



DECENTRALISATION AND LOCAL PUBLIC ADMINISTRATION REFORM IN MOLDOVA

STATUS REPORT

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This project is co-funded by the European Union



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EXECUTIVE SUMMARY

Building a modern and efficient central and local public administration system is one of the fundamental priorities of the Republic of Moldova. The current system of public administration proves to be out-dated, highly politicised and ineffective. The obvious bottlenecks, the inability and inefficiency in the proper implementation of decades-long reforms and the way state institutions responded to the latest challenges such as misappropriations of public funds, widespread corruption, doubtful privatisations, referendums, etc., confirms that in the Republic of Moldova the administrative system requires a profound rebuilding.

Decentralisation, local democracy and consolidation of local autonomy represent a quite forgotten, controversial, confused and long overdue reform domain in the Republic of Moldova. Even though local governance is an important area in the context of democratisation, modernisation and development, in Moldova it has always been underestimated comparatively with other fields such as justice, human rights, social protection, economic development, etc. Correspondingly, owing to a spectrum of systemic political, administrative, financial and economic problems, there were no substantial progresses in any of these fields above for many years. In many of them the situation has even deteriorated during the past ten years.

The process of local government (LG) reforms as well as the comprehensive and full inclusion of the European concept of local autonomy and decentralisation in the national legal framework started as soon as the Republic of Moldova gained independence (1991). Since 1994, the principles of local autonomy have been expressly included in the Constitution and developed over the years in special laws. Starting from 1998, in the Republic of Moldova came into force without exceptions, the European Charter of Local Self-Government. The principles of local autonomy and legal norms which guarantee

them, have been and are used in the Republic of Moldova quite widely, including the Constitutional Court, which systematically declared as unconstitutional several laws and governmental decisions which were violating the principles of local autonomy and the interests of local authorities. Thus, in terms of conceptual, legal and juridical climate as well as in terms of the reforms' attempts at least, Moldova has accumulated a rather rich, diverse and interesting experience, which deserves to be analysed and taken into account, especially in order to avoid the same mistakes to be committed over again in the future. In this sense, we can say that the Republic of Moldova, in legislative and conceptual terms, has advanced quite a lot and that the principles of local autonomy and decentralisation are reflected quite well in legislation and legal practices, as well as are generally known in society. However, the fundamental problem with local democracy in the country is a rather low degree of implementation of strategies and policies. This is coupled with inconsistency and lack of continuity of governmental policies in the process of reforms and within the approved legal framework.

The lack of progress in decentralisation and the continuous attacks on local autonomy indicate that Moldovan politics, with few exceptions, has difficulties to understand the essence and importance of local democracy and decentralisation as of the real true mechanisms for modernisation, developing and building democracy in the country according to international standards. Many of the reforms which were carried out in the Republic of Moldova, were either promoted by international partners, or happened under the strong pressure on behalf of the LGs and of their representative association (especially during the last 10 years), and were limited or restrained by political factors. As a result, most of the reforms in the Republic of Moldova in this area failed or were not completed. Currently, Moldova has a rather confusing public administration system with several

outdated and rather inefficient elements such as a hyper-centralised financial and administrative system, excessive control of the central government, soviet-style LGs of the 2nd tier, etc., which prevent and prohibit local development.

However, despite the flaws and general problems mentioned above, it must be recognised that in Moldova, the process of decentralisation and consolidation of local democracy is dynamic and constantly evolving, offering a fairly positive experience in several directions such as: institutionalised dialogue with the Congress of Local Authorities of Moldova (CALM) participating in weekly governmental meetings; increased funds and local revenues; increased remuneration in LGs; ownership of local property; access of LGs to

the Constitutional Court; diminishing abuses, pressures and intimidations of LGs; etc. These positive examples inspire a certain degree of optimism and are largely happening due to a proactive role and involvement of the LGs representative association - CALM.

Rather important for the overall reform process is also the cooperation with international partners promoting necessary reform policies and providing funds for their implementation. The current study provides an overview of the situation regarding local democracy and local autonomy in the Republic of Moldova, the main developments, current and forthcoming issues within the reform process and key directions for advancing local government reforms and local democracy.

1 INTRODUCTION

General observations

The reform prospects, as well as institutional dialogue between local and central public administrations in Moldova, are currently experiencing strong impact from the COVID-19 pandemic crisis. For the time being, it is rather difficult to comprehend the overall influence of the crisis since the crisis is ongoing. From preliminary estimates, the COVID-19 pandemic influence will be drastic upon both local and the national government finance. And not yet clear at all, is its influence upon the international funding incoming in Moldova. From one side, the crisis has shown a significant change in governmental priorities towards emergency issues, health care and national finance. From the other side, local governments being at the forefront of the crisis response, faced a bulk of additional competencies and experienced crucial downsizing of local budgets. Thus, many urgent reforms and improvements are required.

The overall problems in local governance in Moldova are everywhere. In addition to the important strategic issues such as fiscal decentralisation, legislation and local economic development, there are also many other technical and seemingly less important issues which, at the end, create lots of problems and inefficiencies in local public administration. The accumulated poor attention to local governance, backlog of problems and challenges during the last 25 years, requires urgent solutions, in particular in the aftermath of the pandemic crisis when all types of resources will be much scarcer than before.

Administrative-territorial division

In Moldova there is a two-tier system of local governance. 898 administrative-territorial units of the 1st level: villages, communes, towns and municipalities – are called Local Governments of the 1st tier. The Moldovan system of local government includes 32 *raions* which are administrative-territorial units of the 2nd tier of Local Government, including

Chisinau municipality, the capital city. Apart from those there is the autonomous region of Gagauzia with a special status and rather diverse sources of funding compared with all the other local authorities in the country. Gagauzia is having several particularities in administrative-territorial structure. For example, it embraces three *raions*, which do not have attributes of local governments (no elected representation), but which rather represent administrative sub-divisions of the administration of Gagauzian autonomy.

There is also a separate administrative-territorial unit Transnistria, which though formally and according to international law is considered Moldovan territory, in fact represents a separatist region, uncontrolled by official Moldovan authorities in the aftermath of the military conflict of 1992-1993. On the current territory of Transnistria, there are administrative Soviet style authorities, unelected and which therefore can only be formally called local authorities. In general, they lack any decision-making or financial autonomy. The status of these regions is yet to be regulated.

Political structure of Moldovan local governance

At the first tier of local governance there are executive and representative bodies of local authorities. Local governments of the first tier are led by the Mayors who are directly elected directly by all people. The mayor and his office represent the executive body within the local authority. The local council is the representative decision-making body that approves local regulations and which has quite broad competencies, including overall supervision of the mayor's office activities. Local councils are elected directly by the people based on political parties' lists, but usually there are also many independent candidates and local councillors as well. Local governments of the second tier are led by *raional* councils (32 in total), universally elected by all people. Raional councils

afterwards elect among their members the Presidents of *raions*. The president of the *raional* council leads the executive branch of the local government of the 2nd tier, which is called apparatus of the President of *raional* council. It is worth noticing a growing number of independent mayors and members of local councils as well as a growing number of women mayors. In Gagauzia, at the regional level, executive authority is being represented by the Governor (Baskan) elected directly by all people, while the representative power belongs to the Popular Assembly. Concerning the LGs of the first tier, the system in Gagauzia is identical to the rest of the country.

Competencies

In Moldova, the competencies of LGs are both distributed between the different tiers of local governments and divided into own competencies of the LGs and competencies delegated by the central government. Like in many European countries, the two tiers of Moldovan local authorities have a standard set of competencies. LGs of the first tier are responsible for the following domains: water supply, waste management, kindergartens, street lightening, local transport, local roads, culture, territorial arrangement, economic development, urban planning, school buildings, local/regional roads, local economic development and local parks. More variable competencies of local authorities are rarely in purview of the local governments of the first tier. Local governments of the second tier have almost the same competences as those of the local governments of the first tier but adjusted to their territorial scale. For example, they also have competence in the fields of roads, parks, local economic

development - only on a larger territorial scale than the *raion*. Additional competencies of LGs of the second tier are limited to certain areas such as social protection, where they are responsible for certain tasks.

