

10. IMPEDIMENTS TO TERRITORIAL-ADMINISTRATIVE REFORM

Historical background. Once with declaration of independence on 27 August 1991, the Republic of Moldova joined in a process of national-statehood organization by way of setting a new legal framework, reorganizing state structures, reforming the budget, etc.

One of the objectives was shifting to local self-administration. The territorial-administrative structure existing in Moldova was too crumbled – 40 rayons, each rayon having been on average of 0.8 thou km² in area with about 76 thousand inhabitants.

Historically, in the post-war period, the number of rayons used to change often, varying between 18 to 60³¹ - unfortunately, without taking account of the historical, demographic, natural, economic or other factors worthy of being considered while establishing the number of rayons.

In the '90s the first attempt was made to motivate the new, increased net of rayons by the Planning Institute, which developed 4 variants of territorial-administrative structure of the Republic of Moldova (18, 12, 9 or 7 counties), based on a system of 24 indexes – social, financial, etc.³²

In mid-90s, the Government concluded in the end the preparatory work for launching the reform. According to new restructuring, in Moldova were created 10 judetses (counties), Gagauz Territorial Administrative Unit and the municipality of Chişinău. In October 1999 based on an amendment to the Law on territorial administrative reform the 11th – Taraclia judets was created.

The new judetses were created around certain important industrial regional “axles” (judets residences) with more developed infrastructure (railroads, highways, telecommunica-



Note: Territorial-administrative structure prior to reform.



Note: New territorial-administrative structure of Moldova without Taraclia county.

³¹ A. Gudîm, L. Nicul, M. Serbușcă. Экономические подрайоны Молдовы, (Economic Subrayons of Moldova) “Știința”, Chișinău, 1973.

³² A. Gudîm, R. Averbuh, V. Chițan, V. Badrajan, Iu. Pailec. Предложения к новому административно – территориальному делению Р. Молдова. (Suggestions on new territorial division of the Republic of Moldova), Planning Institute, Chișinău, 1990.

serve as pillars for further development. The market economy speeded up commencement of changes in this field, due to broadening discrepancies within the territorial-administrative structure of current relationships throughout the country, which became a major obstacle in further development.

As legal basis for territorial-administrative reform were the following laws that were adopted in 1998-1999: „Law on territorial-administrative organization”, „Law on local public finances”, „Law on public ownership”, „Law on local public finances”.

In line with territorial reform the public administration reform started. The current system did not comply to the new realities, neither met new requirements. It was necessary to make a change, because it constituted a real barrier to reform promotion and state development (it also was a too big burden for the budget of the country). Particularly, it was necessary to change the poorly qualified old structure, organize services to population, enhance efficiency of local finances usage, regulations pertaining to local property, growing capacity of developing and implementing local interest policies, etc.

After laws enforcement, their implementation started in the field. It was suggested to restructure the public administration bodies in compliance with the real needs of the population. Based on those changes, the new administrative bodies became more efficient and represent an important step forward in terms of reform promotion. The process continued when the Government assigned prefects of the new judetses, when they were confirmed by the president and by direct elections of the local public administration in the communes, municipalities and judetses, in May 1999. The clear division through legal provisions of responsibilities between the prefecture and local councils need to be improved in practice and will serve as indicator of the success in cooperation between central authorities and decentralized bodies on territories.

The Europe currently operates in a new legal, political and social-economic reality – *regionalism*, which is manifested through enhancing rights and responsibilities of the regions within certain countries, and thus amplifying inter-state contacts based on „region-to-region” relations. This can be obtained by commissioning certain competences from the central bodies and not from local ones. The main problems in this context are:

- *how can be shared the responsibilities between the central and local levels with a maximum level of usefulness for both benefit of the country and region;*
- *how to handle the issue so that decentralization process does not undermine the statehood.*

Under usage of regional resources, excessive centralization of state budget, providing subsidies and subventions to most rayons, on the one hand has paralyzed the initiative, and on the other hand – pushes them into underground economy, run based on barter transactions, hiding incomes and tax evasion.

