

# LOCAL FINANCIAL AUTONOMY AS A PREREQUISITE FOR IMPROVING THE PROVISION OF PUBLIC SERVICES AND GOODS: THE CASE OF THE REPUBLIC OF MOLDOVA

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**Abstract.** Local autonomy, which is a central characteristic of local public administration, has been increasingly valued over the past decades. At the same time, the autonomy of local public administration (LPA) in the Republic of Moldova, including financial autonomy, is limited. The purpose of this paper is to formulate arguments in favor of the need for fiscal decentralization for the Republic of Moldova, to assess local public finances through the prism of fiscal autonomy and to formulate prospects for rationalizing local public finances. The general conclusion stated by the study is that the measures that are meant to improve the financial autonomy of LPAs cannot be initiated and implemented in an isolated way, without a consistent strategic vision. Moreover, these measures cannot avoid the need to reform the local public administration and rational administrative-territorial structure of the Republic of Moldova. Market mechanisms, namely competition and failure, which help to differentiate successful local public administrations from less successful ones, are not yet sufficiently developed in this sector of activity in the Republic of Moldova. In these conditions, the author proposes to use as a criterion for determining the effectiveness of local public administrations in the Republic of Moldova the ratio between local budget revenues, excluding transfers and deductions from public revenues, and expenditures related to the provision of public services of general purpose. The methodology used in the preparation of the paper includes the following research tools: monographic research, comparative analysis, retrospective statistical analysis, simple regression. The information base of the study is the statistical data provided by the National Bureau of Statistics, Ministry of Finance, National Bank of Moldova, Eurostat databases, etc.

**Key words:** budget transfers, decentralization, financial autonomy, local budget, national public budget, own public revenues, public services and goods, state budget.

**JEL Classification:** H40, H60, H70

## 1. Introduction

Reforms that promote decentralization by transferring political power and responsibility to the levels of government closest to citizens have been gradually spreading around the world since the 1980s. Both local autonomy and decentralization have been recommended by a number of important European and international institutions as key instruments of "good governance".

The Council of Europe adopted the European Charter of Local Self-Government (ECLSG)<sup>1</sup> in 1985, as an international juridical instrument which provides protection, evaluation and promotion of decentralization principles and local autonomy. This

ambitious plan "envisages the existence of some local governments with democratically constituted decision-making bodies that enjoy a high degree of autonomy over their powers, how they are exercised and the necessary means to carry out their mission." (CoE, 1985) In this regard, financial decentralization, as a solution to the problem of growth and strengthening of financial autonomy, is the subject of increased attention.

According to the *Law on Organizing Administrative-Territorial Units in the Republic of Moldova*, the territory of the Republic of Moldova is administratively organized into the following administrative-territorial units (ATUs): rayons (districts), cities/

<sup>1</sup> The Republic of Moldova signed the European Charter of Local Self-Government on 2 May 1996 and ratified it completely on 2 October 1997. In the Republic of Moldova, the Charter came into force on 1 February 1998.

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towns and villages. The administrative-territorial organization of the Republic of Moldova is effected on two levels: villages (communes), sectors and cities/towns (municipalities) constituting the first level<sup>2</sup>; rayons (districts), Chisinau and Balti municipalities constituting the second level<sup>3</sup> (Law of Republic of Moldova, 2001).

Following the logic of the administrative-territorial organization of the Republic of Moldova, the *Law on Public Finance and Budgetary-Fiscal Responsibility* defines the structure of the local budget system, which is formed of the first-level local budgets (the budgets of villages/communes, cities/towns/municipalities, except Chisinau and Balti municipalities) and the second-level local budgets (rayonal budgets, the central budget of the autonomous territorial unit Gagauzia (ATU Gagauzia), Balti and Chisinau municipal budgets), which together form the consolidated local budget (Law of Republic of Moldova, 2014). The financial autonomy of LPAs in the Republic of Moldova is limited. Financial centralization, which is manifested through the limitation of the share of own revenues in total budget revenues and the consistent increase in the share of transfers, is becoming more and more obvious and alarming.

## 2. Arguing the necessity of financial decentralization

The need to carry out and deepen financial decentralization in the Republic of Moldova is confirmed by at least the following arguments:

a) Although limited financial autonomy of LPAs in the Republic of Moldova represents a worry and a regret emphasized in all the recommendations formulated by the Congress of Local and Regional Authorities of the Council of Europe (CLRACE), this aspect remains permanently ignored at the central public administration (CPA) level, not depending on the nature of governing parties.

Local autonomy is a necessary condition for the ability of local representatives to meet the demands, needs and problems of citizens. Hence, local self-government allows for effective delivery of public services, which contributes to the legitimization of local administration. From this perspective, a higher level of autonomy should translate into increased responsibility and responsiveness.

ECLSG explains the local autonomy as a right and effective capacity of LPA authorities to settle and manage, within the law limits, an important part of public affairs in the interests of local population.

