

Autonomy of Local Governments in Moldova: A Financial Perspective

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Introduction

Since the declaration of its independence in 1991, Moldova has initiated a series of reforms aimed at establishing a modern and autonomous local administration system. However, the evolution of Moldovan decentralization has been dependent upon the course of reforms taken by each consecutive state administration, resulting in an unstable legal and regulatory environment. (Mocanu 2001).

Nevertheless, “progress in the development of democratic systems of local government is generally acknowledged”, even though the questions regarding the decision-making powers, state supervision, allocation of functions and financial autonomy of local governing authorities still remain to be addressed. (Verheijen 2001:21).

This article examines the current state of local fiscal autonomy in Moldova by evaluating the existing legal framework on local public administration and finances, democracy and decision-making and attempts to identify major issues and constraints to development of local autonomy, in particular with regard to its financial aspects.

Historical Background

Moldova is a unitary state, which became independent in the aftermath of the Soviet Union collapse. Since the declaration of its independence in 1991,

Moldova has initiated a series of reforms aimed at establishing a modern and autonomous local administration system. The major purpose of the reform was to implement the European practices of public administration, based on principles of decentralization and local autonomy. Specifically, the reform aimed at bringing government closer to citizens, making it more responsive to their particular preferences, and finding new and more efficient ways to provide higher levels of public services. (Mocanu 2001)

The decentralization process in Moldova has gone through four distinctive stages of development and reform, of which a particular interest represent the reforms of 1998 and 2001. While in the first two aimed at establishing the basic principles and the underlying legal framework of local government, the last two reforms targeted local autonomy and turned to be quite contrasting in their nature. The reform of 1998 fostered the decentralization process by assigning to local governments greater authority in administrative and fiscal matters, as well as by encouraging consolidation of fragmented administrative territorial units (establishment of 8 regional entities). However, as power changed hands in 2001, the new state administration took a decision to return the public administration system back to a pre-1998 administrative organization (based on rayons/districts). (Mosneaga and Tabirta 2003). Even though the 2001 reform introduced some positive changes that improve political and administrative power of LGs (abolition of prefectures, state deconcentrated agencies at the local level, and introduction of elections for the IInd level public authorities), it substantially restricted their fiscal autonomy by taking away some of the existing taxing powers and diminishing self-financing capacity. Thus, being more independent politically, LGs became at the same time financially dependent on the center. Some Moldovan experts (*ibid*) argue that from a fiscal point of view, the 2001 reform tends to

recentralize local administration by introducing instruments of state financial control and coordination.

Moreover, these reforms have brought about numerous alterations of the local government legislation, which has gone through a process of radical changes over the last decade. Legal amendments take time, effort and cost to implement and bring about a sense of legal instability and unpredictability.

Current Local Administrative Structure

According to the current Law on Territorial-Administrative Organization, passed in 2003, the territorial-administrative system of Moldova comprises 32 second-level territorial-administrative units (including 31 rayons/districts comprised of cities and villages and the Municipality of Chisinau, the capital city), the Gagauz Autonomous Unit¹ (with a status of second-level territorial-administrative unit) and 903 first-level territorial-administrative units (municipalities, cities, villages and communes).

The Moldovan local governmental system emerged in 1995. Currently, Moldova has two levels of government: the central government and local governments. The Law on Local Public Administration defines two tiers of local government: the lower tier consists of public authorities established and operating in villages (communes) and cities (municipalities), the intermediary level of local government comprises local public authorities operating on the level of a rayon, Chisinau municipality or autonomous territorial-administrative unit.

Local Decision-Making on Financial Issues

¹ In accordance with the Article 111 of the Constitution, the Parliament granted a special legal status to the Gagauz minority in the southern part of the country by adopting the Law on Special Legal Status of Gagauz Autonomous Territorial Unit as of 23 December 1994.

The Law on Local Public Administration stipulates that the autonomy of local deliberative authorities in exercising the assigned functions is guaranteed by the law and extends to the decisions that regard the establishment and operation of local public authorities. This section will focus on concrete examples of legal provisions and current practices in local decision-making, especially as concerning the use and administration of LG's financial resources. It will also evaluate the decision-making autonomy of LG's in using a set of specific qualitative indicators or benchmarks, which reflect the country's capacity to provide the necessary environment for implementing local autonomy principles, though policies, laws and rules governing local public administration.