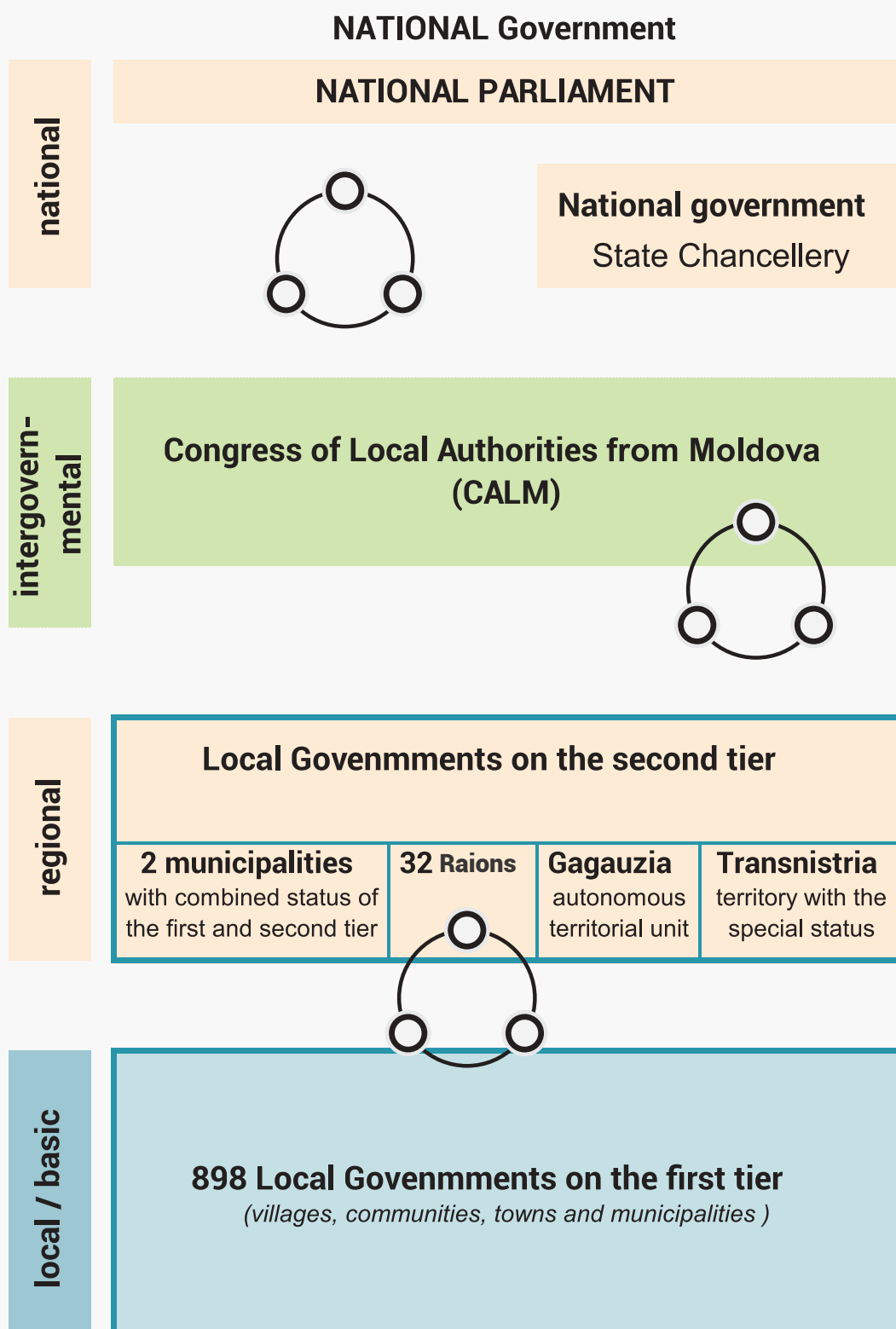
Main sources of LGs revenues

LGs in Moldova have the following sources of revenues:

1. Own revenues - real estate tax, land tax, local taxes, fees and charges. LGs of the 2nd tier benefit from the natural resources tax, which is quite an important source of local revenues;
2. Shares from the personal income tax:
 - for the budgets of villages (communes) and cities (municipalities), except for *raion-residence* cities (*raion-residence* municipalities) - 100% of the total volume collected on the territory of the respective administrative-territorial unit;
 - for the budgets of the cities-residence of *raions* - 50% of the total volume collected on the territory of the respective administrative-territorial unit;
 - for the budgets of the municipalities - 55% of the total volume collected on the territory of the respective administrative-territorial unit;
 - for the budgets of *raions* - 25% of the total volume collected on the territory of the respective administrative-territorial unit
3. Fees and other payments
4. Transfers from equalisation fund and transfers with special destination.
5. Grants from external sources

Box no. 1: Levels of government and administrative organisation in Moldova

M O L D O V A



2 STATUS AND DEVELOPMENT OF LOCAL PUBLIC ADMINISTRATION REFORM

2.1 A strong legacy from the past: decentralisation vs. centralisation

The first local government reform in Moldova was already announced in 1991, the year of its independence. Since then, local government reforms in Moldova have been undergoing for the past 29 years. Virtually, every government and political force in power tried to carry out reforms in this area. As a result, the Republic of Moldova in this rather short historical time period underwent several administrative-territorial reforms and adopted 5 new laws on local public administration. At the same time, within the central public administration reform carried out in 2017-2019, important shortcomings were observed. Such shortcomings were very relevant for all LGs in the country and particularly on transparency, public consultations and broad involvement of stakeholders in the decision-making process (including involvement of LGs and of CALM). The decentralisation principle, which is explicitly mentioned in the Strategy on Public Administration Reform, was often ignored. Local aspects of the public administration reform raise big question marks, uncertainty and confusion. Local democracy and decentralisation as well as justice, human rights and freedom of media are the areas in which problems and unfulfilled commitments were systematically identified. Such concerns are regularly reflected in multiple reports and evaluations of the Congress of Local and Regional Authorities of the Council of Europe, European Commission and of other Moldovan international partners. Such reports include also unfulfilled international commitments of the Republic of Moldova.

A series of important policies were adopted in the last eight years in the field of

decentralisation and local autonomy: the National Decentralisation Strategy 2012-2018 (Law no. 68 from 2012 and amended in 2016); the Roadmap for the Implementation of Recommendation 322 of the Congress of Local and Regional Authorities of the Council of Europe (signed between the Government of Moldova, CALM and the Council of Europe in 2016); and the Strategy of Public Administration Reform (approved by the Government in 2016). Resolutions of the Congress of Local and Regional Authorities of the Council of Europe represent a rather important reference for local government reforms and decentralisation in Moldova.¹

Nevertheless, the National Decentralisation Strategy, approved in 2012 and extended in 2016, have expired in 2018 with little overall implementation according to various estimates (up to 50% according to official estimates and less than 20% according to independent and CALM estimates). The Roadmap signed in 2016 between the Congress of Local and Regional Authorities of the Council of Europe, Government of Moldova and CALM for the implementation of Congress of Local and Regional Authorities of the Council of Europe Recommendation nr.322/2012, has expired and a new Post-monitoring revised roadmap is under preparation and approval in 2020. Frequently, changing central governments simply do not have enough time to implement such reforms and recommendations. Any reform, if at all, are normally happening ad-hoc, unexpectedly,

¹ Resolution on the Situation of Local Democracy in 2017 and 2018, the Monitoring report and Recommendation 436 of the Congress of Local and Regional Authorities of the Council of Europe on the State of Local Democracy approved on April 4, 2019.

mostly under different pressures and being carried out in the very short time span.

The adoption of the afore mentioned strategic documents, as well as certain achievements in the field of decentralisation took place as a result of mutual openness and cooperation between the Government and CALM during 2016. Such cooperation had a positive effect being much appreciated internally and externally. These developments, besides hope, have generated a conceptual/visionary foundation necessary for the successful continuation of the reforms and commitments accumulated in the implementation of the national and international strategies. Particularly positive were the reform developments towards the end of 2016 and in the beginning of 2017.

However, starting with the second quarter of 2017, there was a radical change in the dialogue between central and local authorities. Dialogue and relationships between the central and local governments and CALM deteriorated and resulted in a full blockage. The repercussions on reforms and implementation of recommendations were immediate while pressures on local governments increased significantly. The fundamental cause for the deterioration of the situation was the government's attempt to perpetuate its ruling position and change the electoral system. This was perceived also as an attempt to move closer to the authoritarian ruling. As a result, local democracy and local autonomy, regressed during this period, in particular in fields such as the status of local elected representative, financial autonomy, administrative control of LGs, the institutionalised dialogue, etc. This was confirmed by recent reports/resolutions of the Congress of Local and Regional Authorities of the Council of Europe (CALRCE) on the Situation of Local Democracy in Moldova in 2017, 2018 and 2019. Various aspects of the situation of local democracy became a concern for the Council of Europe and a rather tough position was expressed several times at the highest levels by the European Commission and by the Government of the United States of America, which were particularly cautious and in fact

helped significantly to avoid an authoritarian ruling in 2019.

Measures implemented earlier on in 2016, which led to some consolidation of local autonomy both from an organisational and financial perspective, played a key role to ultimately reduce the influence of the pressures, intimidations and of political and administrative control over local elected representatives attempted after 2017.

The Moldovan government coming after the national parliamentary elections in 2019 and particularly in the period of June-October 2019 showed a fairly large opening for actions in the field of decentralisation. This was reflected in a consolidation of local autonomy manifested through:

- the inclusion of decentralisation and local autonomy as a separate chapter in the political agreement between the parties of the ruling coalition;
- the explicit and comprehensive inclusion of LG reform in the Governmental Program;
- the elaboration in close cooperation with CALM of the governmental action plan and its thorough monitoring regarding the implementation of the Governmental program;
- the approval of several important legislative initiatives and first of all, increasing the PIT for cities up to 50% and villages of up to 100%;
- the preparation of the basis for sharing with LGs of the 10% of the Corporate Income Tax (CIT) approved already by the current government

The new government that came as a result of the November 2019 elections, didn't manifest feasible intentions for decentralisation reform and decentralisation is not included in the governmental program. It did however support the approval of the previous government's initiative of sharing the CIT with LGs. On the other hand, currently all deadlines established for the implementation of policy documents, reforms and commitments in the field of decentralisation have already expired, with a small level of implementation – from 10 to 50 percent according to different estimates.

Box no. 2: Competences of local authorities

Types of responsibilities	Description of responsibilities
Own competences of LGs of the 1st tier*	<ul style="list-style-type: none"> a) urban planning and management of green spaces of local interest; b) collection and management of household waste, including sanitation and maintenance of land for storage; c) distribution of drinking water, construction and maintenance of sewerage and wastewater treatment systems; d) construction, maintenance and lighting of local public streets and roads; e) local public transport; f) arrangement and maintenance of cemeteries; g) administration of the goods from the local public and private domains; h) construction, management, maintenance and equipment of preschool and extracurricular institutions (nurseries, kindergartens, art and music schools); i) development and management of urban gas and thermal energy distribution networks; j) cultural, sports, recreation and youth activities, as well as the planning, development and management of the infrastructures necessary for these types of activities; k) arrangement of the agricultural markets, of the commercial spaces, the accomplishment of any other necessary measures for the economic development of the administrative-territorial unit; l) establishment and management of municipal enterprises and the organisation of any other activity necessary for the economic development of the administrative-territorial unit; m) construction of housing and the granting of other types of facilities for the socially vulnerable layers, as well as for other categories of the population; n) organisation of fire services.
Delegated competencies of LGs of the 1st tier **	<ul style="list-style-type: none"> Kindergartens Design, construction, maintenance and modernisation works of the housing fund, as well as of the entire economic, social, medical infrastructure of local interest; Integration and implementation of the principle of equality between women and men Working regime of commercial and catering enterprises; Contribute to the protection of the immovable cultural heritage; Contribute to ensuring public order, Maintenance of the territorial service (post) of rescuers and firefighters Contribute to the implementation of protection and social assistance measures, ensures the protection of children's rights; decides to identify socially vulnerable people who need to improve living conditions; establishes and ensures the functioning of some charitable institutions of local interest; Civil status service Safety of road and pedestrian traffic Registration and record of transport units Distribution of the housing fund and the control over its maintenance and management Elaboration and approval of the urban planning and spatial planning documentation, submits it to the strategic environmental assessment procedure Take measures to prohibit or suspend performances, performances or other public events Keep records of peasant (farmer) households and their associations according to the register approved by the Government; Issue certificates of private ownership confirming the ownership right over the shares of the patrimony of the former agricultural enterprises Register leases of agricultural land and other agricultural property Military evidence and support for recruitment