<sup>2</sup> their total number amounting to 896 ATUs.

<sup>3</sup> their total number being 35 ATUs.

<sup>4</sup> shared taxes with the central and local governments/

At the same time, the *Constitution of the Republic of Moldova*, the society's and state's supreme law, formulates basic principles of LPA in Article 109: the public administration in ATU is based on the principles of the local economy, decentralization of public services, eligibility of LPA authorities and consulting citizens regarding especially important local problems (Constitution of the Republic of Moldova, 1994).

The way in which the Republic of Moldova respects these principles is reflected in the recommendations of CLRACE (Table 1).

Thus, as it follows from Table 1, CLRACE recommendations contain some concerns about the tendencies of decentralization and the decline of local democracy in the Republic of Moldova. Although the concern about the limited financial autonomy of LPAs in the Republic of Moldova has existed since 2005, the situation in this area is not improving, but on the contrary is characterized by regression. This evolution suggests the conclusion about the lack of efficient levers on the LPA level, local authority associations, civil society of the Republic of Moldova to make CPA authorities recant the practice of treating LPAs and local public finance as instruments providing competitive advantages during electoral political campaigns.

b) When the degree of fiscal decentralization is considered to be reduced, central governments should consider, in cooperation with local governments, some ways to increase the share of own budget revenues of LPAs and local revenues transferred through permanent law without any increase in the overall tax burden (CLRACE, 2005).

The analysis of the dynamics of local budget revenues in comparison with GDP and the National Public Budget (NPB) on the example of the Republic of Moldova shows a constant increase in the level of financial centralization (Figure 1). Partially, it is explained by the increase of the share of revenues, within the framework of local budgets (LBs), coming from the state budget, namely transfers and deductions from the state taxes and fees<sup>4</sup>. At the same time, the increase in centralized revenues was not accompanied by increased efforts of LPAs to increase the share of their own revenues, although the formula for calculating general purpose transfers encourages this.

c) Well-designed and implemented fiscal decentralization, including distribution of responsibilities regarding expenses, allocation of income sources to subnational governments (LPAs), intergovernmental

Table 1  
**Concerns and regrets expressed by CLRACE as regards Article 9 from the European Charter of Local Self-Government**

Recommendation:	unclear distribution of competences and responsibilities between the LPA levels and between CPA and LPA	major imbalance between the LPA responsibilities and the resources allocated to them	limited financial autonomy	the resources of local authorities mostly coming from transfers	unclear and untransparent way to redistribute financial resources from the CPA level to the LPA one, especially transfers	decisions of LPAs regarding the local public finance management are subject to the approval by the CPA or regional ones	reduced fiscal yield from local fees	National Decentralization Strategy implemented to a small extent	CLRACE recommendations #179 (2005), 322 (2012) and 411 (2018) have not been met completely	the local fiscal system is very weak	lack of adequate delimitation of municipal land and private/public ones, which determines impossibility of their evaluation for fiscal reasons	lack of lucrative consulting mechanisms between CPA and LPAs, including financial problems
Rec 179 (2005)			✓	✓	✓	✓	✓					
Rec 322 (2012)	✓	✓	✓		✓	✓	✓					
Rec 436 (2019)		✓	✓	✓				✓	✓	✓	✓	✓

Source: developed by the author on the basis of CLRACE (2005, 2012, 2018, 2019)

fiscal transfers and local debt policies, can contribute to poverty reduction. At the same time, a poorly implemented decentralization program can be detrimental to poverty reduction goals. The literature on fiscal federalism points out that many, if not most, of the public services that are closely related to poverty reduction are best provided by local governments.

Incidence studies (which look at recipients of public services) show that some specific sectors,

such as education and some public health services, are among those most in need of poverty alleviation (Martinez-Vazquez, 2001). However, two things tend to make fiscal decentralization policies differ significantly from country to country.

The first is the degree of local responsibility for social sectors (education, health, social security). Unless social services are transferred to a large extent to the local level, fiscal decentralization is unlikely to have a significant impact on poverty reduction.