The strategic importance of the regionalism consists in the fact that the activity of any state in all aspects is carried out particularly on territories – on the region and municipality levels. It is there where economic agents, population, production and social infrastructure, natural resources, are placed, and, on how fast we manage to create legal and economic conditions for providing a productive activity based on initiative of the local public administration, to a great extent depends the success of the reforms and reviving the economy as a whole.

Given the current economic constraints the country encounters, one should expect, that sub-national authorities would have to plan and stimulate localities’ and regions’ development without banking on a considerable intervention from the center. In order to make this possible for them, the local public authorities should enjoy a real decentralization, comprising not only laws and regulations but also some additional measures in decentralizing public finances, training public office holders, etc.

Democratization process, modernization of economic, social and cultural institutions in compliance with the European Chart of Local Autonomy, which was ratified by the Parliament of Moldova in July 1997, and Moldova’s integration in European structures are directly depending on how Moldova manages to reform the local public administration. As main purpose

of reform could be considered providing for territories' sustainable development, administrative decentralization, shifting to self-financing and maximum usage of local potential (natural resources, geographic position, infrastructure, human potential, etc.), also rapprochement of Moldovan legislation to EU standards. The local public administration is the best example of democracy in the country, when local electorate elects the mayors and councils. With regard to local problems of particular importance is the fact that the law stipulates even consulting the electors.

The new legislation lead to a delimitation of responsibilities and powers between the central authority and local one, thus eliminating certain prior contradictions or drawbacks in relations between them. The essential role of the local public administration could be considered that of meeting and protecting the public interests of the community in the territories. Decentralization ranks an important place in terms of local public administration reform, which pursues to involve more and more local communities in handling the problems encountered on the territory. Reforms continuation in this field will have as consequence - shifting competences in taking decisions, pertaining to administrative authorities, from central government to local specialized ones. Fiscal responsibility is also commissioned to local administration, the main sources of budget being local financial sources. The local administration can work out and implement projects of sustainable development or various programs of local importance and is empowered to contract loans from various firms or institutions both from the country and abroad. Optimal conditions are created to set up and collect local taxes by the special departments from local public administration structures.

A real challenge for organizing the local power structures is land privatization and real transmission of powers from the former kolkhoz chairmen to newly elected local authorities. A new relationship is being built-up between the judetses administration and the one from communes and villages comprised. Involvement of judets administration in local transactions from rural localities will have mostly an aspect of collaboration, monitoring, consulting, informational, etc., the latter also constituting a manner of relations between the center and judetses. It is necessary to elaborate a new and comprehensive regional policy by the central state institutions, as well as setting up a body like Agency of Territorial Development, designed to assist and inform the new territorial units.

Premises have been created and a real trans-border cooperation started with certain regions from neighboring countries. This cooperation, provided certain previous barriers are eliminated, will lead to improving relationships with the respective states and serve as potential means for prosperity and developing the involved regions, being also an important step towards Moldova's integration in Europe (trans-border cooperation, where region has an important role in European integration).

However not everything has been realized, the new structures having encountered more difficulties due to various reasons. The judetses have to resolve the same problems that are encountered by the state, at different level, in particular the extreme economic crisis that engraved its prints on all the facets of the society. The territorial-administrative reform started in a crisis, which contracted substantially its abilities to act and financial resources. The main challenge for the new judetses administration is whether they will succeed to assume the new current reality and capacity to face and settle the new responsibilities related to that. It is also perceived the lack of trained personnel able to handle the increasing emerging problems of the local administrations and population in the territory. The local Governments are suffering due to a lack of access to information and other paradigms of development available both in the country and abroad. Their relations were so long based on vertical relations between the central government and the one from the territory, that now it is necessary to make all possible efforts to enhance the horizontal links and share experience both with the judetses from the country as well as with the regions from neighboring countries.

