Practitioniers Corner

REPUBLIC OF MOLDOVA: 20 YEARS OF INDEPENDENCE AND EXPERIMENTS WITH PUBLIC FINANCE SYSTEM

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ABSTRACT

Democratic movements, market mechanisms, and decentralization reforms have been at the heart of transformation of former USSR republics. Republic of Moldova was not an exception. The initial argument behind such fascination with these reforms stems from the idea that market mechanisms in an open and democratic society will facilitate the efficient and effective resources' allocation, compensating for interim distributive inequities and macro-economic challenges. Such a natural experiment has been in progress for more than 20 years in the Republic of Moldova. During these 20 years Moldova experienced democracy in its infancy, democratic return of communism, and once again return to democracy and its core ideas and values. Public administration system along with public finance and budgeting systems experienced comparably abrupt changes in their development. This qualitative study of Moldovan public administration and finance frameworks will provide an evaluative description of these three distinct, but interrelated periods in Moldovan history of independence and development of public administration and public budgeting systems. Such description will allow for evaluation of the public administration and public finance systems' developments in Moldova as well as reasons of success and failure of these reforms.

Keywords *- Decentralization, Eastern Europe, Moldova, Public Administration & Budgeting*

INTRODUCTION

In its almost 20 years of independence, Moldova benefited from diverse aid projects. Generally, these initiatives were in the form of investment projects, technical assistance projects and humanitarian assistance. To a lesser extent the mechanism of budget support and control was applied. To date, Moldova received budget support from the World Bank in the form of three structural adjustment loans and credits operations, and several grants from the Dutch Government and European Union. Basically that small group of

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donors can potentially be involved in future budget support. Meantime, the international consensus (stated in Monterrey and reconfirmed in Paris declaration) on aid harmonization, procedures' streamlining, and on implementation on Moldovan national capacities, significantly enlarged the group of donors interested in strengthening of the Moldovan public administration and finance system.

This relatively long history of cooperation among international donors and Moldovan developing democracy provides a unique context for studying of effectiveness of public budgeting types and factors of influence on successful implementation of these budgeting techniques.

The major purpose of this research manuscript is to describe the evolution of public budgeting and public administration system in Moldova. The article's contribution to the broader field of public management is twofold. First, it provides an overview of historical institutional evolution of public administration systems and processes in Moldova. The existing knowledge on institutional development in Moldova is rather limited, consisting mainly of consulting reports authored by IMF and World Bank staff. This article addresses this gap in the academic documentation of empirical evidence. The manuscript's second contribution consists of the qualitative evaluation of the applicability of standardized international aid packages to the developing nations such as Moldova.

Since its break away from USSR in 1991, Moldova experienced several ideologically and politically different periods. The early 1990s were dominated by democratic parties of various political spectrums. The 9 years of the dominance of democratic parties were followed by unprecedented return of the communist party to the power. The elections of 2000 not only brought communist party of Moldova back to power, these elections also allowed the communist party to gain absolute majority in the Moldovan parliament. These elections made Moldova the only former USSR republic that democratically voted communist party back in power after USSR collapse in 1991. Once the communists gained control of the legislative branch of Moldovan government, they changed the rules of presidential elections as well as public finance regulations. These changes enabled the governing party to elect a president of their liking and continue to impose stricter controls on issues of public finance, taxation, decentralization, and local governance. The communist dominance ended in April 2009, when the new election resulted in communists' loss of the supermajority in the parliament. Subsequently, allegations of election fraud resulted in a popular revolt. That revolt brought the new political power to the scene: Alliance for European Integration (AEI). AEI then started to implement significant changes to the Moldovan public finance system to align the system closer with the existing European practices.

This manuscript consists of several distinct and logically connected parts. The opening part provides a geographic and socio-economic description of Republic of Moldova. It provides a basic historic overview of the country in terms of its economy, politics, and geography. The second part of this manuscript contains description of the period of "Infant Moldovan Democracy." This period covers 1991 through 2000 and is characterized by Moldova's initial enthusiasm regarding democratic structures, ideas, and processes. This is also the period of initial establishment of new systems of public administration and finance. The third part of this article describes the evolution of public administration and public budgeting systems during the period of a complete turnaround. Between 2000 and 2009 Moldova was the only former USSR republic that democratically voted communist party back in power. Such environment significantly affected the public administration and public budgeting systems and processes in Moldova. The fourth section of this article covers the developments of public administration and budgeting systems in the country under analysis through the prism of the Great Recession. This section covers years 2009 through 2013 and describes Moldovan government's response to economic pressures as well as political internal and external challenges through modification and reform of the public administration and public budgeting frameworks and processes.

As such, this qualitative study of Moldovan public administration and public budgeting systems provides an evaluative description of these three distinct, but interrelated periods in Moldovan history of independence and development. Such description will allow some preliminary evaluation of type of budgeting technique used in Moldova as well as reasons of success and failure of these techniques.

COUNTRY INFORMATION

Socio-Economic Description

Republic of Moldova is a small country (only 13,000.00 square miles; slightly bigger than such states as Vermont and Maryland) with a population of 3.5 million. It is located off the North-West coast of the Black Sea between Romania and Ukraine. This region has been a crossroads for thousands of years. Ottoman Empire, Roman Empire, Russian State (initially, it was Russian Empire; then it was USSR; and lately, it is Russian Federation) and Western Europe controlled this region throughout its known history. The 20th century was a century of change for this region with Western Europe and Soviet Union being determinants of region's fate. During World War II the Soviet Union annexed Basarabia (territory between rivers Nistru and Prut) through Molotov-Ribbentrop Pact of 1939 and later combined it with its own Nistru area to form the Soviet Republic of Moldova. As the Soviet Union collapsed, artificially created Republic of Moldova gained its independence on August 27, 1991. The new small state was landlocked, touching Danube River for a couple of hundred yards in the south.

At the moment of declaration of Moldova's independence in 1991, its population was ethnically diverse. The population consisted of about 65% of ethnic Moldovans/Romanians and 25% of ethnic Russians and Ukrainians, with the rest of the population being of Turkish and Bulgarian heritage. The geographic distribution of population was relatively stable. The south of Moldova was effectively the place of residence of a large populations of Turkish and Bulgarian descent.

It was a routine practice in USSR republics to have two languages used in the official business. One language was local and the other language was Russian. Moldova was not an exception. During Soviet control of the territory, both Moldovan and Russian languages were actively used through Cyrillic alphabet. Simultaneously with the declaration of its Independence, the decision to switch to Latin alphabet and to declare Moldovan language (similar to Romanian) the only state language resulted in a civil war of 1992. As a result of this movement, territory east of Nistru River (also known as Transnistria) declared its independence from Moldova. Transnistria took a position greatly supportive of Russian Federation. Russian Federation responded to such unequivocal support and approval via offering residents of Transnistria an opportunity to obtain Russian citizenship. This is a somewhat comparable action to what the Romanian state did later for residents of the rest of Moldova (it offered certain Moldovan citizens an opportunity to obtain Romanian citizenship). The implication of such movement was the increased emigration from the country. The emigration's consequences were two-fold. Firstly, the economically active population was decreasing. This negatively affected governmental revenues. Secondly, the general population was getting older. Older population relied on social services provided by the government. As such, this trend increased the demands for public services and goods. Thus, the governmental expenditures were under significant upward pressure.

Since the civil war of 1992, Moldovan authorities could not re-establish control over Transnistria territory which since has its own governmental structures and state attributes. Simultaneously, a somewhat similar (although, not as violent) movement took place in the southern region of the country. The movement in the Moldovan south culminated in 1994 with the creation of the autonomous administrative-territorial unit (ATU) Gagauz Yeri.

These two events influenced the early period of Moldovan independence, diverting Central Government priorities from the economic and structural reforms much needed for sustainable development of the country. These adverse initial conditions were aggravated by political/social uncertainties. The *de facto* Transnistria secession removed majority of Moldova's modern industries from central government's reach. Additionally, the major transportation and communication links to Odessa, the nearest Black Sea port, go through Transnistria. The secession of Transnistria resulted in creation of additional customs and border crossing procedures. The increased complexity of logistics between Moldova and Odessa resulted in a decrease of economic activity, hindering Moldovan public sector revenues.

Historically, Republic of Moldova was economically underdeveloped. It achieved its middle-income status only through massive Soviet investment and subsidies as well as guaranteed markets for Moldovan agricultural products. Collapse of the Soviet Union and declaration of Moldovan independence resulted in both termination of Soviet subsidies and increased difficulties for Moldovan exports. Combination of these factors was catastrophic for Moldova's economy and industry. World Bank research indicated that Moldova would be the FSU republic most affected by the move to world prices. It was.

Public Administration and Budgeting Systems

The RM is a representative democracy in which the people's elected deputies (representatives), not the people themselves, vote on legislation. Moldovan Constitution provides for the fundamental rights and freedoms in a democratic society. The Election Code, (1997, amended 1999, 2000, 2002 and 2003), is a solid foundation for the democratic elections. Other relevant laws are the Law on Parties and Socio-Political Associations (1991, amended 1993, 1998, 2002, and 2003), the Law on Administrative Procedures (2000), and the Code on Administrative Offences (1985, amended 1988, 1990, 1993, 1995, 2001, and 2002). Several other laws were also adopted, redrafted or significantly modified, such as the Law on Administrative-Territorial Organization (1998, amended 2003), the Law on Local Public Administration (2003), and the Law on Judicial Organization (1995, amended 1997, 1999, 2001, 2002, and 2003).

According to the existent legislation framework, Moldova is a unitary state with two levels of government. Subnational governments consist of 38 middle-tier jurisdictions (rayons), excluding Transnistria, and almost one thousand of local governmental units (villages, municipalities, cities, and communes). Each subnational government has a separate operational and capital budget documents. These budget documents are aggregated at the national level into the State Budget and the Social Fund in the general governmental accounts. Subnational spending is funded mostly by transfers/block grants from the central government.

