

**FINANCIAL CONSOLIDATION OF THE  
ADMINISTRATIVE-TERRITORIAL ENTITY  
IN THE LIGHT OF DECENTRALIZATION**

**Tatiana MANOLE<sup>1</sup>, PhD, Professor,  
National Institute for Economic Research, Moldova  
Alexandru STRATAN<sup>2</sup>, PhD, Professor,  
National Institute for Economic Research, Moldova**

**„Should we head towards ‘self-government’ required by many of the participants, would that be a self-government of the citizens or the elect representatives? Whatever would happen, decentralization is, in a way, the book of our society, a book in which we find its aspirations, discrepancies and questions... It is well led from above, but it is well administered from the bottom.”  
(Xavier Frège, Paris, 1986)**

This article presents the results of study regarding the decentralization process, which is currently underway in the Republic of Moldova. The purpose of the study is to highlight the fundamental concept of decentralization, the areas of administrative decentralization, the forms of manifestation of financial decentralization (fiscal decentralization and budget decentralization), to identify the priorities of the decentralization process, and to establish the indicators for measuring the degree of decentralization. In base of the statistical analysis and synthesis method, it was determined the current state of the art in the administrative-territorial entities in the course of the decentralization process in relation to the public finance management reform. It were formulate proposals to accelerate the process of financial decentralization and self-government.

**Keywords:** decentralization, financial, tax and budget decentralization. Measurement indicators, degree of decentralization, tax capacity, budget, inter-budgetary relations, transfers.

În articol sunt prezentate rezultatele cercetării cu privire la procesul de descentralizare ce are loc actualmente în Republica Moldova. Scopul studiului este de a evidenția conceptul fundamental al descentralizării, domeniile de descentralizare administrativă, formele de manifestare a descentralizării financiare: descentralizare fiscală și descentralizare bugetară, a identifica prioritățile procesului de descentralizare, precum și a stabili indicatorii de măsurare a gradului de descentralizare. Utilizând metoda statistică de analiză și sinteză, a fost evidențiată situația actuală din unitățile administrativ-teritoriale ale Republicii Moldova privind mersul procesului de descentralizare în corelare cu reforma managementului finanțelor publice și formulate propuneri pentru accelerarea procesului de descentralizare și autonomie financiară.

**Cuvinte-cheie:** descentralizare, descentralizare financiară, fiscală și bugetară, indicatori de măsurare, grad de descentralizare, capacitate fiscală, buget, raporturi interbugetare, transferuri.

В статье представлены результаты исследования процесса децентрализации в Республике Молдова. Цель исследования: выделение фундаментальной концепции децентрализации, сфер административной децентрализации, форм проявления финансовой децентрализации (фискальной и бюджетной), определение приоритетов процесса децентрализации, а также показателей измерения уровня децентрализации. Используя статистический метод анализа и синтеза была определена текущая ситуация в административно-территориальных единицах в ходе процесса децентрализации в связи с реформой управления государственными финансами. На основе результатов исследования сформулированы предложения по ускорению процесса децентрализации и финансовой автономии.

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<sup>1</sup> © Tatiana MANOLE, tatmanole@yahoo.com

<sup>2</sup> © Alexandru STRATAN, alex\_stratan@yahoo.com

**Ключевые слова:** децентрализация, финансовая децентрализация, фискальная децентрализация, бюджетная децентрализация, показатели измерения, степень децентрализации, налоговый потенциал, бюджет, межбюджетные отношения, переводы.

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**Introduction.** The Republic of Moldova is currently going through a process of reforming its public finance management. Decentralization is at the heart of the success of this reform. The main purpose of decentralization is to improve the quality of provided public services. Given these, the local public authorities must have more competences to accomplish this purpose.

The practice of developed countries shows that decentralization is a time consuming, arduous process, which requires, however, not only financial resources, but also human resources prepared to take the risk of conducting a real reform.