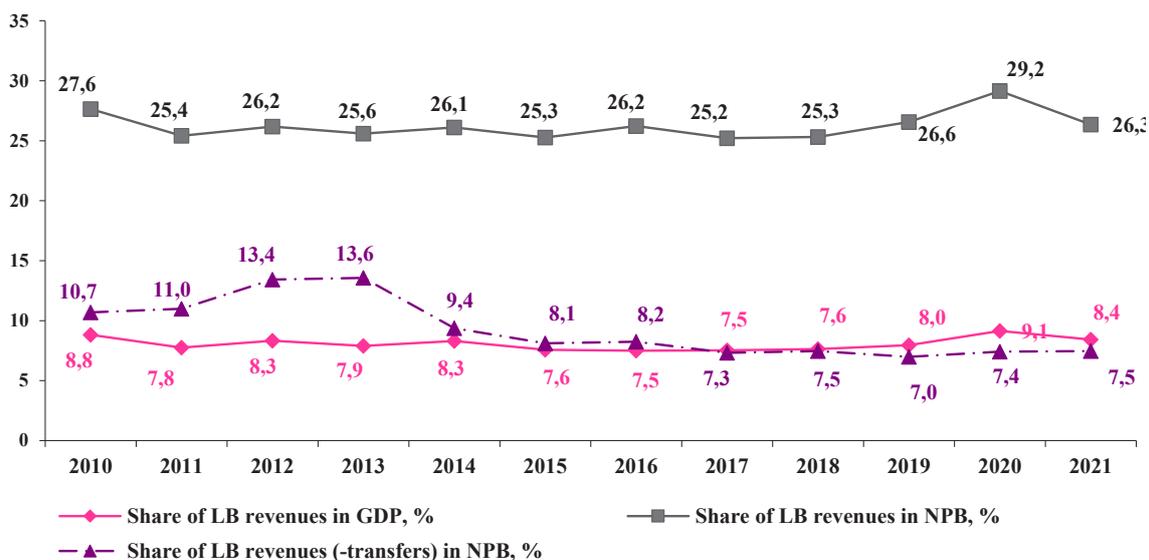


Figure 1. Level of financial decentralization in the Republic of Moldova

Source: Ministry of Finance, author's own calculation

The second point is that the relationship between the availability of local resources and the effect of service delivery is not necessarily uniform across regions and local governments. (Constitution of the Republic of Moldova, 1994). This is because some local governments use the resources they have at their disposal more efficiently than others, highlighting the importance of local ownership and responsibility in providing public goods and services to the poor (UNDP, 2005).

In an economy with limited resources, such as the economy of the Republic of Moldova, it is necessary to pay special attention to certain components of an effective poverty reduction strategy, namely the efficient allocation of public expenditures in terms of both cost-effective provision of public services and their provision adapted to the diversified preferences of different segments of the population.

d) Under conditions when the central government, both for objective and subjective reasons, is not able to expand public expenditures to provide diversified and quality public services at rational prices in accordance with market requirements, it becomes necessary and appropriate to expand localization processes in the Republic of Moldova, including through fiscal decentralization and involvement of the private sector in the provision of public services. An important aspect of public expenditure allocation is flexibility. In order to protect against shocks, governments should have sufficient flexibility in their annual expenditure allocation decisions. If some expenses are protected (non-discretionary<sup>5</sup>) and if their share in the total of expenditures is increased, it can be difficult to adjust them during adverse periods, or it can reduce disproportionately unprotected expenses (especially, investment expenses), which are important for a long-term growth. In the Republic of Moldova, the share of non-discretionary expenditures in total public expenditures in the period 2021 – September 2022 had a fluctuating upward trend, crossing the 70% mark, with a clear prospect of intensifying this evolution under the influence of Russia's military aggression against Ukraine (Table 2).

The reduction of NPB expenditure flexibility represents an important argument in favour of extending financial decentralization.

e) Financial decentralization through asymmetric mechanisms can be a useful tool in ensuring territorial autonomy for ethnic minorities, provided it is successfully designed and implemented. At the same time, numerous studies on this issue point to significant negative consequences of the improper use of financial decentralization in the process of resolving interethnic conflicts, especially in countries with a low level of democracy (Tranchant, 2010; Faguet et al, 2014).

Decentralization can address issues related to diversity by offering geographically concentrated groups the power to make their own decisions on subjects of their interest. However, opponents of decentralization argue that it fosters a federalist mentality, undermining efforts to build national unity and identity. Decentralization can make vulnerable groups seek greater autonomy. With more power and independence, decentralized zones may realize that they can better manage their affairs on their own. Decentralization can offer subnational leaders management experience. Around the world, some decentralized regions have declared their independence after they have established their own decentralized institutions.

### 3. Strict budget constraints and fiscal discipline are the main conditions for fiscal decentralization

The pace of financial decentralization should be closely linked to the capacity of LPAs to effectively perform their functions.

The impact of subnational fiscal operations on fiscal discipline depends not only on the share of these operations in total expenditures and revenues, but also on the way they are financed. In this context, it is possible to emphasize the role of transfers from the central government (CPA) in shaping the incentives on the subnational level (LPAs).

This problem is especially relevant in the context when in almost all countries the share of subnational expenditures exceeds the share of subnational revenues in the central government budget, and transfers from the central government are necessary to cover vertical fiscal imbalances.