Of particular concern is lack of experience of the local public administration authorities with regard to local public finances management, as well as lack of cash that considerably shrinks their possibility to act. The experience is missing in the field of modern administration, strengthening capacity to manage, which is necessary in particular in such fields as: economy, fiscal, financial and human resources management, and of a higher level of transparency in relations with the public. Laws related to reform were adopted during 1998-1999, which entailed certain deficiencies in their enforcement; for instance a long period of time the judetses existed based on the budget designed for the former 40 rayons. Also much work needs to be done in adjusting infrastructure, administrative structures, adjusting the functions of the key positions in various fields of the local public administration and that of the services in compliance with the new realities. A real test in implementing the new administrative system will be the transformation of local governments into efficient bodies, truly democratic and viable. They must assume one more role, more active as compared to previous one, in terms of providing for economic prosperity of territories as well as protecting vulnerable layers of population. The activities in those fields will be problematic from more considerations: economic crisis, lack of financial means and expertise.

It is vitally necessary to develop some pilot projects focused on communes, cities and judetses development, designed to mirror the way of their current development, as well as for a longer perspective, that should also be based on the locality own realities and possibilities. This fact might provide for a certain level of continuity of local administrative structures' activity and in the future might help in determining the priority development objectives and possibilities to support them. The projects once approved, should comply to the regulations that are valid both in all candidate-countries to EU membership and member-states.

Local budgets are the most serious problem at the first stage of reforms. A considerable aspect of regional development of a state is self-administration of the local public finances. This fact is also important due to considerations that currently the living standards in Moldova have aggravated incredibly. More and more excuses are being devised and expressed, more or less plausible, such as former dry years, regional financial crisis from 1998 and its grave impact on the national economy, etc. However, very little is said about the fact, that these facts, although considerable, are only some causes of the rampant crisis, and far from being the only excuse. Let us ask ourselves - everything has been done in the Republic of Moldova to stall off the social-economic decline and resume growth?

The array of problems is far bigger, whereas their unilateral interpretation is misleading, causes incorrect conclusions and respectively incorrect definitions of manners to recover and approach the problems. The situation we reached cannot be semi-explained or semi-approached.

Unilateral approach of transition economy problems exclusively through the angle of monetarism, total ignorance of the need to support demand and population purchasing capacity, based on certain state-run studies and programs, entailed shocking social abnormalities, for whose consequences readjustment will take too many years. To reaching this state of affairs also contributed the imperfect legislation and corruption that during the period under review reached aberrant proportions.

If the reforms were promoted incorrectly at the national, judetses and local levels their impact is even more bizarre, more uncertain and more confused. More confused, first of all, due to the insufficient information provided by mass media, which generates room for gossips.

However, in the territories are most of the production factors, manpower, resources and ultimately the whole complex of inputs that should be resorted on for an eventual proper evolution of the economic operations.

These statements could be motivated by many more arguments. For instance, the opinion poll – “*Impediments to Development of Private Farming Enterprises and Related Small Rural Business in the Republic of Moldova*” – conducted by CARANA Corporation - Washington in collaboration with the Center for Strategic Studies and Reforms, reveals, that, the possibility of running a business in the Moldova constitutes a serious problem (Fig. 10.1), not only in the sense that the polled economic agents do not perceive any support on behalf of the state or that they do not feel any effect. Moreover, they state that the legislation hampers their activity.

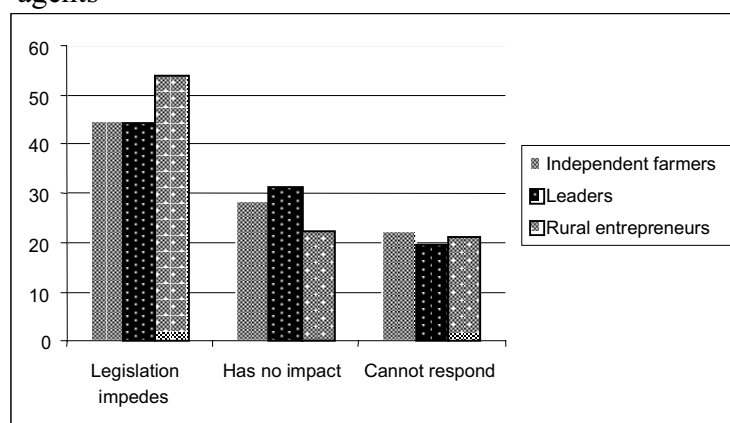
While registering the transport units and equipments, 70.5% of leaders and 27.1% of peasant-farmers encounter serious problems.