The Government of the Republic of Moldova approved a set of laws on public finance modernization, these documents being compliant with the European Union requirements. The Parliament of the Republic of Moldova passed the Law on approving the *National decentralization strategy and the Action plan for the implementation of the National decentralization strategy for 2012-2015*, no. 68 dated 05.04.12. (Official Gazette of the Republic of Moldova no. 143-148 dated 13.07.2012, art. 465). This law highlights a range of issues, referring to the decentralization of services and competences, financial, property decentralization, as well as the local development and administrative capacity of the local public government system.

The ratification of the European Charter by the Republic of Moldova on 16 July 1997 was an important step towards guaranteeing efficient real budget self-government for the communities throughout the country, adopting, on this occasion, a series of good practice rules with significant positive impact on the local public finance. By this document, the Republic of Moldova assumed a certain stability of the main local self-administration mechanisms, including financial ones, through setting them out in the Constitution and organic laws.

#### **Decentralization and local self-government concept**

*Decentralization is a process of transferring administrative and financial competences from the level of central public administration to the level of local public administration or to the private sector.*

*Public administration decentralization refers to the process of enhancing the self-government of the administrative-territorial entities, the local collectivities through the transfer of new decision-making responsibilities, such as financial and property resources, in line with the principle of subsidiarity (resolving the issues that arise... at the decision-making level that is the closest), cutting current (recurrent) costs and enhancing transparency in the relationship with the citizens, enhancing the quality and access to public services.*

Local self-government is the basis of decentralization. *Local self-government* is understood as the right and effective ability of the local public authorities to regulate and manage, within the framework of the law, a significant share of public affairs, under their own responsibility and in the interest of the local population (*European Charter of Local Self-government, signed in 1985 in Strassbourg, art.3*). The European Charter of Local Self-government was ratified by the Republic of Moldova on 16 July 1997 and entered into effect for our country on 1 February 1998 [5, pages 20-22; 4, pages 425-440].

Local self-government can be also defined as a right of an entity to self-administration within the framework of a state led by a central power. Thus, the citizens' needs are better served, because they are better known at the local level than at the central level.

Local self-government is conceived, within the European context, as an element of democratic principles, shared among all member states of the Council of Europe, which, through its legal regulation and correct enactment, makes the power decentralization possible.

The role of local self-government is drawn, thus, from the fact that the responsibility for conducting activities of public interest must rest with those authorities which are the closest ones to the citizens. According to the European charter of local self-government, local public administration authorities must be able to establish their internal administrative structures by themselves in order to adapt them to their specific needs and to substantiate efficient public management. When the mandate and responsibilities of the local public administration authorities grow, they must have qualified personnel that

would meet the requirements of making public management more efficient and modern. Local public authorities must assure quality recruitment, based on the principles of meritocracy and professional skills. Also, local public authorities must take care of the continuous staff training, adequate remuneration and career building opportunities to all staff.

Local self-government can be achieved in the light of real decentralization of power.

*Power decentralization* implies a cessation (concession, delegation) of administrative and financial mandate from the central public administration level to the local public administration. Decentralization, however, places a high degree of responsibility for the exercise provided for the benefit of the local community on the shoulders of the local public government.

**The main objective of decentralization** is to provide public services of top quality and improve the entire budget system, both at institutional level, as well as from financial standpoint.

**The purpose of decentralization process** is to improve the quality of public services management, assuring a more efficient resource allocation and enhance accountability for the budget spending [5, pages 24-28].

Power decentralization contributes to establishing local public authorities which would be capable of fulfilling public duties of local interest in the most efficient manner.

*Administrative decentralization can appear in a number of perspectives:*

- *from the legal perspective*, the administrative-territorial entities become distinct subjects of law, with their own public interests;
- *from the institutional perspective*, the local public authorities have their own administrative institutions, separate from the central administrative system;
- *from the decision-making perspective*, local authorities take decisions for the benefit of the communities which they administer, having their own mandate;
- *from the financial perspective*, local communities have their own budgets and may decide on establishing and charging taxes and fees, within the provisions of the domestic legislation.

The local self-government, from the administrative perspective, implies a concomitant existence of financial self-government at the local level, especially as regards the charging of their own taxes and fees and the existence of their own budget. The local communities are aware of their own possibilities concerning public means and, especially, the needs for expenses which should be covered to produce local level public services.