Own competences of LGs of the 2nd tier (<i>raions</i>) *	<ul style="list-style-type: none"> a) the administration of the goods from the public and private domains of the <i>raion</i>; b) planning and administration of construction works, maintenance and management of public objectives of <i>raional</i> interest; c) construction, administration and repair of roads of <i>raional</i> interest, as well as of road infrastructure; d) organisation of passenger car transport, administration of bus stations and car stations of <i>raional</i> interest; e) establishing a general framework for the arrangement of the territory at rayon level and the protection of the forests of <i>raional</i> interest; f) supporting and stimulating the initiatives regarding the economic development of the administrative-territorial unit; g) elaboration and implementation of construction projects for interurban gas pipelines (including medium pressure gas pipelines), other thermal energy objectives with local destination; h) administration of culture, tourism and sports institutions of district interest, other activities of educational, cultural and sports character of <i>raional</i> interest; i) administration of municipal enterprises of rational interest; j) administration of social assistance units of <i>raional</i> interest; k) development and management of community social services for socially vulnerable categories, monitoring the quality of social services.
Delegated tasks to LGs of the 2st tier **	<p>Education: channelling funds and supervising autonomous schools</p> <p>Social protection: separate social care facilities under the purview of the LGs of the first tier - of the regional importance</p> <p>Social assistants: institute of social assistants is important in evidence-based targeted social support to the vulnerable groups of the population. Such support is coming from the central level, the task of social assistants is merely to document the situation</p>

* LGs of the 1st and 2nd tier competencies according to the Law on Administrative Decentralisation

** Delegated to LGs competencies according to sectorial legislation. Most important and applicable. Financing for own competencies is very scarce while financing for delegated competencies is almost completely missing.

2.2 Main achievements and challenges to local government reform

Overall reform factors

Decentralisation and local government reform in Moldova are significantly challenged by the rather volatile and unpredictable political climate. Only since 2019 Moldova has seen three different central governments. The frequent change of government brings significant repercussions on all local government reforms and other sectoral reforms in the country as well. Firstly, each new government results to have a rather poor understanding of the nature of local governance, local democracy and local autonomy. The understanding of these concepts needs to be explained and learned basically from scratch. Secondly, almost every new government adopts measures that end up undermining local autonomy and quite often on local funding as well, which require some significant counteraction on behalf of local authorities. Thirdly, each new government results to try to 'sell' its local government policy reform (or quite often a lack of the one) to Moldovan international partners in order to obtain international funding. Unfortunately, quite often it has resulted that when the new government has started to grasp an understanding of local governance principles and was ready, at least for some kind of dialogue with LGs towards reforms, the political situation changed and that government removed from office. This explains to a significant degree the unstable and unpredictable character of local government reforms in the country. It also explains the vague legislative and conceptual context of LGs reforms where laws, strategies and governmental action plans quickly become futile or even irrelevant while "small" but rather important reform steps often emerge unexpectedly on an ad-hoc basis.

Reform achievements

The following are among the main achievements in local government reform in the past:

1. Decimation of the system of unelected

communist local government and its transfer towards a more civilised scale, which happened in the very first years of Moldovan independence;

2. Introduction of fully-fledged, real and true local elections in 1990, which differentiated local governments from the straightforward subdivisions or branches of the central communist government as they were before;
3. Official, direct and full recognition of the international and European concept of local autonomy within the constitution and legal framework of the Republic of Moldova. The principles of local autonomy are expressly marked in the Constitution and developed extensively in LG legislation;
4. Ratification without exceptions of the European Charter of Local Self-Government (of the Council of Europe) and its entry in force for the Republic of Moldova starting from February 1, 1998;
5. The principles of local self-government have become widely utilised in the judicial practice of the Constitutional Court and of common law (judicial) courts;
6. Three administrative-territorial reforms carried out during the years 1991-2001. Especially the administrative-territorial reform of 1998-1999 was particularly important and famous for its quite radical changes related to the local governments of the second tier (instead of the *raions*; the reform introduced a much smaller number of counties, of the European scale). The number of municipalities / local governments of the first tier was also reduced approximately by one third. Such reform was cancelled in 2001 and the country returned to the Soviet-style *raions* and the previous number of the LGs of the 1st tier (currently 898 municipalities);
7. Under the pressure of the Congress of Local and Regional Authorities of the Council of Europe and on the account of rather poor standards of local democracy marked in the Congress's monitoring

reports, in 2006 were carried out important legislative changes – that resulted in new laws on local public administration and on administrative decentralisation. Decentralisation as a comprehensive and complex policy was contoured for the first time not only at the policy level but in the legislation as well;

8. In 2012, a Decentralisation Strategy and an Action Plan for 2012-2016 were approved by law (with further extension until 2018). Consequently, in 2013 were approved the most important modifications in the Law on Local Finance and other normative acts, which even though didn't provide local authorities with additional financial resources, nevertheless significantly improved local autonomy. Such modifications removed financial and administrative dependence of the LGs of the first tier from those of the second, as well as fixed in law, the rates of the shared taxes and transfers increasing predictability and removing partiality of the central government in this matter. However, due to political considerations the implementation of this law was postponed till 2015;
9. In 2016-2017 were carried out noticeable improvements in decentralisation reform even though quite fragmented ones and which however, failed to bring a significant boost in local financial autonomy, especially in the aftermath of the pandemic crisis. The main reforms included: LGs access to the Constitutional Court; increased competencies in land use destination for the first tier LGs; the road fund was partly decentralised while the road tax was shared with all local authorities on a per capita basis; personal income tax rates were adjusted in favor of local governments; and eight local governments received the status of Municipalities. In 2019 share of LGs of the 1st tier in PIT has increased two times up to 50% and up to 100% for rural LGs;
10. In 2019 a rather important achievement in decentralisation reform was approved – the sharing of the Corporate Income Tax with LGs of the 1st tier (10% of CIT in

Equalisation fund);

11. The progress in the institutionalised dialogue between CALM and the Government was also constantly developing. CALM obtained the right to attend the weekly meetings of the government cabinet and the meetings of the Committee of General Secretaries of the Government (the structure which initially examines the draft normative acts before their approval by the government);
12. Consolidation and development of CALM as a representative and unified voice of all LGs. CALM is very positively recognised, both internally and externally, to Moldova.

Reforms bottlenecks, backlog and negative experience

Despite the above-mentioned positive developments, local government reforms in Moldova frequently encounter bottlenecks and challenges. Quite often, newly introduced policies and methods have inhibited the realisation of local governments' mandate and have complicated the functionality of LGs. The overall Moldovan experience with decentralisation reform is not only a history of decentralisation, but perhaps most importantly a history of reforms against centralised approaches in different fields and sectors. Some of these approaches have been removed afterwards, under pressures from CALM and other partners & stakeholders, including the EU and the Council of Europe. Overall, the key challenges affecting local governments' reforms throughout these years include the following:

1. **In general terms, the lack of institutional dialogue and lack of a culture of consultation** on behalf of the central government vis-à-vis local governments and national stakeholders. Traditionally, central authorities have poorly consulted with local authorities and other national stakeholders with regard to major policy decisions;
2. **Blindly following reform recipes not grounded on Moldovan reality** - at the same time quite often, Moldovan central governments have blindly followed international practices and reform

'recipes' especially in fields considered as "auxiliary" by central authorities, including local democracy. Following blindly such recipes without adapting them to the local reality, has not always been beneficial. Quite often such recipes have brought additional burdens and problems for local governments without any additional financial resources. Additionally, central governments have been quite proficient in 'inventing' different strategies including decentralisation strategies, for the sake of external or international funding and support. Such strategies were rarely implemented and probably never even meant or intended to be implemented. This is generally recognised in Moldova as a wider problem affecting all sectors, particularly justice and anti-corruption;

3. **The lack of political will at the central level for decentralisation and LG reform.** The political will for reforms in this area can be characterised as negligible, volatile and vague. Mostly, all the declarations of the reforms were done either under pressure of international partners and/or CALM or following electoral promises of the newcomer governments. Regularly, the promises of local government reform have been forgotten when new governments took office;
4. **The lack of a strong, independent, representative and expertise-based voice of local authorities.** For a long time, the lack of a unified voice of local authorities has negatively influenced advocacy for LG reforms. Even after the establishment of CALM, it took many years before the voice of local authorities became sufficiently important, heard and taken into account by central authorities;
5. **Insufficient fiscal decentralisation.** Fiscal decentralisation reform remains very problematic for Moldova. In fact, any measures in this field were carried out only starting from 2015. Quite often, central governments inclined to diminish LGs fiscal base, including attempts to introduce ceilings upon the local tax rates; important to note in this context is the fact that limited fiscal decentralisation

allows mere subsistence on recurrent expenditures while lacking the capital investments component;

6. **Excessive controls, verifications and administrative pressures on local governments.** This is explained by the crucial importance of local governments during electoral campaigns. According to all opinion polls, for years, people have an extremely poor trust in central governments and political parties. On the other hand, local authorities always benefit from the highest trust of the population. Thus, for electoral purposes, central authorities and ruling politicians have pressured local authorities or, in other instances, have gained their favor through public funding for infrastructure projects. Multiple reports and recommendations of the Congress of the Council of Europe testify such behaviors. Pressures from the prosecutor's office and the judiciary on LGs and on CALM, especially in 2017-2019, have accelerated enormously. On the back of such pressures, the Congress of Local and Regional Authorities of the Council of Europe, as well as of the European Union and Government of the United States, have explicitly supported LGs and CALM against such pressures;
7. **Limited operational autonomy of local governments.** Moldovan local governments have a very limited operational autonomy, including the remuneration and social guarantees for local elected representatives currently critically constraining the proper functionality of local governments, including employment in local public administration;
8. **The legal framework remains rather inconsistent** with significant contradictions between the organic laws on administrative decentralisation and local public administration from one side and sectorial legislation from the other side. The latter imposes a large number of competencies on local governments which are not accompanied by adequate resources and which can never possibly be financed from poor local budgets;

9. Additional challenges include obsolete and impracticable standards and norms, lack of registration and records of local infrastructure, lack of proper knowledge of existing infrastructure, lack of correlation between existing infrastructure and forthcoming projects, significant limitations in local fiscal policies and for local fiscal base caused by poor registration and delimitation of property, poor delimitation of property between tiers of public administration as well as between private and public domains.