Those responses are provided by a sample comprising 60% of entrepreneurs and leaders having higher or incomplete higher education. The mayors covered in the poll also reveal some aspects that would not admit any encouragement (Fig. 10.2). Even 8.5% of them consider that the legislation is unclear, and 16.7% - that there are too many licenses.

The Law on local finances from July 9, 1999, produces an impression, that in Moldova for local budgets formation no other factors are taken into consideration than levying new taxes, duties, introducing new licenses, patents, etc. However, no sufficient measures are taken to create possibilities for enhancing the tax payment capacities by taxpayers. Probably the point from which the fiscal burden started to discourage taxpayers to honor their liabilities has been surpassed long ago. It is in this field where a computation of fiscal burden in the country needs to be made, proceeding exclusively from Moldova's realities, by taking account of the capacities of the taxpayers to pay taxes so that those are not to the detriment of the economic activity and subsequent improvement of enterprises financial position and respectively of budgets. Also, the respective law has a series of loopholes that allow considerable room for interpretations. For example:

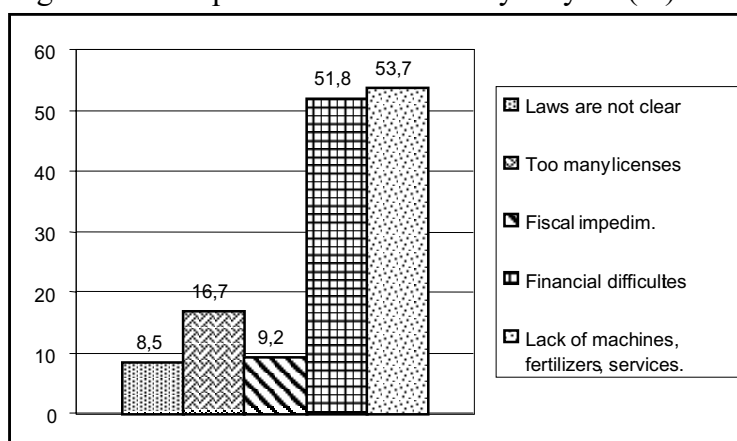
- Article 4, paragraphs (1) letter (h) and (3) letter (k) stipulate „...the duty for licenses (authorizations) for running *certain activities*;”. Based on the combination „*certain activities*” a local government office holder can manipulate as much as he wants, on

Figure 10.1. Moldovan legislation viewed by economic agents



Source: CISR / *Impediments to Development of Private Farming Enterprises and Related Small Rural Business in the Republic of Moldova*, Sociologic Report, Chisinau, Aug.Sep. 1999

Figure 10.2. Impediments as viewed by mayors (%)



Source: CISR/*Impediments to Development of Private Farming Enterprises and Related Small Rural Business in the Republic of Moldova*, Sociologic Report, Chisinau, Aug. – Spt. 1999.

his liking, based on his own material interests. A specification is required, and if the activities are itemized in some other legal act, it should be specified concretely.

- Article 4, paragraph (2), stipulates that while sharing the incomes between the budgets of the local administrative-territorial units, deductions shall be made from the following types of state general incomes: letter a) tax on entrepreneurial income of legal entities from the respective territory – *at least 50%*. It is not clear on which grounds it will be decided when will be deducted 50% or, say 80% or more? The same view refers to the letter (c).
- Article 4, paragraph (3) the incomes of the Chişinău municipality shall be formed of: 1) direct and integral collections of the following types of taxes, levies and incomes: ...letter (n): *other incomes* stipulated by legislation (it is not clear which other incomes and which law it is meant).
- Article 7, Delimitation of competences in running the public spending, point 3) maintaining the following public institutions and running the following activities: letter (i) *other institutions and activities* necessary to provide for a good functioning on the respective territory.

Such „enigmatic” style, typical to Moldovan legislation, probably will never make possible to introduce order in the public finances.