One of the most important chapters of the constitution regarding structures, systems, and processes of public administration is Chapter VIII. This chapter establishes the framework for public administration and local self-governance. It also establishes the structure of the state, defining central government and subnational governments along with their respective functions. Another equally important document that defines democratic mechanisms and processes in the country is the Election Code. This code defines the procedures for the elections for subnational governmental units such as rayons' councils, municipal councils and mayors, as well as district (cities, villages and communes) councils and local mayors. All previously mentioned elected bodies are elected for a four-year term. Additionally, the Election Code stipulates the conditions of eligibility for voting. Specifically, all citizens, residing in Moldova of 18 years old or older, have the right to vote in local elections and/or stand for local councils. However, there are several exceptions. These exceptions are for people who were declared incapacitated, or sentenced to imprisonment by a final decision of a court of law. Additionally, military personnel and citizens absent from the country on Election Day cannot participate in local elections.

It is a well-documented phenomenon that a government participates in an economy via revenues and expenditures. Revenues can come from taxes, non-tax sources, and transfers/grants. Expenditures are the allocational decisions that address strategic local needs/preferences for public goods and services (Musgrave, 1956). Thus, it is not surprising that RM adopted a number of laws and regulations addressing budgetary aspect of public finances.

The most commonly used framework for analysis of multi-level governments is known as *federalism* (Oates, 1972). Within this framework of analysis, the process of shifting responsibilities and resources to subnational government is known as process of decentralization (Morozov, 2009). Given the fact that Republic of Moldova is a multi-level state (Morozov, 2010), it is helpful to describe the revenue and expenditure assignment within this framework. The decentralization process is a multi-faceted process that includes economic, political, and administrative dimensions (Tanzi et.al. 2008). At this point it is important to note that in early 1990s Moldova was shifting from a planned economy approach (highly centralized) to a market economy approach (less centralized). The implications of such a drastic shift were significant. Additionally, it is also necessary to note changes in public sector are gradual. These changes take time and effort. Within the framework of federalism, the degree of decentralization of Moldova could be best characterized as *de-concentration* (Morozov, 2009). Under this degree of regulatory decentralization, subnational governments have a role of simple "branch" of central government throughout different regions. This level of decentralization is the most centralized governmental arrangement because it only involves the handing over of some amount of administrative authority or responsibility to lower levels within central government ministries or agencies. It is important to note that in this case there is still central control over the administration of programs. Little authority has been transferred, and the sub-national governments performing these functions often approximate "field offices" of a national agency in carrying out their duties. As such, the Law on the Budgetary System and the Budgetary Process, the Law on Local Public Finance, and the Annual State Budget define the revenue sharing mechanisms and transfers between the central and the upper level local governments. Not surprisingly, the expenditure side of the budgeting process is also highly centralized. The central government simply dictates to the sub-national governments the list of objectives, duties, and goals, and later audits the achievements.

A careful analysis of the general description of the Republic of Moldova reveals that it went through a number of iterations regarding some corner-stone laws. The Election Code was amended four times in a six year period. The Law on Political Parties and Socio-Political Associations was amended five times between 1991 and 2003. The Law on Judicial Organization and Structure was amended six times in eight year period. Thus, it is logical to analyze the reasons and the circumstances of these modifications and amendments as they occurred. The period of 1990s was formative for Moldovan democracy and it will be analyzed next.

INCEPTION AND DEVELOPMENT OF MOLDOVAN DEMOCRACY DURING 1990S

The Republic of Moldova during Macro-Economic Turbulence of 1990s

The 1990s were anything but quiet and peaceful for the former USSR. Collapse of the USSR was followed by a number of local military conflicts caused by differences in ethnicity, politics, and nationalism. The conflict in province of Nagorno-Karabakh was a place of conflict between Armenia and Azerbaijan, civil unrest in Baltic countries, Chechnya, Transnistrian conflict in Moldova are among the most noted conflicts of the early 1990s. The political and social unrests were not the only problems that plagued former USSR republics. The Soviet Union left its heritage in the form of planned economy and artificially created markets for goods and services. Such planning relied heavily on labor/products/services specialization of different republics. The immediate implication for republics after the collapse of USSR is that these republics found themselves in a position when there was a significant decrease of quantity demanded of their products and services. Former USSR republics lost their long-time markets of USSR and had to develop new markets. The formal adoption of market principles and price liberalization of 1992 was the last nail in the already suffering transition economies of former USSR republics.

According to data presented by International Monetary Fund, the Moldovan gross domestic product (GDP) plummeted. The decrease was incredibly rapid. In fact, in its first decade of independence, the Republic of Moldova had only one year (1997) when the economy exhibited positive economic growth rate of about 2%. The other 8 years were characterized by a constant decrease of the GDP (IMF, 1999). The simple arithmetic average value of GDP decrease was 12% annually, with the smallest decrease of 1% between 1992 and 1993 followed by the largest GDP decrease of 31% between 1993 and 1994. The Total Investment (TI) as a share of the Moldovan GDP was also decreasing. The important point here is that GDP itself was decreasing. Within that decreasing GDP, the share of TI was also decreasing. Gross National Savings rate measured as a share of GDP decreased almost 10 times between 1992 and 1998. The rampant inflation severely affected both consumers and producers. The economic relationships took a significant step backwards by switching to barter deals. This was done to avoid the problem of rapidly depreciating currency and constantly changing prices for goods and services. Between 1991 and 1994, the Republic of Moldova went through three different currencies: USSR ruble, Moldovan Coupons, and, finally, Moldovan Leu. Such monumental changes exerted long lasting influence over Moldovan economy and general government. As previously mentioned, the GDP itself was decreasing rapidly. The general government revenues as a share of GDP were also decreasing. The fact of the matter was that the so called “economy pie” was decreasing and the governmental “slice” in that pie was also decreasing. The first couple of years of independence the Republic of Moldova was firmly embarked on an economic roller-coaster. The major macro-economic indicators describing Moldovan economy during 1990s are presented in the table 1.

Table 1: Moldova: Major Socio-Economic Indicators, 1992-2000.

Subject Descriptor	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP (Billions MDL, const. pr.)	9.63	9.51	6.57	6.48	6.1	6.2	5.79	5.6	5.72
GDP (Annual % Change, const. pr.)	n/a	-1.2	-30.9	-1.43	-5.88	1.64	-6.54	-3.36	2.11
GDP (Billions MDL, const. pr.)	0.19	1.82	4.74	6.48	7.8	8.92	9.12	12.32	16.02
GDP (Billions USD, const. pr.)	0.86	1.11	1.16	1.44	1.69	1.93	1.7	1.17	1.29
Total Investment (% of GDP)	59.82	54.22	36.7	24.88	24.25	23.82	25.87	22.88	23.95
Gross National Savings (% of GDP)	55.29	37.92	28.26	19.01	12.93	9.56	6.14	17.07	16.33
Unemployment Rate (%)	n/a	2.9	13.9	14.4	13	12	9.23	11.12	8.5
Population (Millions)	4.4	4.4	3.61	4.35	4.33	4.32	3.66	3.65	3.64

Gen. Gov. Rev. (Billions MDL)	n/a	n/a	n/a	2.56	2.8	3.43	3.43	3.74	4.98
Gen. Gov. Rev (% of GDP)	n/a	n/a	n/a	39.44	35.87	38.48	37.57	30.38	31.1
Gen. Gov. Exp. (Billions MDL)	n/a	n/a	n/a	2.8	3.24	4.13	3.6	4.14	5.53
Gen. Gov. Exp. (% of GDP)	n/a	n/a	n/a	43.13	41.54	46.29	39.43	33.6	34.52
Gen. Gov. Gross Debt (Billions MDL)	n/a	n/a	n/a	5.15	6.82	7.94	14.54	18.57	13.63
Gen. Gov. Gross Debt (% of GDP)	n/a	n/a	n/a	79.48	87.49	89.05	159.42	150.74	85.1

Source: International Monetary Fund, Country Profile.

Table 2: Evolution of Moldovan Exports and Imports, 1993 - 2000. (Annual Percentage Change)

Subject Descriptor	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Volume of Imports of Goods & Services[1]	-35.46	-22.22	11.45	32.60	12.70	-18.20	-43.00	26.10
Volume of Imports of Goods[1]	-15.79	-31.66	11.45	32.60	12.70	-18.20	-43.00	26.10
Volume of Exports of Goods & Services[2]	-54.95	-14.80	5.26	13.49	5.21	-29.20	-28.40	5.41
Volume of Exports of Goods[2]	-41.21	-17.48	5.26	13.49	5.21	-29.20	-28.40	5.41

1 - Percent change of volume of imports refers to the aggregate change in the quantities of total imports whose characteristics are unchanged; prices are held constant, therefore changes are due to changes in quantities only.

[Export and Import Price Index Manual: Theory and Practice, Glossary]

2 - Percent change of volume of exports refers to the aggregate change in the quantities of total exports whose characteristics are unchanged; prices are held constant, therefore changes are due to changes in quantities only. [Export and Import Price Index Manual: Theory and Practice, Glossary]

Source: International Monetary Fund, Country Profile.