There are two types of *financial decentralization*: *fiscal decentralization*, which is linked to the revenues of the local authorities, and *budget decentralization*, which refers to the local public spending.

*Fiscal decentralization* is fiscal self-government, which characterizes the relationship between own local revenues and transfers from the state budget. It measures, thus, the degree of self-financing [4, pg. 438].

The realization of *financial and administrative decentralization* must base on the respect of all basic principles, that had been formulated as a result of theoretic research and experience accumulated in developed countries. They refer, to a great extent, to the delegation of responsibilities to the local public administration, orienting, at the same time, sources of revenues towards it.

The principles of local financial self-government are formulated in the European Charter of Local Self-Government.

**Decentralization** is, thus, a process of *transferring* the authority and administrative responsibilities from the central to the local administration in *planning, decision-making, legal responsibility and public services management*.

**Deconcentration**, unlike decentralization, is a *process of delegating and exercising* the authority and administrative and financial responsibilities from central to local level, within the framework of the same entity.

#### **Priorities of decentralization process**

It is understood both at central and local level that *decentralization is the way towards modernizing the Republic of Moldova*. Decentralization has a range of priorities, which contribute to:

1. *Improved system of decentralized public services provision;*
2. *Clarified competences* at different levels and entities of public administration;
3. *Enhanced financial self-government;*
4. *Citizen engagement* in the local decision-making process and accountability of the local public authorities, etc.

At the same time, the practice proves that public administration reform requires that certain rules (principles) are observed:

a) *Clear distinction* between various levels of government, in order to possibly cover the costs of specific competence services

b) *Specific decisions* on the sources of revenues which would belong exclusively to the local authorities (shared sources should be specified in a certain proportion and provided for in the state budget) should be taken;

c) Grant the local authorities certain powers to establish the *responsibilities in taxes, fees and local expenses*;

d) *A redistribution system, which would assure an approximate equality of expenses per capita* is needed. In this regard, we can note that in the Republic of Moldova this principle is realized by calculating (general purpose) balancing transfers. However, here also an issue arises: how shall a balance between equalization and stimulation be obtained? This is an issue faced by the local and central governments of the Republic of Moldova.

e) *An issue is the requirement of efficiency and equity. The coming into being and development of the public-private partnership takes over a part of public services from the local government. In this case, the efficiency and quality of public services goes up, as well as the costs do, the tariffs becoming higher. Thus, the one who pays more also has higher quality and more efficient services. What should be done in such a situation? The answer would be: nothing can be changed without hard work and investments.*

f) *The greater the extent of fiscal decentralization, the bigger the need for improved (performing) accountability systems. Therefore, it is necessary to develop local government external audit systems and cut current (recurrent) spending. The greater the extent of fiscal decentralization, the greater the extent of financial self-government. Fiscal decentralization measures the extent of self-financing* [10].

The practice of the European Union countries proves that financial self-government does not mean to leave the community cover its financing needs from its own resources. All communities have the right to provide quality services, for which funding is required. Thus, this is why the existence of balancing transfers from the state budget is a natural process. It is known that the volume of transfers is not the same for all administrative-territorial entities' structures, being so depending on the level of economic development.

This is why, when speaking of financial self-government, we must mean the right of the administrative-territorial authorities to freely dispose of these resources, regardless of where they come from, whether they are their own resources or are allocated from the state budget via transfers. But equity must be combined with the efficient use of these sources, the responsibility and future incentives for enhancing own economic potential.

Referring to the role of transfers from the state budget, we should, at the same time, note the efforts undertaken by the state to finance the growing needs of the TAE.

#### **Financial balancing efforts of the state budget**

Below, the state budget effort to finance the administrative-territorial entities is presented.