The impact on fiscal discipline and the quality of fiscal policy are the main challenges faced by

Table 2

#### Non-discretionary expenditures in the total of expenditures and non-financial assets related to the Public National Budget of the Republic of Moldova, %

2016	2017	2018	2019	2020	2021	July, 2022	August, 2022	September, 2022
64,0	62,1	62,4	63,4	63,2	65,1	72,3	71,2	69,2

Source: Ministry of Finance, author's own calculation

<sup>5</sup> Non-discretionary expenditures include personnel expenses and payments related to the public debt service.

countries intending to implement fiscal decentralization reforms. Without "strict budget constraints" that are effectively imposed on subnational governments, the latter may overspend and/or reduce their revenue-raising efforts, ultimately leading to fiscal pressure on the central government. For these reasons, the development of fiscal decentralization reform in the Republic of Moldova requires a coherent and well-coordinated set of measures.

Typically, countries tend to change certain aspects of their intergovernmental fiscal relations in an "isolated" manner. If these changes are not assessed and initiated within a comprehensive approach, they may over time create inconsistencies and imbalances between levels of government that undermine the effectiveness of fiscal policy.

In countries where there are too many subnational entities or they are too small to be viable (the Republic of Moldova is an eloquent example in this respect), problems related to the distribution of expenditures, taxes and fees cannot be properly solved if there is no form of territorial reorganization through which subnational authorities are rationalized and their role reoriented.

#### 4. General characteristic of local public finances

An important qualitative indicator that characterizes the relative size of local budgets is the ratio of budgetary parameters to the number of population. In 2021, an average of 7,830 lei<sup>6</sup> (373 EUR) from the revenues of the consolidated local budgets was allocated to a resident of the Republic of Moldova. If to exclude from the calculation the municipality of Chisinau, which accounts for about 25% of the total revenues of the consolidated LBs, in 2021 there were 7,786 lei per inhabitant. These data indicate that the size of local budgets is critically insufficient to stimulate sustainable economic growth at the local level.

According to the Law on Local Public Finance, the resources of local budgets consist of a combination of revenues and sources of financing of the respective budgets. In turn, the revenues of local budgets consist of 1) general revenues (own revenues; deductions from national taxes and fees, in accordance with the percentage standards; general and special purpose transfers; subsidies for equalization of budgetary provision); 2) own revenues; 3) grants for projects financed from external sources. These revenue sources vary in structure and proportions depending on the level of the local budget under consideration. Thus, the Law on Local Public Finances defines the sources that fill the revenue part of the budgets of villages, communes, cities and municipalities (except

for the municipalities of Balti and Chisinau); district budgets; central budget of ATU Gagauzia; municipal budgets of Balti and Chisinau. In general, the justifications for the ways of distribution and correlation of revenue sources between local budgets of different levels are not based on scientifically sound considerations, but are rather the result of arbitrary decisions and/or obtained as a result of non-transparent political negotiations. At the level of budget revenue sources by categories, only special-purpose transfers (mainly) and general-purpose transfers with predetermined calculation formulas are legally regulated. As a result, the system of inter-budget relations has pronounced horizontal imbalances.

Among the 35 second-level ATUs (ATU2) existing on the territory of the Republic of Moldova, 9 exceed the average of LB's revenues per inhabitant (6.2 thousand lei), 6 were positioned in 2021 below the value of 5.6 thousand lei. The first factor that should be mentioned to explain this development is of a legal nature and is related to the preferential regime of the Autonomous Territorial Unit of Gagauzia as a taxpayer and recipient of public services in comparison with other ATUs of the second level.

Figure 2 represents the distribution of first-level ATUs (ATU1) by the local budget revenues per capita ratio recorded in 2021. In 2021 the average first-level LB revenues per capita was 2,708 lei. Under these conditions, as follows from the figure, 522 (58%) of ATU1 recorded values of this indicator below the average level.

Although in its report, the Monitoring Committee CG/MON/2015(29)<sup>4</sup> on behalf of the Congress of Local and Regional Authorities of the Council of Europe invited the Moldovan authorities to fully implement the National Decentralization Strategy by the end of 2018, this strategic document has largely remained unimplemented. With regard to financial decentralization, it should be noted that the block of measures aimed at strengthening the revenue base of local budgets and their decision-making autonomy, with few exceptions, was practically not implemented. As a result, the share of own revenues in the total structure of LBs revenues has a negative trend (Figure 3).

The situation with own revenues indicates the effort made by the LPAs to strengthen the premises for local economic development. The current methodology for calculating general-purpose transfers (based on fiscal capacity, population and ATU's area) does not make the size of transfers for the following year dependent on the LPA's effort to identify and exploit sources of own income in

<sup>6</sup> The average annual exchange rate in 2021 was 20.9830 MDL for 1 EUR.