What financial resources are made available to local governments, how they are administered and how the local budget process works are also important considerations. The relevance of these decisions to local authority and autonomy cannot be appreciated fully until it is clear who makes the key decisions regarding these and other aspects of local finances.

The Law on Public Administration stipulates that subnational administrative units in Moldova enjoy financial autonomy and have the right to initiative in all matters concerning local administration. To analyze this, the degree of LG's autonomy in financial matters will be evaluated by using three main qualitative indicators: *Independence of Local Budgeting, Control over Local Revenues and Authority to Determine Local Expenditures*².

Independence of Local Budgeting. In accordance with the Law on Public Finance the budget is prepared, reviewed and approved independently by the

² Robert D. Ebel and Serdar Yilmaz. Concept of fiscal decentralization and worldwide overview. (World Bank Institute, 2001).

local public authorities (local or rayon council). However, the current regulatory framework and practice is quite contradictory to these legal provisions. The analysis of the following two indicators, control over local revenues and authority to determine local expenditures, which represent the decision-making autonomy over the revenue and expenditure part of the local budget, will confirm the statement that the actual independence of budgetary process is rather doubtful.

Control over Local Revenues. The major part of local revenues in Moldova is represented by intergovernmental transfers and shared taxes and none of these sources are under control of local governments. According to the Law on Public Finance the autonomy of local governments over revenues resumes to the authority in deciding which types of local charges and fees tax apply in the given administrative unit and in setting their rates within the limits established by legislation. However, if considering that revenues generated by local fees contribute to less than 5% of the local budgets, the conclusion is that local authorities have virtually no power over their revenues.

Authority to Determine Local Expenditures. The Law on Public Finances also defines the competences of local public authorities in determining their expenditures. In accordance to it, Local and Rayon Councils are entitled to set priority areas for budget allocations and make decisions on the use of special funds and excess revenues³ available to the local governments. Local governments can also redistribute expenditures among different budget items (education, healthcare) during the course of the fiscal year, but only within the limits set by the Ministry of Finance. However, they do not have any discretion over the salaries of public institutions' employees (including teachers and medical workers), which represent a major part of local expenditures (over

³ Receipts over 100% but not more than 110% of the budgeted revenues.

60%) and are determined by the central government. Overall, local authorities' autonomy over the local expenditures is very limited, given the above-mentioned and the practice of centrally mandated instructions and indexes for each item of expenditure.⁴

The presented examples question the independence of local decision-making in Moldova, especially as concerning the administration of local public finance. First, the current legislation appears to be quite ambiguous in granting authority to local governments. While the Law on Local Public Administration and on Local Public Finance recognizes the right of local governments for autonomous decision-making over financial issues, they do not provide them with necessary tools for this process. As a result, the legal provisions are enforced only partially. Moreover, the legal enforcement is further hampered by the existing regulatory environment (Government Decisions), which, instead of reinforcing, often contradict the law.

Therefore, the current situation shows that the principles of local autonomy, proclaimed by the Constitution and supported by the current legal framework, are not integrally exercised and the elected officials are not invested with sufficient decision-making powers to follow the agendas mandated by their voters.

Conclusion

In conclusion, summarizing the above-mentioned, it can be stated that public administration and public finance management in Moldova are still centralized to a great degree. Reforms in public administration, however, have been aimed at increasing the role of local government, granting greater political and

⁴ The Ministry of Finance issues annual methodological guidelines that stipulate the maximum limits (norms) of certain local budget expenditures.

administrative autonomy. However, the development and enforcement of financial mechanisms to protect and guarantee the financial autonomy of local government, as proclaimed by the Constitution, remains the major issue.

In the lack of adequate and independent financial resources the prospects for effective decentralization are quite limited. Given the pro-European aspirations of the Moldova, the task for the next years is to further strengthen the system of local fiscal autonomy in order to comply with the EU standards. This includes the following important responsibilities: to decrease interference of the state in the local financial affairs; to create a more stable, clear and enforceable legal framework on local public finance and to give more decision-making powers to the local governments.

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