This effort is manifested by the sum of balancing transfers for each administrative-territorial entity. Reviewing the sum of transfers for each administrative-territorial entity at the level of the local consolidated budget (except for the municipalities of Chisinau and Balti, according to the law no.181 on "Public finance and budgetary-fiscal responsibilities" and the "Peculiarities of developing draft local budgets for 2017 and estimations for 2018-2019") we see that they are quite significant, especially in the second tier TAE, where there is big discrepancy between the fiscal capacity per capita at the local level in a specific entity and the fiscal capacity per capita at the national level ( $FCC_i$  and  $FCC_n$ ) [1].

We also note that the deadline for the use of the *compensation fund* expires.

According to the law no.267, art. IV: "*In the first and the second year from the entry into force of this law, the Government is empowered with the right to form within the state budget, a compensation fund, which would be up to 1% of the state budget revenues, for covering eventual discrepancies (risks) related to the reform of the inter-budgetary relations system*" [7].

For 2015, this percentage was 0.7%, for the budgetary year 2016 the compensation fund was 0.3% of the estimated state budget revenues. For the budget year 2017, the ratio was maintained at the level of 2016 (*The law on amending and completing some legislative acts no.267 dated 01.11.2013 (Official Gazette of the RM No. 262-267/748 dated 22.11.2013)*).

However, according to the specific peculiarities of establishing inter-budgetary relations and setting the limits of transfers from the state budget to the local budgets, it is noted that "considering

modest results with reference to the block *the consolidation of the fiscal basis of own revenues of the local public administration authorities*, as well as the fact that the year 2016 is the last year in which temporary compensation transfers to the local budgets are envisaged, the Ministry of Finance drafted proposals for extending the term of Government empowerment to make up the compensation fund within the state budget for 3 more years. Along with the consolidation of the base of revenues, the volume of the compensation fund will be gradually reduced during these 3 years”<sup>1</sup>.

**Inter-budgetary relations.** In the state budget law for 2016 in the chapter “General actions” (annex no.3)<sup>2</sup> the amounts allocated for the local administration via the following relations are identified:

- *Inter-budgetary relations for balancing the financial possibilities*, the amount of 1,167,254.3 thousand MDL being specified;
- *Inter-budgetary relations with special designation*, the amount of 21,242.8 thousand MDL being specified;
- *Inter-budgetary relations of compensation*, with the specification of the amount of 100,055.2 thousand MDL.

Thus, according to the State budget law for 2016, the chapter “General actions” identified financial allocations to the budgets of the local public authorities, with the total amount of 1,288,552.3 thousand MDL, which is 3.62% of the total expenses in the state budget [2].

The annex no.5 “Volume of transfers from the state budget to the local budgets” of the State budget law for 2016 has identified that the sum of total general transfers is 7,889,150.3 thousand MDL, making up for 65.45% of the total revenues of the TAE budgets (table 1).

The State budget law for 2017 in its “General actions” chapter (annex no.3)<sup>3</sup> has identified allocation amounts from this budget within the following relations:

- *Inter-budgetary relations for balancing financial possibilities (code 1101)*, the amount of 1,225,168.8 thousand MDL being specified;
- *Inter-budgetary relations with special designation (code 1102)*, the amount of 43,786.4 thousand MDL being specified;
- *Inter-budgetary relations of compensation (code 1103)*, the amount of 84,325.0 thousand MDL being specified.

Thus, according to the State budget law for 2017, the chapter “General actions” identifies financial allocations for the budgets of the administrative-territorial entities amounting to 1,353,280.2 thousand MDL, which is 3.66% of the total expenses of the state budget. One notes an increase of 0.04% from 2016 [3].

The annex 5 “Volume of transfers from the state budget to the local budgets” of the 2017 State budget law it is noted that the total general amount of transfers is 8,130,016.6 thousand MDL, which is 66.77% of the total revenues of the TAE budgets (table 1).