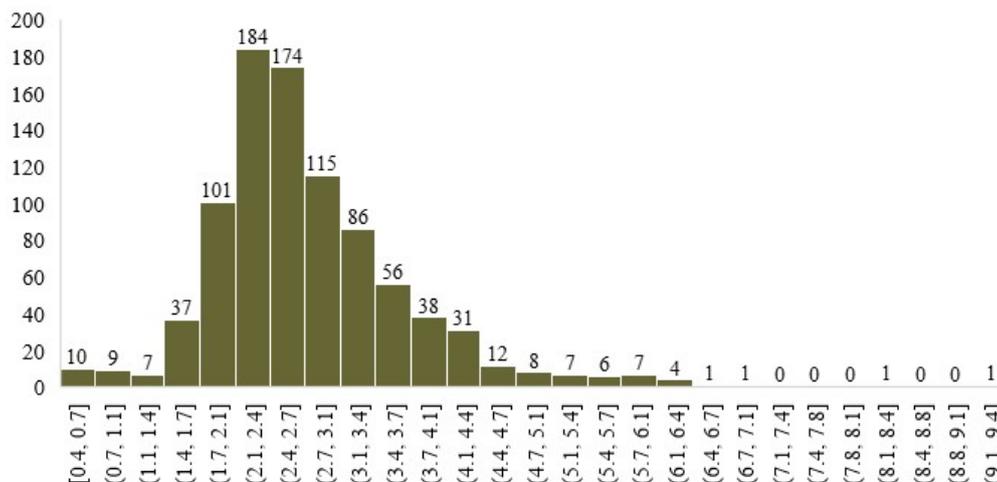


Figure 2. Distribution of first-level ATUs by local budget revenues per capita, year 2021

Source: Ministry of Finance, author's own calculation

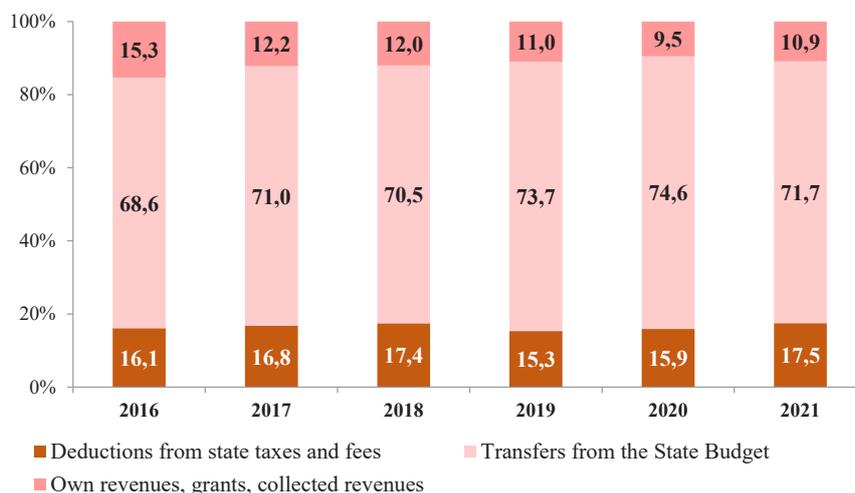


Figure 3. Structure of Local Budget revenues, in %

Source: Ministry of Finance, author's own calculation

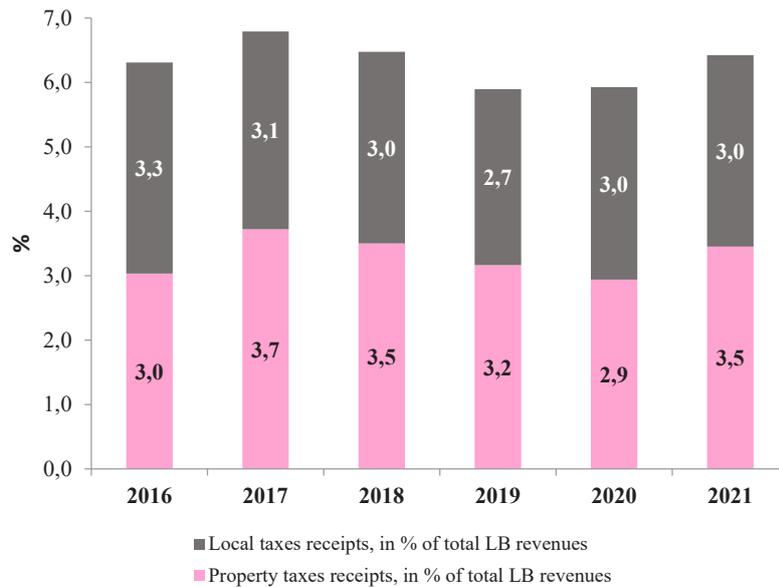
order to increase the financial potential of the local budget (provision applied until 2014/2015). Therefore, the cancellation of this dependence creates strong incentives for LPAs to increase the contribution of their own revenue sources to the formation of the revenue side of local budgets. Moreover, this methodology stimulates the LPA to create jobs at the level of the ATU it manages by the fact that the increase in fiscal capacity and the number of inhabitants directly leads to an increase in general purpose transfers and indirectly – the increase in own revenues. Although these incentives exist, the share of own revenue in total LB revenues is not only insufficient, but is constantly decreasing.