The above mentioned figures and tables present the fiscal data for Moldovan government in the 1990s. One of the distinct characteristics of the late 1990s is the default of Russian Federation on its external debt. The financial crisis of 1998 affected the entire post-USSR territory and set back all former USSR republics not only economically, but also politically. Given Moldova's export dependency on Russian Federation (almost 65% of Moldovan export in 1997 was oriented towards Russian Federation), it is not surprising that Moldovan economy was severely affected by Russian default (Radziwitt et.al., 1999). At the same time, the exports to Russia have been politically promoted. Such motivation stems from the fact that Moldova was importing its energy resources from Russian Federation. The increasing dependence of Moldovan economy on Russian demand for its products and services limited Moldova's ability to manage its trade risks with Russian Federation. Subsequently, the 1998 crisis pre-determined a significant decrease of exports to Russian Federation. Additionally, the crisis contributed to a generally lower level of prices for Moldovan exports, which reduced the profitability margins of Moldovan exporters and, thus, limited the revenues for the public sector in form of taxes and user fees-charges. Such economic background resulted in a shift of the Moldovan government's mindset from "structural reforms" to "crisis management" mode. This shift can be clearly observed in retrospect while analyzing the number and essence of various public administration and public finance laws and regulations adopted during that period. The analysis of legislative amendments in the field of public administration and public finance in the 1990s are the subject of the next subsection.

The Public Administration Systems in 1990s

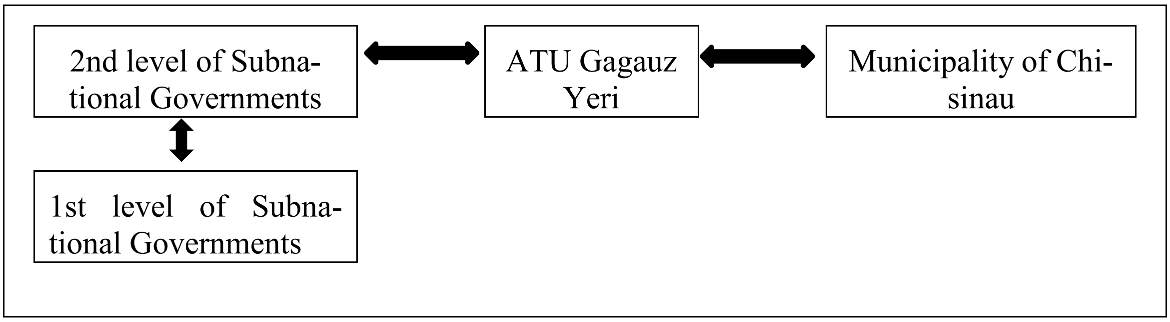
The first decade of Moldovan independence can be divided in several distinct periods of public administration and public finance reforms. Each of these stages is characterized by its own distinctive issues and target goals. Not surprisingly, the burning issues of the early independence period were significantly different from hot topics of post 1998 crisis.

The first period (1990-1994) starts with the Supreme Soviet Committee's decision on Local Self Administration and Local Economy of the Moldavian Soviet Socialist Republic to create an independent group of experts that would critically analyze the existing legislative framework for operations of subnational governments. This proposal met resistance from the administrative and communist party nomenclature, which interpreted it as an attempt to dilute communist party's influence in rayons and other subnational jurisdictions. However, the parliamentary committee succeeded in preparing a new draft laws addressing the territorial-administrative structure of the country. The authors of the draft of this law envisioned the amalgamation of the existing 40 rayons into the 9 bigger subnational governmental units (judets). After political and ethnic conflicts in 1992–93, the topic was dropped from the legislative agenda. The newly created ruling coalition, Democratic Agrarian Party and Socialist Unity (it emerged after the February 1994 general elections) decided to freeze the process of subnational governments reform. The main justification for the legislation discussion freeze stemmed from the budget and time constraints existent at the time. Public officials argued that "the existing network of small rayons accommodates the needs of the population entirely" (Morozov, 2009, p. 93).

The next stage of public administration development in Moldova occurred between the summer of 1994 and December of 1998. This period starts with the adoption of the new Moldovan constitution and ends the adoption of the new legislation on subnational governments. The new constitution reflected the newly accepted values of democracy, human rights, and free markets. It also included fundamental principles and procedures for territorial-administrative reform, identifying major criteria for development and implementation of the federalist system in Moldova. Specifically, the constitution stipulated principles and criteria for the relationships among various levels of government. The most important stipulations can be found in article 109, which provides the foundations for actual reform: local autonomy, decentralization of public services, election of local public authorities, and citizen participation in policy making at the subnational level. Soon after adoption of the new constitution, the parliament of the Republic of Moldova agreed to revise the entire legislative framework for subnational governments, establishing the prerogatives and specific competences introduced by the constitution. The objective of this reform was the development of subnational public authorities' capacities to react to economic challenges and improvement of public participation in the subnational policy and decision making process. The process was influenced by international organizations. The reform was motivated by need for structural adjustments of the public sector to the realities of an open economy. The decentralization reorganization of the public sector was pursued because of theoretical benefits associated with the concept of decentralization[1]. In December 1994, the Parliament adopted laws that "paved the road" for the implementation of a new system of local public administration. These laws had several ambiguities that in fact conflicted with the principles of the constitution. According to these stipulations, the President could appoint local mayors. Due to the existence of such provisions, many political parties denounced the 1995 Election Law as "undemocratic," and the Constitutional Court of Moldova as unconstitutional (Morozov, 2009, p. 94). An important point here is the fact that the new constitution set up principles for multi-level governments. It was not specific enough. The specificity and details of the inter-governmental relationships (e.g. expenditure assignments, revenue sharing mechanisms, transfers' management, etc.) were not debated and adopted until a later date. The December 1998 marks the beginning of the last period of public administration development in Moldova in 1990s. The specificity and details of the intergovernmental relationships were developed and adopted during this period. Late 1990s are characterized by the adoption of two fundamental laws that redesigned the existing subnational public administration system: the Law on Territorial-Administrative Organization (LTAO) and the Law on Local Public Administration (LLPA). According to the LTAO, the country was organized into 9 territorial-administrative units of the second level. This allowed the new regions to improve their relative significance in accordance with the dominant European trend toward regional development as well as to foster the economic and social potential of their local components (communes and municipalities). The LLPA aimed to enforce principles and techniques that would ensure separation of powers among different levels of government in the Republic of Moldova.

With the adoption of the LTAO on December 30, 1998, the parliament transformed the old system of public administration. According to the new legal framework, the structure of subnational governments in Moldova consisted of several types of jurisdictions. These jurisdictions are graphically presented in figure 1:

Figure 1: Structure of Subnational Governments in Moldova after 1998 Reform



Source: Developed by the author based on Law on Territorial-Administrative Organization (1998)

Generally, the need for such reform derived from the necessity to rebuild and improve the existing decision-making mechanisms of the first and second levels government that would be consistent with macroeconomic reforms and the need to ensure a necessary level of public services to all localities. The figure 1 shows the structure of subnational governments as well as the relationship between different subnational jurisdictions. The structure of subnational governments is as follows:

- First (lower) level: 644 villages/communes, 51 cities, and 14 municipalities;
- Second (upper) level: 9 districts aka Judets (10^{th} judets was added later);
- Autonomous administrative-territorial unit Gagauz Yeri;
- Municipality of Chisinau.

It is imperative to note that the 1998 legislation was reversed in 2003 with the adoption of the Law 764-XV regarding Public Administration. Essentially, Moldova returned to pre-1998 territorial organization with rayon as the second level of subnational government. The result of this law was increased number of first level units (this number increased from 728/644 units to 982/898 units of first level) because of decrease of the minimum number of residents required for the first unit level to be organized from 2500 to 1500 citizens. In fact, such drastic directional change of reforms contributed to the increased murkiness of the intergovernmental relations in Moldova in terms of revenues and expenditures. They will be discussed next.

The Public Finance Framework in 1990s

One of the mains descriptors of the public finance system in Moldova during 1990s is the fragmented data on actual revenues and expenditures. Such fragmented data means not the lack of data, but ambiguous assignment of revenues and expenditures among various levels of government. The lack of clarity on subnational governments' responsibilities produced frustration among local public officials, resulting in a situation in which they represented dual status: as officers, appointed by superior authorities, and as locally elected authorities. This also created a divergence from the expectations of the local and regional officials, who felt incapable of acting as the "real local power."

Due to the above mentioned consideration, the rest of this section is organized in two major parts. The first part addresses public revenues as well as the characteristics of main sources of revenues. Approximately 80% of public revenues in Moldova come from taxes collected by different levels of government. The revenue section of this paper provides an overview of major legislative acts and regulations that define the responsibilities for tax collection as well as sharing mechanisms. The section is then concluded with the description of major subnational government responsibilities (functions and expenditure assignments).

Framework for Public Revenues in 1990s

There are three sources of revenues for subnational governments: taxation revenues, non-tax revenues, and transfers (Mikesell, 2011). The majority of Moldovan general government revenues comes from taxes. Table 3 identifies the general government revenue sources.

Table 3: General Government Revenues 1998 – 2000 (Percent of GDP, unless otherwise noted)

	FY 1998	**FY 1999**	**FY 2000**
Profit Tax	2.00%	1.90%	1.70%
Personal Income Tax	2.50%	1.80%	1.70%
VAT	12.30%	7.60%	8.40%
Excises	4.10%	3.60%	4.10%
Foreign Trade Taxes	1.20%	1.90%	1.40%
Other Taxes	1.50%	1.60%	1.40%
Social Fund Contributions	8.60%	6.40%	6.30%
Non Tax Revenues	5.40%	4.70%	5.00%
Budget Support Grants	n.a.	n.a.	0.80%
Foreign Financed Project Grants	n.a.	n.a.	0.10%
Total Tax Revenues	32.20%	24.80%	25.00%
Total Revenues and Grants	37.60%	29.50%	31.00%
GDP (Billions Lei)	5.793	5.598	6.067
GDP (year-to-year % change)	-6.54%	-3.36%	8.38%

Source: State budget documents 1998-2000 and author's calculations

The previous table shows that the share of general government revenues in an economy decreased from 37.60% in 1998 to 31.00% in 2000. It is also important to note that GDP per se was fluctuating in these three years. FY 1999 data shows the consequences of the Russian default in 1998. The crisis' impact was two-fold: public revenues as a share of GDP decreased to 29.5% and the GDP itself shrunk by 3.4%, resulting in a tax collections decrease of 26% in 1999. The next table exhibits the actual performance of tax revenues by during 1998 – 2000.