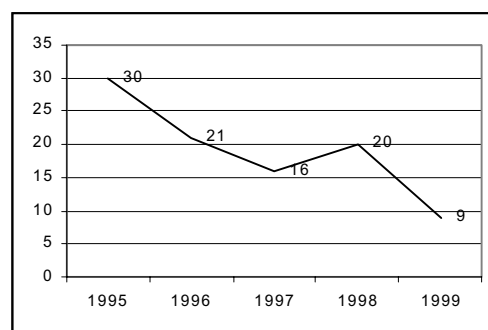
The legal controversies considerably undermine the ability of the regions, which are already uncertain and unstable, to self-support and be financially viable. (Fig. 10.3).

Although in 1999 the number of ex-rayons that transferred to budget less financial means than the amount of transfers received is comparatively smaller, the problem is still very serious to be able to regard this as some improvement. Taking into account, that of the 40 ex-rayons of Moldova during the recent 5 years, 9 of them existed only on the account of transfers from the central budget, and 6 of them for 4 years, does not make possible to draw any positive conclusions. This can also be explained by the high rate of inflation, which lead to increasing nominal value of the financial means and considerable decline of the currency.

Adoption of Law on Territorial-Administrative Reform in November 1998, will not entail an improvement of financial possibilities of judetse in itself. The law needs to be implemented in a milieu of about 35% of the former territorial-administrative units being in a state of virtual economic paralysis. The geography of those rayons is spread throughout the whole republic.

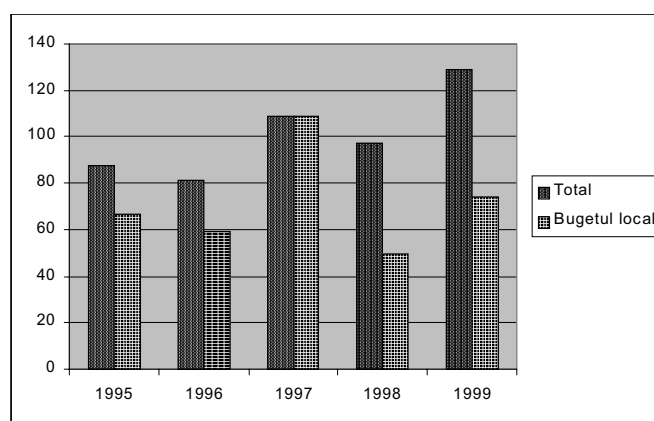
Such legal drawbacks, although not many, permit things that make the legislation a real harassment for potential entrepreneurs, not to mention the individuals who have no education, and can be tracked out practically in any law.

Figure 10.3. Number of ex-rayons that received more transfers from the central budget than they have allocated.



Source: CISR/author's calculation.

Figure 10.4. Trend of incomes and spending of the local budgets. Total per rayons (%).



Source: CISR/author's calculation.

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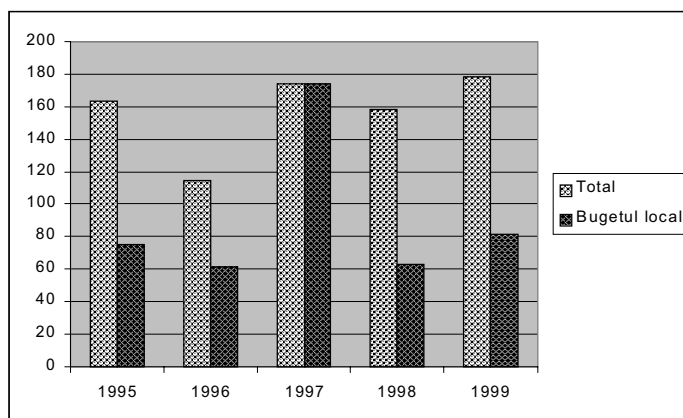
The assessment of legislation by poll respondents and existent legal problems in the manufacturing sector implies emergence of other problems pertaining to local budgets, resolving social problems, generation of financial incomes for developing the infrastructure in the regions, etc.