Table 1

**Share of total general transfers into the revenues  
of the administrative-territorial entities’ budgets, years 2016-2017**

| <i>Indicat.</i><br><br><i>Years</i> | Total revenues<br>TAE, thousand<br>MDL | Total general<br>transfers,<br>thousand<br>MDL | Share of total<br>general transfers<br>in total TAE<br>revenues, % | Deflection (+,-) in 2017 in<br>relation to 2016 |      |
|-------------------------------------|----------------------------------------|------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------|------|
|                                     |                                        |                                                |                                                                    | Absolute<br>amount,<br>thousand MDL             | In % |
| 2016                                | 12,053,006.7                           | 7,889,150.3                                    | 65.45 %                                                            | 123,983.3                                       | 1.32 |
| 2017                                | 12,176,990.0                           | 8,130,016.6                                    | 66.77 %                                                            |                                                 |      |

Source: Author’s calculations based on the information of the MF of the RM.

<sup>1</sup> Peculiarities on the development by the local public administration authorities of draft local budgets for 2017 and estimations for 2018-2019.

<sup>2</sup> State budget law for 2016, Official Gazette of the Republic of Moldova no.230-231 dated 26 July 2016, annex 3, page 16.

<sup>3</sup> State budget law for 2017, Official Gazette of the Republic of Moldova no.472-477 dated 27 December 2016, annex 3, page 18).



Therefore, it is noted that also the transfers in 2017 went up in absolute figures by 240,866.3 thousand MDL or by 1.32% as compared to the 2016 budget year.

At the same time, the state budget maintains the balancing of the financial possibilities also for the remaining components of the national public budget. *Thus, the resources of the state budget are redistributed among the component budgets of the national public budget: the budgets of the administrative-territorial entities, the budget of the state social insurance and the funds of compulsory healthcare insurance. Around 40% of own revenues of the state budget are redistributed via transfers.*

### **The real state of the art in relation to the decentralization process in the Republic of Moldova**

The decentralization process is closely linked to the public administration reform, being, even the key of this process. One of the main issues of the Republic of Moldova, which needs reforms and heads towards integration with the European Union, is decentralization. We believe that the Republic of Moldova made serious steps in this direction. *One of the main steps is the reform of the process of drafting local budgets, by introducing a new formula of calculating general purpose (balancing) transfers.*

*However, when calculating transfers, an important role is played by the fiscal capacity per capita from the specific community in relation to the fiscal capacity per capita at the national level. Our results are presented in the table below.*

**Table 2**

#### **The situation in the TAE of the Republic of Moldova in relation to the fiscal capacity for 2015-2019**

| TAE<br>Years | TAE, total | LFC <sub>N</sub><br>MDL / capita | LFC <sub>I</sub> > LFC <sub>N</sub> |     | LFC <sub>I</sub> < LFC <sub>N</sub> |      |
|--------------|------------|----------------------------------|-------------------------------------|-----|-------------------------------------|------|
|              |            |                                  | NO.                                 | %   | NO.                                 | %    |
| 2015         | 871        | 259.7                            | 83                                  | 9.5 | 788                                 | 90.5 |
| 2016         | 871        | 295.4                            | 79                                  | 9.1 | 792                                 | 90.9 |
| 2017         | 871        | 333.5                            | 81                                  | 9.3 | 790                                 | 90.7 |
| 2018         | 871        | 377.4                            | 81                                  | 9.3 | 790                                 | 90.7 |
| 2019         | 871        | 406.2                            | 80                                  | 9.2 | 791                                 | 90.8 |

*Source: Author's calculations based on general purpose transfers from the State budget to the TAE budgets for the respective years (except for TAE Gagauzia). Ministry of finance of the Republic of Moldova.*

The review of the data in the table above proves that on average, the number of TAE with fiscal capacity per capita bigger than the fiscal capacity per capita at the national level is, on average, about 81 administrative-territorial entities, which is about 9.0% of the total TAE.

At the same time, the number of TAE with a fiscal capacity lower than the national one is on average 790 entities or 91%.

The overall conclusion would be that the economic situation in the TAE is scarce.

Should we also take into account the number of the population in the administrative-territorial entities, which have up to 4,000 inhabitants, then according to European standards they fit into the category of small local entities. There are very few administrative-territorial entities in the Republic of Moldova with over 4,000 inhabitants, the majority being under this figure.