Table 4: General Government Revenues from Taxation 1998 – 2000 (Percent of Total Tax Revenues, unless otherwise noted)

	FY 1998	FY 1999	FY 2000
Profit Tax	6.21%	7.66%	6.80%
Personal Income Tax	7.76%	7.26%	6.80%
VAT	38.20%	30.65%	33.60%
Excises	12.73%	14.52%	16.40%
Foreign Trade Taxes	3.73%	7.66%	5.60%
Other Taxes	4.66%	6.45%	5.60%
Social Fund Contributions	26.71%	25.81%	25.20%
Total Tax Revenues	100.00%	100.00%	100.00%
Total Tax Revenues (Billions of Lei)	1.865	1.388	1.517
Total Tax Revenues (year-to-year % change)		-25.57%	9.25%

Source: State budget documents 1998-2000 and author's calculations

The analysis of statutory tax collection responsibility reveals that tax bases in Moldova are generally assigned according to the existing principles in the fields of public finance and budgeting. Broad and mobile tax bases are the responsibility of the central government. Smaller and less mobile tax bases are assigned to subnational governments. The exception is personal income tax (PIT). The PIT is assigned to the local governments, which was a common method in countries of former USSR. Another important characteristic of the intergovernmental relations in Moldova is the fact that subnational governments lack the ability to set tax rates in their jurisdictions. This limits the autonomy of subnational governments in policy-making.

Table 4 shows that five sources of revenue account for about 90% of all tax revenues. These sources are listed in the descending order of their share in total tax revenues and are: (1) value added tax, (2) social fund contributions, (3) excises, (4) personal income tax, and (5) profit tax (somewhat comparable to corporate income tax).

<u>Value Added Tax (VAT):</u> The VAT is collected on all domestically produced or imported goods and services. The VAT generates about one third of all tax revenues for the public sector. Legislatively, it is regulated by VAT law (# 264-XIII of November 1994), chapter II (1998) and chapter III (1999) of the tax code, as well as annual budget documents/laws. The VAT rate is 20% on general goods and services, 8% rate on necessity goods and services (e.g. food and pharmaceutical drugs), and 6% for natural gas.

There is a 0% rate for exports and selected goods. Some of the exempted goods (e.g. medical equipment and drugs) are included due to social policy objectives, while other exemptions (e.g. for agricultural inputs) are included for purposes of economic stimulus. Lastly, premiums for all types of insurance and supplies by a financial service providers are exempt from VAT.

The VAT from domestic goods and services was shared with subnational governments until FY 2000, when the new LPF amended these mechanisms. Between 10% (for Chisinau and Balti) and 20-30% (ATU Gagauz Yeri and subnational governments of the second level) of VAT generated in a jurisdiction was allocated to the budget of the jurisdiction-source of VAT collections.

Social Fund Contributions (SFC): The SFCs accounts for about a quarter of public tax revenues. The subject of taxation is the employee. The SFC is collected from both the employee and the employer. The revenue from SFC exceeds that from personal income tax by about 3.5 times. It is levied at 29% on the wage bill. The employer pays 23% of the wage bill, and the employee 6%. The SFC are limited to the value equal to 5 times the average monthly wage. About 70% of employees earn below or at the average monthly wage rate, therefore, their social fund contributions are well below the maximum amount of contributions. The social fund payments of the remaining 30% of the employees are capped at the maximum (IMF 2011).

Excises: This source of tax revenue accounted for about one eighth of total tax revenues in the late 1990s. It is regulated by Excise Tax Law (#347-XIII of December 1994) and annual budget laws (these documents also provide a list of excisable goods on an annual basis). It is a central government tax and it is not shared with the subnational governments. The revenue generated from excises on cars, alcoholic beverages, tobacco products, and petroleum products accounts for about 95% of all excises.

Personal Income Tax: The PIT produces about 7% of total tax revenues. This source of revenue is regulated by Individual Income Tax Law (IITL) (#1218-XII of December 1992) and annual budget documents/laws. Specific tax rates and tax brackets are defined annually in the budget laws/documents. The trend in 1990s in terms of PIT rates was downwards. The PIT is collected by subnational governments and it is not shared with the central government (sic!). Disabled individuals, military personnel, and registered unemployed individuals are exempt from this tax.

Profit Tax: This tax is somewhat comparable to corporate income tax. It is levied on corporate earnings. In terms of the amount of revenue generated, it is comparable to the PIT (about 7%). It is regulated by Corporate Income Tax Law (CITL) (#1214-XXII of December 1992), Law in Income tax for Banks and Financial Institutions (#490-XIII of June 1995), Chapters I and II of the Tax Code (1998), and annual budget laws/documents. The trend in 1990s in terms of CIT rates was downwards; it decreased from 32% prior to 1997 to 28% starting in 1998. The CIT was shared with subnational governments until FY 2000, when the new LPF (2000) changed these sharing mechanisms. Between 40% (for Chisinau and Balti) and 50-70% (ATU Gagauz Yeri and subnational governments of the second level) of CIT generated in a jurisdiction was allocated to its budget. CIT from banks and insurance companies was not shared with subnational budgets.

Framework for Public Expenditures in 1990s

The responsibilities of local governments are defined in Law on Public Finances (LPF) and LLPA. The LPF defines types of public services to be provided by each level of subnational government. The competencies for funding public expenditures are shared between budgets of administrative-territorial units based on the LLPA. The ambiguity regarding subnational administrations' obligations for service provision occurs because the responsibilities for public service provision are shared by different levels of government. These overlapping responsibilities are briefly summarized in the following table:

Table 5: Service responsibilities of local governments in Moldova

Service Responsibilities of 1st Level of Government **(Communes, Towns, and Cities)**	**Service Responsibilities of 2nd Level of Government** **(Rayons, Gagauz Yeri, and Municipalities)**
Social security and unemployment benefits;	Social security and unemployment benefits;
Public Parks;	Public Healthcare and Public Health protection.
Environment Protection;	Environment Protection;
Public Safety;	Public Education;
Social Services;	Public Safety;
Public Health protection.	Social Services;

Source: Law on Public Finances and Law on Local Public Administration

Generally, subnational governments have formal authority over local spending decisions. However, central government frequently intervenes with "recommendations" on local spending via delegation of unfunded responsibilities to subnational budgets, causing vertical imbalances. Supplementary expenditure obligations for local authorities come from state-owned enterprises, which provide many public services, including local infrastructure, health clinics, and day care facilities. Therefore, local governments are not in position to fully finance these services.

PUBLIC ADMINISTRATION AND BUDGETING SYSTEMS DURING 2000S AND EARLY 2010S

The first decade of Moldovan democracy was turbulent and eventful. The newly created state had to modify the existing institutional arrangements and create new structures/regulations suitable for the country's publicly proclaimed commitment to democracy and free markets. From the societal point of view, the early 1990s are characterized by an increased social tension between people of various ethnicities. The movement in the mainland Moldova to reunite with Romania in early 1990s resulted in a short-lived, but bloody military conflict between left and right banks of the river Nistru. This conflict resulted in a *de facto* secession of the Moldovan territories on the left bank of Nistru from Moldova and creation of the officially unrecognized republic of Transnistria. These events had a long lasting and damaging impact on Moldovan economy. Even though Transnistria represented only 10% of the overall area of the Republic of Moldova (roughly 1,400 out of 33,800 square miles respectively), about 80% of the industry in the country was located in the seceded region. The secession aside, the general economic environment was dire. From the economic point of view, the 1990s are characterized by a significant drop in the GDP. While data from various sources differ on the exact magnitude of the GDP drop, the consensus among Moldovan authorities and various international organizations (e.g. World Bank, International Monetary Fund, etc.) is that by the FY 2000 Moldovan GDP was about half of what it was in 1990. Two major economic events contributed to this development. The first event is the collapse of the USSR and the subsequent destruction of the economic ties with the rest of the ex-USSR republics. Specifically, major subsidies for various sector of the economy from the central government of the USSR ceased to exist and the existing internal Soviet market for Moldovan products became unavailable once other republics gained their independence. In terms of public revenues, it was a double hit for the government.

The second major economic event was the default of the Russian government on its debt. The regional macroeconomic crisis of the 1998 revealed multiple structural economic and fiscal problems. The Moldovan authorities started to respond to these structural inefficiencies via a number of reforms of the public administration and public finances systems. The necessity of these reforms required Moldovan authorities to seek help from international community. In fact, the international help in form of grants and loans started to increase in the late 1990s. By the FY 2001, such assistance and consulting amounted to approximately 1% of the country's GDP (Table 6), contributing to changes of the existing public finance system. The public revenues were reformed multiple times in the late 1990s. The major sources of revenue underwent several adjustments. The general trend was somewhat erratic and counter-intuitive. While the overall tax rates of major sources of revenue were decreasing over time, the tax base was also decreasing because of a number of exemptions and tax incentives.

The major adjustments were made in the expenditures. The expenditure cuts contributed to a significant reduction of the budget deficit. The deficit decreased from 5.00% of GDP in 1998 to 1.10% in 2001. Such significant reductions were primarily achieved via a massive reduction of budgetary net lending to enterprises and almost total removal of quasi-fiscal subsidies to specific sectors and borrowers. The deficit reduction was also rooted in an almost total elimination of subsidies and significant optimization of social assistance.

Such drastic measures proved to be effective. The inflation was brought under control, which set up the base for economic growth in the 2000s. Still, structure of Moldovan export (it consisted primarily of agricultural goods, raw materials, and products with a low degree of processing), Moldova continued to be susceptible to exogenous factors and shocks.

