assets, revenues from sale and privatisation of public property. Revenues collected from public property are mainly used to cover budget deficits when necessary.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	44	0.8%	2.3%	100%
Financial debt*	44	0.8%	2.3%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Article 13 of the law on local public finance prohibits the approval and execution of local budgets with a deficit. The local authorities are obliged to take all necessary measures for maintaining budget balance. If revenue collected is lower than the approved amount, the respective representative and deliberative authority shall reduce the expenditure which includes the obligations and payments established for the year-end with a balanced budget by modifying the respective local budget. In a situation where budget balance is teetering, certain allocations can be blocked (except for payments to pay down the debt). Semi-annual reports are used to monitor the budget. They are prepared by the Finance Department of the local self-government.

DEBT. The Law on Local Public Finance (no. 397/2003, last amended in 2013) allows municipal borrowing for capital expenditure purposes ("Golden Rule") both domestically and abroad, including on the debt market. The law also enables local authorities to issue guarantees on borrowing to municipal enterprises. However, according to Law No. 419/2006 on Public-Sector Debt and Government Guarantees, local authorities are required to obtain the prior approval of the Ministry of Finance before borrowing long-term. There is also a cap on debt service, including repayment of principal and interest for existing debts (20% of annual municipal revenues). The total outstanding SNG debt was quite low in 2016, only 2.3 % of public debt and 0.8% of GDP, a level of debt well below the EU28 average (14.3% of GDP and 14.4% of public debt). It was entirely composed of loans in 2016, even though they are allowed to tap the bond markets.



Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // National Bureau of Statistics of the Republic of Moldova.

Fiscal data: IMF Government Finance Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // OECD (2018): Key Data on Local and Regional Governments in the European Union **Other sources of information:** Council of Europe (2019) Local and regional democracy in the Republic of Moldova // NALAS (2018) Fiscal Decentralization Indicators for South-East Europe // Igor Munteanu (2017) Key Features of Local Self-Government in Moldova // Subgroup on Local Government and Public Administration reform of the Working Group 1 of the CSF EAP (2016) Update on Public Administration and Local Governments Reforms in Eastern Partnership Countries // CEMR (2016) Local and Regional Governments in Europe: Structures and Competences // Viorel Roscovan (2015) Local Finance Benchmarking in Moldova // Adrian Ionescu Sasa Drezgic, Iulian Rusu (2015) Report on the territorial administrative structure options for the Republic of Moldova // Iulian Rusu (2015) Mapping the obstacles to inter-municipal cooperation in Moldova.