Thus, the research conducted in 2017 proves that only in Chisinau municipality, over 72% of the total component entities have over 4,000 inhabitants. In the remaining TAE, in principle, only the towns that are headquarters of the District councils have over 4,000 residents, while in others the number of residents is below this figure. For instance, the Anenii Noi district consists of 26 villages and communes. Only in Anenii Noi there are 11,468 inhabitants, while the remaining administrative entities, or 85% of the total, have under 4,000 inhabitants. Such a situation is noted in all administrative-territorial entities of the Republic of Moldova.

These small entities simply do not have the necessary capacity to fulfil the tasks which would be carried out by the local self-government. This capacity does not refer only to financial resources, but also to human resources.

As noted earlier, the transfers from the state budget for the TAE budgets come with an incontestable support. The calculation of the transfers for each TAE budget is made depending on the base indicators, set out in the calculation formula (table 3).

Table 3

**Balancing transfers, years 2015-2019 (village Malinovscoe, district Riscani)**

| Budget indicators               | 2015           | 2016<br>New<br>classific. | 2017<br>New<br>classific. | 2018<br>New<br>classific. | 2019<br>New<br>classific. |
|---------------------------------|----------------|---------------------------|---------------------------|---------------------------|---------------------------|
| LFC <sub>n</sub> /cap.          | 259,7 lei/loc. | 295,4 lei/loc.            | 333,5 lei/loc.            | 377,4 lei/loc.            | 406,2 lei/loc.            |
| <u>Basic indicators:</u>        |                |                           |                           |                           |                           |
| - Area (km <sup>2</sup> )       | 39,87          | 39,87                     | 39,87                     | 39,87                     | 39,87                     |
| - Population (inhabitants)      | 1185           | 1149                      | 1136                      | 1136                      | 1136                      |
| - LFC <sub>i</sub> (MDL/cap.)   | 128,7          | 194,8                     | 202,3                     | 228,9                     | 246,4                     |
| Total ET, MDL (general purpose) | 404 612,1      | 387 168,0                 | 447 272,2                 | 506 190,1                 | 544 801,9                 |

Source: Author's calculations based on general purpose transfers from the State budget to the TAE budgets for the respective years (except for TAE Gagauzia). Ministry of finance of the Republic of Moldova.

The review of the table proves the following:

- LFC<sub>n</sub> MDL/capita goes up;
- The number of the population slowly goes down;
- LFC<sub>i</sub> MDL/capita goes up, because the contingent VIPF goes up;
- Total ET with general designation goes up.

The review of this process in other communities (village Recea and village Sumna) from Riscani district proved same trends.

#### **The legal framework related to the decentralization process and financial self-government in the Republic of Moldova**

1. In 1998 the Parliament of the Republic of Moldova passed the Public finance law no.186-XIV dated 6 November 1998, which regulates inter-budgetary relations;

2. In 2003 the Parliament of the Republic of Moldova passes a new law on local public finance, no.397-XV dated 16.10.2003, compliant with the administrative-territorial organization reform;

3. The law on administrative decentralization no.435 dated 28.12.2006, Official Gazette of the Republic of Moldova no.029 dated 02.03.2007, with its subsequent changes and completions;

4. The law on approving the *National decentralization strategy* and the *Action plan for implementing the National decentralization strategy* for 2012-2015, no.68 dated 05.04.12 (Official Gazette of the Republic of Moldova no.143-148 dated 13.07.2012, art. 465), which reveals a range of issues making reference to the decentralization of services and competences, financial, property decentralization, as well as local development and the capacity of the administrative local public authorities system;

5. *Public finance management development strategy 2013-2020* (OG of the RM no. 173-176 dated 9 August 2013);

6. *Local public finance law no. 267* dated 01.11.2013 (OG no. 262-267 dated 22.11.2013);

7. *The Law on public finance and budgetary-fiscal responsibility no.181* dated 25.07.2014 (Official Gazette of the Republic of Moldova no. 223-230 dated 08.08.2014, art. 519. Modified: LP89 dated 14.05.15, OG No. 139-143/05.06.15 art. 257). The purpose of this law (no. 181): to assure sustainable public finance development, consolidate the budgetary-fiscal discipline and assure efficient and transparent management of financial resources.