Having analyzed the local budgets, or the average of ex-rays of the Republic of Moldova, one can notice a very controversial state of affairs, with no trends of shaping smoothness.

In 1997, which was anticipated by two relatively problematic years, the situation stabilized to some extent, then, in 1998-1999, was followed by a turn towards instability (Fig. 10.4). If in 1995 the overall incomes covered on average 87.5% of the local public budgets' spending, 66.6% of them having been covered by own collected funds, in 1999, although the coverage of spending from total incomes increased, the difference between the spending covered by total incomes and spending covered from own collections increased even more.

Even worse is the trend of capacities to cover the spending of the local budgets at national level (Figure 10.5). In 1999 as compared to 1995, the share of spending covered by total incomes rose from 163.7% to 178.0% (by 14%), *id est*, on average in the republic, from local budgets it was consumed more than in 1995, there was a slight increase (by 5.6%) of the share of local collections in the spending side of the budgets, yet, on the other hand the difference between the share of overall spending and their coverage on the account of local tax-collections (from 95.2% to 97.1%), proves that practically the efforts to develop the economic regional development after 1995 were null. It is regretful that although costs increased in nominal terms, in real terms, due to inflation of about 30% the consumption and living standards of the most population of the republic has been continuously declining.

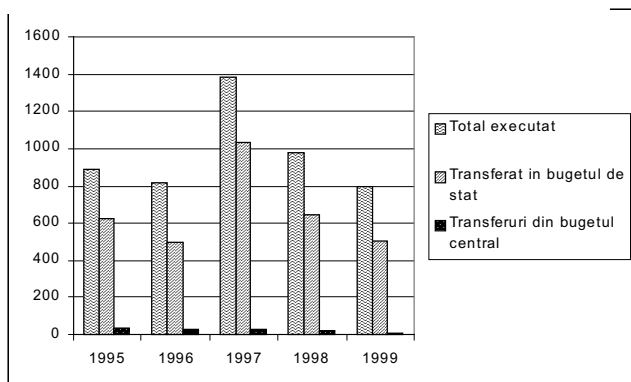
Figure 10.5. Trend of local public incomes and spending. Average at national level (%).



Source: CISR/author's calculation.

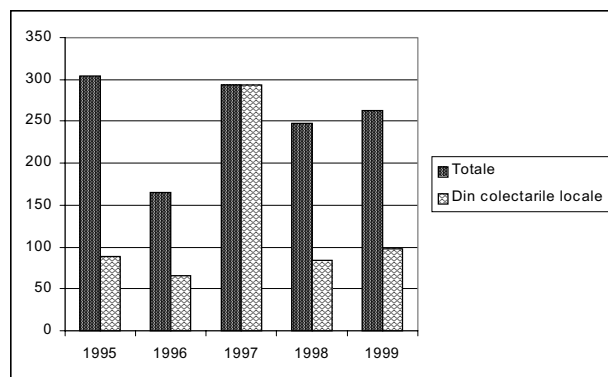
The problem of building-up local budgets is the effect and not the cause. The causes are others. The problem is that for causes are culpable somebody and the overwhelming majority suffers the effects. In situation when the legislation is imperfect, budgets creation and

Figure 10.6. Dynamics of munic. Chisinau (mil. lei)



Source: CISR/author's calculation.

Figure 10.7. Mun. Chisinau. Spending covered by incomes (%).

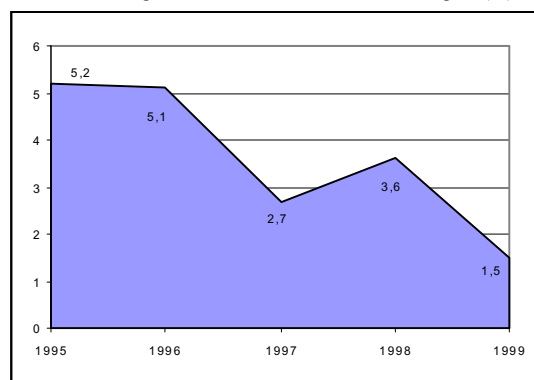


consolidation of local governments is practically impossible.

