REPUBLIC OF MOLDOVA

UNITARY COUNTRY

EURO-ASIA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOWER MIDDLE INCOME** Local currency - **Moldovan Leu (MDL)**

POPULATION AND GEOGRAPHY

AREA: **33 700** km²

POPULATION: **3.437** million inhabitants (2014), stable over the period (2010-14)

DENSITY: **102** inhabitants/km²

URBAN POPULATION: **45%** of national population

CAPITAL CITY: **Chisinau** (21.0% of national population)

Sources: World Bank Development Indicators, UNDP-HDI, ILO

ECONOMIC DATA

GDP: **17.7** billion (current PPP international dollars) i.e. 5 150 dollars per inhabitant (2014)

REAL GDP GROWTH: **4.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **3.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **350** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **26%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.693** (high), **rank 107**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
898	-	34	932
32 TOWNS ("ORAŞE") AND **864 VILLAGES** ("SATE") AVERAGE MUNICIPAL SIZE: **3 827 INHABITANTS**		**32 DISTRICTS** (« RAIONS »), **2 MUNICIPALITIES** (« MUNICIPII")	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Moldova is a unitary State with a two-tiers decentralization system. The country also accounts 5 administrative regions, among which 1 autonomous territorial unit (UTA Gagauazia), and 1 unrecognised territorial unit (Transnistria) which does not consider itself subject to the jurisdiction of Moldova. Decentralization and local governments autonomy is enshrined in the 1994 Constitution of Moldova. As for budget and powers division, several laws and decrees have set a legal and regulating framework within the next decade, most important of them being Law on the Budgetary System and the Budgetary Process of 1996; Law on Local Public Finance of 2003 and Law on Local Public Administration of 2006. In 2012, Moldova launched a National Decentralization Strategy and its Action Plan for 2012-2015. Based on the principles of the European Chart of Local Self Governance approved by the Republic of Moldova in 1997, this reform aims to address the fiscal, financial and management consequences induced by high fragmentation of first-level governments units. A pilot implementation started in 2014, before to be enlarged to the whole country in 2015.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The Law no. 436 of 28 December 2006, on Local Public Administration provides for the division of powers between tiers of government. This law stipulates that villages or towns/municipalities exercise general or special powers on their territory with the purpose of promoting the interests of the local community and addressing local issues. For second-level territorial authorities, competences consist in general or special powers with the purpose of promoting the interests and resolving the problems of the population. Subnational governments enjoy financial autonomy in all matters concerning local administration. However in practice, the repartition of competences often overlaps between diverse levels of governments, interventions from the central state or from state-owned enterprises.

SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	**9.5%**	**24.6%**	**100%**
CURRENT EXPENDITURE	7.4%	-	77.8%
STAFF EXPENDITURE	4.4%	53.3%	46.4%
INVESTMENT	2.1%	57.9%	21.9%

As central government expenditures decreased between 2009 and 2013, subnational expenditures declined from 10.8 percent to 9.5 percent of GDP. Operating expenditures (mostly wages and consumption of goods and services) account for a large share of total expenditures (78%), as capital expenditures remains limitated, which can be explained by the high fragmentation of territorial units and thereby weak financing capacity.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

Local governments' main field of expenditure is education (58% of local expenditures), and they are responsible for 74% of total public investments in this field.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	**9.4%**	**25.6%**	**100%**
TAX REVENUE	4.4%	19.4%	47.0%
GRANTS AND SUBSIDIES	4.5%	-	47.6%
OTHER REVENUES	0.5%	-	5.4%

Local governments own-source revenues of local governments) have been declining over the past decade. As a result, local governments are relying on grants and other transfers from the central government, which is limitating de facto their financial autonomy.

TAX REVENUE. LGs can perceive taxes and fees (property and land taxes), as well as shared taxes (from national taxes collected on the territory of the recipient LG). In 2014 local own budget revenues represented 13% of total for 1st level units, and 6% for 2d level units, as shared taxes and fees raised respectively 14% and 24%. Local taxation thus represents around a third of total revenues of the 1st and 2d levels of governments, but it remains very low .

GRANTS AND SUBSIDIES. LG units are mostly fund by grants, coming from the central State : intergovernmental transfers (from central State) represented around 67-8% in 2014 , and special means (special funds) around 1 to 3%. These vertical transfers come from the above level of government (or through it for the first-level units) to cover the gap between assessed expenditure needs and the projected yield of own and assigned revenues. Yet, the formula does not accurately capturing disparities between municipalities, especially for bottom-tier municipalities, and maintains the structures made of small municipalities with very weak capacities.

OTHER REVENUES. LG may also collect revenues from property sales and privatization.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	0.7%	3.4%

Subnational debt ratios are low, as total outstanding local government debt was 0.8 percent of GDP in 2013. Bottom-tier municipalities are not allowed to issue municipal bonds and guarantees, and there is no monitoring system to anticipate and manage the risks associated with borrowing.

A joint- study of:

UCLG United Cities and Local Governments

OECD

Source of Statistics: EU Committee of the Regions • IMF-GFS • V.Roscovan (2015), Local Government System and Finances in the Republic of Moldova • World Bank (2014), Moldova Public Expenditure Review • UNDP representation in Moldova • Network of Associations of Local Authorities of South-East Europe NALAS (2016), Fiscal Decentralization Indicators for South-East Europe: 2006-2014,

Publication date: October 2016