#### **Achievements in decentralization and financial self-government in the Republic of Moldova**

A new system of forming the budgets of the TAE (a new formula), which brings along new elements of decentralization and financial self-government, has been implemented:

1. The system of general purpose transfers (for budgetary balancing) to the budgets of the administrative-territorial entities is based on revenues and not on average normative costs per capita, estimated at central level, as was the case in the old system.

2. Norms of deductions from taxes and state fees are established by law per types of budgets of the administrative-territorial entities (tier I, tier II, municipality of Chisinau and the municipality of Balti, TAE Gagauzia).

3. The general purpose transfers are allocated directly, based on a formula, there are no financial subordination relations.

4. Basic indicators which are considered when determining general purpose (balancing) transfers as follows:

*a) fiscal capacity per capita, b) number of the population and c) area.*

5. *Pre-school, primary, secondary general, special and complementary (extra-school) education, as well as the competences delegated to the local public administration authorities by law, are financed via special purpose transfers from the state budget.*

6. *Pre-university education (school, gymnasium, lyceum) is financed from the state budget through category-specific transfers according to the financing methodology based on the standard „per capita” („weighted pupil”) based on formulas; (DG No.868 dated 8 October 2014 – Allocations fund for inclusive education – I, maximum of 2% from the composition).*

7. *The remaining own competences of the local public authorities of tier I and II are financed from own revenues, deductions from the individual income tax, established in line with the law, and general purpose transfers according to the formula.*

8. *Establishing priorities in the use of available financial resources, according to the new system, belongs exclusively to the local public authorities.*

#### **Decentralization measurement indicators**

It is significant that the decentralization process can be appreciated, evaluated through a number of performance indicators. Performance indicators define the extent of change for the results identified within a reference framework. When well chosen, they become measurement instruments which describe the extent of achievement of the objectives of a program. Unlike the results, which identify expectations, the indicators specify which is the standard in relation to which the results would be evaluated.

*Performance measurement is based on two principles:*

1. It focuses on specific results, on the effects which a program or a project produces.
2. Evaluates the quality of the service in relation to the needs and requirements of the clients and community.

Performance indicators are the units which make up a performance measurement system.

*Decentralization indicators:*

There are two types of decentralization performance indicators: quantitative and qualitative, which are represented by:

- Efficiency indicators (example: the cost providing a service)
- Effectiveness indicators (example: percentage of the total population which has access to the provision of a public service) and
- Client satisfaction (by means of a poll) [12].

*Types of performance indicators:*

When evaluating the merits of decentralization process, same types of performance indicators, with certain peculiarities which are specific to decentralization as a process, apply:

- Resources indicators (Example: the number of personnel engaged in a project).
- Results indicators (Example: the number of conducted projects).
- Effects indicators (Example: percentage of renovations conducted within a period of time).
- Efficiency and output indicators.

#### **Decentralization indicators and their role in consolidating local self-government**

*Decentralization indicators contribute to the following:*

- Strengthen local administrative legitimacy;
- Build local capacity to converse with the central public administration, international bodies and private sector;

- Improve the forms of public policies' monitoring;
- Improve the process of monitoring decisions with regard to public investments;
- Build the capacity to monitor public services [15].

*The purpose of decentralization indicators:*

- To monitor the manner in which the central administration enacts decentralization measures;
- To describe how the decentralization-related legal system, in particular, and the local self-government, in general, are implemented;
- Monitor democracy development through dialogue/cooperation between the central, local and citizens;
- Understand the modus operandi of the local public finance system in order to assure services and



public utilities by monitoring local taxes, transfers from the state, balancing mechanisms, access to external markets;

- Verify transparency of the decision-making process in financial decisions' management, use of resources;

- Verify accessibility of public services, as regards quantity, quality and price;

- Monitor the process of local human resources development in coordination with the national strategy of civil servants [15].

To accomplish the goals, decentralization indicators must meet certain conditions:

- Indicators must reflect local conditions from political, legal, technological standpoints;

- Indicators must be in line with the vision of the local communities, facilitating their participation;

- Indicators must be coordinated with national and international data bases.