In the structure of ATU's own revenues, the largest share is occupied by real estate tax and local taxes. Real estate tax is considered the source with the most

pronounced financial potential and stability potential among the sources of own revenues that fill local budgets.

As can be seen from Figure 4, after an increase in 2017 in the contribution of property taxes to consolidated budget revenues, the trend is reversed: in 2018 compared to 2017, this indicator decreased by 0.2, in 2019 compared to 2018 and in 2020 compared to 2019 – by 0.3 each. In 2021, there is an improvement in the situation with property tax revenues: the increase compared to 2020 is 0.6. For the most part, the same dynamics is typical for local fees.

Thus, local taxes and fees, due to their structure and low tax returns, make a modest contribution to the financial autonomy of LPA in the Republic of Moldova.



**Figure 4. Receipts from property taxes and local fees, in % of consolidated local budget revenues**

Source: Ministry of Finance, author's own calculation

**Table 3**  
**Level of financial autonomy of the LPA in the Republic of Moldova**

Range of variation	Indices of financial autonomy	Own sources of revenue						
		Tax on real estate	Fee for entrepreneur's patent	Tax on the income of natural persons carrying out independent activity in the field of retail trade	Private tax (according to the property belonging (estate))	Local taxes	Taxes on natural resources	Deductions from state taxes and fees
<b>Extended financial autonomy in the area of own revenue</b>	The LPA determine the subjects, the objects and the taxable base							
	LPA establish the rate of taxes / fees							
	LPA set the rate of taxes / fees, but only within a framework allowed by the Central Public Administration (CPA)							
	Tax sharing, "splitting" of central/local revenues can be modified only with the agreement of the LPA							
	Sharing revenues with quotas unilaterally set by the CPA							
<b>Lack of financial autonomy in the area of own income</b>	The CPA sets out the facilities for the LPA revenues, but allows the LPA to establish additional facilities							
	The CPA establishes the facilities for the revenues of the LPA without compensating the LPA for the losses from the non-collection of the amounts lost due to the facilities							
	CPA establishes the rate of taxes / fees							
	The CPA determines the subjects, the objects and the taxable base							

Source: developed by the author on the basis of the legislation of the Republic of Moldova (Fiscal code of Republic of Moldova, 1997)

Table 3, systematizing the provisions of the legislation, leads to the conclusion that the level of financial autonomy of LPA in the Republic of Moldova is very low.

Thus, the powers of LPAs in the field of administration of local taxes and fees are very limited. LSA bodies have limited capacity: (I) modify the levels of the real estate tax or the basis of local taxes and fees stipulated in the Fiscal Code; (II) periodic reevaluate of the real estate; (III) establish its own tax facilities for local taxes and fees. In addition, local authorities have no real rights and levers of influence on taxpayers to ensure the possibility and completeness of payment of local taxes and fees.

In this context, it should be noted that in terms of efficiency, Oates' "decentralization theorem" states that: "each public service should be provided by the jurisdiction that controls the minimum geographical area that will allow the benefits and costs of such provision to be internalized." (Oates, 1972) According to this principle, the functions of taxation, expenditure and regulation should be carried out by lower levels of government unless there is a compelling case for their transfer to higher levels (Shah, 1994).

## 5. Prospects for rationalization of local public finances

Rationalization of local public finances should begin with the definition and formulation of the criterion by which effective solutions should be developed. Efficiency is the basic concept of this process. Measuring efficiency at the level of LPAs in the Republic of Moldova is a relatively difficult task, once the market mechanisms that help to select the least successful LPAs, namely – competition and bankruptcy, have not yet come to be developed in this sector of activity in the Republic of Moldova. In such circumstances, it is necessary to define other criteria that will be applied to determine the correlation between the results obtained and the efforts of the LPA in managing local public finances.

Starting from the axiom that financial autonomy is the basic prerequisite for the success of the LPA, the size of the revenues it manages to collect without considering the revenues obtained from the State (transfers and deductions from State taxes) can be considered as the result of an LPA. As an effort, the budgetary expenditure related to the current activity of the LPA can be considered. According to the functional classification, these expenditures are classified as general-purpose public services (functional group 1). For LPAs, "General-purpose public services" include services related to the activities of local councils and the executive activities of local

government bodies. The structure of expenditures related to the provision of public services of general purpose, according to the economic classification, includes expenditures for personnel, expenditures for the purchase of goods and services necessary to ensure the activities of budgetary institutions, payments for social activities, expenditures for non-financial assets (fixed assets, inventories, and so on), etc.