Table 6: The Republic of Moldova: General Government Revenues & Expenditures, 1998-2001, (GDP%)

	1998	1999	2000	2001
Revenue and Grants	37.60	30.40	30.10	28.30
Domestic revenue	37.60	29.50	30.10	28.30
Tax revenue	32.10	24.80	25.00	24.40
Non tax revenue	5.40	5.60	5.00	3.90
Grants	0.00	0.00	0.90	0.90

Structural revenue	37.70	32.70	30.30	28.50
Automatic stabilizers	-0.10	-2.30	-1.10	-1.10
Expenditure and net lending	42.60	36.70	34.50	29.40
Current	40.00	34.40	29.70	26.00
Capital	2.60	2.30	5.00	3.50
Surplus/Deficit	-5.00	-6.30	-4.40	-1.10

Source: Annual budget documents 1998-2001, IMF data, and Author's calculations

The increasing budget deficits were aggravated by large export-import (aka current account of the balance of payments) deficits accumulated during the first decade of Moldovan independence. These developments contributed to a significant increase of the Moldovan external debt level. By the FY 2000, the aggregated external debt (public, publicly guaranteed, and debt for sources of energy [e.g. natural gas]) exceeded the country's GDP (approximately $1.2 billion in current prices) (IMF, 2000). All previously mentioned developments indicated that the Moldovan authorities needed to continue structural reforms of public administration and public finance frameworks. And they did. The following section identifies the major reforms, their respective implications for the economy, and the general trends in the sphere of public administration and public finance in the Republic of Moldova.

The Public Administration and Public Finance Framework Evolution, 2000-2010

The first decade of the 21st century was remarkably volatile for the Moldovan democracy. From the political point of view, a unique characteristic of this period of Moldovan democracy is the fact that the communist party was democratically voted back into power. In fact, Moldova is the only ex-USSR republic where the communist party not only returned to power, but also did so with a super majority. Specifically, the elections of 2000 resulted in total control of the parliament by the communists. They used this fact to their advantage. They changed the rules for presidential elections as well as public finance regulations. These changes allowed the governing party to elect a president of their liking and continue to impose stricter controls on issues of public finance, taxation, decentralization, and local governance.

Moldova was still recovering from the Russian crisis of the 1998 in the early 2000s. Yet, a series of aggressive reforms and outright expenditure cuts resulted in the fact that the general government budget was almost balanced. The budget deficit in FY 2001 was down to 1.1% of GDP from 6.3% in FY 1999. The subsequent decade can be broadly divided into two periods.

The first period (2000-2008) can be described as a rapid growth period. During this period, Moldovan economy experienced a strong economic growth. In fact, the economy was even exhibiting some signs of overheating. The annual economic growth rate for the period was approximately 6%. An important factor in this relatively high level of growth rate is the exogenous factor of labor out-migration. While the estimates of number of people who left Moldova and obtained employment in other countries (both East and West of the country) vary by source (these numbers vary between 5% and 20% of

Moldova's economically active population of about 2 million people), the consensus is that remittances from Moldovans from abroad significantly contributed to the internal consumption and, subsequently, to the public revenues performance (specifically, VAT and excises increased significantly). Another explanation of such growth is the increased cooperation with the international organizations as well as the increase in the direct foreign investment. The significant revenues during this period permitted government to sustain a small budget deficit and keep public debt low. Yet, the fiscal policy did not allow for a development of sufficient fiscal buffers against external shocks. The structural budget balance was steadily deteriorating.

The second period of the first decade of the 21st century starts with the global financial crisis of 2008 and 2009. The crisis clearly identified the structural budgetary problems of the Moldovan public sector. The crisis negatively affected the international demand for Moldovan products, which led to a severe decline of exports and worker remittances. The balance of payments stared to show deficits again. The effects of the crisis and pre-election spending resulted in a large fiscal deficit in 2009. In the run-up to the highly contested elections, the government increased pensions and public sector wages while public revenues declined. The evolution of major macroeconomic indicators between 2000 and 2010 is presented in the following table. The table 7 identifies major sources of revenues, operational and capital expenditures, and respective surplus/deficit as a percentage share of the GDP.

Table 7: The Republic of Moldova: General Government Revenues and Expenditures, 2000-2010 (Percent of GDP, unless otherwise specified)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenue and Grants	30.10	28.30	29.00	30.20	31.70	34.10	35.80	37.10	35.90	33.70	33.30
Domestic revenue	30.10	28.30	29.00	33.70	35.00	37.30	39.20	39.90	38.90	36.80	35.50
Tax revenue	25.00	24.40	25.80	27.50	29.80	31.60	33.30	34.00	33.40	32.00	31.00
Non tax revenue	5.00	3.90	3.10	6.20	5.20	5.80	5.90	5.90	5.40	4.80	4.60
Grants	0.90	0.90	0.60	0.30	0.40	1.20	0.70	1.80	1.70	2.10	2.80
Structural revenue	30.30	28.50	28.70	29.10	30.30	30.20	32.60	33.30	32.10	32.20	30.30
Automatic stabilizers	-1.10	-1.10	-0.30	0.70	1.00	2.60	2.60	2.00	2.10	-0.70	0.30
Expenditure & lending	34.50	29.40	30.40	33.30	34.60	37.00	39.80	42.00	41.60	45.20	40.80
Current	29.70	26.00	25.80	28.90	29.80	30.90	32.20	34.60	34.50	40.30	36.20
Capital	5.00	3.50	5.00	4.60	5.00	6.20	7.80	7.50	7.00	5.00	4.80
Deficit/Surplus	-4.40	-1.10	-1.40	-3.10	-2.90	-2.90	-4.00	-4.90	-5.70	-11.5	-7.50
GDP (MDL, Billions)	16	19.1	22.6	27.6	32	37.7	44.8	53.4	62.9	60.43	71.9
GDP (USD, Billions)	1.29	1.48	1.66	1.98	2.6	2.99	3.41	4.4	6.06	5.44	5.81

Surplus/Deficit (MDL, Billions)	-0.70	-0.21	-0.32	-0.86	-0.93	-1.09	-1.79	-2.62	-3.59	-6.95	-5.39
Surplus/Deficit (USD, Billions)	-0.06	-0.02	-0.02	-0.06	-0.08	-0.09	-0.14	-0.22	-0.35	-0.63	-0.44

Source: Annual budget documents 2000-2010, IMF data, and Author's calculations

The crisis revealed the need for deep fiscal structural reforms. These reforms have formed the focus of the government's efforts since late 2009. On the revenue side, reforms have aimed to restore a sustainable revenue level and structure. On the expenditure side, the social assistance and public sector wages spending increased significantly. Thus, the need for structural change of the existing framework for both public revenues and expenditures became evident.

The economic crisis underscored that the existing structure of revenues and expenditures was simply unsustainable in the long run. The government undertook a series of reform aimed at optimization of the entire public sector starting in FY 2010. The reforms addressed both revenue and expenditure sides as well as the administrative territorial structure of the country. The central government opted to curb current spending by modifying the government wage bill and spending on goods and services while intensifying public investment and priority social spending. Specifically, the government reformed the social security/insurance system by modifying sick leave and early retirement systems of processes. On revenue side, the government opted for a continuing decrease of tax rates on major activities in the hope that these decreased tax rates would contribute to the expansion of the tax base. Specifically, a number of international trade regulations and rules was scrapped on the background of the simplified customs procedures, business licensing, registration, and liquidation mechanisms. Additionally, energy rates were increased to the break-even level by the National Agency for Energy Regulations (IMF, 2010). While the budget deficit decreased, the public finance structure remained unsustainable.

The Fiscal Structure Elements: Reforms and Evolution

As previously mentioned, the revenue system underwent a number of transformations during 2000s. The following table 8 identifies the timing and the essence of major tax policy changes in Moldova between 2000 and 2010:

Table 8: Main Tax Policy Changes in Moldova, 2000-2010

Value Added Tax	
1994	The VAT law (# 264-XIII of November 1994) is adopted with a single rate of 20%.
2006	Selected other medical items were included in the reduced rate of 8% group.
2008	Selected other medical items were included in the reduced rate of 8% group.
2010	Sugar and selected plants and animals were moved to the reduced rate of 8% group.

Profit Tax (Corporate Income Tax)	
1992	The Corporate Income Tax Law (#1214-XXII) is adopted with a single tax rate of 32%.
2001	The CIT rate set to 28%.
2002	The CIT decreased to 25%.
2003	The CIT decreased to 22%.
2004	The CIT decreased to 20%.
2005	The CIT decreased to 18%.
2006	The CIT decreased to 15%.
2008	The rate set to 0% except for a few categories of entrepreneurs & reinvested profit (15%).
Personal Income Tax	
1992	The PIT Law is adopted. The law stipulates 5 income brackets; 50% max rate; and 10% min rate.
2000	New exemptions introduced and income threshold raised.
2004	Max rate decreased to 22%.
2005	Max rate decreased to 20%.
2008	Income brackets reduced to two, max rate reduced to 18%, min rate at 7%.

Source: Moldovan Legislation, Various Years

The above presented table demonstrates that the trend for tax rate reduction continued under the communist government. Such development is explained by the belief maintained by public authorities that a continuous reduction of tax rates would eventually result in an increase of tax base. Empirical evidence suggests that in emerging economies the impact of taxes on direct investment is minor compared to the quality of governance, the business climate, the quality of the infrastructure, the size of the domestic market, and labor costs (Demekas et.al., 2005). At the same time, Moldovan government, while reducing the tax rate on major tax revenue sources, was also providing numerous exemptions. Specifically, various exemptions from corporate income tax were granted to entities from agricultural sector of the economy, residents of research and innovation incubators/zones, software companies, as well as to banking and investment entities.

A somewhat similar state of affairs describes the personal income tax. The gradual reduction of tax rates was government's policy response to the environmental conditions. Central government was trying to motivate the labor force to remain in the country as well as it was trying to stimulate legalization of the employment. The latter means that the government was attempting to fight shadow economy. This public policy aimed at the improvement of the international image and the enhancement of Moldova's international competitiveness.