Box no. 3: Timeline of decentralisation process

Main stages / waves / phases		Duration of phase or wave	Measure / activity	Year	Main changes for local governments
1.	Introducing basis of local democracy	1990-1991	Changing the system of unelected communist local government and its transfer at the democratic level in the first years of Moldovan independence.		
2	First local elections	1990	Introduction of the full-fledged real true local elections in 1990th, which has differentiated local governments from the straightforward subdivisions or branches of the central communist government as they were before.		
3	Approval of the European Charter of local self-government	1998	"Official, direct and full recognition of the international and European concept of local autonomy within the constitution and legal framework of the Republic of Moldova. The principles of local autonomy is are being expressly marked in the Constitution and developed extensively in the legislation in the field of LG. Ratification without exceptions of the European Charter of Local Self-Government (of the Council of Europe) and its entry in force for the Republic of Moldova starting from February 1, 1998.		
4	Constitutional Court and local autonomy	1995-2016	The principles of local self-government have become widely utilized in the judicial practice of the Constitutional Court and of common law (judicial) courts. Starting from 1995, the Constitutional Court of the Republic of Moldova adopted a series of important decisions in defense of the rights and interests of local authorities based on the principles of local autonomy and the provisions of the European Charter. One of the last decisions in 2014 related to the capping of local taxes in prohibitive terms.	2016	Starting from 2016 LGs in Moldova received a full-fledged access to the Constitutional Court being able to contest legislative and normative acts in CC.
5	Administrative-territorial reforms	1991-2001	Three administrative-territorial reforms carried out during the years 1991-2001, especially the one in 1998-1999. Administrative-territorial reform of 1998-1999 (reversed to the previous situation in 1993) was particularly important and famous for its quite radical changes related to the local governments of the second tier (instead of <i>raions</i> was introduced a much smaller number of counties of the European scale). The number of municipalities / local governments of the first tier was also reduced approximately by 1/3. Then it was cancelled in 2001 and country returned to the Soviet <i>raions</i> and the previous number of the LGs of the 1st tier (currently 898 municipalities). Although these reforms have largely failed, important mistakes were made and enormous resources were wasted, they can still serve as useful lessons and experiences that would help to develop and implement appropriate and far more successful reforms in the future.	2013	Was finalised the current administrative-territorial structure with 898 LGs of the first tier and 32 LGs of the 2nd tier.

6	Key legislation in LG	2006	Under the pressure of the Congress of Local and Regional Authorities of the Council of Europe and on account of rather poor standards of local democracy marked in the Congress monitoring reports, in 2006 were carried out important legislative changes – were introduced new laws on Local public administration and on Administrative Decentralization. Decentralization as comprehensive and complex policy for the first time was contoured not only at the policy level but in the legislation as well. Soon after the first decentralization strategy was developed. But these important changes have not been accompanied by the fundamental reform of local finances and thus they didn't change much the situation.		Were elaborated two ground laws in the field of LG, which until now serve as the main reference - Law on Administrative Decentralization and Law on Local Public Administration.
7	Attempt of the first structured decentralization reform	2011-2013	In 2012, a Decentralization Strategy and its action plan for 2012-2016 were approved by law (with further extension until 2018). In consequence in 2013 were approved the most important modifications in the Law on local finance and other normative acts, which even though didn't provide local authorities with additional financial resources, nevertheless significantly improved local autonomy, removed financial and administrative dependence of the LGs of the first tier from those of the second as well as fixed in law rates of the shared taxes and transfers removing partiality of the central and <i>raional</i> governments in this matter. Due to political considerations the implementation of this law was postponed till 2015. Owing to the pressure exercised by CALM, including mayors' street protest and a flash mob in front of the Council of Europe building (Strasbourg 2013), it was possible to finally adopt and to implement the law on local finance.	2013	Modifications in Law of Public Finance - approved in 2013, entered in force in 2015.
8	Ad-hoc "small steps" reforms - most important achievements throughout the entire history	2016-2017	In 2016-2017 were carried out probably yet the most noticeable realizations within the decentralization reform even though still quite fragmented ones. Those realizations as laudable as they are didn't bring yet significant boost in local financial autonomy especially in the aftermath of the pandemic crisis. Were approved modifications in legislation related to LGs access to Constitutional Court, certain competencies in land use destination were transferred to LGs of the first tier, road fund was partly decentralized while the road tax was shared with all local authorities on the per capita basis, were adjusted in favor of local governments personal income tax rates, eight local governments have received the status of Municipalities (in 2019 share of LGs of the 1st tier in PIT has increased two times up to 50% and up to 100% for rural LGs). Particularly these changes have considerably supplemented the revenues of urban municipalities.		<ul style="list-style-type: none"> • modifications in legislation related to LGs access to Constitutional Court • competencies in land use destination were transferred to LGs of the first tier • road fund was partly decentralized while the road tax was shared with all local authorities on the per capita basis • were adjusted in favor of local governments personal income tax rates, • eight local governments have received the status of Municipalities (in 2019 share of LGs of the 1st tier in PIT has increased two times up to 50% and up to 100% for rural LGs).

9	Sharing of Corporate Income Tax	2019	In 2019 a rather important and symbolic achievement in decentralization reform was approved - sharing of the Corporate Income Tax (CIT) with LGs of the 1st tier (up to 10% of CIT in Equalization fund).	10% of CIT were drawn in Equalization fund for LGs
10	Consolidation of inter-governmental dialogue	2010-2020	"Some progress in the institutionalized dialogue between CALM and the Government was constantly developing. CALM obtained the right to attend the weekly meetings of the government cabinet and the meetings of the Committee of General Secretaries of the Government (the structure which initially examines the draft normative acts before their approved approval by the government). Consolidation and development of CALM as a representative and unified voice of all LGs. CALM recognition internally and externally. The constant increase in the number of members and of the support from LGs (currently more than 2/3 of the LGs are members of CALM)"	<ul style="list-style-type: none"> • CALM as a representative voice of the LGs • weekly meetings of the government cabinet • meetings of the Committee of General Secretaries of the Government dialogue with parliamentary commissions consolidated • Parity Commission for decentralization reform • established institutional dialogue with ministries and public agencies

2.3 Political, administrative and territorial decentralisation reform

Policy and legal framework

At the policy level, the main current challenges to decentralisation reform is the contradictory and controversial legislation in the field of LG. In particular:

1. Laws are not being implemented adequately; most of the legislation is non-operational and non-harmonised with sectoral legislation nor complemented with bylaws. Many different legislative models that have been adopted come from different legislative systems – UK, US, Germany, France, etc. Such variety in the legislative systems often create problems in interpretation and implementation;
2. The legal framework related to exercising local mandate, including issues conducive to the pressures and intimidations against mayors and local government representatives, is a problem. Such negative practices emerge from time to time when central governments try to “motivate” local authorities to act in the political interests at the central level (for example during the electoral campaigns, trying to silence the voice of local authorities on certain issues, etc.). Such areas as for example juridical responsibilities of the prosecution bodies, penalising and incriminating procedures are excessive and do not commensurate either with LGs responsibilities, neither with competencies or finances available to local governments. It is fairly easy to open a penal case against local authorities, to abuse with one's rights and privileges, even to arrest mayors or at least to temporarily remove them from the office;
3. Moldova's international commitments in the field of local democracy and local autonomy or the recommendations of the Council of Europe are not known to the public institutions and public employees;
4. There are contradictions between sectorial legislation and organic legislation in the field of local governance. The former imposes many fragmented tasks in different fields which do not correspond to the competences of local governments included in the organic law on decentralisation. Furthermore, such sectoral tasks are not supported by financial resources available to local governments.

Key reform directions under discussion and to a limited extent under implementation include:

- Comparing and identifying differences between sectorial legislation in different fields and the organic Law on Administrative Decentralisation to help carrying out required legislative modifications;
- Elaborating draft legislative amendments for sectorial legislation correlating it with the organic laws on decentralisation and with the available local resources;
- Continuing formal and legally binding consultations with central government and parliament on legislative issues;
- Drafting appeals for the Constitutional Court to repeal the most important contradictions between laws.

Local elections in 2019

The late 2019 local elections in Moldova were rather important. 898 mayors were elected together with many local and *raional* councillors. These elections were essential as they were sufficiently calm, transparent and without excesses, potentially exhibiting one of the best examples during the entire history of Moldova after its independence in 1991. This is among the key achievements of these local elections. Pressures and intimidations against candidates particularly against those from the opposition diminished drastically comparatively with all the previous elections. Similarly, the phenomenon of utilising public financial resources to influence elections critically diminished or even disappeared completely - maybe for the first time in the modern history of Moldova. Many mayors who decided to quit their political career under the previous government have advanced their candidatures again. Elections didn't bring important surprises with major parliamentary parties having the biggest numbers of mayors. Quite high was also the number of elected independent mayors – 112. The number of elected women mayors increased – up to 196 (186 in the previous elections). On the negative side, it is worth mentioning a law approved by the previous government in early 2019, which complicates significantly the election registration process for independent candidates.

Consultation mechanism, stakeholders and institutionalised dialogue

Consultation mechanisms and dialogue between tiers of public administration in Moldova are far from being smooth, including during the pandemic crisis. Even though relations with the central government have been acquiring a somewhat more constructive trend, overall, consultation mechanisms are not sufficiently institutionalised, continuous, sustainable and formalised. Practically with every new government new ways of communication need to be sought. Even the formal structures established in law or by the governmental practices need to be reconfirmed with every new government. Quite often local governments are not included in the working groups for the reforms of the highest importance to them, although this is required by law. On the other hand, numerous reforms working groups seem to be initiated by the central government in order to benefit from international funding, since there is no continuation afterwards. This indicates a lack of real commitment or perhaps even an intention to create the perception of reform processes in front of international partners and donors.

Overall, it is impossible to expect major breakthroughs in local government reforms during the pandemic crisis and the main objective is rather to alleviate the situation of the LGs and avoid a sharp economic and financial decline at the local level. Even though somewhat reduced, fragmented and ad-hoc discussions of the previously contoured reform dimensions have continued during the pandemic crisis.