In this situation the fiscal burden on Chişinău and Bălţi municipalities is immensurable. Moreover, their fiscal capacities are also pretty unstable (Fig. 10.6 and 10.9).

On the other hand it is not clear how come that, for instance municipality Chişinău in 1998, is recorded in the financial records of local budget to have covered spending by incomes in volume of 247.7% (Figure 10.7), the share of transfer from the central budget accounted for only 3.6% from the fiscal contributions of the municipality to the central budget, and allegedly it covers its spending from own collections only in volume of 84.1%? In the figure 10.6 it is well noticed, that the share of transfers from the central budget as part of the overall Chişinău's fiscal contributions is almost unobserved, and the facts reflected in the financial documents differ considerably.

Figure 10.8. Municipality Chişinău. The share of transfers from the central budget vs. allocations to the central budget. (%)



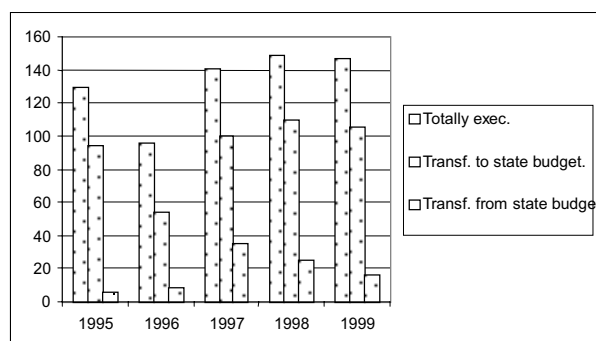
Source: CISR/author's calculation.

The dynamics of difference between the fiscal allocations to national budget and transfers from the latter to Chişinău budget reflect the situation even better. (Fig. 10.8). The town of Bălţi is also in a very precarious state (Fig. 10.9). Compared to Chişinău is bigger the share of transfers from the central budget to the total of the executed budget.

Proceeding from the state of affairs stated above, one could conclude the following:

- In the Republic of Moldova the economic development policy is far from being satisfactory. Due

Figure 10.9. Dynamics of Bălţi municipality budget



Source: CISR/author's calculation.

to this, many actions that might run in themselves, based on private economic initiatives, get stuck in the offices of the administrative bodies, so that in the end fail from the very beginning.

- Even if some intentions “break-through” and private businesses are established, they run either based on double bookkeeping or in underground economy.
- The current new business-running environment discourages cultivation and observing optimal business relations. In these conditions fair individuals are very frustrated, in many cases preferring to stay aside. Thus a continuous process is taking place of economy criminalization through a combination between corrupted public officials and delinquent “businessmen”, which are very compromising for Moldova as state. Such socially incorrect manifestations are easily emerging, yet, will cost a lot the state in terms of its image, confidence, ability to respect human security and honor its commitments as state, in case when it will be really desired to do so.
- The Law on local public finances permits many interpretations that are to the detriment of the proper run of the economic process.
- Of legal loopholes benefit state officials, who by taking bribes benefit of momentary opportunities, and undermine the process of proper running of private initiatives.
- The process of transparency implementation with regard to budgeting and budget execution continues to be procrastinated, providing access to non-government analysts to financial records in this important aspect.
- It is too high the number of patents, licenses, duties, taxes, etc., which are required for setting an enterprise.

Alternatives to resolve, at least considerably, the problems are available, as have always been. Will is required. Alternative suggestions might be, *inter alia* the following:

- In order to improve the financial position of the new judetses is necessary to adjust the legal drawbacks. It is necessary to remove all possibilities of double interpretation of laws.
- In order to intensify the financial discipline and transparency, it is necessary to introduce the practice of budgets publishing, aiming at facilitating the reconciliation of the local published budgets with the real situation stated based on audits.
- Broad dissemination of audits results.
- Initiating a profound investigation, for the Republic of Moldova, of the equilibrium point between the funds needed by the state and capacity of the taxpayers to honor their fiscal liabilities (Laffer curve). Developing a national program designed to encourage setting and growing enterprises (real sector).