The evolution of the structure of public revenues during 2000s can be described by a steadily increasing share of public revenues in the economy. The tax revenues increased from approximately one quarter of the GDP in early 2000s to almost one third of the GDP during late 2000s. The major sources of growth were the direct result of reforms in social security sector, health insurance/fund contributions, and value added taxation.

The evolution of tax and non-tax revenues as well as the progress of revenues from grants (both budget support grants and foreign financed projects) is presented in the following table 9:

Table 9: The Republic of Moldova: General Government Revenues, 2000-2010 (GDP %, unless otherwise noted)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues and grants	31.0	29.2	29.6	34.0	35.4	38.6	39.9	41.7	40.6	38.9	38.3
Revenues	30.1	28.3	29.0	33.7	35.0	37.3	39.2	39.9	38.9	36.8	35.5
Tax revenues	25.0	24.4	25.8	27.5	29.8	31.6	33.3	34.0	33.4	32.0	31.0
Profit tax	1.7	1.8	1.9	2.1	2.4	1.9	2.4	2.6	1.1	0.7	0.7
Personal income tax	1.7	1.8	2.1	2.3	2.5	2.6	2.5	2.5	2.4	2.4	2.1
VAT	8.4	7.9	9.0	10.1	10.7	12.3	13.8	14.2	14.5	12.6	12.7
Excises	4.1	3.6	2.9	3.2	2.8	3.1	2.4	2.6	2.5	2.5	2.9
Foreign trade taxes	1.4	1.2	1.5	1.7	1.5	1.8	1.9	1.7	1.8	1.5	1.5
Other taxes	1.4	1.2	1.2	0.9	1.0	0.9	0.8	0.7	0.7	0.7	0.6
Social fund contr.	6.3	6.8	7.3	7.2	7.8	7.9	8.2	8.2	8.6	9.2	8.3
Health fund contr.					1.0	1.2	1.2	1.6	1.8	2.3	2.1
Non-tax revenues	5.0	3.9	3.1	2.6	1.9	2.5	2.6	3.0	2.5	1.7	2.4
Special funds revenues				3.6	3.2	3.3	3.3	2.9	2.9	3.1	2.2
Grants	0.9	0.9	0.6	0.3	0.4	1.2	0.7	1.8	1.7	2.1	2.8
Budget support grants	0.8	0.8	0.3	0.0	0.0	0.0	0.1	0.0	1.1	1.3	2.0
Foreign projects grants	0.1	0.1	0.3	0.3	0.4	0.0	0.6	1.8	0.6	0.6	0.8
GDP (MDL, Billions)	16.0	19.1	22.6	27.6	32.0	37.7	44.8	53.4	62.9	60.4	71.9
GDP (USD, Billions)	1.3	1.5	1.7	2.0	2.6	3.0	3.4	4.4	6.1	5.4	5.8

Source: Annual budget documents 2000-2010, IMF data, and Author's calculations.

General Government Expenditures Evolution, 2000-2010

General governmental spending varies widely across the nations, indicating differences in a country's strategic priorities and various levels of tax tolerance. For example, the United States governmental expenditures share as a percentage of its GDP is roughly one third. On the other hand, the share of governmental expenditures measured as percentage of their respective GDP for nations members of the European Union is somewhere in the mid-40% range (GFS, 2014). Ultimately, a country's level of expenditures depends on society's values and views regarding the optimal mix of public and private financing and societal perceptions of equity, reflecting a wide range of views about the appropriate level of government participation in the economy.

Since the early 2000 Moldovan public expenditures have risen sharply. The major driver of growth was current expenditures. These expenditures peaked in FY 2009 at 40.3% of country's GDP. The highest growth rate of current expenditures is attributable to the spending on goods and services. Spending on health fund exhibited the fastest growth rate in this category. It was followed by public sector wages. This spending line-item also exhibited a substantial growth between 2000 and 2010, indicating an area of potential optimization and stream-lining. Capital spending remained relatively flat, contributing to the deterioration of the infrastructure. Given Moldova's large infrastructural necessities (according to IMF report (2010), the highway system requires construction of new roads and maintenance of the existing routes) and availability of external financing, capital investment spending represents another area of potential optimization.

One of the positive characteristics of general governmental spending during the period under analysis is the decrease of interest payments, which decreased from 6.4% to 0.8% of GDP between 2000 and 2010. The evolution of public expenditures' structure is presented next:

Table 10: The Republic of Moldova: General Government Expenditures Structure, 2000-2010 (Percent of GDP, unless otherwise specified)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenditure and net lending	34.5	29.4	30.4	33.3	34.6	37	39.8	42	41.6	45.2	40.8
Current expenditure	29.7	26	25.8	28.9	29.8	30.9	32.2	34.6	34.5	40.3	36.2
Wages	7.7	8.1	9.5	9.6	7.8	8	9.2	9.1	9.1	11.6	10.2
Goods and services	4.6	4.6	3.6	6.2	7.8	7.7	8.3	8.7	9.3	10	9.4
Of which: health fund	1.2	1.1	1.3	1.1	2.9	2.9	3.3	3.5	4	5.1	4.7
Interest payments	6.4	4.2	2.2	2.1	1.9	1.2	1.2	1.2	1.2	1.4	0.8
Domestic	3.6	1.8	0.6	1.2	1.2	0.5	0.5	0.8	0.9	1.1	0.5
Foreign	2.7	2.4	1.5	0.9	0.7	0.7	0.7	0.4	0.3	0.3	0.3
Transfers to:	10.4	8.6	10.5	10.3	11.6	13.3	13.5	14.9	14.1	16.8	15.4
Economy	2.1	1.4	1.4	1.6	2	2.6	2.9	3.3	2.7	2	1.5
Households	8.3	7.2	9.1	8.8	9.7	10.8	10.6	11.6	11.4	14.8	13.9
Social fund	8.3	7.2	8.4	8.2	8.6	9.8	9.8	9.8	9.6	12.6	12
Other transfers									1.9	2.2	1.9
Other current expenditure	0.6	0.6	0	0.7	0.6	0.7	0	0.6	0.8	0.5	0.4
Net lending	-0.2	-0.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.2	0.1	0	-0.1
Capital expenditure	5	3.5	5	4.6	5	6.2	7.8	7.5	7	5	4.8
Domestically financed	3.3	2.5	3.2	4.3	3.8	5.3	6.2	4.6	5.9	3.7	3.1
Externally financed	1.7	1	1.8	0.3	1.2	0.9	1.6	2.9	1.1	1.3	1.7

Source: Annual budget documents 2000-2010, IMF data, and Author's calculations.

Other areas of budgetary spending that require additional attention are retirement system (known as pension system), public wages system, and education function of spending. Basic problem with the retirement system is the aging population and declining number of contributors. IMF (2009) estimates that by 2050 the number of retirees will increase to 86 retirees per 100 contributors from 59 retirees in 2008. The public sector wage bill has increased from 7.8% to 10.2% of GDP between 2004 and 2010 respectively. According to the National Accounts data, the education sector wage expenditure was the largest line-item of the bill in 2010 and accounted for 3.9%. It was followed by healthcare spending at 1.9% of GDP.

International Assistance and Support for the General Government, 2000-2010

The intensity of international assistance and support for the Moldovan government increased significantly during the period under analysis. The developments in this field are related to both number of partners as well as the monetary amount of support. The following table 11 summarizes major partners and the amount of their assistance between 2000 and 2010.

Table 11: Evolution of External Loans by Donor, 2000-2010[1] (Millions USD, unless noted otherwise)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	62.9	43	50.3	24.2	22.8	23.5	112	92.7	79.1	227.4	272.9
Excluding the IMF	50.8	31.1	37.9	24.2	22.8	23.5	48.1	59.5	43.2	41.1	90.3
Multilateral	53	31.9	42.2	20.6	20.2	22.5	92.5	89.1	79	227.4	257.9
World Bank	38.8	19.2	28.1	18.2	18.4	21.2	22.6	46.2	24.2	21.4	63.9
IMF[2]	12	11.9	12.4				63.9	33.2	36.2	186.2	182.6
EC, EIB, CED							2.5	3.6	5.5	14.5	5.5
EBRD	1.9										
IFAD	0.3	0.8	1.8	2.4	1.7	1.4	3.5	6	13.1	5.1	5.8
Bilateral	1.4	0.1	0.6	2.3	2.6	1	19.5	3.7	0.1		15.1
Paris Club			0.6	2.3	2.6	1	18.5	0.6	0.1		
Other Bilateral	1.4	0.1					1	3			15.1
Commercial	8.4	11	7.4	1.3							

Sources: National Bank of Moldova; International Monetary Fund's Data

[1] - Includes loans to the Government and to the National Bank

[2] - Includes Special Drawing Rights (SDR) allocations.

The largest bilateral partner is the United States government, followed by Romanian public authorities. During late 2000s, the composition of the donors has changed. Some donors left while others became more active (e.g. the EU, Sweden, Germany, Romania, Austria, Poland, Czech Republic, and Slovakia (Gaibu et.al. 2011)).