It is important to highlight that there is a lack of institutionalised dialogue mechanism at the level of Parliament. As Parliament is the main source of power and decision making in Moldova, the lack of an effective dialogue and consultation mechanism often leads to the approval of inconsistent and sometimes even harmful local governance legislation. The draft-law on parliamentary consultations of LGs prepared by the previous government, has not yet been approved.

Local autonomy and local democracy

The period between 2015-2019 is characterised by an extraordinary evolution in local democracy and then an equally rapid deterioration of the situation. This period represents a quite interesting case study of political instability and volatility. From many successes and several important achievements in 2016-2017, very quickly the governmental policy became a subject of disappointment and permanent criticism for the serious deterioration of local democracy. CALM, the Congress of the Council of Europe and Moldovan international partners have strongly raised such concern. The most crucial deterioration of local democracy took place between 2017-2018, through pressures and intimidations against mayors, the consolidation of abusive administrative controls and rupture of the dialogue between central and local authorities. At the same time pressures and intimidations against CALM grew to the highest levels in history. The alarming situation of local democracy was marked in several reports and resolutions of the Congress of Local and Regional Authorities of the Council of Europe, including at the request of CALM. Several special missions of the Congress of the Council of Europe were dispatched to Moldova to follow upon the situation. At the same time, the pressures and intimidations against mayors somewhat improved towards the end of 2018 under the pressures of CALM, the Congress of Local and Regional Authorities the Council of Europe and other Moldovan international partners. The situation improved even more after changing of the government in middle 2019 based on the results of national elections.

Competencies of local governments

The overall competencies of local governments are more or less rational. However, when compared with local finance available to LGs they are heavily exaggerated. There are two essential sets of issues related to local competencies:

- Many competencies are fragmented, limited or shared, not allowing the full exercise of local mandates in line with the European Charter – for example in water supply, economic development, contracts enforcement, education, social protection

and health care.;

- In few essential fields which are more naturally connect with local governments, they do not have competencies at all – for example in schooling, police and public order, enforcement of contracts, rules and obligations, social assistance, environmental protection and natural resources.

Operational autonomy and remuneration

Operational autonomy and remuneration of local government employees were and continue to be among main national challenges. Personnel turnover in both central and local public administration has reached alarming threatening proportions. Almost all local authorities operate with shortages of personnel. In few cases the Mayor is the only employee of the local government. Finding secretaries of local councils, accountants, lawyers, fund raising experts and cadastral engineers is particularly difficult. The operational autonomy or the right to decide on personnel structure and remuneration remains rather weak and depends very much on the rates and personnel structure approved by the central public administration. There is little flexibility on this issue.

Realising these problems, in 2018, the government undertook a complex remuneration reform for all levels of public administration establishing a common framework for both central and local public administrations basically raising salaries for all public employees. However, as much as this framework is rather unified, the local operational autonomy not only is being absent from this new legislation but in fact was even diminished. Compared with the previous system the new system does not provide opportunities for premiums and bonuses for local public administration. Most importantly, considering that the new remuneration system was a purely centralised measure, the increased expenditures for remuneration have to be borne by local budgets without any additional transfers and funding.

Administrative-territorial reform

The administrative-territorial reform is a complex issue, which needs a thorough approach in all its complexity. Because of the complexity of this reform and of its implicit

and widely acknowledged controversial effects, very often politicians rightfully are rather cautious about it. It is important to draw attention to the basic principles and challenges related to this reform. In particular, from the point of view of emerging and developing societies with a rather vague system of democracy and rather weak system of public administration. Under these conditions, in order to make this reform a success it is absolutely essential to design its proper model through comprehensive public consultations.

In Moldova there is no political or social consensus related to the administrative-territorial reform. If there is any consensus, it is rather about not doing this reform or not considering it as important. The most important concerns in reference to the administrative-territorial reform are the ones related to democracy. Due to the lack of democratic traditions, quite often such reform is being undertaken by politicians solely in order to establish full control over the local governments in the country – as it is much easier to control 100 local governments than 900. Everywhere, but moreover in countries like Moldova, democracy is first of all assured by local governments. Local government is the key pillar of democracy everywhere in the world. In a framework of an uncontrollable and unaccountable central public administration and poor links between civil society organisations and population, local public administration benefiting from the highest trust from the population is what supports the entire national democracy. In addition, there are no sustainable grounds to believe that the administrative-territorial reform will bring any economies of scale. In fact, there are risks of the opposite effect, as many examples in other countries testify. Even if the average size of Moldovan municipalities is increased five-fold – up to 15 000 inhabitants - this will hardly prove more efficient and effective. Currently, existing towns of this same size in Moldova are far from manifesting efficiency and capacity of larger administrative-territorial units, and many small municipalities perform better than the latter ones.

The key problems and shortcomings in the field of administrative-territorial reform in

Moldova include the following:

- Lack of complex vision and ideas well connected to the needs, realities and experience of the Republic of Moldova;
- Superficial, isolated and selective approaches, without considering the complexity of all the aspects and effects of such reform including economic, financial, social, historical, cultural, administrative, etc;
- Confusing the administrative-territorial reform with a complex LG reform;
- Imposing the models/examples of administrative-territorial reform from countries and governmental systems incomparable with Moldova, with a different history, mentality, political will, democratic traditions, level of development of the system of public administration, economic and financial potential;
- Lack of broad debates in society among the main actors, as well as of a wide political and social consensus related to this reform;
- Lack of proper consultations with CALM/LGs;
- Pressure of development partners and hurry in the implementation process;
- Lack of impact assessments of the options presented;
- Excessive politicisation of the reform and lack of transparency in the process of reform design;
- Unilateral attempts to force a certain vision.

Regionalisation and regional development

Another point of upscale and continuous national debate is regionalisation. It is also bound on some rather significant committed international resources towards this direction, resources which, however, are expected already for a very long period of time and not yet disbursed due to various considerations. At the same time, we have to realise few very important considerations. The first challenge of regionalisation is the existing system of public administration with quite poor capacities. Secondly, particularly challenging is the low potential for any cooperation, which supposes first of all a developed trust

between the levels of public administration or between the administrative-territorial units. The third main challenge is poor motivation and almost completely missing resources.

Regionalisation reform needs to take into account also sectorial considerations. In Moldova the very basic of local infrastructure is yet to be built. Many properties and services are in precarious conditions due to the lack of funds for local infrastructure. Local, national and international funds are extremely limited. When there is no proper local infrastructure in place, it seems to be rather hasty to all of a sudden create a regional one. Besides, some reluctance and lack of traditions, there is a rather limited political will which is also complemented by lack of funds to motivate cooperation and regionalisation. As a more practical approach, very recently in 2020 was elaborated - though not yet approved - the concept of growth poles. Within the regionalisation initiatives, the concept tends to provide 6 towns (2 in each region - North, Center and South) with important funding dedicated to the development of regional infrastructure and regional business attraction centers.

2.4 The development of local government reform: challenges and opportunities

National and international initiatives

1. Currently the majority of strategies and policy documents (decentralisation strategy, action plan, Roadmap of the Congress of Local and Regional Authorities of the Council of Europe) have all expired;
2. The current governmental program does not provide for LG reform and decentralisation as a priority. Being in an emergency situation and with a limited time horizon - for one year at most until the presidential elections – the government solves mostly critical issues related to the pandemic crisis;
3. There are no proclaimed reforms in local governance apart from a timid renew of previous contemplations of administrative-territorial reform, which so far, cannot be considered as a serious

intention;

4. On the background of the already expired Roadmap for Decentralisation Reform, signed between the Government of Moldova, CALM and Congress of Local and Regional Authorities of the Council of Europe, a new one was prepared. This new Roadmap sets out the concrete actions on all the problematic areas of local democracy mentioned in the latest Council of Europe Monitoring report on local democracy in Moldova from April 4, 2019;
5. Several important initiatives/programs touching upon the local level were designed and are currently under implementation by USAID, Swiss SDC, GIZ, World Bank and Government of Norway;
6. There are also several recent resolutions, studies and recommendations including on the state of local democracy and local governance by European Commission, European Parliament, EU Committee of the Regions, CORLEAP, CEMR/PLATFORMA, and NALAS.

Main challenges and opportunities for future reforms

In addition to the existing challenges, the short- and long-term impact of the COVID-19 pandemic is certainly a major issue that affects the current stage and opportunities for decentralisation reform in Moldova. The previously existing challenges for LG reform include the lack of political will and capacities of the central government, poor culture of dialogue between the central government and local governments, poor understanding of the central government on the basics of local governance - local autonomy and local democracy with all layers of central public administration, political instability in the country, lack of national, local and international funding for large scale reforms.

With the pandemic crisis all these previously existing challenges have aggravated significantly while many new issues connected with the crisis have emerged. The following are the key ones:

1. The political, economic and financial influence of the financial crisis at levels unseen before – may result in extremely escalated political battles at central level in aftermath of the crisis with a risk of bringing

about high-level political instability;

2. A lockdown of the country, which puts many reforms on hold –comprehensive reforms would be hard to realise when people are afraid to get out of their homes. Even the very interest in politics has significantly evaporated on the background of the crisis;
3. Priorities have changed significantly as well: Mainly all political discussions now are focusing around the issues of health care, solving urgent financial problems, and little attention is being paid to other issues, not to mention substantial reforms;
4. Political instability and forthcoming presidential elections in November 2020 represent a certain challenge as well.

On the background of these challenges and problems, any opportunity looks rather meek and to a certain extent seems to be out-weighted by the challenges. Even though the situation is not too optimistic, a few opportunities can be mentioned as well.

1. First of all, this relates to the increased role and authority of LGs in the aftermath of the pandemic crisis – people have witnessed that local authorities together with the doctors and police were in the first line of crisis response and that is where high trust and appreciation of LGs stems from. This thrust was high even before the crisis and has grown additionally to a significant extent;
2. Another opportunity to mention would be the efficient dialogue between central and local public administrations including many separate ministries on the background of the crisis. This could be further streamlined for other relevant reforms.
3. A factor not to be disregarded within a potential reform process is the problematic situation with public services in the aftermath of the crisis, which requires urgent solutions. Here, triangular cooperation between central government, LGs and donors would be essential, including in terms of necessary investments in deteriorating infrastructure.