Examples of reforms in other transition countries. In most transition countries, which have as final target European integration, in line with other reforms, the administrative-territorial reform was also unleashed. Reformation and tailoring their administrative structures to European norms is one of the stages of accession process. What might make us different in terms of reforms implementation is the different economic situation they were initiated. In the countries reviewed, the milieu in which reforms started was better thanks to a more favorable economic situation or the support they received in this field from the European Union. In these countries a transformation occurred of territorial units into bigger ones (in Poland), or merging some units into development regions (Romania).

Poland. As a result of the territorial-administrative reform in Poland, the number of voivodships (national territorial units), was contracted from 49 to 16. For the Republic of Moldova the experience in terms of territorial-administrative reform is a good example, proceeding from more considerations. Of those considerations, most important is the manner of approaching the relationships between the national level and voivodships.

The most important principle of government policy in terms of regional development is complying to the objective of decentralization of the local government. The central government follows the policy of regional development through supporting initiatives of the voivodships, in case when they are in conformity with the development programs (approach similar with the manner which the European Commission provides support to regional development of their member-countries). The local governments can, though not mandatory, ask for assistance of the central government in implementing respective projects of regional development. Moreover, voivodship local governments can ask the central government abandon projects of regional development that were not stipulated in the agreement on regional development of the respective voivodship.

Another principle is that of partnership. The government strategies and programs targeted to regional development need to be developed based on joint agreement with the social and economic partners. This is another principle complying to the EU norms.

The regional development policy is based on the principle of long-term planning and not on ad-hoc interventions. This is why regional development programs and strategies need to comprise specific tasks, priorities and financial means that need to be allocated for being realized within a certain number of years. This principle is an imitation of European norms, which in case are not respected, assistance is not provided by EU.

Instruments of regional development policy, as main form of voivodship support programs, are target subsidies from the central budget. According to EU norms there is a series of programs that can contribute to regional development, and this is why, support is deserved from central funds in the fields of: (i) infrastructure development, (ii) supporting the investments made by the small and medium enterprises, (iii) creating new jobs, (iv) enhancing education, (v) environment protection, (vi) cultivation of cultural inheritance and (vii) research and regional development.

The financial means allocated for implementing the regional development policy derive from the central government budget and regions' contributions. The target subsidies from the central budget will be guaranteed in the annual budget law, by way of setting a plafond on allocations designed to finance specific objectives established in the government program of regional development. Only in exceptional cases the regional development program can bank on the 100% funding from the central budget; mainly cost-sharing is considered from regional and local sources, as well as foreign contributions.

The self-government body (voivodship council) is in charge for regional development policy of the respective voivodship and the key partners of the central government in implementing the national policy of regional development.



assuming responsibilities of a state, which desires to adhere to EU. In order to support the economic development of judetses, the National Agency for Regional Development was set up. The Government and Parliament of Romania have initiated a process of



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Conclusions. In the process of territorial-administrative reform implementation the Republic of Moldova needs to assume the task of resolving in practice the main problems of setting local-government bodies on new economic grounds.

Providing certain real authorities with regard to social and economic processes, management is of crucial importance. In this regard, it is necessary to review the nature and forms of relations between the central and local bodies of the executive power, to decentralize the state budget in the sense of furnishing the territorial bodies with municipal ownership and local budgets with a sufficient basis of incomes.

Proceeding from the practical needs of the territorial-administrative reform from the Republic of Moldova and primordial tasks in the administration of the new territorial units in each judets and municipality, already in 2000 it is necessary to work-out a specific business-plan (territory development strategy), that should include:

- evaluation of judetses' (municipalities') development factors and potential;
- concept of judetses (municipalities) development for a period until 2005;
- priorities (problems, sectors, enterprises) of sustainable social-economic development of the territories;
- an economic mechanism for local self-government and relations with the central Government;
- developing 3-4 business-plans in the priority problems and sectors designed for regional economic growth;
- a program to train the staff of the local public self-government.

The new local governments will attain this way, from the very beginning a framework-document that would allow a well-determined organization of its activity in the social-economic development of the territories.