The international assistance is classified in two major categories of the assistance mechanisms: grants and loans, each of which is further divided into general budget support and project -specific grants/loans. The evolution of external aid' structure is presented in the table 12:

Table 12: External Grants and Loans to the Budget, 2000–2010. (Millions USD, unless noted otherwise)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total grants and loans	62.8	42.7	47.5	29.5	32.9	23.5	72.1	122.6	144.5	326.5	352.3
Total grants	12.0	11.6	9.6	5.2	10.2	0.0	24.0	63.1	101.4	99.2	140.3
Budget grants	10.7	10.3	5.4	0.1	0.0	0.0	4.7	45.1	62.3	69.8	106.7
Projects grants	1.4	1.3	4.2	5.2	10.2	0.0	19.3	18.0	39.1	29.4	33.6
Total loans	50.8	31.1	37.9	24.2	22.8	23.5	48.1	59.5	43.2	227.4	212.0
Excluding IMF[1]	50.8	31.1	37.9	24.2	22.8	23.5	48.1	59.5	43.2	41.1	90.3
Budget support						0.0	0.0	10.0	9.8	0.0	44.0
Project loans						23.5	48.1	49.5	33.3	41.1	46.3

Percentage of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total grants and loans	4.9	2.9	2.9	1.5	1.3	0.8	2.1	2.8	2.4	6.0	6.1
Total grants	0.9	0.8	0.6	0.3	0.4	0.0	0.7	1.4	1.7	1.8	2.4
Budget grants	0.8	0.7	0.3	0.0	0.0	0.0	0.1	1.0	1.0	1.3	1.8
Projects grants	0.1	0.1	0.3	0.3	0.4	0.0	0.6	0.4	0.6	0.5	0.6
Total loans	3.9	2.1	2.3	1.2	0.9	0.8	1.4	1.4	0.7	4.2	3.6
Excluding IMF[1]	3.9	2.1	2.3	1.2	0.9	0.8	1.4	1.4	0.7	0.8	1.6
Budget support						0.0	0.0	0.2	0.2	0.0	0.8
Project loans						0.8	1.4	1.1	0.6	0.8	0.8

Sources: Moldovan authorities; and IMF staff estimates.

[1] - 2009 Includes SDR allocations.

During 2000-2010, Moldova was affected by two major crises. Each of these events clearly exposed weaknesses and opportunities for improvement of the Moldovan economy and public sector. The continued improvement of Moldovan fiscal and administrative sustainability required uninterrupted adjustment of public revenues and expenditures to the economic realities. The opportunities for achievement of such sustainability stem from both revenue and expenditure sides of the governmental participation in the economy.

SURVING ECONOMIC AND POLITICAL CHALLENGES OF EARLY 2000S

The early 2010s were another turbulent period from the political point of view. Economically, Moldova experienced "a remarkable recovery from the severe recession of 2009" (IMF, 2014, p. 4). The only somewhat challenging fiscal year was 2012, when the meteorological conditions severely affected the agricultural sector of the country. Despite the draught, Moldova managed to avoid a disaster of the proportions of its early independence days. An important factor that contributed to such strong recovery from the slump of 2009 and 2012 is the increasing volume of international remittances. The IMF staff estimates that about 70% of remittances come from Russian Federation with the rest coming from European Union. The World Bank preliminary data indicates that total remittances from Moldovan workers abroad amounted to $589 million. The remittances increased to $838 million in FY 2013 (about 11% of the GDP (IMF, 2014)).

The reasons for such noteworthy recovery stem from the macroeconomic, financial, and structural reforms undertaken during 2000s. Specifically, gradual structural changes of the revenue system combined with the overall economic improvement resulted in increased revenues. The evolution of general government revenues between FY 2009 and FY 2013 as well as projections for FY 2014 - 2015 are presented in the following table 13:

Table 13: Moldova: General Government Budget, 2009–15 (MDL Millions, unless noted otherwise)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**		**2015**
						Budget	Proj.	Proj.
Revenues and grants	23,518.0	27,537.0	30,138.0	33,476.0	36,908.0	40,442.0	41,798.0	44,627.0
Revenues	22,230.0	25,538.0	28,434.0	31,894.0	34,835.0	37,974.0	38,677.0	42,201.0
Tax revenues	19,343.0	22,261.0	25,301.0	28,261.0	31,599.0	34,737.0	35,359.0	38,589.0
Corporate income	443.0	484.0	571.0	1,967.0	2,053.0	2,309.0	2,229.0	2,495.0
Personal income	1,465.0	1,545.0	1,769.0	2,027.0	2,206.0	2,399.0	2,370.0	2,613.0
VAT	7,596.0	9,146.0	10,464.0	10,672.0	12,174.0	13,234.0	13,829.0	15,113.0
Excises	1,540.0	2,074.0	2,667.0	2,894.0	3,508.0	3,777.0	3,985.0	4,280.0
Foreign trade	908.0	1,080.0	1,179.0	1,287.0	1,417.0	1,503.0	1,633.0	1,747.0
Other	420.0	459.0	452.0	468.0	498.0	504.0	504.0	551.0
Social Fund contr.	5,595.0	5,985.0	6,563.0	7,150.0	7,776.0	8,570.0	8,426.0	9,191.0
Health Fund contr.	1,377.0	1,487.0	1,636.0	1,798.0	1,967.0	2,442.0	2,384.0	2,600.0
Non-tax revenues	1,028.0	1,696.0	1,457.0	1,943.0	1,945.0	1,882.0	1,963.0	2,132.0

Special Fund Revs.	1,859.0	1,581.0	1,676.0	1,690.0	1,291.0	1,354.0	1,354.0	1,480.0
Grants	1,288.0	2,000.0	1,704.0	1,582.0	2,074.0	2,469.0	3,121.0	2,425.0
Domestic	150.0	81.0	31.0	33.0	36.0	10.0	10.0	10.0
External	1,138.0	1,919.0	1,673.0	1,549.0	2,038.0	2,459.0	3,111.0	2,415.0
Budget support	804.0	1,327.0	923.0	760.0	704.0	1,047.0	1,160.0	979.0
Projects	334.0	584.0	663.0	735.0	1,242.0	1,404.0	1,942.0	1,436.0
Other public inst.	0.0	8.0	87.0	54.0	91.0	9.0	9.0	10.0
GDP (MDL, Billions)	60.4	71.9	82.3	88.2	99.9			

Source: Budget Documents (various years), Moldovan Authorities, and IMF projections

The above placed table shows that the revenues and grants are increasing during the period under analysis. However, it is important to note that the data is presented in national currency (Moldovan Lei, MDL). Due to exchange rate considerations, it is better to analyze the data as a percentage share of the GDP. The general government revenues as % of GDP are presented next:

Table 14: Moldova: General Government Budget, 2009–15 (Percent GDP)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**		**2015**
						Budget	Proj.	Proj.
Revenues and grants	38.9	38.3	36.6	37.9	37.0	37.1	38.4	37.6
Revenues	36.8	35.5	34.5	36.1	34.9	34.8	35.6	35.5
Tax revenues	32.0	31.0	30.7	32.0	31.6	31.9	32.5	32.5
Corporate income	0.7	0.7	0.7	2.2	2.1	2.1	2.1	2.1
Personal income	2.4	2.1	2.1	2.3	2.2	2.2	2.2	2.2
VAT	12.6	12.7	12.7	12.1	12.2	12.1	12.7	12.7
Excises	2.5	2.9	3.2	3.3	3.5	3.5	3.7	3.6
Foreign trade	1.5	1.5	1.4	1.5	1.4	1.4	1.5	1.5
Other	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Social Fund contributions	9.3	8.3	8.0	8.1	7.8	7.9	7.8	7.7
Health Fund contributions	2.3	2.1	2.0	2.0	2.0	2.2	2.2	2.2
Non-tax revenues	1.7	2.4	1.8	2.2	1.9	1.7	1.8	1.8
Revenues of special funds and means	3.1	2.2	2.0	1.9	1.3	1.2	1.2	1.2
Grants	2.1	2.8	2.1	1.8	2.1	2.3	2.9	2.0
Domestic	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External	1.9	2.7	2.0	1.8	2.0	2.3	2.9	2.0
Budget support 2/	1.3	1.8	1.1	0.9	0.7	1.0	1.1	0.8
Project	0.6	0.8	0.8	0.8	1.2	1.3	1.8	1.2

Other public institutions	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0

Source: Budget Documents (various years), Moldovan Authorities, and IMF projections

The analysis of the data in both MDL and percentage shares of the GDP indicate that the only structurally based increase in revenues was observed in revenues from the CIT. The CIT share as a percentage of GDP increased from 0.7% in FY 2009 to about 2% in FY 2013 and beyond. The implication of this fact is that there is a need for analysis of CIT revenue volatility. This is a country specific tax and it may exhibit different patterns. For example, CIT revenues are extremely volatile in the state of Louisiana and less volatile in the state of New York (Morozov, 2013). Such volatility means that revenue from this source can be either a nice surprise in the reporting period, or a significant shock to the public sector because corporations have the ability to select the timing of their tax payments. In case of the republic of Moldova, this means that CIT could be at the pre-2012 levels (0.7% of GDP), or it could be at the pos-2012 levels (2.1% of GDP). Such revenue fluctuation of about 1.4% of GDP could mean a variance of MDL 1.5 billion or ~4% of budgeted revenues in FY 2014, which could affect the expenditure side of the general government budget. The potential fluctuation of revenues in the amount of MDL 1.5 billion translates into about 3.5% of budgeted total governmental expenditures in FY 2014, or into about 4.25% of the budgeted current expenditures. Simply put, the amount of potential variation from the CIT revenue is double of the general government expenditure on its combined debt service (interest payments on domestic and foreign outstanding debt).

In fact, evolution and projection expenditures are as important as revenues. The structural and consistent analysis and adjustments of the expenditure side contributed to the reduction of spending in the key areas and represent an area of potential improvement of public administration and finance areas of Moldovan government. They are presented next.