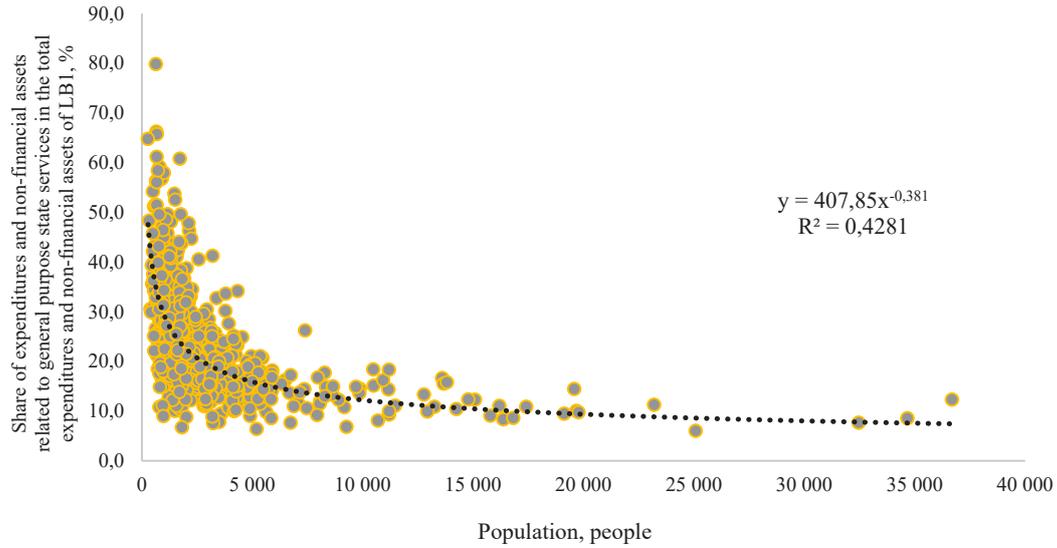
The share of expenditures on general-purpose public services (GPSS) in total expenditures and non-financial assets (ENFA) of the local budget should be limited. At the same time, this indicator is sensitive to the economies of scale: the larger the population (the number of recipients of local public services) in the ATU area managed by the respective LPA, the smaller the share of expenditures related to the provision of GPSS. That finding is apparent from Figure 5. Therefore, the share of GPSS-related expenditure in the total ENFA of the LB is an indicator that measures an efficiency aspect of local public expenditure.

By comparing the expenditures related to the GPSS (an indicator of effort, which is in the denominator), on the one hand, with the revenues of local budgets without transfers and deductions from national revenues (an indicator of the result, which is in the numerator), on the other hand, an indicator of efficiency is obtained, which can be a criterion indicating the need to rationalize local public finances.

Figure 6 shows the distribution of the first level ATUs according to the values recorded by this indicator. The situation starts to be favorable when the indicator value is greater than 1. If the coefficient is equal to 1, it means that for every 1 leu of expenditures related to the GPSS, there is 1 leu of local budget revenues (excluding transfers and deductions from state revenues).

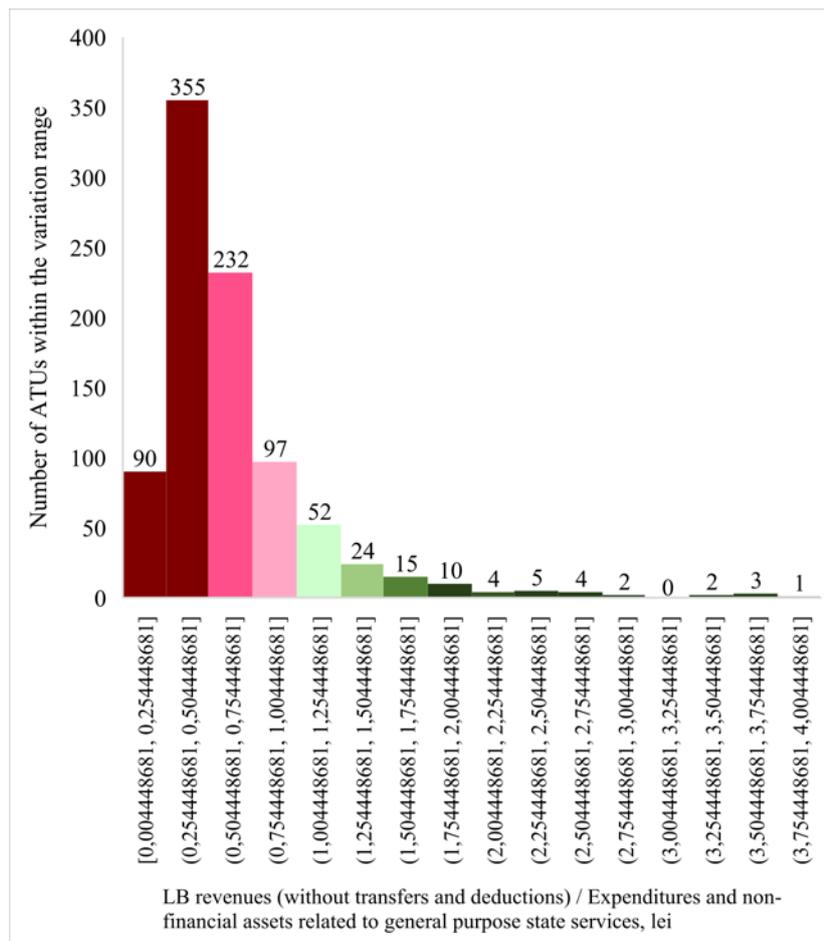
Of the total number of ATUs<sub>1</sub> (896), 445 ATUs<sub>1</sub> (50%) recorded a value of less than 0.5 in 2021. 122 (14%) of ATUs<sub>1</sub> generated at 1 leu of expenditures related to GPSS more than 1 leu of local public revenues (without transfers and deductions from the state revenues). As a rule, the best performing LPAs are those in municipalities and cities – district residence, but also in some rural areas that have developed local economies generating their own revenues, but also institutional capacities to manage them.