4. Several of the biggest donors for Moldova already changed their focus from central to local level (Swiss SDC, USAID, GIZ), while other important donors have significantly increased their focus on LGs (World Bank, Government of Norway, etc.).

The situation in local governance is quite complicated in each and every field, in small and big issues, in strategic and less strategic topics. Such problems and challenges have accumulated over time as a result of neglecting the local government field throughout the years.

Local economic development

Local economic development in particular is becoming the key factor in local governance in the aftermath of the pandemic crisis and due to the deteriorating financial and economic situation in the country a special burden for local authorities as frontrunners. Local economic development including, local fiscal and economic policies, local business climate, cooperation with private sector, attraction of private investments and export promotion, brings significant potential for community development, economic growth and social inclusion. At the same time, this field is yet poorly mastered by LGs while cooperation between central and local authorities in this field is generally missing.

Key actions and reforms in local economic development which are under discussion and implementation, including with the support of Moldovan international partners, include:

- Local fiscal and economic policies, local business climate, central level policies conducive to local economic development;
- Community promotion, private investments, export and sales promotion;
- Private sector participation and involvement in policy dialogue at the local level;
- Investments in infrastructure including in economic infrastructure (water, waste, roads, etc.);
- Facilitation and stimulation of private foreign investments;
- Facilitation and promotion of export and trade – mostly with asymmetric facilities. Symmetric facilities are not working well deteriorating national production and stimulating import rather than export;

- Capacity building for local governments and civil society in economic development, national and local business climates, economic policy, investments attraction and export promotion;
- Decentralisation of power and public finance including decentralisation from central to the much more efficient local level and economic decentralisation (privatisation);
- Funding for concrete business initiatives via bank loans and microcredits;

2.5 Status and development of fiscal decentralisation reform

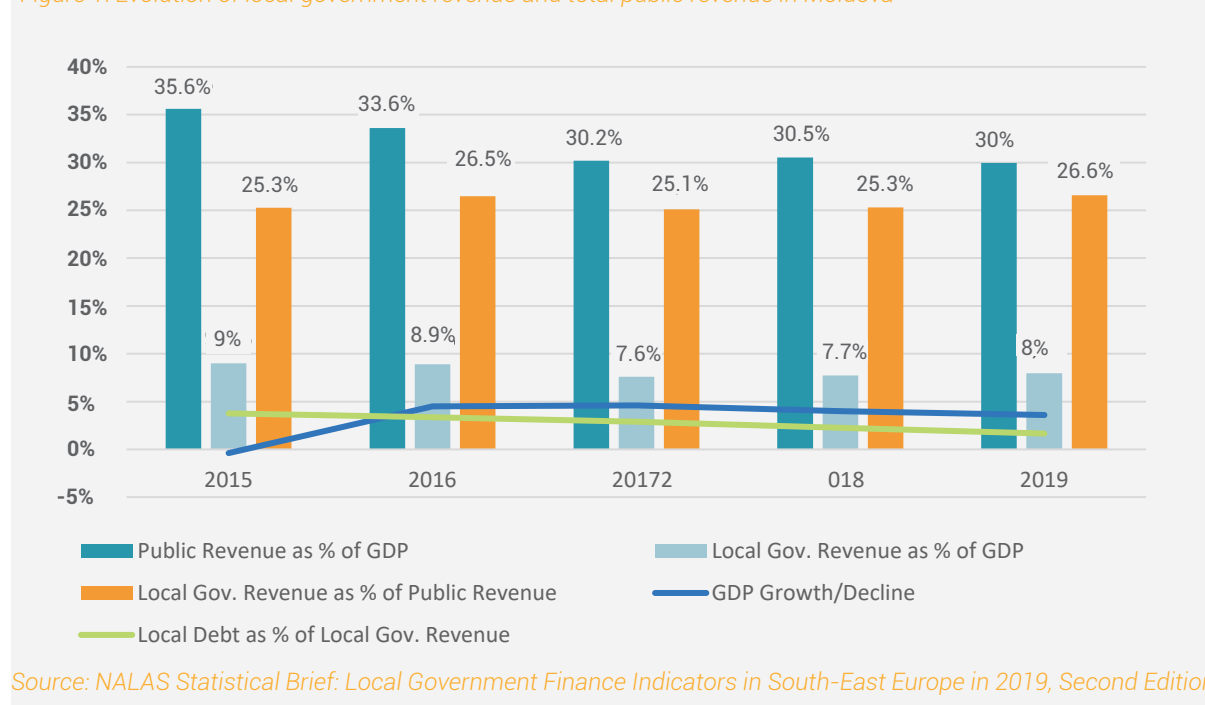
Fiscal decentralisation is a key area in decentralisation reform in Moldova, since it is exactly the funding for local authorities that is heavily missing. In the area of fiscal decentralisation, in March 2016, local governments were given the new competence to change the land use destination. At the same time, some legislative amendments were initiated and approved by the Government providing to local governments the competence in real estates' evaluation – which is rather important for consolidation of the local governments' fiscal base and tax collections from real estate tax. In 2017, Parliament approved the transfer of the Road tax to local governments. This measure alone has contributed significantly to the overall

growth of local budgets by 10-20%. Also, local government shares in PIT have been increased. In 2019, such shares increased by up to 50% and up to 100%, which is quite a significant raise for local budgets, especially in urban areas. At the same time, many of the initiatives undertaken until now represent merely the first steps and the process of their implementation will take years in certain cases (for ex. real estate evaluations). In 2019, government managed to pass through parliament legislation referring to sharing of the corporate income tax with LGs of the first tier (10%). However, the proceedings were drawn to the equalisation fund and not shared directly with each and every local government.

Figure 1 shows the evolution of local government revenue and total public revenue in Moldova over the past five years. Moldova has a relatively small public sector – public revenue in 2019 constitutes up to 30% of GDP. In per capita terms, Moldova collects 902 Euro per inhabitant, almost three times less than the average of South-East Europe and Romania, and 15 times less than the EU average.

Local government revenues in Moldova constitute 26.6% of total public revenue and 8% of the GDP. The share of public revenues to the GDP has been relatively stable over the past three years although it has declined by 6 percentage points compared to 2015. On the other hand, GDP has been growing at an average of 3% over the past five years.

Figure 1: Evolution of local government revenue and total public revenue in Moldova



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe in 2019, Second Edition

Given that local government revenues constitute 26.6% of public revenues, at first sight, it looks like Moldova is a very fiscally decentralised country. Moldova shares the second place from the top together with Romania (25.5%) and Kosovo (28.8). Same goes for local governments' expenditures where Moldova with 25.7% of public expenditure is also occupying the second place from the top in the region – even higher than Romania (23.6). On a comparative basis of LGs revenues per capita, Moldova ranks fourth from the bottom (with EUR 240/capita, between North Macedonia and Bosnia and Herzegovina).

Additionally, it is important to consider the fact that Moldovan local and regional governments have extended responsibilities in the social sector – which is not always the case in EU countries. From this perspective, while it is difficult to measure the adequate level of financing for local governments, there are no doubts that Moldovan local governments are severely underfunded for the types of functions they perform, compared to their southern and eastern European counterparts.

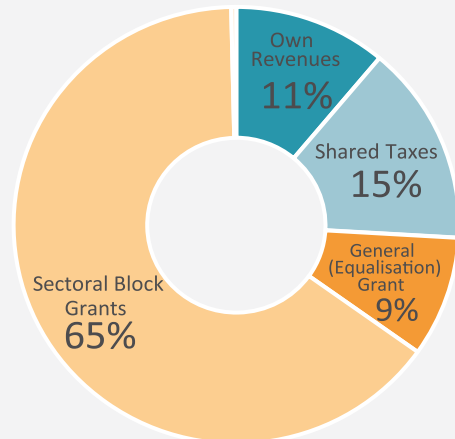
Secondly, Moldovan local governments have a very small fiscal autonomy. Moldovan local governments raise on their own through local taxes, fees and charges, assets etc., only 11% of their total revenues in 2019 (Figure 2). Intergovernmental transfers constitute up to 89% of local budgets in 2019 – which is among the highest level of budget dependency in Europe² This leaves little discretion to LGs to carry out their own competencies, design their own policies and therefore to exercise their local mandate for which they were elected by the people.

If we consider that local governments exercise full discretion on their own revenues, shared tax revenues and the equalisation grant, still they can manage in autonomous manner only 35% of their budgets. The vast majority – 65% is managed by higher levels of government through sectoral block grants for social sector functions such as education. Among all countries in South East Europe, Moldova is in the first place according to the LGs financing via transfers with special destination.

² NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe in 2019, Second Edition

Figure 2: The composition of local government revenues, as a percent of the total

Composition of Local Government Revenues, in percent of total



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe in 2019, Second Edition

Figure 3 below shows the composition of local government expenditures. Rather alarming is that in 2019 Moldovan local governments spent up to 53% of their budgets on salaries – the highest in South-East Europe. In 2018, this indicator was at 47.8%. The increase between 2018 and 2019 is to be attributed mostly to the remuneration reform in public administration, which significantly increased salaries, and which equally tried to put all salary related expenditures on local budgets. To some extent, the high level of spending for salaries is explained also by the fact that Moldovan local governments perform significant responsibilities in the education sector. In fact, spending for this function alone makes up to 56% of total local government spending in 2019. However, even with this consideration, Moldovan local government spend on salaries more than all their counterparts in South-East Europe³. It is important to consider that while spending for wages and benefits constitutes up to 53% of total local budgets, spending for the 'administration' constitute only 8% of total local spending, which is among the lowest in the region of South-East Europe. This indicates that Moldovan local governments do not have 'excessive' administrative spending and that the resulting high level of spending for salaries is to be attributed, among others, also to the weak local government finances and the poor

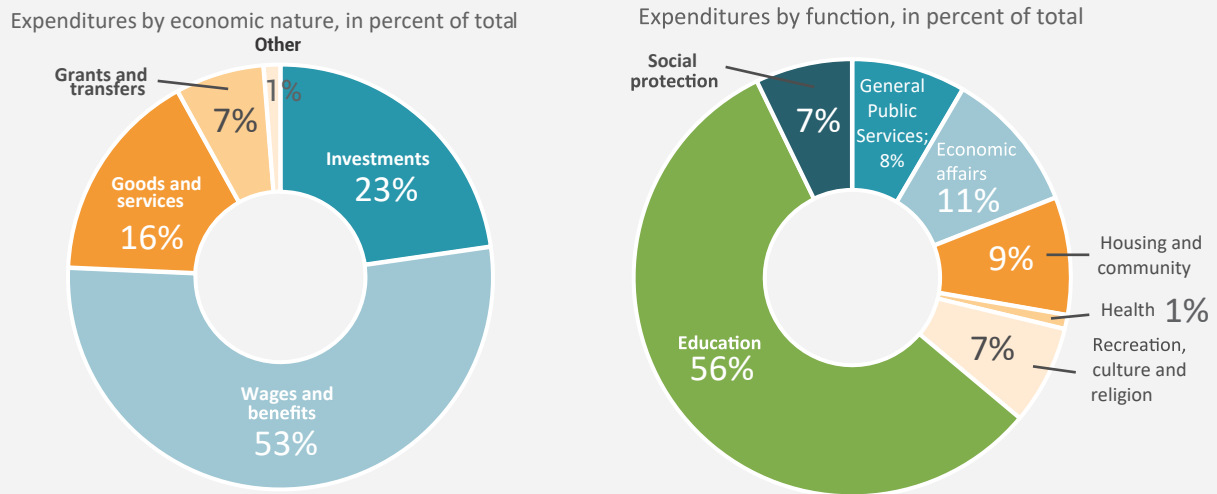
³ Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe in 2019, Second Edition

revenue base for local governments.