Table 15: Moldova: General Government Budget, 2009–15 (MDL, Millions, unless noted otherwise)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**		**2015**
						Budget	Proj.	Proj.
Expenditure and net lending	27,352	29,326	32,101	35,374	38,673	43,243	44,564	50,072
Current expenditure	24,376	25,986	27,889	29,960	31,659	35,473	36,135	40,794
Wages	7,000	7,317	7,700	8,506	8,296	9,086	9,491	11,472
Goods and services	6,069	6,735	7,302	7,861	8,810	10,038	10,094	11,030
Interest payments	843	558	673	694	527	720	741	857
Transfers	10,160	11,082	11,925	12,486	13,585	15,158	15,340	16,922
Transfers to economy	1,197	1,094	1,057	1,228	1,337	1,370	1,327	1,450
Transfers to households	8,963	9,988	10,868	11,258	12,249	13,789	14,012	15,472
Social Fund	7,608	8,603	9,214	9,740	10,716	12,137	12,355	13,661

Other transfers	1,356	1,385	1,654	1,518	1,533	1,651	1,657	1,811
Other current expenditure	303	295	289	412	440	471	470	513
Net lending	-28	-90	-62	-139	-106	-129	-129	-140
Capital expenditure	3,004	3,431	4,273	5,553	7,120	7,898	8,557	9,418
Domestically financed	2,274	2,228	2,714	3,406	4,665	5,063	5,078	5,548
Externally financed	730	1,203	1,559	2,147	2,455	2,835	3,480	3,870
Grants	334	584	663	735	1,242	1,404	1,942	1,436
Loans	396	619	897	1,413	1,213	1,431	1,537	2,434
GDP (MDL, Billions)	60.4	71.9	82.3	88.2	99.9			

Source: Budget Documents (various years), Moldovan Authorities, and IMF projections

The above placed table shows that the general government expenditures are continuously increasing. As was the case with the revenues' performance during the period under analysis, it is important to note that the data is presented in national currency (Moldovan Lei, MDL). Due to exchange rate considerations, it is better to analyze the data as a percentage share of the GDP. The general government expenditures as % of GDP are presented next:

Table 16: Moldova: General Government Budget, 2009–15 (Percent GDP, unless otherwise noted)

	2009	**2010**	**2011**	**2012**	**2013**	**2014**		**2015**
						Budget	Proj.	Proj.
Expenditure and net lending	45.3	40.8	39	40.1	38.7	39.7	41	42.2
Current expenditure	40.3	36.1	33.9	34	31.7	32.5	33.2	34.3
Wages	11.6	10.2	9.4	9.6	8.3	8.3	8.7	9.7
Goods and services	10	9.4	8.9	8.9	8.8	9.2	9.3	9.3
Interest payments	1.4	0.8	0.8	0.8	0.5	0.7	0.7	0.7
Domestic	1.1	0.5	0.6	0.6	0.3	0.4	0.4	0.5
Foreign	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Transfers	16.8	15.4	14.5	14.2	13.6	13.9	14.1	14.2
Transfers to economy	2	1.5	1.3	1.4	1.3	1.3	1.2	1.2
Transfers to households	14.8	13.9	13.2	12.8	12.3	12.7	12.9	13
Other current expenditure	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4
Net lending	0	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Capital expenditure	5	4.8	5.2	6.3	7.1	7.2	7.9	7.9
Domestically financed	3.8	3.1	3.3	3.9	4.7	4.6	4.7	4.7
Externally financed	1.2	1.7	1.9	2.4	2.5	2.6	3.2	3.3
Grants	0.6	0.8	0.8	0.8	1.2	1.3	1.8	1.2
Loans	0.7	0.9	1.1	1.6	1.2	1.3	1.4	2

Source: Budget Documents (various years), Moldovan Authorities, and IMF projections

The data indicates that while general governmental expenditures are increasing in MDL, they are decreasing as a percentage share of GDP. It decreased from 45.3% in FY2009 to 38.7% in FY2013. This is indicative of the fact that Moldovan government is undertaking structural reforms of the public sector. One of the observations from 2000-2010 period was the fact that public wages bill required urgent attention. The data shows that even though public wages increase from MDL 7 billion in 2009 to MDL 8.3 billion in 2013, this general government spending line item expressed as a percentage of GDP decreased from 11.6% to 8.3% respectively. The other categories of general government spending that decreased as a percentage share of GDP are spending on goods and services (a decrease of 1.2%), both domestic and foreign interest payment (-0.9% combined), as well as transfers (-3.2%). The only spending that increased is the capital expenditure. The highest growth rate in capital spending was observed in externally financed spending. This suggests that Moldovan dependency on foreign assistance for improvement of its infrastructure is increasing. Further evidence of the increasing dependence on international community comes from the IMF forecasts, which indicate that share of capital spending that is financed by international community is expected to grow from 1.3% of Moldovan GDP in FY 2013 to 3.3% in 2015 respectively.

CONCLUDING REMARKS AND PRACTICAL IMPLICATIONS

The collapse of the USSR and transformation of its 15 republics-members into independent nations was probably the defining moment of the end of the 20th century. Such development occurred almost overnight in historical terms. The rapid changes of the social, economic, and political environment in the newly independent countries put a significant stress on people, economy, and public sector. The pre-existing *modus operandi* was not suitable for new socio-economic environment. These changes contributed significantly to the decrease of certainty's level of the planned economy. Such a decrease in certainty was both short and long term, jeopardizing public sectors' ability to plan its operational and capital expenditures based on the revenues' forecasts. At the same time, the newly independent countries had the opportunity for a fresh start. This new start would be assisted by the international community and collective knowledge of the countries that already experienced somewhat similar challenges of setting up or adjusting the existing legislative arrangements, political institutions, judicial structures, as well as the executive governmental branch (e.g. frameworks for public administration and public budgeting systems) to the realities of open market and democracy. As such, the entire situation is a giant natural experiment that provided scientists with the opportunity to empirically test the validity of existing social science theories as well as pro-

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vide practitioners with substantial and practical suggestions and answers on solution for the transitional problems. While it is true that every single country is unique in its challenges and improvement opportunities, it is also true that generalized solutions for certain situations offer a good starting point for development of the local policy responses to specific issues. The 15 newly independent countries took full advantage of such opportunities. Moldova was not an exception.

The Moldovan performance of 1990s has been erratic. The economy has consistently on the downward slope occasionally plateauing as a function of the international economic environment and external assistance. In fact, Moldova's GDP has exhibited negative performance during its first 9 out of 10 years of independence. The most severe GDP decreases coincide with the socio-economic and/or political crises. During the period of 1992-94 Moldovan GDP dropped by about 30% in both 1992 and 1994. This period is characterized by massive reforms of the existing public administration and public revenues systems as well as significant civil unrests (i.e. the Transnistrian war of 1992). The foundation for subsequent fiscal, monetary, political, and administrative improvements has been created during these 3 turbulent years. Perhaps the most accurate description of the public sector management practices in Moldova during this period of time would be that it was "crises management mode," and not "long term sustainability mode." The important conclusion from these experiences is that while solving the burning issues is important, it is also imperative to keep a long term prospective on developments and adjust the structure of the public sector accordingly. The Moldovan authorities managed to do so. The evidence supporting this conclusion is the fact that Moldovan economy has somewhat stabilized between 1995 and the majority of 1998, when it was hit by Russian crisis caused in turn by the Asian crisis.

The economic turmoil of the late 1990s was so severe (the GDP fell 12% 31% in 1998 and 1999 respectively) that the ruling political block paid a steep price. The voters expressed their dissatisfaction and disillusionment with the proclaimed commitment to democracy values and practices by voting the communist block back into the power. The communist block has been in full control of the legislative and executive branches of government for the next 9 years. The 2000s in Moldova can be described as a series of successive public administration and public finance reforms started in the 1990s. In fact, a significant number of legislative acts and rules has been approved and implemented during that period. These laws and regulations affected the entire spectrum of the state's operations.

During the 2000s, Moldova has dealt with the consequences of the 1998 crisis and experienced the Great Recession of 2008-2009. Both these events clearly exposed Moldova's strengths and opportunities for public administration and fiscal reforms. The first decade of the current century in Moldova could be described as a period of continuous pressure on public sector to reduce taxation while increasing social expenditures. The functional areas for potential improvement during that period were the public sector wages and employment, the administrative-territorial structure of the country, retirement and health care systems, as well as the public revenue system. These issues have been tackled with some level of success as evidenced by the decreasing share of governmental revenues and expenditures as a percentage of country's GDP. Again, the practical implication and the lesson learned from this experience is that it is important to address the existing issues. At the same time, ignoring the need for long term structural governmental changes would be disastrous. Another practical conclusion stemming from this period is the fact that consequences of structural reforms in one sector of public administration system could have influence on other sectors as well. For example, the Law on Local Public Administration (2003) effectively reversed the amalgamation of subnational governments into larger units. This affected the public sector employment, and, subsequently, the expenditures for social and health funds. At the same time, the existing research on public administration decentralization reform suggests that dimensions of the process are orthogonal. Such orthogonality implies that decentralization issues can be categorized in distinct categories and respectively analyzed. As such, this means that reforms of such large magnitude and importance as these addressing public sector can be divided into smaller and more manageable goals with achievable and practically feasible objectives, systems, and processes for achievement of these goals. Moldova's remarkable recovery from the Great Recession of 2008-2009 is a factual piece of evidence to that. In fact, IMF estimated that Moldova exhibited one of the strongest performances during 2010-2013 (IMF, 2014). Such a strong performance was explained by the consistency of short term actions along with long-term structural adjustments of Moldovan public sector.

NOTES

[1] For detailed discussion of decentralization, its conceptual advantages and disadvantages please see Bahl and Martinez Vazquez (1999, 2005a, & 2005b), Morozov (2009), Oates (1972, 1993, 1998), Prud'homme (1995), Tanzi et.al. (2008), Yilmaz et.al (2010), and many others.

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The purpose of the International Public Management Review is to publish manuscripts reporting original, creative research in the field of public management. Theoretical, empirical and applied work including case studies of individual nations and governments, and comparative studies are given equal weight for publication consideration.

IPMN The mission of the International Public Management Network is to provide a forum for sharing ideas, concepts and results of research and practice in the field of public management, and to stimulate critical thinking about alternative approaches to problem solving and decision making in the public sector.

IPMN includes over 1300 members representing about one hundred different countries, both practitioners and scholars, working in all aspects of public management. IPMN is a voluntary non-profit network and membership is free.

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