**Table 4**

**Correlation between decentralization performance indicators, criteria and success factors**

| Criteria                | Indicators                                                                      | Success factors                                                                                                                                                                                                                                         |
|-------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fiscal self-government  | The relationship between own local revenues and transfers from the state budget | <ul style="list-style-type: none"> <li>- The capacity of the local administration to create conditions for small business development;</li> <li>- The capacity of LPA to collect revenues</li> <li>- The level of local economic development</li> </ul> |
| Transfer of competences | List of competences                                                             | Transfer of resources and local management capacity                                                                                                                                                                                                     |
| Decision-making power   | Identification of decision-making areas between local and central               | LPA capacity for decision-making                                                                                                                                                                                                                        |
| Etc.                    | Etc.                                                                            | Etc.                                                                                                                                                                                                                                                    |

Source: Developed by authors.

**Overall conclusions and proposals**

1. The concept of *decentralization* does not base itself only on the traditional understanding of this process as a transfer of power and resources from the national level (central) to the local level (*territorial decentralization*), but also as a need to decentralize certain functions of the state (*functional decentralization*) and to establish certain specialized and autonomous central administrative entities, which would exercise functions of oversight and regulation, and which would have legal, functional and financial self-government (independence from the central state authorities).

2. *Administrative decentralization* would mean the extension of the basis for developing adequate public policies, for building administrative capacities to implement these policies, whose implementation would grant maximal attention to the public interests.

3. Our research shows that on average, the number of TAE with fiscal capacity per capita bigger than the fiscal capacity per capita at the national level is of about 81 administrative-territorial entities, which is about 9.0% of the total TAE per country, while the number of TAE with a fiscal capacity lower than the one at the national level is, on average, of 790 entities, or 91%. So, the general conclusion would be that the economic situation in TAE is scarce.

4. The conducted reviews underline that the general purpose balancing transfers tend to go down, because of the increase of the fiscal capacity per capita in the most of TAE, while the special purpose transfers go up, because they are financed unconditionally from the state budget, including for pre-school, primary, secondary general, special and complementary (extra-school) education.

5. The share of general purpose transfers in the budget revenues of the administrative-territorial entities from the Republic of Moldova, for the reviewed years of 2016-2017, is slowly going up. Thus, their share in 2016 is 65.45%, while in 2017 – 66.77%, showing a 1.32% increase.

**Recommendations:**

1. There is a big need to support small and medium enterprises in rural areas, which would generate revenues and would pay taxes to the local budgets.

2. Also, it is not possible to advance with such administrative-territorial organization, with districts which have few TAE, for example, Basarabeasca, which has 7 entities, while for the operation of this TAE the state budget allocates balancing transfers for the second tier of about 4.5 million MDL, while for the first

tier – about 6.8 million MDL. There are also mayoralties where the number of population is under 500 inhabitants. Therefore, shock therapy is required.

3. Should local self-government, which would include financial and fiscal self-government be desired, then the things must be changed based on an administrative-territorial reform. The reform would imply the consolidation of the economic and financial potential through regionalization.

4. TAE must consolidate its efforts to develop local economy, and infrastructure. Small districts cannot resolve economic-social and other types of issues.

5. Regionalization is required. Infrastructure development would resolve the issue of “distance” to the center, which had been one of the reasons for pushing for anti-administrative-territorial reform in 2000.

6. Decentralization would bring services closer to people. Many of the citizens’ issues would be addressed on-site.

7. Administrative-territorial reform must be conducted and administrative-territorial entities, which would assure the economic-social development of the respective territory, must be put in place. We agree with the experts that rightly believe that *in the Republic of Moldova there should be 111 communities with 3-4 regions instead of the 871 existing ones, each community having about 23,800 inhabitants, while each region – about 700,000 inhabitants.*

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**Note:** All materials are analyzed by the authors. There were made authentic calculations based on official materials and were elaborated tables. Required sources are indicated. Conclusions and recommendations from research conducted by authors.

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