At the same time, the problem of small settlements, most of which are objectively deprived of the economic and social basis for ensuring the minimum potential of local public finances, requires a priority solution. In addition to the aspect of pronounced inefficiency that accompanies this problem, the population of the respective settlements does not have access to a wide range of important public



**Figure 5. Relationship between the share of expenditures and non-financial assets related to general purpose state services in the total non-financial expenditure and assets of LB1 (dependent variable) and the number of population (independent variable), year 2021**

Source: Ministry of Finance, author's own calculation



**Figure 6. Distribution of first-level ATUs by the ratio between local budget revenues without transfers and deductions / Expenditures and non-financial assets related to general purpose state services, lei, 2021**

Source: Ministry of Finance, author's own calculation

services. The problem of critical inefficiency in the use of public finances, including local public finances, is a significant shortcoming in the work of all governments of the Republic of Moldova, which should be urgently addressed by the Court of Accounts and the Parliament of the Republic of Moldova and solved in the most urgent and energetic way.

Increase of administrative capacity (population, territory, economic assets, etc.) of the ATUs of the Republic of Moldova is a primary objective that determines the way of reconsidering the local public finances. The development and implementation of solutions to rationalize the system of local public finance without increasing the administrative capacity of the ATUs will not be successful. In this regard, the administrative capacity of the ATUs in the Republic of Moldova can be developed by implementing the municipalization<sup>7</sup> with the stimulation, at the same time, of the first-level ATUs to initiate and carry out voluntary "amalgamations", including through a transfer system specially designed for this purpose. The municipalisation will solve the problem of overlapping the competences exercised by first-level LPAs and second-level LAPs, and the increase in administrative capacity, especially of first-level ATUs, will ensure the prospect of economies of scale, both with a positive impact on the efficiency of local public finance management. According to the model of ATUs administrative capacity development, which will be developed and adopted for implementation, the system of public finance, including inter-budgetary relations and the system of local public finance, will also be rationalized. At the same time, the logic of constructing the general-purpose transfer system (based on fiscal capacity, population number and ATU area, as determinants of GPT) can be preserved.

## 6. Conclusions

Measures aimed at increasing the financial autonomy of LPAs cannot be developed and implemented in isolation, without a consistent strategic vision. Moreover, they cannot avoid the need to reform local public administration and rational administrative-territorial structure of the Republic of Moldova.

In this regard, the Parliament of the Republic of Moldova should initiate the elaboration of a strategic policy document that would logically, consistently and in the right sequence address the following interdependent blocks: reform of local public administration; reform of the administrative-territorial structure; decentralization, including financial decentralization:

- in order to ensure the premises for increasing the efficiency of the management of local public finances, it is necessary to develop and strengthen the administrative capacity of the ATUs in the Republic of Moldova through municipalization and voluntary "amalgamation" of the ATUs. Municipalisation will also solve the problem of the confusing competences of first-level LPA, second-level LPA and central public administration;
- in order to stimulate the voluntary "amalgamation" of the ATUs, it is necessary to design the transfers to benefit the ATUs (through a contest of projects) that have decided to "amalgamate";
- the principled reconsideration of the system of deductions from the state revenues and general destination transfers in order to ensure equal treatment between all second-level ATUs and ATU Gagauzia, without applying preferential treatments to the latter: the citizens of the Republic of Moldova must have the same access to local public services regardless of second-level ATU they live;
- granting the first-level LPA and second-level LPA the freedom to introduce new local taxes and fees or additional quotas to existing ones;
- ensuring transparency in the distribution of categories of transfers and other financial resources that are not determined by size and are distributed according to clear principles, rules and formulas defined by law (at least by government decisions);
- continuous professional development of local elected officials, financial specialists and accountants in the field of local public finance.

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- Congress of Local and Regional Authorities (2012). *Recommendation 322 Local and regional democracy in the Republic of Moldova*. Available at: <https://rm.coe.int/090000168071b1a6>

<sup>7</sup> The essence of the concept of municipalization consists of elimination of rayons as second-level ATU and their replacement by Municipalities, by granting all cities rayon centers the status of municipalities and transforming them into second-level LPAs (after the model of Chişinău municipality).

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