Spending for purchasing goods and services necessary for the operation of local government responsibilities and regular maintenance of local public infrastructure (such as school buildings for example) constitute 16% of local spending. Similarly, spending for economic affairs and community

investment expenditures of LGs in Moldova are not low. Capital investments make 23% of overall local expenditures. According to this indicator, Moldova ranks sixth in South-East Europe after countries with prominent levels of spending for investments such as Turkey, Albania (high level of financing from investment grants), Slovenia (including financing from EU) and Kosovo. This

Figure 3: The composition of local government expenditures, as a percent of the total



Source: NALAS Statistical Brief: Local Government Finance Indicators in South-East Europe in 2019, Second Edition

services constitutes about 20 % in total.

Worth noticing is that even though in Moldova LGs are not getting any investment grants from central government, overall

demonstrates the high proficiency of LGs from Moldova to raise funds internationally. Moldova is also holding the first place in South-East Europe regarding the share of local investments in overall public investments (81.2%).

3 ASSESSMENT OF PROGRESS OF DECENTRALISATION AND LOCAL GOVERNMENT REFORM

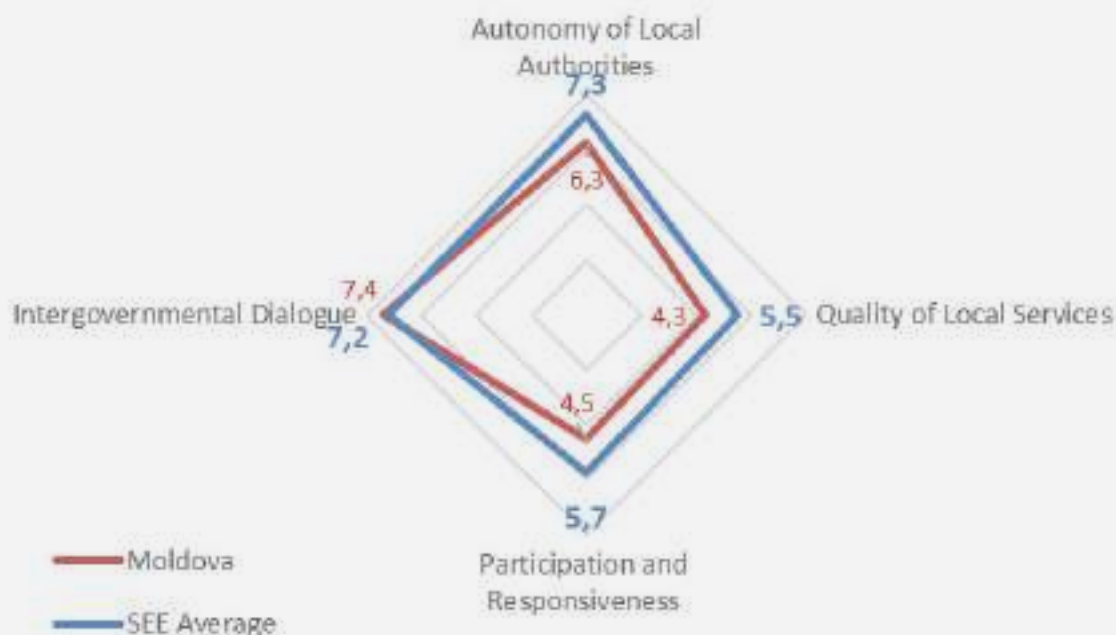
Assessing progress, results and impact of reforms on the local government sphere is not an easy task. The NALAS Regional Decentralisation Observatory (RDO) Index is a useful instrument to assess the progress of a country in terms of decentralisation and local government reform. The Index represents an important monitoring tool to assess the multiple dimensions of decentralisation and local government reform. It is a useful tool to support the development of evidence-based policies and intergovernmental dialogue at national levels while learning from 'good practices' from the regional level.

The RDO index is developed by NALAS, with the support of its 14 member associations (including CALM). The methodology is

based on experts' opinions and empirical evidence for 100 indicators, which are aggregated into four main dimensions: a) local autonomy; b) quality of local services; c) citizens participation and government responsiveness; and d) intergovernmental dialogue. The results for each indicator are shown in a scale from 1 to 10, where 1 is the least score and 10 is the highest possible score, delineating a very positive performance and progress.

According to the NALAS Regional Decentralisation Observatory Index, Moldova is behind many countries in the region on the diverse decentralisation indicators and particularly on fiscal decentralisation. Figure 4 shows the scores of the RDO Index for Moldova and the average score of other South-East European Countries.

Figure 4 Results of the Regional Decentralisation Observatory Index in Moldova



Source: NALAS Regional Decentralisation Observatory (RDO) Index

Local autonomy - According to the results, local government autonomy in Moldova is assessed with a score 6.3 out of 10, while the average score for South-East Europe is 7.6. The key issue here is not only the clear delineation of roles and responsibilities across local governments in terms of political and administrative decentralisation, but most importantly – fiscal decentralisation. In fact, the huge disparities with its neighboring countries in South-East Europe and continuously diminishing share of local government revenues in relation to the GDP from 10% in 2014 to 8% in 2019, helps create an understanding of the challenges faced by Moldovan local governments in terms of local government finance. From this perspective, the degree of autonomy of local governments in Moldova is smaller than in other South-East European local governments.

Quality of Local Services - According to the results, local government autonomy in Moldova is assessed with a score 4.3 out of 10, while the average score for South-East Europe is 5.5. The key issues here include in particular the provision of basic services such as solid waste management, water supply and sanitation and public transportation, in which functions Moldova is considered to experience much more challenges than their counterparts in South-East Europe. The lack of adequate

funding and the unclear delineation of responsibilities across levels of government is one of the main factors affecting the delivery of local public services.

Citizen Participation and Local Government Responsiveness - According to the RDO results, the dimension Participation & Responsiveness in Moldova is assessed with a score 4.5 out of 10, while the average score for South-East Europe is 5.7. This dimension is assessed against four key indicators: a) citizens participation; b) local government responsiveness; c) local government transparency; local government accountability.

Intergovernmental dialogue - According to the results, intergovernmental dialogue between and across levels of government in Moldova is assessed with a score 7.4 out of 10 which indicates primarily a very active and successful involvement of CALM in policy dialogue at national and international level. The RDO index assesses that CALM is very well positioned for intergovernmental dialogue in Moldova, it has an open and inclusive consultation with its members in terms of practices and processes and a good track record of impact of its proposals in the final policy making. From this dimension, CALM and Moldova are at the same level as the other countries in South-East Europe.

4 FRAMEWORK FOR INTERNATIONAL COOPERATION

Moldovan local governments are rather active in international cooperation both concerning decentralised cooperation with their peers and fund raising with donors as well as in regard to advocacy at the international level through CALM on consolidation of development policies, aid modalities and new programs. In the first case, LGs are targeting community development, consolidation of local services and infrastructure, capacity building and solution of urgent local problems with the support of their colleagues from different parts of the world. In the second case, they are pursuing consolidation of international support to the reforms in Moldova in local government field, attraction of public and private investments for local level, new programs and projects for local governments as well as cooperation with colleagues and specialised development organisations.

Decentralised cooperation

Decentralised cooperation in Moldova has a long history since after the independence in 1992. The vast majority of Moldovan municipalities up until now managed to establish twinning and partnership relations with their colleagues from the West and East while many of them have an overwhelming number of partnership relations with more than ten municipalities from different countries. Most of twinning and partnerships are established with Moldovan neighbors – Romania and Ukraine. At the same time, there is also a rather significant cooperation with municipalities from countries such as Bulgaria, Italy, Russia and Germany.

Overall challenges, dimensions and achievements of decentralised cooperation may be characterised by the following:

1. Decentralised cooperation is considered as an important opportunity for: a) fundraising for small capital investments in communities and municipalities with rather scarce funding available from other sources; b) for exchanges and learning; and c) as well as for international presence. The majority of activities carried out are in the field of small infrastructure projects of EUR 2000-10000 with the support of partner LGs from other countries;
2. Lately have emerged few indications of a certain overdoing on decentralised cooperation. With too many twinning and partnerships for many LGs, decentralised cooperation is becoming rather time and resource consuming. Municipalities and communities with many twinning and partnership relations are reorienting towards small capital investments as a main reason for decentralised cooperation.
3. Aid modalities are very important since aid funds intervene in the balance of power in the society. To be successful and sustainable, aid modalities need to thoroughly consider societal realities in developing countries and their specifics. Otherwise, designed under the models and mentality of economically developed countries, they risk becoming futile. In this context, the empowerment of the main national reform actors – civil society, local governments associations, local governments – is crucial.
4. The influence of the pandemic crisis on decentralised cooperation is yet hard to estimate. From one side, decentralised cooperation helped many municipalities to face the emergency situation. From the other side, with declining local revenues in the aftermath of the crisis, the shrinkage of financial possibilities for decentralised cooperation may be evident. In times of crisis decentralised cooperation has slowed down and many relations were frozen unless there were some contacts in crisis alleviation and mutual support.

Key characteristics of the challenges within the international development policies

The following challenges are critical and predominant within the international development policies particularly from the perspective of the local governments in Moldova:

1. Aid programming and development policies should reflect much more the local needs and priorities Moldova, and within this framework the involvement and participation of local governments must be increased. Currently, there is a perception that such programs are not sufficiently built around the country's reality, challenges, needs and perspective, indicating differences in the understanding of development between donors and the recipients in Moldova. Development policies must be adapted to the country conditions, rather than predefined patterns that have been successful elsewhere. One-size-fits all policies will not be successful in different contexts.
2. For many areas such as decentralisation of power, human rights, democracy, civil society and migration the delivery of results is very difficult and complex, and donors also face difficulties to provide tangible outcomes. There is a need to increase cooperation with local governments while pressuring the central governments in order to achieve more successful outcomes in these fields;
3. Quite often donors tend to overdo with the level of sophistication of the programs and complexity of approaches in the field, which sometimes are quite far from the agenda of many developing countries. The latter countries not only do not have funds for sophisticated fields and intricate approaches, but the very maintenance of public services, their quality, infrastructure, accessibility risks to deteriorate enormously in the pandemic and post-pandemic world. More attention needs to be paid to simple things – water, waste, roads, schools, kindergartens, energy and economic infrastructure to cover as much as possible multiple needs throughout the country which are equally spread;
4. The most promising priority is investments in public infrastructure and in private sector. This is also the priority which corresponds to people's most pressing needs via visible infrastructure, economic development, jobs and employment, etc.
5. International development programs need to be decentralised, they should include the local and regional government dimension, especially when they have a direct impact on local development policy. A balanced participation of the central and local governments in the planning and implementation of measures must be ensured. This applies basically in almost every single field – justice, water, regionalisation, public procurement, waste management, public administration, public finance, health, education, etc. Developing countries, long time ago, were already on the edge of how much decentralisation they can adapt to. The central government in Moldova in 2019 was on the edge brink of turning into an authoritarian regime due to the extreme centralisation of power. This risk was escaped in Moldova. It stands to reason if in specific governance systems which centralise, too much centralisation of international development programs might pose a potential risk to the very strategic objectives these programmes try to attain in their ability to reach out to the general population.
6. The key to development, which unfortunately is not working adequately for Moldova, are aid modalities. The setting and selection of sectors and fields are less important. From the perspective of local governments, budget support to the central government in Moldova is perceived as an obsolete aid modality, not reaching out to the population. In addition, in specific cases it also risks supplying an authoritarian regime with additional financial resources and power, a risk that Moldova barely escaped in 2019. What is mostly needed for Moldova is the empowerment of the main national reform actors – civil society, local governments associations and local governments;

7. The promotion of values quite often substitutes development in Moldova. Sometimes, the ways values are promoted deteriorate the very trust in these values. The best way to promote values is to show that the values are working;
 8. Without efficient targeted interventions, without policy level interventions, without serious democracy building interventions and without building sustainable infrastructure for services and economic development, all programs and initiatives risk having a rather limited sustainability and sub-optimal longer-term results.
 9. Without efficient targeted interventions, without policy level interventions, without serious tangible progress in the democratic transformation process, without building sustainable infrastructure for services and economic development, all programs and initiatives risk being of a rather limited sustainability and sub-optimal longer-term effect.
3. Consolidated and diversified funding for local and national infrastructure – increasing the volume of such funding is necessary to build the necessary infrastructure for local public services and improving the quality of life of citizens. Budget support and technical assistance funding should be revised from this perspective. Increased focus on funds for investments in infrastructure, actually started since 2018 for Moldova;
 4. Support for local democracy in line with the European Charter for Local Self-Government;
 5. Embedding support for decentralisation and bottom-up approaches within major development initiatives;
 6. Support, promote, fund and protect constituency based representative organisations such as local government associations as main advocates of local democracy, local autonomy and decentralisation, main protectors of local authorities and communities' rights and main capacity building agents for local governments;
 7. Higher focus on local level and on building constituency-based local governments and civil society as on the main development actors;
 8. Facilitating access, increasing flexibility and reducing barriers for local governments to access EU funding is essential. The most relevant remarks in this direction include the elimination of projects co-financing, simplifying complicated application forms, reducing micromanagement, clarifying language and terminology which results unclear for many in developing countries, particularly for those outside of the project implementation field. Exaggeration with these factors seems to be overall recognised including by many high-level EU decision making factors manifested within multiple discussions and this represents a solid way civil society without intermediation or sub-contracting by state institutions and central governments;

Priority aid modalities

Aid modalities are very important. First of all, because aid funds intervene in the balance of power in the society. To be successful and sustainable, aid modalities need to thoroughly consider societal realities in developing countries and their specifics. Otherwise, designed under the models and mentality of economically developed countries, they risk limited usage, results and sustainability. Aid modalities are very important also in terms of how aid and development policies reach out to the population and gain people support (ownership).

From the Moldovan perspective, the following aid modalities now under discussion for implementation in Brussels by the European Commission, are the most promising for the future, including in the framework of the pandemic crisis:

1. The consolidation of the current innovative European Union focuses on economic growth, investments in local and national infrastructure and facilitation of private investments (External European Investment Plan);
2. Direct funding for local governments and

civil society without intermediation or sub-contracting by state institutions and central governments;

forward for addressing those challenges in the future.

9. Consolidated dialogue on aid and development with local governments and civil society at all levels of the EU decision-making as well as access and presence of civil society and local governments, and their associations as key development factors, to all bilateral aid negotiations with European Union. An equal treatment in aid negotiations of central authorities, local governments and civil society organisations generating real national aid ownership and partnership.

5 NEXT STEPS FOR REFORM

The need for reform is overwhelming and the key steps to undertake are very much bound on the issues described in previous sections. In June-October 2017, CALM organised a broad consultation process with its members at the regional level in about 20 *raions* regarding LGs and administrative-territorial reforms, in order to develop its own vision and model of such complex reforms. As a result of these consultations, with about 500 mayors, presidents of the *raions* and other LGs representatives, CALM has defined the concept of the reform model called DACIA. The model is based on three basic elements defined as priorities: Administrative Decentralisation (DA), Intermunicipal Cooperation (CI) and Voluntary Amalgamation (A).

The DACIA model of LGs reform suggested by CALM is a complex and comprehensive one including several important, closely correlated and interdependent factors and areas. The model proposes a visionary, step-by-step approach, grounded in Moldovan realities and in the needs of the LG system in Moldova. At the same time, taking into account the importance of the political factor and the previous experience, the concept tries to touch upon less sensitive approaches aiming at a broad national consensus needed to ensure sustainability and continuity of the reforms in this area. In particular, the following

main directions are being proposed:

- a) Territorial optimisation/re-calibration of public services. Reviewing the location, role and status of the LGs of the 2nd tier (*raions*), creating the necessary framework for stimulation of voluntary amalgamation, inter-municipal cooperation, development and implementation of growth poles and delegation of services to other LGs or institutional actors;
- b) Implementing measures to decentralise/strengthen financial autonomy and increase local budget revenues in line with the recommendations of the Council of Europe based on the proposals developed by CALM and submitted to the Government;
- c) Organisational decentralisation measures in the field of personnel and remuneration ensuring the full right and freedom of LGs to have their own personnel policies in accordance with the specifics of the administered territory and with its own economic/financial possibilities;
- d) Measures to reduce political and administrative control over LGs. Currently administrative, political, financial control system, is commonly recognised as abusive, excessive and totally out-dated, constituting an enormous barrier for LGs activities and for local development.

The model is alive, adjustable and constantly evolving, being continuously complemented by the concrete proposals and draft legislative modifications within the currently existing and potential future governmental timeframes for its implementation.

CALM will have to take upon a leadership of the reform conditioned by several factors – poor political will at the central level, diverted attention from the reforms due to the pandemic crisis, significant political instability and forthcoming elections (presidential in November, while parliamentary elections can happen at any moment owing to unstable ruling coalition). Besides, advocacy and cooperation with central government, particularly important elements include institutional aspects, the consolidation of LGs around the reform priorities as well as support to LGs in reforms implementation in these complicated times.

Next steps for fiscal decentralisation reform in Moldova

Fiscal decentralisation in Moldova is far from being complete. Few major taxes continue to bear ceilings (real estate and land taxes for example). Other taxes have hidden ceilings related to tax base and other technical components. Local budgets still heavily lack funds for capital investments while the discretion element in local public expenditures is very low. National public investment funds (ecological, regional development, energy efficiency, etc..) are still significantly centralised and in many cases also politically partial. Moldova is a poor country and overall local revenues are very small. Local economic development, apart from capital city and few biggest towns, is very low. Even under these conditions the central governments are always trying to impose ceilings on local taxes and generally

to reduce LGs revenues. Constraints over local government taxing powers happened already twice with the current government – initially at the beginning of the pandemic crisis in spring 2020, which CALM managed to overrule and now in fall within the fiscal policy for 2021. This is regardless of the explicit Constitutional Court decision in 2014 on the unconstitutionality of the ceilings upon local taxes.

Key reform directions in fiscal decentralisation which are continuously under discussion with the central governments include:

- Liberalizing (removing the ceilings) on main local taxes – land and real estate taxes;
- Investigating redistribution possibilities within the personal income tax (PIT distribution according to place of residence instead of the current place of employment distribution, which is disfavoring rural and small communities);
- Investigating redistribution effects of the corporate income tax – of its sharing with local governments in a somewhat more substantial proportion aiming at local governments motivation in attraction of the private investments and local economic development;
- Transparency and efficiency of public investment funds – regional development fund, ecological fund, energy efficiency fund, state budget, etc. It is crucial to remove the political and personal partiality in running of these funds. A potential way forward is the distribution of funds to LGs based on per capita criteria – as highly recommended within the decentralisation of road fund.
- Costing of local services and correlation between LGs competencies and funding
- Compensations for LGs losses from implementation of national fiscal policies touching upon local revenues

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The aim of this Status Report, carried out by CALM, is to provide an overview of the status and development of decentralisation and local public administration reform and support informing an open and inclusive intergovernmental dialogue and next steps for the decentralisation and local government reform in Moldova.



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This publication was funded by:

This project is co-funded by the European Union



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC