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(BRITE)**

ASSESSMENT OF MOLDOVA'S BUSINESS ENVIRONMENT – GAPS AND OPPORTUNITIES FOR USAID BRITE IN YEAR 4

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EXECUTIVE SUMMARY

This assessment provides a snapshot of the current state of Moldova's business environment and donor programs active in the area as the country moves to implement an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. This report provides an overview of Moldova's present development context and past reform efforts, and attempts to identify gaps in donor coverage and opportunities for high-impact initiatives during the fourth and last year of USAID's Business Regulatory, Investment, and Trade Environment (BRITE) Program.

The report is organized around aspects of the regulatory environment that roughly correspond to several of the indicators used by the World Bank's annual Doing Business survey. The order of discussion is from highest to lowest impact, with one exception: The concluding section draws on all that precedes it to suggest that BRITE's Strategic Communications component engage more robustly and overtly in advocating for reforms. Briefly, almost everything BRITE does is high impact. It should quantify these impacts and explain them to public and private stakeholders so they will understand the staggering costs of inefficiency and why reform matters.

Key findings include the following:

- **Development Context:** Moldova's economy is fragile. Real GDP has still not recovered to the levels enjoyed before its independence in 1991. Traditional trade patterns are changing. Export of manufactured goods to the EU has eclipsed exports of agricultural products to CIS countries. Moldova's trade deficit is swelling, and its domestic economy is unable to generate jobs in sufficient numbers for its population, who are forced to work abroad, often illegally. Their remittances are essential in stabilizing the economy. Microenterprises predominate. Foreign investment lags, and foreign investors are unhappy with regulatory quality and intrusiveness. Unless Moldova increases its own regulatory efficiency, which suppresses domestic productivity, the competition with more efficient producers in the EU could cause even greater economic problems.
- **BRITE: Mission, Resources and Approach:** The Project has resources remaining sufficient to fund an aggressive reform agenda. BRITE's technical approach and adaptation to a very difficult environment is professionally impressive. Unleashing its Strategic Communications component, a recurring theme in this report, could be the catalyst that turns Moldova's long, dark night into day.
- **Moldova's Mixed Record on Reform:** The country has made impressive progress in improving its Doing Business indicator ranking in recent years, rising from 103rd to 63rd between DB 2007 and DB 2015. Other indicators of good governance have stagnated, however, and corruption remains pervasive.
- **Trade Administration:** Moldova's administration of cross-border trade ranks poorly on the "Trading Across Borders" indicator, 152nd, and has been stagnant in recent years. Improvements in customs administration supported by BRITE seem to have been offset by the increasing presence of other agencies at the border, particularly the dysfunctional National Food Safety Agency, which suppresses both export output and domestic production. Among the staggering costs of the delay Moldovan regulators impose on trade is an estimated loss to annual GDP of more than 20 percent. BRITE has provided the Moldovan Customs Service (MCS) with the tools to

dramatically reduce customs clearance times, if it is allowed to embrace them. Without an integrated and obligatory risk-management system for all border agencies, however, excessive delays and the adverse economic impacts are likely to continue. BRITE should pursue this issue.

- **Tax Administration:** Moldova has improved its “Paying Taxes” ranking from 119th to 70th since DB 2007. Donors, however, have been disappointed with the results of tax administration initiatives. High turnover, low capacity, and lurches in direction as new governments come and go are among the reasons. One of the most useful initiatives BRITE could undertake in Year 4 is a tax gap analysis to try to explain why STS raises roughly one-fourth of the revenue that MCS does. This ratio should be at least reversed, which suggests a huge revenue leak.
- **Starting, Operating, and Closing a Business:** At the national level, much more progress has been made than Doing Business recognizes. Moldova now ranks 35th, but should probably rank 2nd, with one-step, two-day registration. The State Registration Chamber, however, lags behind in providing online services. BRITE could help in this area. Local trade authorizations, required to start a business, are painfully difficult and expensive, and BRITE has an excellent approach to eliminating this burden altogether. In terms of the operating environment for business, the Government has made repeated commitments to ease the extraordinarily heavy burdens it imposes. In many cases, however, it has either done nothing or made things worse. BRITE’s initiatives are technically sound and accurately targeted, but are bogged down by resistance and political instability. BRITE should do more to quantify the costs of the present inefficiencies burdening business, and to equip other advocates with the tools for more aggressive pursuit of reforms. The E-Government Center has impressive capacity but little power. It needs to be empowered to take a more pro-active role in coordinating reforms. BRITE could launch this effort. Closing a business voluntarily takes years and is a drag on investment. BRITE’s solution is sound and should be pursued.
- **Dealing with Construction Permits:** Construction regulation is abysmal and getting worse, now ranking 175th on DB 2015. Likely costs of poor construction regulation include hundreds of millions of dollars in lost construction and tens of thousands of jobs. A promising reform was subverted by rent-seeking approval agencies. BRITE’s proposed regulatory approach to transforming sector regulation needs political will to pass. It needs to make a stronger case based on costs to Moldova of the present system.
- **Getting Credit:** Although Moldova ranks high, 23rd on DB 2015, credit is scarce, expensive, and too short-term. A new paradigm for secured lending, new to other donors at least, has emerged ascendant in recent years. Despite recent technical assistance in this area, Moldova’s legal framework and collateral registry are far from optimal. Implementation of the new paradigm by USAID in other countries has produced measurable increases in lending, particularly to SMEs. The reform is not difficult or expensive, but needs to be based on an assessment using USAID’s template. BRITE should carry out the assessment.
- **Public Procurement:** Moldova government purchases of goods and services total about 10 percent of GDP. A new EU-compliant procurement law passed in June. Properly implemented, it can help end the corruption that has long plagued the sector. A request by the State Procurement Agency for technical assistance in drafting the

implementing regulations provides a unique opportunity for BRITE to ease the way for SMEs and others to participate in fair and open public tenders.

- **Labor Issues:** While extremely important to Moldova's business community, there is a minimal role for BRITE to play in the area of labor issues. An AmCham-led working group of employees, unions, and government officials is working well, and has developed consensus draft amendments that will improve the situation. Should problems be encountered, BRITE could help with a quantifying costs analysis.
- **Strategic Communications and Performance Monitoring:** BRITE's PMP tracks the monetized benefits to business and government of the reforms it implements. Using this approach to quantify the costs of the inefficiencies it wants to reform will add great weight to the case for reform and help create the necessary political will. BRITE's Strategic Communications component should play a more active role in reaching out to the victims of inefficiency, and equipping them to carry the battle to the Government. BRITE should also transfer the capacity to monetize benefits/quantify costs to other stakeholders.

Moldova's Development Context

In June 2014, Moldova and the EU signed an Association Agreement (AA) that includes the creation of a Deep and Comprehensive Free Trade Area (DCFTA). A landlocked country of about 3.6 million, sandwiched between EU-member Romania and Ukraine, Moldova began a journey toward Europe in 1998, with the signing of the EU-Moldova Partnership and Cooperation Agreement (PCA). Further agreements to promote Moldova's engagement with Europe were signed over the years. All, like the PCA, were aspirational assurances that Moldova would move its economy and governance closer to European norms

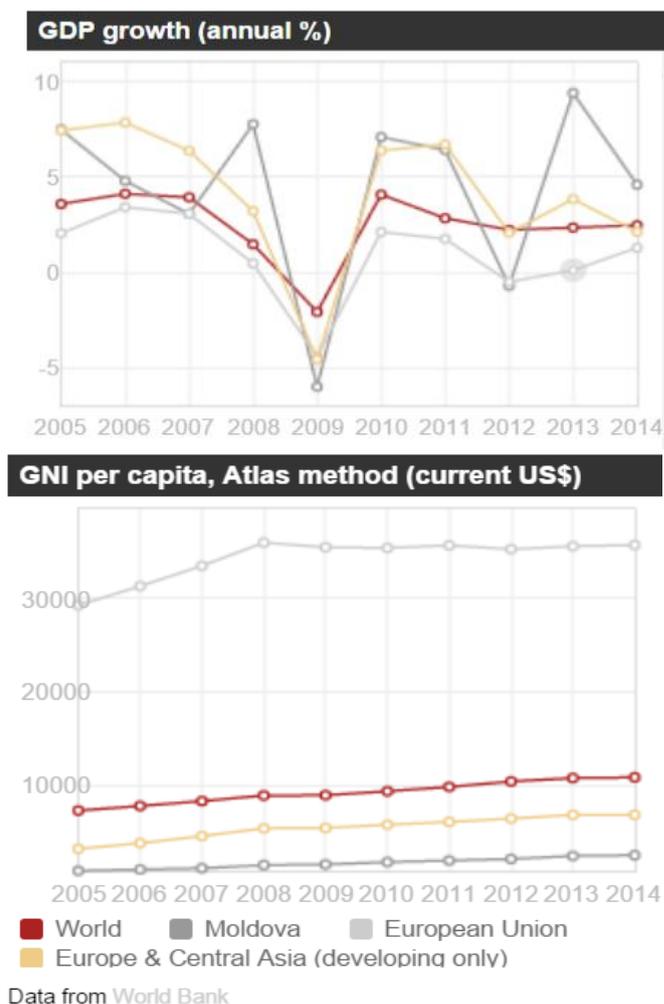
This new agreement is much different than those that have gone before. The AA is not aspirational, but has legally binding commitments to change. Moreover, under this agreement and in the current geo-political and global economic environment, the consequence of continuing failure to modernize its economy and governance won't just be stagnation, but could leave Moldova materially worse off than it now is. The discussion that follows provides background to the development context within which BRITE is working and some of the challenges that must be addressed for successful project interventions.

Key Macroeconomic Issues

When Moldova gained its independence from the former Soviet Union in December 1991, its gross domestic product (GDP) was about \$5 billion (constant 2005 USD).¹ During the initial stages of its transition from command to market economy, Moldova's GDP plunged. By 1998, when a slow recovery began, it was just 36 percent of the size it had been in 1991. Moldova's GDP growth accelerated in 2005, as shown by Figure 1. When the global financial crisis struck in 2008, GDP growth plunged again. Real GDP has still not fully recovered to 1991 levels, reaching only \$4.2 billion by 2014.

Almost 20 years after Moldova began its attempt to find its place within the family of nations that make up the European Union (EU) the lives of many ordinary citizens and businesses remain as far behind as ever. As illustrated by Figure 1, Moldova's GDP growth rate has been more volatile than the averages of world economies, the EU, and Europe and Central Asian developing economies. It has had both higher peaks, before and after the global financial

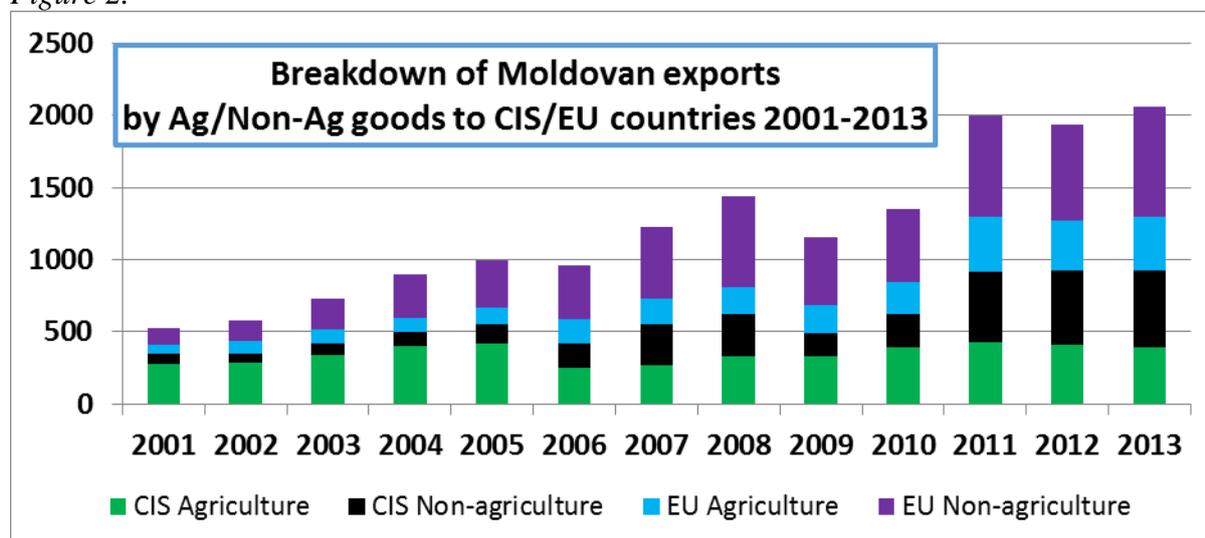
Figure 1



¹ Calculated using the World Bank's Atlas Method in constant U.S. dollars. Unless otherwise specifically noted, economic and statistical data are drawn from the World Bank's Development Indicators data set, available online at <http://data.worldbank.org/indicator>.

crisis, and lower valleys, especially during the crisis. The incomes of Moldovan citizens still lag as far behind the others as when the decade started. Indeed, as Figure 1 shows, the gap between Moldova's gross national income (GNI) per capita and that of EU countries is larger now than it was in 2005. With a 2014 GNI per capita of just \$2,550, Moldova has long been the poorest country in Europe. That title may now have passed to Ukraine, which is more bad news for Moldova. The conflict over and within the country on its own choice between the EU and its former Commonwealth of Independent States (CIS) partners, has triggered economic collapse in Ukraine, historically one of Moldova's major trading partners.

Figure 2.



Source: National Bureau of Statistics

Moldova's traditional export trading patterns have seen agricultural goods primarily flowing to CIS countries, particularly Russia and Ukraine, and manufactured products, including textiles, clothing, and, more recently, coaxial cable exported to EU countries. In 2001, total exports were \$527 million, with 64 percent agricultural, and 36 percent non-agricultural products, as shown by Figure 2. About 65 percent of 2001 exports, mostly agricultural products, went to CIS countries and 35 percent to EU members. By 2013, exports, measured in current U.S. dollars, had grown to about \$2.1 billion, but the product and regional splits had reversed. Non-agricultural goods now make up 62 percent of all exports, and 55 percent of all exports go to EU countries.

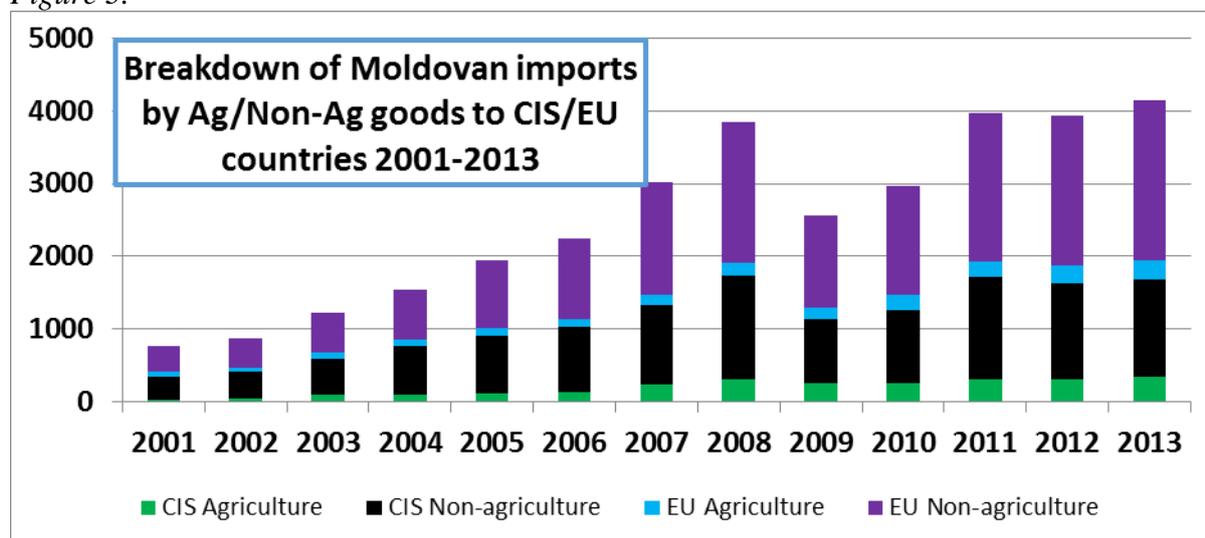
USAID's Moldova Country Development Cooperation Strategy for 2013-2017 saw Moldova's trading patterns with both EU and CIS nations as a potential source of strength to build on:

While Europe is key to Moldova's future, economic ties with both the East and the West are seen as a real advantage. In the face of the Eurozone crisis, the IMF still projects positive GDP growth in Moldova because of the resilient conditions of trading partners in the Commonwealth of Independent States (CIS). Improving the business-enabling environment and expanding market linkages, both with the East and West, will support trade and investment diversification, mitigate the contagion effect of one region's economic woes, and help to expand the benefits of reforms.

Subsequent geopolitical events centering on Ukraine and its people's internal divisions between choosing EU or CIS trading, political, and perhaps military orientations, have split the EU and Russia, the principal CIS nation. Good trade relations with both blocs will be difficult to balance. Moldova has already suffered interruptions of its exports to Russia, attributed to standards compliance issues, but coincidentally timed to political events.

Ukraine’s economic collapse is likely to lead to reductions in purchases of Moldovan products. And Russian counter-sanctions on the EU, targeting agricultural products, means that EU producers of agricultural products that once went to Russia are competing with Moldova for alternative markets. With traditional markets threatened, Moldova’s agricultural producers face an additional problem. The new DCFTA opens duty-free access to EU markets, but only if they meet EU quality standards. Moldova’s agricultural products, for the most part, do not. The country still has to adopt EU standards and build the enforcement infrastructure necessary to access the new markets that the DCFTA makes available.

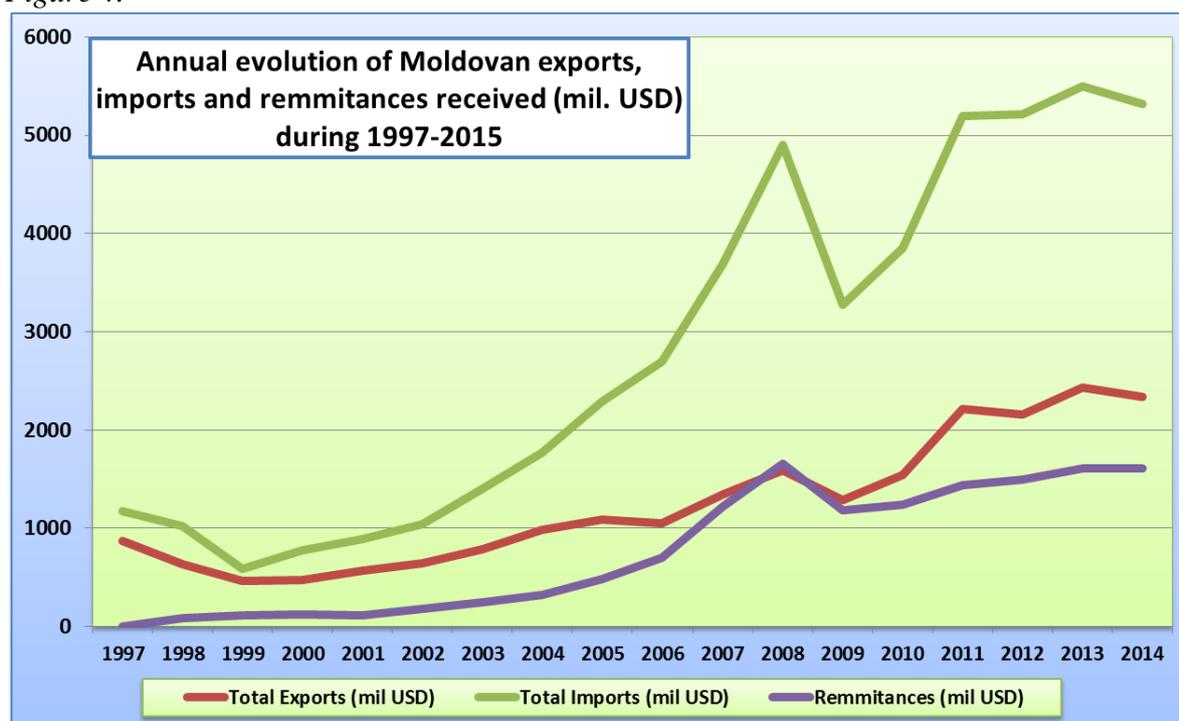
Figure 3.



Source: National Bureau of Statistics

While exports have grown over the last decade, imports have soared even faster, from \$2.5 billion in 2005 to \$5.9 billion in 2014. Figure 3 shows the evolution in import patterns using the same EU/CIS, agricultural/non-agricultural breakdown used in the discussion of exports. The shift towards EU trade has been much smaller for imports than exports, as shown in Figure 3. In 2001, 56 percent of Moldova’s trade with the two blocs was from EU countries. By 2014, the EU’s share had risen to almost 60 percent. Noteworthy is that 87 percent of all goods imported from the two blocs were of non-agricultural goods; only 13 percent were of agricultural products. Agricultural imports grew only slightly until 2014, when they were about 15 percent of the total. This suggests a strong domestic market for Moldovan agricultural products, which has been protected by a combination of tariff and non-tariff barriers to trade. This domestic market, however, is threatened by the DCFTA if Moldovan producers don’t become more competitive. Moldova will be required eventually to provide duty-free, hassle-free, access to its markets to EU producers, but the DCFTA does provide for a transition period to all Moldovan agricultural producers time to prepare, as discussed below.

Figure 4.



Source: National Bureau of Statistics

With import growth outpacing export growth, Moldova is facing a burgeoning trade deficit, as illustrated by Figure 4, which reached \$3 billion in 2014. Some of the deficit was funded by remittances, which grew from \$1 million in 1997 to \$1.6 billion in 2014. But Moldova's growing dependence on the earnings sent home by several hundred thousand citizens who work abroad, many illegally, is straining the local labor market. Domestic firms complain of the chronic shortage of workers, especially skilled workers. Obviously, this pattern is not sustainable. Dramatic increases in local production are required, both for export and import substitution, to produce a stable growing economy that provides meaningful work for Moldova's people. Several factors suggested the country is very weakly positioned to achieve this:

- The structure of Moldova's own business sector provides a very poor foundation for growth, especially in production for export.
- Foreign investors, who could inject capital and innovation into the economy, find Moldova to be a hostile business environment.
- In crucial respects, governance has stagnated or worsened since 1998.
- The new EU-Moldova AA/DCFTA offers the promise of a stronger economy and better governance. If Moldova's continues to refuse to change, however, freer trade with stronger economies will make it even poorer and less stable.

Profile of Moldovan Business Sector

The overwhelming majority of Moldovan businesses are very small. The country classifies business size as follows:

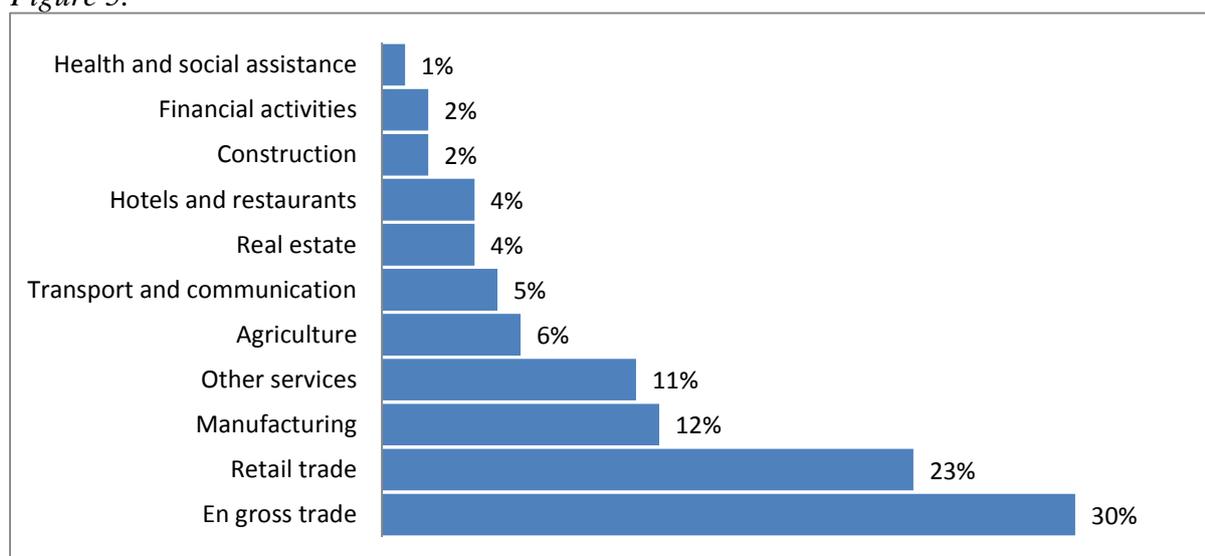
- **Micro-enterprises:** less than 10 employees and MDL 3 million average annual revenues or total balance sheet;
- **Small enterprises:** less than 50 employees and MDL 25 million in annual revenues or total balance sheet.
- **Medium companies:** less than 250 employees and MDL 50 million in annual revenues or total balance sheet.

- **Large companies:** More than 250 employees and MDL 50 million in annual revenues or total balance sheet.

Moldova’s State Registration Chamber had 169,347 entities registered as of June 1, 2015. Many of those registered are inactive, but still registered because the procedures for voluntarily closing a business are so costly, cumbersome, and time-consuming that entrepreneurs simply stop working without officially winding down. A rough estimate of the number of currently active businesses can be derived. A 2011 study by the Organization for Economic Co-operation and Development (OECD) of various state registries identified 65,000 active businesses, including legal persons and individual entrepreneurs, only 975 of which could be classified as large. From 2012 through May 2015, the State Registration Chamber added about 20,000 additional businesses and removed about 10,000, making the total active businesses about 75,000. About 52,200 companies were registered as taxpayers as of December 31, 2013.

The National Bureau of Statistics (NBS) reports that in 2014, 97.5 percent of businesses were SMEs, which contributed 56.2 percent of total employment – 291,700 workers – and 31.8 percent of total sales revenues. The average Moldovan business has six employees, within the definition of a micro-enterprise. Most of that activity takes place in Chisinau, where the OECD study found 50 percent of SME employment and 68 percent of sales take place.

Figure 5.



Source: State Registration Chamber

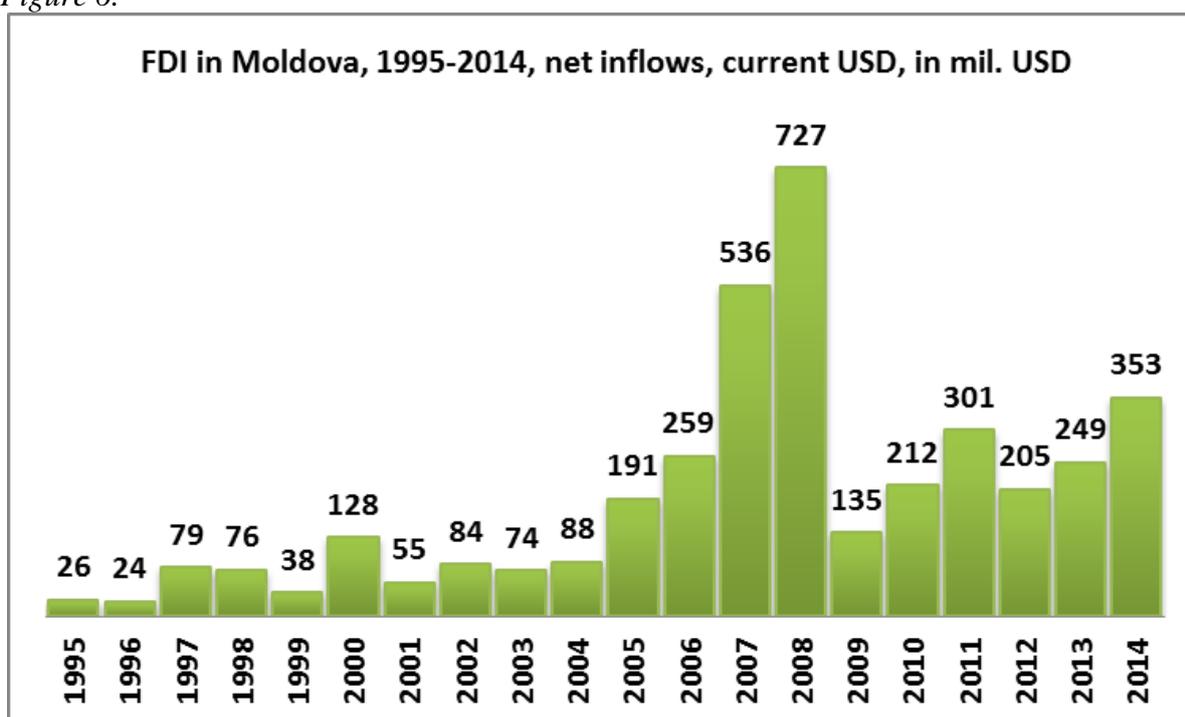
Figure 5 shows the distribution of areas of main activity businesses declared upon registration with the State Registration Chamber. In terms of business activity, NBS reports that 39.2 percent of SMEs were engaged in wholesale and retail trade, 18.4 percent in real estate rentals and services for businesses, 9.1 percent in manufacturing, 6.7 percent in transport and communications, and 5.5 percent in agriculture, forestry, and hunting.

For Moldova to grow its economy, its small businesses have to grow larger, and it has to attract investment, both foreign and domestic. BRITE activities are and can generate efficiency savings for operating businesses that are the functional equivalent of new investment, liberating capital to be applied more productively. BRITE’s reforms can also make Moldova more attractive as an investment destination for foreign investors.

Foreign Direct Investment (FDI)

Foreign investment can provide key inputs in helping a developing economy close the gap with more developed economies. In addition to the capital it provides to start new businesses, foreign investors can also help to introduce new products, processes, and other technological innovations, as well as raise the capacity of workers and managers. Moldova borders both the EU and CIS, and has preferential trade agreements with both. Its convenient location and low labor costs seem in the abstract to mark it as an ideal location for foreign investors seeking a competitive edge in producing for international markets.

Figure 6.



Source: National Bank of Moldova

In fact, however, Moldova has fared poorly in the international competition for FDI. As shown in Figure 6, FDI increased sharply from \$88 million in 2004 to \$727 million in 2008, then plummeted in 2009 to just \$135 million. The collapse in FDI in 2008 is likely due to the onset of the global financial crisis that year. Moldova's continuing struggle to attract FDI since then correlates to the 2009 transfer of power from the Communist Party to a coalition of ostensibly pro-European parties that has been characterized by ongoing political instability, increasing control of the economy and the state by oligarchic interests, and deepening corruption across all Moldovan sectors and institutions.

A 2013 survey for IFC of 92 foreign investors helps highlight critical aspects of Moldova's business environment. A joint report for the former government by three Moldovan business organizations that represent both foreign and domestic enterprises raised very similar issues. Understanding the business environment described by the foreign investor study, supplemented by the joint report, can help in developing the context for future interventions by BRITE and USAID.

More than 70 percent of the investments by those interviewed for the IFC report were in the service sector, about 15 percent in manufacturing, and about two percent in the agricultural sector. Agricultural sector investment was low for two primary reasons, the small size of the average holding, and a prohibition against foreigners owning land. Two aspects of foreign investors' resource utilization underscore how important FDI is in strengthening Moldova's

economy. First, 90 percent of employees hired were Moldovans, not foreign nationals. Second, 69 percent of operational purchases were sourced locally rather than imported, although inefficient import regulations were partially responsible.

Positive factors influencing foreign investors' decision to invest included, in order of priority:

- Preferential trade agreements with both EU and CIS markets;
- Cultural features made Moldova seem similar to investors' countries of origin. Examples include language, in the case of Romania and Italy, and shared mindset and history in the case of Russia and Ukraine.
- The increasing development of Moldova's ITC sector was attractive.
- Specific characteristics of the Moldovan market, including such things as lack of competition for a new product or business niche, and proximity to end customers, appealed to some investors.

Surprisingly, government investment attraction efforts played little role, with about 82 percent of current investors unaware that incentives were available. Large investors, however, did appreciate tax incentives. Foreign investors also appreciated the absence of restrictions on foreign investment or on repatriation of their capital.

About 50 percent of those interviewed were not satisfied that their investments had achieved their expectations. The study notes that the one-third of investors who were satisfied tended to be those in businesses like the ICT sector that has fewer occasions for interaction with public authorities responsible for matters such as import/export, authorizations, certificates, etc. Reasons cited for leaving by those who withdrew included corruption, unfair competition, tax compliance burdens, excessive bureaucracy, an inadequate legal framework, and their inability to acquire agricultural land. These same sentiments are expressed by current investors as well. A final issue noted by all investors as a problem in doing business in Moldova is political instability. This is examined in more detail below.

BRITE's activities have targeted the issues that matter most to investors – various aspects of regulatory overreach and inefficiency. Actually improving the business environment is more likely to help Moldova to grow, than attempting to entice investors to the current climate.

Caution, Capacity, Corruption and the Exacerbating Impact of Political Instability

Three limiting factors consistently emerge from donor reports on reform in Moldova that are typical of emerging economies:

Excessive Caution: Successful reforms require a change in the nature of regulation, from a focus on attempts to control and coerce the regulated, to processes that facilitate the regulated activity, reducing costs and burdens. Regulators accustomed to the former fail to understand that facilitation inevitably increases compliance. This is true for two primary reasons. First, the controlling approach increases the time and expense required for compliance, making avoidance and evasion more attractive. Second, the types of measures required for facilitation actually increase regulatory capacity to detect avoidance and evasion. Agencies like the Moldova Customs Service (MCS) and State Tax Service (STS) are responsible for producing revenues for the state. Fear – an excess of caution – that eliminating customs documents or reducing tax inspections will result in lower revenues causes them in many cases to risk the very reforms that simultaneously reduce burdens on business and increase their own enforcement powers. Another limiting factor in this regard is

the perceived legal responsibility among agency employees. If fewer controls were to lead to cases of non-compliance, some state employees fear they will be held legally responsible, or worse, accused of corruption.

Limited Capacity: Regulatory capacity in Moldova, as in emerging economies everywhere, is limited across almost every dimension – legal and regulatory framework, infrastructure and IT, and particularly personnel. The average salary of public servants is reported to be about \$250 a month. This is not sufficient to provide a qualified professional and family with a decent life. Two obvious consequences are that many regulators aren't qualified professionals and regulators have a strong incentive to supplement their income with bribes.

Corruption: Rent-seeking by front-line officials who interact with business is pervasive. The Government's own 2014 Cost of Doing Business Survey, for example, reports that the standard fee for clearing a customs cargo is \$25. Moral outrage, condemnation, etc., is rather futile in this situation, because when a civil servant doesn't receive a living wage, there really is no other option available. This should be deemed state policy, to put accountability where responsibility lies, rather than corruption, which blames those who are in large measure victims. Until the policy issue of appropriate pay is addressed, agency officials will resist implementation of reforms that eliminate significant amounts of income. Replacing them is not likely to solve the problem because their replacements come with the same income requirements.

Higher-level corruption is an entirely different matter, however. When senior officials are somewhat moderate, an emerging economy can still experience vibrant growth as a result of reforms that eliminate the day-to-day corruption and burdensome, control-based regulation that adds so much cost and delay to ordinary business operations. Georgia, for example, virtually eliminated petty corruption and averaged double-digit GDP growth in the early years of its reforms, despite ongoing corruption and abuse of power to suppress political opponents. Eventually, high-level corruption increased, foreign investment dried up, and the economy began to stagnate.

Moldova appears to have entered a phase of “hyper-corruption” with the elections of 2009 that has turned agencies into the fiefdoms of rival oligarchic parties, and, in many ways, has made government a tool for obtaining personal advantage at the expense of competitors. The increasing corruption has also introduced an era of political instability that investors say is bad for business.

Political instability: Government instability has posed challenges for the project and prevented it from advancing many of its legislative reforms, which naturally has slowed their implementation. The coalition government under which BRITE began work in 2012 disbanded in February 2013, resulting in an upheaval of both reform-minded and more conservative leadership with whom the project had established relationships in the first half of Year 1. After months of political stalemate, a new coalition government was formed on May 30, 2013, led by a new Prime Minister Iurie Leanca, the former foreign minister under the Vlad Filat government. This government comprised many of the same ministers, including the Minister of Economy Valeriu Lazar, who was in charge of driving the regulatory reform strategy. Unfortunately, Mr. Lazar resigned a year later. At the same time, all parties began campaigning for the parliamentary elections held in November 2014. For all practical purposes, the period from July to November 2014 was void of any legislative action, including from the Parliament. After the parliamentary elections, the process of forming a Government began anew, but the previous coalition was unable to come to terms resulting in a minority coalition Government with a new Prime Minister and a number of new ministers.

This Government was formed in February 2015, but then it too collapsed in June 2015. This was followed by local elections in June and July. The pro-Europe parties have since agreed publicly to reconstitute the majority coalition in Parliament. At the time of this report, however, only an interim Government exists, which has no authority to legislate, only administer. Parliament is scheduled to recess from the end of July until September.

DCFTA and Other International Trade-Related Obligations

The AA and DCFTA are expected to deliver significant benefits to Moldovan citizens and businesses if the government actually fulfills its obligations to develop EU-quality trade standards and institutions and trade administration efficiency levels. If it fails to deliver, however, it runs the risk of opening its markets to more competitive producers while its own products are not allowed into EU markets. By aligning with EU standards and practices, Moldova's governance and public policymaking is expected to become more open, inclusive, and efficient. The convergence with European norms is expected to increase trade opportunities between the EU and Moldova, generating better jobs at higher wages, lower prices, increased consumer protections, etc. If Moldova implements these measures, its exports to the EU are expected to increase by 16 percent and its GDP by 5.4 percent. Two important caveats about this hopeful prognosis should be kept in mind: The first is that Moldova must actually, finally change, and move toward European norms. Secondly, as discussed below, efficient governance, particularly in trade administration, would likely produce even greater increases in trade volumes and GDP growth. This is the case because the current inefficiency of Moldova's public administration imposes staggering costs on its businesses, suppressing economic growth and jobs creation.

The 15 chapters of the AA are consistent with Moldova's existing obligations arising from its membership in the World Trade Organization (WTO), and are intended to fully integrate Moldova into the EU's extensive trade network. A review of the provisions suggests that many BRITE past and present initiatives, both in the areas of trade facilitation and business environment regulatory reforms, support Moldova's AA/DCFTA commitments, see Annex 1. In some cases, the binding commitments Moldova has now undertaken may provide additional impetus for implementing project recommendations. In some cases, the AA/DCFTA binds Moldova to do what BRITE has encouraged it to undertake. The provisions of the agreement may thus help both guide and leverage further technical assistance. BRITE is also well positioned relative to other donors and technical assistance projects, many of which focus heavily on legal approximation. BRITE's focus on linking legal reforms to implementation and measurable impact allows it to complement the efforts of others, but this will require active coordination on the part of BRITE and USAID.

A danger, however, is that the AA/DCFTA will be seen as an alternative path to a more prosperous future. BRITE team members report that the conversations within Government and with donors has shifted away from the aggressive reform agenda to which Moldova has committed in numerous action plans, strategy documents, and reform agendas, in recent years. Now, the conversation, even among other donors, is dominated by Moldova's AA/DCFTA obligations. BRITE's activities in customs and tax administration and its targeted regulatory reform activities are essential for making Moldova competitive as it pursues new opportunities within the EU trading network. Merely harmonizing without being as efficient and competitive as others within that trading community can leave Moldova worse off than it was. Moldova needs not only BRITE's technical leadership, but needs for BRITE's strategic communications capacity to be deployed robustly in service of the need for and likely results of its reform efforts.

On December 7, 2013, World Trade Organization (WTO) members concluded negotiations on a new agreement on trade facilitation (TFA). The TFA places binding obligations on all WTO members to increase trade efficiency with concrete, specific measures. Developing and least-developed country WTO members are allowed to implement the technical measures of the agreement based on a timetable that the country determines for itself. These members are allowed to categorize those technical measures that it can and cannot implement without technical assistance and capacity building support. The agreement requires that Moldova notify a WTO trade facilitation committee of how it has categorized implementation of the mandatory measures, which it reportedly did last year.

In June 2014, BRITE Project assisted the government of Moldova to assess its level of compliance to the TFA and its implementation needs in relation to each of the technical measures of the agreement. Since that time, BRITE also has provided technical assistance to move Moldova closer to full compliance. These ongoing activities and others planned for Year 4 are described in more detail in the Trade Administration section. A table of all required measures under the TFA and their current status is included in Annex 2.

In addition to the DCFTA, Moldova is a member of the Central European Free Trade Agreement (CEFTA) and holds the Chairmanship of the group in 2015. The group comprises EU Partnership countries and now includes Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro, and Serbia. BRITE has supported the Deputy Ministerial meeting in June in Chisinau and plans to support the Ministerial meeting in November along with a two-day CEFTA Week conference focused on the key priorities of the organization for 2015. These priorities include:

- Further liberalization of trade in agricultural goods and particularly trade in services; Addressing the main trade distortive non-tariff measures;
- Facilitation of trade through employing transparency tools;
- Simplification of trade related procedures by creating a mutually recognized CEFTA AEO program;
- Facilitation of free flow of investment through coordination of investment policies and better protection of investment and investors;
- Promoting regional cooperation in competition policy, IPR and Public Procurement
- Improving market access by completing a single cumulation zone for rules of origin purposes under the Pan-European Mediterranean Convention (PEM) that Moldova joined in May 2015, which is to include all CEFTA Parties; and,
- Attracting investors by promoting opportunities to participate in regional supply chains and global supply networks in which member countries are active.

Many of these priorities are consistent with the goals and commitments of the DCFTA and WTO TFA. Many of the BRITE initiatives described below support Moldova in increasing its efficiency and attractiveness as a trading partner, and make it more likely to benefit from its CEFTA membership.

BRITE: Mission, Resources and Approach

The USAID Business Regulatory, Investment, and Trade Environment (BRITE) Program is designed to support Moldova's economy by fostering the reforms necessary to attract investment, encourage entrepreneurship, increase competitiveness, and solidify the foundation of the country's market economy. The project has four primary pillars – tax administration, trade facilitation, high impact reforms, and strategic communication. This has allowed the

Table 1. BRITE Resources for Year 4.

Labor Category (LOE)	Budgeted Task Order #1	Expended (June 30, 2015)	Remaining (Programmed/ Unprogrammed)
USN Long-Term Technical Assistance	1,326	1079	247
CCN Long-Term Professionals	7,319	4,661	2,658
Long Term Local Support	2,779	2278	501
Short-Term Technical Assistance (Expatriate and TCN)	686	424	262
Short-Term Technical Assistance (CCN)	3,247	1945.7	1,301
Home Office Support	204	119.26	85
Total LOE	15,561	10,507	5,054
Activity Funds (USD)			
Moldova Partners Fund, Trainings, Other Subcontracts	\$ 1,766,398	\$ 552,330	\$ 1,214,068

project to address the key constraints in the business environment but retain the flexibility to take advantage of opportunities as they may arise. This has been a distinct advantage in what has proven to be an unstable political environment. The resources BRITE has available to support Year 4 programming are shown in Table 1.

Tax Administration

The focus of this component has been to reduce the regulatory burden of tax compliance; to improve the effectiveness of the tax service; and to increase transparency by improving internal processes for tax payments, collection, monitoring, and employee development at the State Tax Service (STS). BRITE's achievements to date have come primarily from the introduction of ICT solutions to improve transparency in interactions between taxpayers and tax inspectors, most notably the online Taxpayer Current Account. Efforts to streamline tax administration have been slower to take hold as they require consensus among the Ministry of Finance, the National Social Insurance House (CNAS), and the National Medical Insurance House (CNAM), which has yet to materialize.

Trade Facilitation

Working closely with the Moldova Customs Service (MCS), BRITE has focused its efforts on modernizing the current trade framework, increasing transparency in the application of trade and Customs regulations, and reducing the time and cost of moving goods across borders. Lately, this has centered on implementation of the EU-Moldova DCFTA signed in July 2014 and the WTO Trade Facilitation Agreement adopted at the WTO Ministerial in December 2013. BRITE has achieved its greatest success to date within this component and

is poised to accomplish far more in the coming year with ongoing and new activities. Indeed, gains in introduction of a risk-management platform and reduced documentary requirements, among other initiatives, position Moldova to reap the huge economic rewards that come from more efficient trade administration, as described below.

High Impact Reforms

This component allows BRITE to address any number of constraints to the business environment in cooperation with its partners in the public and private sector, and was initially defined by the results of a BizCLIR assessment in late 2012. Ongoing activities now include specific Doing Business indicators (construction, trade, protecting investors); reforming regulatory permits and licenses; improving the legislative drafting process; and fostering more effective public-private dialogue. BRITE's reform packages are serious and impactful but have failed to gain traction because of political instability and a lack of political will. A recent effort of donors to focus the government on a set of critical reforms, which BRITE helped compile, is useful but has yet to motivate the GOM to act.

Strategic Communications

This component recognizes the human element in the reform process and is focused primarily on working with public and private sector actors to build support for priority reform objectives; identify obstacles to reform and methods to overcome them; facilitate efficient implementation of reforms, and increase awareness of both the GOM's achievements and shortcomings, and their impact on economic growth in the country. BRITE believes that its efforts have helped key stakeholders become better communicators, and appreciate the strategic value of effective communications. Beginning in Year 2, BRITE launched a business media program designed to engage media outlets in covering issues impacting the business environment through more in-depth and investigative reporting. This has since been expanded in Year 3 and is showing some promise in raising important issues and holding government accountable. A recurring theme in this assessment is that BRITE's Strategic Communications team could do more in supporting its initiatives by communicating to stakeholders and the general public the costs in currency terms of the present inefficiencies, and the probable impacts on their own incomes and to the economy at large from implementation of BRITE reforms.

As mentioned, BRITE is not only well positioned it is well resourced, as the table above shows. The Project could easily fund an aggressive reform agenda in its final year. The time may also prove conducive to such an approach, especially if reforms are supported by the more robust communications efforts suggested. A reconstituted pro-Europe majority coalition in parliament looks likely in the coming month that would eventually lead to a new Cabinet. As donors withhold critical budget support and other financing needs, the new Government will likely focus its attention on unlocking these funds. The recommendations that follow, in many cases, are ready-made should the Government choose to act.

Moldova's Mixed Record on Reform

Moldova's improving performance on the annual World Bank Doing Business survey looks impressive. Indeed, Moldova has made the Doing Business Top 10 reformer list twice, at number two in 2012 and number six in 2010. Table 2, right, compares the country's DB 2007 ranks and DTF scores on the 10 DB indicators with those in DB 2015, and shows the net changes over that period. The indicators are listed in order of potential impact that BRITE interventions could have on improving Moldova's business environment.

Table 2. Moldova's Improving DB Performance

Indicator	DB 2007		DB 2015		Rank +/-	DTF +/-
	Rank	DTF	Rank	DTF		
Trading Across Borders	105	44.75	152	54.97	(47)	10.22
Paying Taxes	119	53.29	70	76.57	49	23.28
Starting a Business	84	76.51	35	92.16	49	15.65
Dealing with Construction Permits	119	43.72	175	48.11	(56)	4.39
Getting Credit	101	50.00	23	70.00	78	20.00
Resolving Insolvency	78	31.59	58	53.32	20	21.73
Registering Property	47	75.41	22	86.10	25	10.69
Getting Electricity*	160	58.95	149	59.72	11	0.77
Protecting Minority Investors	99	53.33	56	58.33	43	5.00
Enforcing Contracts	55	77.74	42	66.68	13	(11.06)
Overall**	103	58.95	63	66.60	40	7.65

Source: World Bank Doing Business

*DB 2007 scores for Getting Electricity are actually from DB 2012, when Getting Electricity was added to the DB Index.

**Overall DTF for DB 2007 is from DB2010, the first year overall DTF rankings were introduced.

Since the DB 2007 report, when indicator rankings began, Moldova's overall "Ease of Doing Business" ranking has gone up 40 places, from 103rd to

63rd of 189 countries surveyed for DB 2015. Its overall DTF score has also improved since DB 2010, the first year an overall score was introduced, bringing it 7.65 points closer to the frontiers established by the best-performing countries in an increasingly competitive global environment. What hasn't improved, however, is Moldova's governance, particularly in the area of corruption, which Doing Business doesn't measure.

Table 3. Moldova's History on Freedom House Democracy Index for Nations in Transition.

NIT Edition	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Electoral Process	3.75	3.75	3.75	4	4.25	4	4	4	4	4
Civil Society	4	3.75	3.75	3.75	3.5	3.25	3.25	3.25	3.25	3.25
Independent Media	5	5.25	5.5	5.75	5.75	5.5	5	5	5	5
National Democratic Governance	5.75	5.75	5.75	5.75	6	5.75	5.75	5.5	5.5	5.5
Local Democratic Governance	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Judicial Framework and Independence	4.5	4.5	4.5	4.5	4.75	4.5	4.5	4.5	4.75	4.75
Corruption	6	6	6	6	6	6	6	5.75	5.75	5.75
Democracy Score	4.96	4.96	5	5.07	5.14	4.96	4.89	4.82	4.86	4.86

Source: Freedom House

Table 3, above, recounts Moldova's annual performance on the Freedom House Democracy Index. The overall Democracy score is the average of the country's scores on seven indicators, ranked from 1, highest, to 7, lowest. Over the course of the ten years shown, Moldova's overall Democracy score is only 0.10 points higher for 2015 than it was in 2006. Civil Society recorded the biggest improvement, up .75 points. Judicial Framework and

Independence worsened by .25 points. Corruption, which scored a low 6 points for most of the period, improved slightly by .25 points in 2013, where it has stalled.

The results of Transparency International's 2013 survey provides a more pungent measurement of the pervasiveness of corruption as perceived by Moldovans themselves. A significant majority of those surveyed thought corruption had increased, 69 percent, while 23 percent thought it had stayed the same, and only 8 percent that it had decreased.

Very high percentages of Moldovans think key institutions that impact on the country's business environment are corrupt or extremely corrupt. Percentages for the various institutions, from lowest to highest, are:

- 32 percent for NGOs;
- 33 percent for the media;
- 53 percent for business;
- 58 percent for educational systems;
- 66 percent for public officials and civil servants.
- 75 percent each for political parties and Parliament;
- 76 percent for police; and,
- 80 percent for the judicial system.

These levels of corruption, confirmed by various sources, including the World Bank's 2014 Cost of Doing Business Survey and BRITE's 2012 BizCLIR assessment, cast a shadow on Moldova's apparent improvements in ranking on eight of the 10 Doing Business indicators. To take a specific example, Moldova's rank on Enforcing Contracts improved from 55 to 42 between DB 2007 and DB 2015. Its relevance is undermined, when 80 percent of Moldovans think the judicial system is corrupt, and 34 percent of those with business before the courts reported paying a bribe.

Nevertheless, progress has been made, and in some cases BRITE's interventions and options for its last year could catalyze major, perhaps even transformational, change in some areas that can reduce the burdens on business, increase regulatory capacity to detect avoidance and evasion, and help grow state revenues and the Moldovan economy. The discussion that follows will review the current status of several regulatory areas represented by Doing Business indicators. In order of impact, the discussion will cover:

- **Trading Across Borders:** Trade regulation is by far the most important of the DB indicators, simply because of the size of its contribution to the economy. Creating a more efficient regime is critical for Moldova, to help it thrive as a new member of the EU trade network. BRITE has supported critical changes in the handling for cargos by MCS that, if embraced, would produce a number of economic benefits on a scale that dwarfs those contemplated by implementation of the DCFTA. A critical foundation could also be laid for the long, complex journey Moldova has to travel to harmonize with EU standards and technical regulations and the implementation infrastructure. The key is getting the Government to say yes, and to move forward.
- **Paying Taxes:** Support for the STS and improved tax administration has not been as successful as that with MCS. Improved tax administration won't produce the same kind of galvanizing effect on the economy that efficient trade regulation will, but is crucial for increasing government revenues, and perhaps rationalizing the pay structure so civil servants are recognized as professionals, and paid accordingly. Customs currently contributes about four times what STS does to state revenues. This

ratio should probably be reversed. Those missing revenues represent the returns that successful initiatives could help bring.

- **Starting a Business:** Moldova’s new business registration regime at the national level has made undoubted progress, and is appreciated by the private sector. Local trade authorizations, however, are so cumbersome and time-consuming that they require unofficial payments at every stage and have become a de facto local tax. In addition, duplicative and burdensome reporting requirements for operating businesses also need to be addressed. BRITE has done excellent spadework here, but needs partners with political will to make change happen.
- **Dealing with Construction Permits:** As noted in BRITE’s 2012 BizCLIR report, corruption is particularly pervasive in the construction sector. A predictable consequence is that illegal construction proliferates. A well-regulated, efficient construction sector is critical to building up an adequate infrastructure base, and can help attract investment, both foreign and domestic, and provide increasing employment and rising wages. While legal reforms stagnate in Parliament, BRITE has developed an approach based on reforms to practice and regulation that could transform the industry.
- **Getting Credit:** According to Doing Business, Getting Credit is Moldova’s most improved indicator, with its rank rising 78 places, from 101st on DB 2007 to 23rd on DB 2015. However, credit, particularly for SMEs is hard to get, expensive, and too short-term. Moldova needs legal framework changes to adopt the USAID-preferred “Saskatchewan” model of secured finance, and to implement a modern, web-based collateral registry, to reduce transaction costs and risk, and make lending to SMEs both more profitable and more affordable.

The remaining indicators won’t be addressed directly, for the following reasons:

- **Resolving Insolvency:** Bankruptcy is a technically complex area in which BRITE is unlikely to be able to have an impact in its last year. Moreover, a strong insolvency regime is not a priority in most developing countries, especially when more than 97 percent of its businesses are MSMEs. It is very useful in privatizing insolvent SOEs, but the complexity and expense of insolvency procedures are rarely useful for small companies. More important for countries like Moldova are two related regimes:
 - **Enforcement:** An efficient mechanism for secured lenders to enforce their claims against collateral is essential for increasing lending, particularly to SMEs. These issues are discussed in connection with Getting Credit.
 - **Voluntary Winding-Up:** Voluntarily discontinuing a business in Moldova takes years, and is burdensome and expensive. This is disruptive in several ways. Owners are bogged down, unable to attend to new ventures. They are also less credit-worthy, because of potential liabilities, including especially tax claims that might crop up. Inability to speedily close a business also hampers investment. Investors often want to buy assets, not an operating business, in order to avoid assuming its liabilities. BRITE’s proposals for streamlining in this area are very important.
- **Registering Property:** Moldova’s property registration regime appears to be among its strongest, along with national registration of new businesses. Problems noted with mortgage registration will be discussed in connection with Getting Credit.

- **Getting Electricity:** The traditional procedures, time, and cost measures of this indicator belong naturally to the discussion of Dealing with Construction Permits and will be addressed there.
- **Protecting Minority Investors:** This indicator scores the legal framework. Moldova's is reasonably sound, despite the fact that abuse is common among larger businesses. The solutions, however, are to be found in reforming the regulators, including the judicial system. Efforts to build necessary capacity of institutions and personnel, and to root out corruption and links with politicians and businessmen are likely to take far longer than the year remaining for BRITE. Furthermore, BRITE has already helped to introduce legal changes to protect minority shareholders that should improve this ranking next year, and will work with the Supreme Court to develop interpretive notes to the provisions. No further work is necessary at this stage.
- **Enforcing Contracts:** With the exception of enforcement issues, discussed under Getting Credit, attempts to reform the Moldovan judicial system are well beyond the manageable interests of BRITE.

Trade Administration

Trade regulation has more influence over a nation’s economy than any other regulatory regime, simply because it is so disproportionately large compared to other aspects of the economy. It is especially important for Moldova, as it prepares to enter the EU trading network. The risk is that unless Moldova improves its efficiency in trade regulation at least to the same standards as its EU trading partners, local producers will be overwhelmed in the competition with EU producers, worsening its already large trade deficit, and weakening its economy.

This chapter covers several aspects of Moldova’s regulation of trade across its borders:

- The country’s performance on “Trading Across Borders (TAB)” indicator of the World Bank’s annual Doing Business Survey is briefly reviewed. The indicator can provide useful diagnostic information about the efficiency of an economy’s trade regulation, but is not always an accurate reflection of current performance.
- Basic TAB data will be used to develop simple estimates of the staggering costs to the Moldovan economy that arise from the present, entirely avoidable delays it imposes on trade across its borders compared to the OECD average trading times.
- Moldova’s DCFTA obligations to improve trade facilitation and BRITE’s activities in support of MCS efficiency will be briefly reviewed and the space occupied by other donor programming identified, and recommendations provide.
- Issues arising out of Moldova’s obligations under Chapter 3, Technical Barriers to Trade, and Chapter 4, Sanitary and Phyto-sanitary Measures, are also discussed.

“Trading Across Borders”

Moldova ranks 152nd of 189 countries surveyed on the “Trading Across Borders (TAB)” indicator of the World Bank’s annual Doing Business index. Table 4 summarizes the country’s performance on the six elements of the indicator – the number of documents, days and costs required per container for both imports and exports. The results are from the DB 2015 report, which was released in October 2014, and is based on the situation as it existed up to May 31, 2014. Thus, the results may not reflect improvements arising from recent or current reforms.

Table 4. Moldova’s DB 2015 TAB Results

Indicator	OECD Average	Frontier	Moldova			Lower Bound
			Score	DTF	Rank	
Export Documents (Number)	3.8	2	9	22.22	164 (10)	11
Export Time (Days)	10.5	6	23	64.58	131 (7)	54
Export Cost (per container)	\$1,080	\$410	\$1,510	76.03	131	\$5,000
Import Documents (Number)	4.3	2	11	30.77	166 (11)	15
Import Time (Days)	9.6	4	27	62.90	134 (3)	66
Import Cost (per container)	\$1,100	\$415	\$1,870	73.34	132	\$6,000
Moldova’s Trading Across Borders Ranking				54.97	152	

Source: World Bank Doing Business

Note: Figures in parentheses show the number of countries with the same score.

The first two columns in Table 4 show the OECD average raw score for each of the six indicator elements, and the “Frontier” score – the best score obtained by any of the countries surveyed. The “Lower bound” is shown in the last column. Moldova’s data appears, in yellow highlight, between the “Frontier” and “Lower Bound” columns. The three columns reporting Moldova’s performance include:

- “Score” reports the raw score for each element of the TAB indicator – nine documents for export, for example.
- “DTF” displays Moldova’s “distance to the frontier (DTF).” The DTF places Moldova’s raw score on a 100-point scale between the frontier and lower bound, showing how close it is to matching the performance of the world’s best performing economies. The DTF score is useful in documenting an economy’s actual progress, as opposed to its competitiveness as compared to other economies, which may be reforming faster.
- The “Rank” column of the table also shows Moldova’s ranking, based on its DTF score, compared to the other economies surveyed. The figure in parentheses shows the number of economies with the same raw score.

Table 5 breaks down Moldova’s scores on days and costs for each of the four phases of the trade process that TAB measures – document preparation, customs clearance and inspection (including all border control agencies), ports and terminal handling, and inland transportation. Several observations are immediately apparent from the two tables:

Table 5. Days and Costs by Phase

Phase	Export		Import	
	Days	US\$ Cost	Days	US\$ Cost
Documents preparation	12	110	17	170
Customs clearance and inspections	3	70	4	200
Ports and terminal handling	4	430	3	600
Inland transportation and handling	4	900	3	900
Totals	23	1,510	27	1,870

Source: World Bank Doing Business

- Moldova’s worst scores are for the number of documents required for export and import, both in terms of ranking – 164th and 166th respectively, and DTF scores – 22.22 and 30.77.
- Document preparation is also primarily responsible for Moldova’s poor performance on number of days – ranked 131st and 134th respectively for exports and imports. Of the 23 days required for export document preparation requires 12. Similarly, document preparation requires 17 of the 27 days for imports.
- Moldova’s costs are quite high, especially for a poor country, and warrant further investigation. Inland transportation costs of \$900 for both export and import may indicate existence of a cartel or inadequate competition. It is not apparent why overall costs should be higher for imports than exports.

What is alarming about Moldova’s TAB performance is that it doesn’t seem to be getting better. Of the 20 separate business climate reforms acknowledged by Doing Business since 2008, none are related to TAB. Table 6 presents the current version of Moldova’s historical performance since the DB 2007 report, when indicator rankings were introduced.²

Table 6. Moldova’s historical TAB performance

Indicator	DB 2007	DB 2008	DB 2009	DB 2010	DB 2011	DB 2012	DB 2013	DB 2014	DB 2015
TAB Rank	105	122	135	140	141	134	142	150 151	152
TAB DTF	44.75	47.14	46.67	48.26	48.62	52.05	53	53.87	54.97
Export Documents	9	9	9	9	9	9	9	9	9
Export Days	23	23	23	23	23	23	23	23	23
Export Costs	\$1,415	\$1,415	\$1,765	\$1,765	\$1,765	\$1,545	\$1,545	\$1,545	\$1,510
Import Documents	11	11	11	11	11	11	11	11	11
Import Days	31	31	29	29	29	29	29	29	27
Import Costs	\$1,740	\$1,740	\$2,090	\$2,090	\$2,090	\$1,870	\$1,870	\$1,870	\$1,870

Source: World Bank Doing Business

² Each year, as part of the process of compiling its annual report, the Doing Business team updates its information on each indicator. Mistakes in prior years’ reported are corrected, and the historical record updated. Table 6 shows Moldova’s past performance as reported for DB 2015, with the exception of DB ranks, which are

Moldova's DTF score did improve, from 44.75 in DB 2007 to 54.97 in DB 2015. This seems primarily driven by a modest improvement in time to import, from 31 days to 27 days. Compared to other economies, however, Moldova's ranking has deteriorated markedly, falling from 105th to 152nd. As noted earlier, this is a fairly common pattern caused by the increasing competition to be competitive in a global economy. Other countries are moving ahead farther and faster than Moldova.

In fairness, Moldova has taken some foundational steps in areas like risk management and document reduction. While MCS has been cautious in fully implementing them, their impact should be observable. The currency issues described may have prevented recognition on DB 2015, but another possibility is offsetting trends. As MCS and BRITE work to increase efficiency, ANSA has been increasing its border presence, which may offset customs clearance improvements.

Improvement has been observed however, in Moldova's scores on the Logistics Performance Index (LPI), another World Bank measure of trade efficiency. The LPI is a simple survey of a large number of trade professionals active in the business. It has been carried out four times, in 2007, 2010, 2012, and 2014, and cover six aspects of trade efficiency:

- **Customs:** Efficiency of the clearance process (i.e., speed, simplicity, and predictability of formalities) by border control agencies, including customs. This LPI parameter is closest to what the TAB indicator measures.
- **Infrastructure:** Quality of trade and transport related infrastructure (e.g., ports, railroads, roads, information technology).
- **International Shipments:** Ease of arranging competitively priced shipments.
- **Logistics Competence:** Competence and quality of logistics services (e.g., transport operators, customs brokers).
- **Tracking & Tracing:** Ability to track and trace consignments.
- **Timeliness:** Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

Table 7. Moldova's LPI Performance Over Time

Year	2007	2010	2012	2014	
				Score	Rank
Customs	2.14	2.11	2.17	2.46	98
Infrastructure	1.94	2.05	2.44	2.55	85
International Shipments	2.36	2.83	2.08	3.14	52
Logistics Competence	2.21	2.17	2.15	2.44	118
Tracking & Tracing	2.5	3	2.44	2.35	131
Timeliness	2.73	3.17	2.74	2.89	109
Overall LPI Score	2.31	2.57	2.33	2.65	
Overall LPI Rank	106	104	132		94

Source: World Bank Logistics Performance Index

After remaining largely stagnant between 2007 and 2012, Moldova made significant improvements in five of six indicators, and jumped 38 places in overall rank, from rising from 132nd to 94th. BRITE began its collaboration with MCS in 2012.

The Staggering Costs of Trade Delays

The discussion that follows uses basic data from TAB and World Bank data on Moldova's economy to estimate the impact on Moldovan traders of the current inefficiencies in trade

as reported in each annual report. The DB 2014 rank shows the ranking originally reported – 150 – in red strikethrough, along with the revised rank that was recalculated for DB 2015 – 151.

regulation. The Speaking bluntly, the Government's inefficiency is so costly and makes Moldovan businesses so much less competitive than their EU counterparts that non-compliance with revenue laws is probably essential for their profitability. Four different approaches are used to demonstrate the staggering costs that delay imposes on Moldovan businesses and its economy.

The calculations are based on the differences between OECD average times and Moldova's times to export and import as reported by DB 2015, and shown in Table 4. For export, the calculations assume Moldova reduced the time in days indicator from the current 23 days to the OECD average of 10.5 days, a reduction of 12.5 days. For import, a reduction of 17.4 days from the current 27 will be required to match the OECD average of 9.6 days. MCS, with BRITE assistance, has already installed much of the regulatory wiring necessary to match the OECD averages. Political will is required to flip the switch and turn the lights on. The increased volumes and values of taxable trade and downstream transactions will dramatically increase government revenues, which ought to make the political decision much easier.

The four approaches used to demonstrate the staggering costs of the current inefficiencies of Moldova's trade regulation include the following:

1. Delay reduces the velocity of capital – traders can do fewer transactions with the same amount of capital.
2. Each transaction is less profitable because of the delay.
3. Delay reduces the volume and value of imports and exports.
4. Trade delay also reduces national GDP.

1. Delay reduces the velocity of capital:

The World Bank's "Trading Across Borders" methodology measures time from the point a contract is concluded and document preparation for the export/import transaction begins until the goods are delivered to the buyer's premises. Once an agreement is reached, the parties' capital is frozen until the transaction is finished. The buyer can't use funds required to purchase the goods without risk that funds won't be available to pay when the goods are delivered. Similarly, the seller's capital in producing or acquiring the goods is tied up until the buyer makes payment. The longer it takes for each transaction, the fewer transactions buyers and sellers can undertake.

A simple example illustrates the point. Each Moldovan trader has access to a limited amount of capital to finance imports and exports. Because it takes 23 days on average to complete each export transaction, a Moldovan exporter can, at most, complete 15.9 transactions a year (365 days a year divided by 23 days per export transaction = 15.9 transactions a year). His OECD competitors with the same amount of capital can engage in 35.8 transactions a year, because the total time to export is only 10 days. The disparity is even worse on the import side. Moldovan importers can do only 13.5 deals a year with a fixed amount of capital, while their OECD counterparts can do 38 a year.

This severe impairment of the velocity of their capital significantly disadvantages Moldovan traders. All other things being equal, they are less competitive, less profitable, and less stable. Indeed, a World Bank trade study of Moldova from February 2015 noted that only 42% of all export ventures survived beyond one year. Their OECD counterparts will grow faster and be more profitable. They will also be better credit risks, and more able to borrow on better terms.

2. Delay reduces trade profits.

Another way to understand how delay costs Moldovan businesses is to analyze the opportunity costs of wasted time. Capital – money – is an asset that can be put to productive use to earn returns that help it grow. Money is not cheap in Moldova today. The CIA World Factbook estimates that the commercial prime rate – the rate commercial banks charge their best and strongest customers – was 12 percent as of December 2014. A business must earn more than its capital costs in order to grow and prosper. Accordingly, the calculations that follow assume that the annual cost of capital is 12 percent per year. Dividing 12 percent by 365 days gives us a daily rate of 0.033%. We can estimate the opportunity costs to Moldovan businesses that arise because five trade regulators aren't as efficient as the OECD average economy:

Export: 12.5 days X 0.033% per day X \$2.9 billion total 2014 exports = \$11,962,500

Import: 17.4 days X 0.033% per day X \$5.9 billion total 2011 imports = \$33,877,800

Total opportunity costs of delay: \$45,840,300

Thus, trade delays not only reduce the number of transactions that Moldovan traders can enter into each year, delay also reduces the profitability of the transactions they do carry out by almost \$46 million each year.

3. Lost trade volumes caused by delay:

Delay not only imposes measurable costs on business, it also suppresses trade growth, preventing a country and its citizens from being as prosperous as they otherwise would be. The “Trading Across Borders” indicator is based on a rigorous statistical analysis that measures the impact of each day of delay on trade volumes. The study, “Trading on Time,” found that “on average each additional day of delay reduces trade by at least one percent,”³ and is equivalent to a country distancing itself from its neighbors by about 70 km.”⁴ Applying these findings to Moldova, we can estimate the following impacts caused by Moldova’s failure to meet OECD norms in trading times.

- An extra 12.5 days to export X 70 km is functionally equivalent to being 870 km away from its neighbors and trading partners.
- Similarly, the 17.4 days more that trading with Moldova requires puts it the functional equivalent of 1,218 km from its neighbors.

Moldova’s inefficiencies also reduce trade volumes and values:

- The delays Moldovan exporters endure reduce exports by **\$362,500,000** (12.5 days X 1 percent X \$2.9 billion).
- Delay reduces imports by **\$1,026,600,000** (17.4 days X 1% per day X \$5.9 billion total 2014 imports).

Total trade lost because Moldova’s processing of export and import cargos is less efficient than the OECD average is about **\$1.4 billion annually**.

³ S. Djankov, et al, [Trading on Time](http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Methodology/Supporting-Papers/DB-Methodology-Trading-On-Time.pdf), *Review of Economics and Statistics*, Nov 2008, 17, available at <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Methodology/Supporting-Papers/DB-Methodology-Trading-On-Time.pdf>.

⁴ *Id.*, at 1.

4. Reductions in GDP caused by delay:

USAID's TCBoost project, a global program designed to support developing countries in harnessing the power of trade to promote growth, developed a very useful [online calculator](#)⁵ to estimate the impact on an economy's GDP of reducing the number of days required to import or export. Although very simple to use, the calculator is based on sophisticated econometrics and statistical modeling that incorporate a great deal of country-specific data. The underlying model treats days of delay as costs that are equivalent to introducing higher duties on all goods, which then provides a basis for projection about GDP impacts.

Moldova's 2014 GDP (current USD) – about \$7.9 billion, an estimate of unskilled labor force,⁶ and the number of days that would be saved by matching OECD averages – 12.5 for export and 17.4 for import – were entered in the calculator. The results, reproduced at right, are reported as a range from low to high. To summarize, using the average of each of the ranges, matching OECD average trading times could be expected to add about \$1.8 billion to Moldova's GDP, about \$500 million from increased exports, and \$1.3 billion from imports. This 23.21 percent

Results

1. Change in GDP (millions) resulting from export time reduction is estimated to be between
US \$ 348.544 and US \$ 644.908
2. Change in GDP (millions) resulting from import time reduction is estimated to be between
US \$ 1,115.523 and US \$ 1,579.389
3. Percent increase in unskilled labor in the formal labor force for exports is estimated to be between
4.88% and 7.16%
4. Percent increase in unskilled labor in the formal labor force for imports is estimated to be between
18.96% and 23.92%
5. Change in unskilled labor in the formal labor force for exports is estimated to be between
24,991.6 and 36,691.1
6. Change in unskilled labor in the formal labor force for imports is estimated to be between
97,091.7 and 122,523.3

increase to GDP from reducing delay is more than four times the 5.4

Source: TCBoost impact calculator

percent increased projected from full implementation of the DCFTA. In addition, matching OECD trading times could add about 141,000 jobs for unskilled workers in the formal labor market, about 31,000 for exports and 110,000 for imports. Key elements of the procedural reforms required to reduce trading times to the OECD averages are already in place, and others are ongoing, as part of BRITE's support of MCS and Moldova's National Action Plan for implementation of trade-related portions of the AA and DCFTA.

General Trade Issues

In many respects Moldova's failure to capture the economic flows that efficient trade regulation could produce are attributable to the Government's perception of MCS as primarily a revenue agency. This mistakes the core function of a modern customs service, which is to facilitate legal trade. The State Tax Service (STS) should be Moldova's primary revenue agency, but produces only about 25 percent of total government revenues, while MCS produces about 75 percent. As discussed below, STS should be generating several times as much revenue as MCS. Until STS plugs the gaping revenue gap that almost certainly exists between what it should collect and what it does collect, MCS operations will be distorted by

⁵ The TCBoost online impact calculator is available at http://www.nathaninc.com/Tools/impactcalculator.php?country_id=135#input.

⁶ The estimate of unskilled labor was calculated as follows: Total population of 3,556,400.0 X 72% (working age 16-64) X 20% (estimate) = 512,121.5. About 38 percent of Moldovan workers haven't graduated from college, so the estimate used is conservative.

Government demands for increased revenues. Indeed, MCS management reported during the course of this assignment, that it had been instructed to collect “every last lei” to help fill an unexpected hole in revenue receipts. BRITE team members reported that the immediate result has been tightened controls and increased delay.

The fact that BRITE has made as much progress as it has in promoting trade facilitation initiatives within MCS is surprising, in light of the 2012 BizCLIR assessment, which noted pervasive corruption, resistance to change, and limited capacity. BRITE team members appear to have been very successful in gaining the trust of key counterparts in senior management, operations, and risk management. They have leveraged the relationships and trust developed to begin planting the seeds of a new vision for the agency, and broker increasingly better communications with private sector stakeholders.

Moldova’s obligations under the DCFTA to conform its systems and procedures for regulating trade to EU norms is a huge undertaking, as is apparent from the length and complexity of the National Action Plan for implementing Chapter V of the AA, which includes the DCFTA. A number of EU and IFC projects are now or at some point in the future will be assisting the country in the harmonization process, and in educational and capacity building efforts, as shown in Annex 3. Annex 1 describes in more detail specific requirements of the DCFTA, donor activity, and opportunities for BRITE. EU assistance efforts now ongoing include:

- The EU Border Assistance Mission for Ukraine and Moldova (EUBAM) has been working on issues such as joint border management between Ukraine and Moldova, EU approximation, trade facilitation, and human resource management reforms.
- An EU Support to DCFTA Implementation project is designed to support DCFTA implementation working groups, and lead donor coordination on DCFTA implementation.
- Another EU program provides ad hoc support including trainings and seminars on DCFTA and trade facilitation.

Major new donor efforts are planned:

- The EU Twinning Project, scheduled to begin in late 2015, will support development and implementation of a national single window to link customs other state agencies, and activation of the New Computerized Transit System (NCTS) that links Moldova to the EU information system. (EU support for NCTS implementation began in 2008.)⁷
- Another EU program scheduled to begin in late 2015 will provide capacity building and institutional strengthening in the areas of quality infrastructure, market surveillance, and developing and diversifying Moldova’s internal and external market conditions and opportunities, and support execution of a competitiveness awareness program in the AA/DCFTA context.
- Another EU program focused on harmonizing food safety legislation and capacity building in the National Food Safety Agency (ANSA) will begin in September 2015.
- An IFC program scheduled to start in September 2015 will work on issues such as creating a National Trade Facilitation Committee, implementing Moldova’s WTO TFA commitments, e-learning, reforms of the penalties framework and appeals

⁷ See EU-Moldova Action Plan Progress Report, http://www.integrare.gov.md/file/en_Raport_Sub-Comitet_1_Comert_Investitii_Final.pdf.

mechanism, improve customs broker licensing and services, and introduced risk management and risk-based inspections in the National Food Safety Agency (ANSA).

The USAID interventions appear to differ in emphasis and urgency from other donor programs. BRITE's initiatives are more narrowly focused to produce more clearly defined outcomes sooner. Perhaps the most clearly defined of the other donor projects is an EU Twinning Project, which proposes to draft a new EU-compliant Customs Code, but not until 2016 at the earliest, which is too late to implement some of the critical reforms the DCFTA requires. For that reason, BRITE should continue its successful efforts to amend the existing Customs Code and other trade regulations to ensure the reform process stays on track and yields measurable results.

BRITE's initiatives have focused on exactly the types of process reforms that now position Moldova, if it would just decide to do so, to achieve the OECD average times and consequent economic benefits described above. They are consistent with and complement the efforts of other donors to help Moldova integrate into the EU trading market. What distinguishes USAID's trade facilitation focus in Moldova, and in other countries, is that it prepares the country to thrive in a heightened competitive environment. The discussion that follows describes current BRITE initiatives, with recommendations increasing impact in BRITE's final year:

- **Streamline Customs Procedures:** BRITE is working with MCS on several initiatives that will reduce the time and expense required to export and import. Two key and related initiatives are to reduce the number of documents required, and to introduce e-declarations and paperless processing. When fully implemented, MCS will be able to review and clear cargos, or assign them to appropriate risk management channels, discussed below, before the shipments arrive at the border. This ability to assess cargo risk before the goods actually arrive will be further enhanced when Moldova introduces Advance Cargo Information (ACI) requirements. Since 2005, many countries have been introducing ACI requirements as part of the World Customs Organization SAFE initiative. Transporters supply customs authorities with advance information on the goods being brought in or out of the country (entry and exit summary declarations). This information is used to carry out better risk analysis, before the goods actually arrive in the customs territory, and allows more focus on high-risk cargo because risk information is available at an earlier stage. It also allows quicker processing and release upon arrival, resulting in a benefit for economic operators.

MCS is not fully embracing the concept of simplified documentation. Management has accepted BRITE's recommendation that all shipments should ordinarily require just three documents -- commercial invoice, bill of lading/transport document, and customs declaration. In special cases, additional documentation might be required -- certificates of origin or certification of requirements with health or technical standards, etc. But when the risk management system tags a cargo for inspection, MCS intends to allow its inspectors to demand the additional documents -- nine for export and 11 for import -- presently required. The practical impact of this approach would be to require every shipper to always carry all documents because of the possibility they might be required to produce them. In addition, it would not reduce the time to prepare the documents now required by border authorities. With MCS currently tagging about 35% of all shipments for documentary checks (yellow channel), there is a real risk this reform will yield minimal results.

Recommendation – *Strictly limit documents required at the border:* MCS should strictly limit the number of documents required. EU-member countries France and Ireland have established the global best performance at only two documents for ordinary goods not requiring proof of compliance with technical or health standards. They both require only the bill of lading and the declaration. Adding the commercial invoice as proposed, for a total of three documents for ordinary shipments, would surpass the OECD averages of 3.8 documents for export and 4.3 for import. The key to actually saving time is to forbid inspectors from asking for more than the three specified, plus technical or health certifications for special goods, at the border. Where necessary, additional documentation can be examined post-clearance.

- **Risk Management:** BRITE has helped MCS create the systems necessary to manage risk using automated cargo selection for inspections. Cargos are assigned to one of four different clearance channels based on programmed risk criteria. Shipments assigned to the “green channel” would be cleared with no inspections. A new “blue channel,” now in the pilot phase and scheduled to roll-out nationwide in August, provides “green channel” treatment at the border, with subsequent document review after clearance. Cargos designated for “yellow channel” undergo an inspection of their documents before clearance. “Red channel” cargos undergo physical inspection and sometimes documentary review. BRITE is working with MCS to improve the risk selection criteria to include tailored inspection instructions for each type of triggered risk. This should improve the percentage of non-compliant cargos identified over the very low rate that prevailed under the pre-risk management procedures, and increase MCS management’s confidence that embracing risk management will increase, not reduce customs revenues.

MCS is now failing to meet its own targets of a total of 45 percent of shipments subject to red or yellow channel inspections, with the balance going through green or blue channels. EU nations send 90 percent of all shipments on average through the green channel. Most don’t have a “blue channel,” but use robust post-clearance audit systems to target companies, not particular shipments, for inspection based on established risk criteria. BRITE hopes to nudge MCS up to at least 70 percent of cargos cleared – either through green or blue channels – without physical or documentary inspection.

The low risk appetite displayed by MCS arises in part because of its lack of confidence that risk management will actually grow revenues instead of diminishing them. Government pressure to increase revenues from time to time exacerbates this problem. Another very real concern is fear of prosecution for corruption if problems are found with a cargo ASYCUDA has referred to the green channel. Customs officials have been detained by the prosecutor’s office on occasion for administrative actions in clearing shipments selected for green channel, despite the fact they exercised no discretion over the treatment of the cargo.

Recommendations:

- ***Bolster MCS confidence in risk management:*** Management’s reluctance to fully embrace risk management is understandable in the abstract, and characteristic of emerging economies. The consequences if revenue dropped would fall on MCS officials personally. International experience, however, is that risk management increases both revenues and the rates of detection of non-compliant shipments. Somehow this lesson needs to be shared more concretely. Study tours to countries that have successfully implemented risk management after starting from a regulatory approach and context similar to Moldova’s might help. BRITE has

sponsored a study tour to Finland that served as a valuable guide to how advanced risk management tools work in a developed country. A study tour, including a representative from the prosecutor's office, to a country that started from a position like that Moldova is now in, and has already worked through similar problems and achieved success, could help to allay fears.

BRITE could also commission a study that draws on the experience of similarly situated countries, especially in and around the EU, in implementing risk management. MCS should be invited to participate in drawing up the terms of reference so the study addresses their specific concerns. It should provide numerical data on the results produced, including the impact on total trade turnover, revenues, and detection rates for non-compliance. In Georgia, for example, after USAID introduced risk management, identification of non-compliant cargos increased by about 100 percent, when customs made the switch from 100 percent physical inspection to 85 percent green channel.⁸

- ***Design integrated border agency risk management program:*** The trade facilitation advantages of a customs risk management program are undermined if other border agencies interpose their own inspections to shipments MCS has cleared through green channel. The problem is likely to become more acute with the ongoing increase in ANSA's border presence. Given the present dysfunctional nature of agencies with a border presence, it is doubtful that BRITE could fully implement an integrated border agency risk management program in its last year. It could, however, conduct a situation analysis, develop recommendations for how an integrated risk management plan should work, and estimate the likely benefits, including savings of time and money for traders. Such a report, shared with the Customs Consultative Council, Office of the Prime Minister, business organizations, etc., might help generate a mandate for change that would increase the likelihood of successful implementation down the road.
- **Authorized Economic Operator (AEO) Program:** Moldova this year adopted EU legislation to introduce simplified customs procedures and an Authorized Economic Operator (AEO) program. BRITE is supporting MCS in implementing both. AEO programs offer eligible traders a variety of benefits that reduce their time and expense, including monthly payment of customs fees and duties, consolidated monthly declarations, and clearance at their own premises. AEO programs can greatly reduce border congestion by rewarding compliant, usually larger operators, with faster processing. Typically, a relatively small number of large traders – 10 to 20 percent of the total – handle a significant majority of total cargos – 60-80 percent. Speeding clearance of AEO participants allows customs to focus more resources on small operators, who often present greater risk, clearing them faster.

The opportunities offered by the new legislation cannot now be fully exploited as trade facilitation tools because Moldova, at the insistence of the Ministry of Finance, continues to require full payment of import duties and taxes prior to the release of goods. If an authorized trader cannot have a shipment cleared on the basis of an incomplete declaration, an EU simplified procedure now recognized in law, there is no simplification; the procedure effectively remains as it was prior to the legal

⁸ See, IFC SmartLessons: Breaking Up the Logjam: Automated Customs Risk Management System Implementation in Georgia, available online at <https://www.openknowledge.worldbank.org/bitstream/handle/10986/10492/558720BRI0IFC01s0GBCR0Customs1FINAL.pdf?sequence=1>.

reforms. The result is that the only real benefit now offered to AEO participants is local clearance. This must change for Moldova's AEO program to be successful. Currently, Moldova's AEO program has minimal impact. Although the program has about 80 participants, only 10 are among Moldova's 100 largest importers. In 2014, AEO operators represented only 6.8 percent of total customs declarations filed.

Recommendation – *Expand benefits and reach of AEO program:* USAID and EUBAM efforts to convince the Ministry of Finance to allow deferred payment should continue, but supported by an analysis of the time and cost savings to trade, and impact on revenues. BRITE's efforts to expand the types of financial guarantees available to secure these debts should also continue as part of this effort. An alternative to the high cost of bank guarantees needs to be available to make a deferred payment scheme attractive to traders. More effort should be applied to recruit large traders. Advertising more widely the current practice of assigning AEO participants to green channel would help, as long as there aren't also assigned more "random" inspections to offset the benefit. MCS should also be encouraged to treat AEO participants as partners, and develop appropriate channels for consultation, perhaps as a subcommittee of the Customs Consultative Council. Eligibility requirements should also be examined. Often, when a developing country is attempting to expand an AEO program, a prior history of non-compliance bars participation of many traders. BRITE should encourage MCS to take a close look at this issue to consider whether the infractions are in fact serious or violations of technical requirements designed to ensnare. An additional issue to consider is that, at least in the relatively recent past, traders have had to contend with predatory officials looking for bribes, delayed VAT refunds, etc., in addition to confusion and delay. This context itself encourages non-compliance to recoup lost profits. International experience suggests that AEO-type programs can improve such behavior, because the benefits are so valuable that traders don't want to lose them.

A major problem facing Moldovan traders is the difficulty in obtaining access to information. BRITE is addressing this problem with two very important initiatives, and considering a third, equally important, but probably a stretch to fully complete in the time remaining:

- **Online trade guides:** BRITE is working with MCS to produce detailed roadmaps for traders that lay out the requirements and procedures on critical customs regimes and processes, a requirement of Chapter 1 of the WTO TFA. Examples include the inward processing, temporary admission, and outward processing customs regimes. BRITE is using the process of developing online guides to actually create new processes. For example, customs law allows for binding rulings, but no clear standard process for obtaining one exists, and past rulings aren't published in a central location for easy reference. A new guide for binding rulings will fill those gaps. Other guides will address issues such as the AEO program, rules of origin, and valuation. The process of developing the guides may be as important as the final product. MCS and BRITE first clarify and streamline Customs' own internal processes for handling the topic. This is a very important exercise on several fronts. It helps to diagnose issues, identify problems with the regulatory framework, and the engagement that results with MCS personnel who work on the guide is a valuable teaching opportunity. In the case of valuation, for example, development of the guide makes it inescapably clear that the current, common practice of customs officials substituting their own values for those shown on the commercial documents is flagrantly illegal. Once the internal processes are clarified and streamlined, the guide for traders is developed. Guides should not only inform traders, but provide them a measure of protection against customs officials who deviate from the procedures. Protection is not as strong as it might be, however, because MCS wants not to recognize the guides as fully binding. Rather, they are seen as advisory, and secondary to the law and regulations.

Recommendations:

- ***Seek endorsement of a higher authority:*** A strategy sometimes used to strengthen the binding nature of such procedural roadmaps is to get higher authority to sign off on them. Launching the guides at a public ceremony where the Finance Minister or Prime Minister personally signs the guide and declares, “this is the way it is, and if you have problems, call my office at this number,” can help discourage deviations from the approved procedures. Objections that agency management might have can be assuaged if their leadership, vision, and commitment to trade facilitation are also celebrated at the launch event.
- ***Ensure sustainable capacity:*** BRITE currently procures technical assistance for MCS to produce the trade guides. To ensure that MCS continues to produce and update guides after the project ends, BRITE should develop a sustainability plan that develops the MCS internal capacity to continue to produce new guides, builds in systems that assure current guides are updated in a timely manner, etc. Perhaps, preparing a guide to writing, publishing, and updating guides is required supported by training.
- ***Integrated tariff:*** An integrated tariff is a single source for all information required to import and export to a particular country. It includes not only tariff rates, but an explanation of all measures and procedures, as well as a point of entry into relevant legislation. Moldova has an integrated tariff (TARIM), but BRITE has identified several deficiencies:
 - Although tariff rates are current, almost everything else is out of date.
 - The tariff is non-binding, so traders can’t rely on the information it contains.
 - Non-tariff measures such as import/export licenses, TBT and SPS certifications, etc., aren’t uniformly classified by the Harmonized System nomenclature universally used to classify goods. This is inconsistent with EU requirements, makes it impossible for MCS to administer, and presents a difficult obstacle to future implementation of a national single window.
 - MCS presently hosts Moldova’s integrated tariff, but doesn’t have the political right or power to require other, peer agencies to participate in keeping the tariff current and addressing the problems identified above.

The Prime Minister has established an inter-agency working group to address some of these issues, including assigning HS codes to all measures. With BRITE’s encouragement, the opportunity of high-level engagement is also being used to streamline procedures where possible.

Recommendation – *Find a better, higher owner for the integrated tariff:* While MCS may be an appropriate host for the integrated tariff, the project needs to be owned by an agency or ministry with sufficient clout to compel the timely cooperation of all relevant agencies, including MCS, and to coerce recognition by all agencies that what is in the integrated tariff is binding. The binding nature should be established in law, as part of the Customs Code revisions. A near-term solution might be for Government to compel all agencies to recognize compliance with the instructions and information published in the integrated tariff as a defense to any attempts by relevant agencies to assess fines or penalties. BRITE support will be needed to implement a new, updated integrated tariff online, with information structured so that everything needed is easy to find.

- **Comprehensive online trade portal – a single information point for queries:** BRITE has considered technical and IT support to create a comprehensive trade portal that would integrate all trade-related information into a single point of contact.⁹ In addition to the integrated tariff, the portal would include the MCS online trade guides and similar guides from other relevant agencies, applicable laws, regulations, and directives, trade agreements like the DCFTA, links to similar information for EU and CIS trading partners, news, contact information for trade agencies, and perhaps market information from commercial providers of trade services – brokers, freight forwarders, importers, exports, etc. Ultimately, the trade portal could be the public’s point of access to a Moldovan single window information that links all relevant agencies, and makes trade-related transactions highly integrated and entirely online.

Recommendation – *Scope and build as much as possible:* BRITE will not be able to complete this process in the time remaining, because some agencies, like ANSA, will not be able to participate meaningfully without significant organizational restructuring. However, beginning the process – defining the specifications and information requirements, putting as much of the information as possible online, identifying gaps, and developing an action plan for finishing the work and ensuring ongoing updating and maintenance would be a valuable contribution to Moldovan traders.

- **Customs Consultative Council:** As recommended by the 2012 BizCLIR assessment, BRITE has successfully reconstituted the Customs Consultative Council, an obligation under the DCFTA. Much to the appreciation of both MCS and business associations, the Council meets regularly to identify problems, and discuss solutions. However, the current success of the initiative owes much to BRITE’s engagement. The project acts as the secretariat, helping both sides identify issues for discussion, set the agenda, prepare and distribute minutes, and assure follow-through. The question thus arises whether the Council will continue to thrive after BRITE concludes.

Recommendation – *Develop a sustainability plan for the Council:* BRITE needs to explore options for handing over the critical support for the Council it now provides after the project ends. A number of options should be explored. MCS currently lacks the capacity and motivation to carry forward alone the types of support activities BRITE now provides. Perhaps another donor could be enlisted to step in. A private sector organization like AmCham might be recruited to fulfill the secretariat function. A risk with this approach is that the secretariat function might lose the objectivity BRITE now provides as trusted intermediary between regulator and regulated. AmCham members also have their own interests, which may not faithfully represent all traders. However, this likely could be overcome through a transition period that included BRITE’s involvement and support.

Several other opportunities for trade-related interventions were identified that BRITE could support in its last year:

- **Structured support of MCS ICT capacity development:** BRITE has contributed greatly to development of MCS IT capacity. Its investment, however, has been largely ad hoc, providing the resources necessary to enable MCS IT systems to implement specific initiatives. MCS as an organization appears to have rather weak human capacity, and no long-term strategic plan to develop its IT systems. BRITE did identify this deficiency and develop a scope of work for an assessment and development of a long-term IT strategy for MCS. It admirably leveraged USAID’s

⁹ Examples from other countries include India, <http://tradeportalofindia.org/Default.aspx?CountryCode=32>; Kenya, <http://www.kentrade.go.ke/>; Nigeria, <http://www.nigeriatradeshub.gov.ng/>;

resources, by persuading EUBAM to procure the strategic plan development. The plan is expected to be delivered in late 2015.

Recommendation – *Support implementation of MCS ITC strategic development plan:* BRITE probably has a better understanding of MCS IT systems than other projects, and greater flexibility to deploy resources to address shortcomings and promote long-term development. After completion by EUBAM of the strategic plan, BRITE should work with MCS to identify opportunities for strategic interventions that can be completed within its final year, but continue to produce impacts long thereafter. An immediate priority should be enhancing the IT capacity of the risk management department. This will allow BRITE to improve the skills of the risk management staff for more sophisticated data mining and analysis.

- **Infrastructure utilization assessment:** By all accounts border crossing infrastructure is very weak, and contributes to congested conditions and clearance delays. While BRITE lacks the resources to provide modern facilities, it could perform a situation analysis at major border crossing points to assess whether the facilities that do exist are being utilized optimally. Often, simple changes to traffic flows or space utilization can produce rather dramatic reductions in congestion. BRITE's earlier surveys of crossing times and processes at four major border crossing points identified several physical constraints to movements but it has not pursued these beyond reporting them to MCS.

Recommendation – *Perform infrastructure utilization assessments of major border crossings:* BRITE should perform situation analyses at major border crossing points to assess how well existing infrastructure is being utilized, and identify opportunities to increase throughput rates with better use of existing facilities.

- **Support SME traders:** BRITE initiatives to make trading across Moldova's borders easier, faster, and cheaper benefit all businesses that trade, but SME exporters and importers face special problems and greater barriers than larger businesses. Examples include:
 - Deficiencies in Moldova's quality infrastructure, including shortage of laboratories and antiquated standards disproportionately harm SME exporters.
 - Administration of veterinary and phyto-sanitary requirements by ANSA is burdensome, as discussed below.
 - Smaller traders generally produce greater risk, and even compliant SMEs are more likely to face inspection before clearance.

Recommendation -- *Explore opportunities for trade facilitation initiatives targeted for SMEs:* BRITE should assess the particular difficulties that Moldovan SMEs encounter in trading across the country's borders, explore international best practices in facilitating their participation in international trade, and provide USAID with options for tailoring special programs to promote the interests of SME traders to be considered in future programming.

- **Trade corridor cost analysis:** As noted in the Doing Business analysis, above, Moldova's TAB costs seem high, which reduces its competitiveness. The harm incurred by this handicap will only grow as trade with the EU becomes more open. The reasons for the apparent high costs should be explored, but in connection with major EU and CIS trading corridors. It may be the case that Moldovan processes or requirements cause higher costs in other countries, or vice versa.

Recommendation – *Undertake trade corridor cost analysis:* BRITE could undertake a detailed analysis of why Moldova's TAB costs are higher than OECD averages, but in the

context of its major trade corridors. Points of delay should also be examined. BRITE's earlier Trade Transport Study would provide a useful foundation to build on, with key private sector actors already identified.

Issues that Affect Both Trade and Domestic Economy

The burdensome, duplicative, over-regulation of businesses operating within Moldova is discussed below, in the section on Starting, Operating, and Closing a Business. Those same regulatory flaws are present in enforcement of technical standards and sanitary and phyto-sanitary requirements. Among other deleterious effects, the damage is particularly harmful because it makes Moldovan products less competitive on international markets, at the same time it makes domestic production less able to compete with foreign imports. BRITE has done an impressive analysis of these issues. We know what the problems are and what actions should be taken to fix them. The only missing ingredient is political will to undertake the reforms.

Two agencies responsible for enforcement of various aspects of veterinary-sanitary and phyto-sanitary controls and procedures were merged to create the National Food Safety Agency (ANSA) which became operational in February 2013. The March 2013 BRITE analysis noted, "The benefits of this merger are yet to be observed." More than two years later, that statement remains true. The former agencies continue to operate as they always did, with no progress made in integrating their functions or streamlining their processes. Extensive problems with technical regulation by other agencies were also identified. For example, another government agency exists in addition to ANSA – the National Health Center (formerly the Sanitary-Epidemiological Inspectorate), which duplicates some of ANSA's functions and areas of regulation. Among BRITE's dismaying findings were the following:

- Far too many goods are subject to controls for no discernible reason.
- Significant duplication of effort was noted, with 98 products subject to double controls, and 42 subject to triple controls. Seven products were subject to quadruple controls.
- Of 83 technical regulations adopted by Moldova, 70 were for agricultural products not subject to the law, and most of those products were also subject to veterinary and SPS controls.
- The actual control measures used are, in many cases, both burdensome for traders, and not likely to protect health and safety.

The specificity of BRITE's analysis is remarkable, as are the detailed nature of its recommendations of what precisely needs to be done in each case to rationalize controls. No attempt was made to quantify the costs of the present disarray, but experience suggests the total would be tens of millions annually. Despite the specificity of the diagnosis of what's wrong, and the clarity of the solutions proposed, nothing has happened. Lack of capacity and unwillingness to relinquish opportunities for rent-seeking are two probable reasons the situation remains unaddressed.

Recommendation – *Quantify costs and demand a champion:* With political will, much of the transformational change agenda BRITE recommends could be achieved in its last year. The political will for change is very unlikely to well up from within the relevant agencies themselves, but will probably have to be forced from without. One way to generate will is to quantify the costs of the present disarray, and equip its victims to lobby loudly for change. With BRITE STTA and its monitoring and evaluation and strategic communication team

members could be deployed productively in this effort. USAID should also seek to partner with the EU Delegation and its technical assistance projects in this regard. As mentioned earlier, two new projects are slated to begin in late 2015, one focusing on food safety legislation and capacity in ANSA and another on standards, conformity assessment, market surveillance, etc. In BRITE's judgment both these may overlook the issue of overlapping competencies and over-regulation. BRITE's analysis can help focus attention on these deficiencies and promote the acceptance of clearly delineated regulatory scope and functions, which are well established in many EU countries.

Tax Administration

USAID support for the Moldovan State Tax Service has been longstanding. A 2008-2009 assessment of STS tax administration functions fed into a five-year, 2011-2015 Development Plan, produced with the support of the BIZTAR project that was approved in 2011. BRITE's efforts to support STS in implementing its Development Plan, despite some clear achievements, might fairly be called disappointing, especially by comparison with its successes in working with MCS to improve customs administration. Among the problems that have been encountered by BRITE and other donors are frequent changes in leadership coinciding with the frequent changes in government. Such leadership changes have been accompanied by shifts in strategic direction inconsistent with the original development plan. A major complaint has been that the Tax Code is repeatedly amended, often several times within a year, without notice or consultation with shareholders. Low salaries have contributed to rapid turnover, low motivation, and resistance to reforms. In some cases, STS leadership embraced reform initiatives but the Ministry of Finance has refused to allow them to go forward. In this environment, efforts by BRITE and other donors to support improved tax administration within STS have been less effective than they might otherwise have been. The discussion that follows provides a brief analysis of Moldova's performance on the "Paying Taxes" indicator of the World Bank's Doing Business survey, and an overview of BRITE initiatives and other relevant donor programming. It concludes with recommendations for activities that BRITE could undertake in its final year that would complement other donors' work with STS, and might finally arouse the political will for reform that follow-on programs could capitalize on.

DB Paying Taxes Indicator

Moldova's performance on the Paying Taxes indicator now actually compares favorably to the OECD average, as shown in Table 8, leaving aside for the moment, the fact that Doing Business doesn't measure what percent of revenues that should be raised are actually collected. Moldova's competitive performance on DB 2015, 70th of 189 economies surveyed, represents steady, sustained improvements along the parameters that Paying Taxes does measure:

Table 8. Moldova's DB 2015 Paying Taxes Performance

Indicator	OECD Average	Frontier	Moldova			Lower Bound
			Score	DTF	Rank	
Payments per year	11.8	3	21	70	86	64
Time (hours per year)	175.4	0	185	78.98	74	696
Profit tax (%)	16.4		9.3			
Labor tax and contributions (%)	23		30.2			
Other taxes (%)	1.9		0.2			
Total tax rate (% profit)	41.3	26.2	39.7	80.74	103	85
Overall				76.57	70	

Source: World Bank Doing Business

- Moldovan businesses are required to make 21 payments per year, compared to the OECD average of 11.8. This difference arises only because monthly payments for employee health contributions, unlike all other tax obligations, are not made online, but require paper returns. Enabling online payment, or better yet, consolidating it with other contributions like social security, would eliminate 11 or 12 payments,¹⁰ putting

¹⁰ When online reporting and payment is available, and used by more than 50 percent of taxpayers, the Paying Taxes methodology counts the number of payments as just one, regardless of how many are actually required.

Moldova squarely in line with the OECD average. BRITE is now working with STS and the Ministry of Finance to agree on implementation of this reform.

- The number of annual hours required by Moldovan taxpayers to comply with their reporting and payment obligations – 185, is close to the OECD average, 175.4, and as shown by Table 9, below, represents a significant improvement in recent years.
- Moldova’s total tax rate as a percentage of profits, 39.7 percent, has fluctuated over time, but is now slightly lower than the OECD average of 41.3 percent.

Table 9. Moldova’s History of Improvement on Paying Taxes

Indicator	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013	DB2014	DB2015
Rank	119	111	123	101	106	83	109	105	70
DTF	53.29	54.71	54.95	62.96	63.22	63.03	63.44	70.67	76.57
Payments (number per year)	53	53	53	49	49	49	49	32	21
Time (hours per year)	232	234	234	228	228	228	220	181	185
Total tax rate (% profit)	45.9	42.9	42.4	31	30.4	30.8	30.8	39.7	39.7

Source: World Bank Doing Business

Moldova’s performance on the Paying Taxes indicators has consistently improved since DB 2007, when it ranked 119th with a DTF score of 53.29 percent of the way toward the frontier established by the world’s best-performing countries. On DB 2015, Moldova has improved its rank to 70th and its DTF score to 76.57 percent.

For taxpayers, these improvements represent real, tangible savings of time and money. Table 10 presents rough, order-of-magnitude calculations to estimate the annual savings per firm -- 1,469 MDL – and for all 22,211 firms that paid all taxes counted in the DB Paying Taxes methodology – 32,622,406 MDL, about \$1.7 million. These savings are based only on reducing the time required for an accountant. Additional savings that

Table 10. Estimate of Taxpayer Savings

Item	Value	Source
DB 2007 Hours	232	DB 2007
DB 2015 Hours	185	DB 2015
Hours Saved	47	DB2007 Hours - DB2015 hours
Accountant's Hourly Rate	31.25	Estimated monthly salary of 5,500 MDL / (8 hours * 22 days)
Total Savings per Firm (MDL)	1,469	Hours Saved * Hourly Rate
No. Firms Paying All Taxes	22,211	NBS 2013 statistics
Total Annual Savings for All Firms (MDL)	32,622,406	Savings per firm * Firms paying all taxes
Exchange Rate	18.734	Oanda.com
Total Annual Savings in USD	1,741,348	MDL Savings / ER

were not included result from the convenience online filing brings, with elimination of travel costs and delays, savings on copies, filing, etc. Moreover, an additional 30,000 firms pay some taxes, but not VAT, and they also save time and thus money. The savings produced by such efficiency improvements increase firm profits, and competitiveness, and are the functional equivalent of new investment – found money that can be re-invested or withdrawn and used to increase consumption.

As important as such savings are, however, taxpayers probably appreciate much more the savings from non-payment of obligations they owe, but STS is unaware of, and unable to collect, as discussed below.

Donor Support for STS

Despite a less conducive reform environment in tax administration as compared with customs administration, all donors, not just BRITE, appear to focus less on merely formal issues of harmonization with EU norms, and more on concrete assistance to improve actual functioning of STS in ways that will both reduce compliance burdens and increase the agency's capacity to detect non-compliance. Given this focus, and the ongoing and planned donor support outlined in Annex 4, there is less room and less need for BRITE's assistance. Activities of other donors include the following:

- The EU High Level Policy Advice Mission has provided advice on policy-making, strategic planning, and policy management, as well as stakeholder awareness for agencies involved in implementation of the AA, DCTFA and Visa Liberalization Regime.
- SIDA is providing wide-ranging support both to improve compliance enforcement capacity as well as reducing compliance burdens for taxpayers, and taxpayer services. This includes a full-time embedded adviser from the Swedish Tax Service and regular STTA.
- The World Bank plans to begin a comprehensive, five-year, \$20 million Tax Administration Modernization Program (TAMP) in June 2016, which will provide a complete new Integrated Tax Management System that is much needed. The project will also work on organizational restructuring, business process improvement, human resource management and training, and will draft a new EU-compliant Tax Code. The inception phase of this project is now in process.

Among ongoing BRITE activities with STS are the following:

- The project has successfully developed an individual Online Taxpayer Current Account function that provides web-based access to the taxpayer's records and generates reports for both taxpayers and STS inspectors. BRITE continues to add functionality and upgrade the accounts. Upgrades like automated generation of tax compliance certificates produce significant savings for taxpayers, because they are required for many different types of transactions. These savings should be quantified.
- BRITE has developed an initiative to consolidate reporting and payment for multiple obligations, including social payments like social security and health contributions, into a single report and payment. This reform will significantly reduce both the number of payments as discussed above, and the annual hours required, producing substantial savings for taxpayers. STS would like to begin implementation immediately. Unfortunately, the Ministry of Finance, while approving the concept, prefers to wait until after a new Public Finance Management IT System is deployed, although negotiations about timing continue.

Recommendation – *Quantify the costs of current inefficiencies and benefits of consolidation:* The argument for immediate implementation would be strengthened by demonstrating the savings of time and expense for taxpayers once consolidation is achieved. Additional savings are also likely for Government, though typically they are much less than for business. Consolidation is likely to provide authorities with greater capacity to detect non-compliance, which should also be documented. Arming political decision-makers with quantified estimates of hours and dollars saved often overcomes

their initial reluctance to move forward. It both quantifies the stakes, and provides them with a tangible result to celebrate publicly.

The introduction of electronic filing for taxes has accounted for much of the improvements in the Doing Business rankings. Despite the clear benefits, however, their acceptance by businesses and individuals has lagged. The amount of online filing and payment for medical insurance is still too low to be recognized by Doing Business. Likewise, while all VAT payers are required to file online the total number of declarations filed by all taxpayers (corporate and individual) is still on paper. This slows the matching of payments with declarations, increases errors, and raises costs. The cause is unknown but could be a combination of lack of proper communication and cost.

Recommendation – Work with STS and CNAM to increase online filings and payments: BRITE could launch a communication campaign to highlight the benefits of e-filing while seeking ways to simplify the process, particularly for individuals and SMEs. One option is to offer digital signatures at no cost.

Following on the recommendations of the 2012 BizCLIR assessment BRITE also developed a set of proposals to streamline the process of voluntary wind-up of enterprises and establish time-bound procedures for public authorities and taxpayers that would immediately lower costs and speed the process of closing a business. Unfortunately this initiative, as with many others of BRITE, has not received the attention it deserves with from STS or the Ministry of Finance. Thankfully, the issue has made it on the agenda of the Prime Minister’s Economic Council for later in 2015. This is discussed in more detail in the section on Starting, Operating, and Closing a Business.

Recommendations for BRITE’s Last Year

While other donors are or will be providing comprehensive tax administration support, BRITE’s experience working with both STS and MCS provides a unique opportunity to work in the interface between the two agencies that can catalyze reforms in both agencies, for the benefit of other donors and future programming.

A key issue that seems to have largely escaped notice is that STS should be the Government’s primary revenue agency, not MCS. As noted above, the fact that MCS generates three times more revenue than STS does not reflect the natural order of things, but a severe shortcoming with STS operations. This issue distorts MCS’ core mission, which should be trade facilitation, not revenue generation. The biggest discrepancy is with VAT collections, as illustrated by Table 11, below.

Table 11. VAT Collection 2000-2014 in Million USD

VAT Collections	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Inland VAT Collected by STS	49.2	54.5	65.1	84.3	117.2	125.2	158.3	213.8	306.8	296.6	263.9	269.4	289.5	316.9	311.2
Border VAT Collected by MCS	79.1	93.0	123.0	170.3	241.6	321.6	396.1	524.1	699.9	496.3	565.0	728.1	735.9	802.7	775.8
Total Collected	128.2	147.5	188.1	254.7	358.8	446.8	554.4	738.0	1006.7	792.9	828.9	997.5	1025.3	1119.6	1087.1
VAT Refunded	-20.2	-31.1	-38.2	-54.4	-80.8	-79.9	-82.7	-112.5	-131.1	-109.8	-89.5	-106.1	-144.1	-152.7	-171.7
Net Collected After Refund	108.0	116.4	149.9	200.3	278.0	366.9	471.7	625.5	875.6	683.1	739.4	891.3	881.2	967.0	915.4
Percent collected by MCS	61.6%	63.0%	65.4%	66.9%	67.3%	72.0%	71.5%	71.0%	69.5%	62.6%	68.2%	73.0%	71.8%	71.7%	71.4%
Percent collected by STS	38.4%	37.0%	34.6%	33.1%	32.7%	28.0%	28.5%	29.0%	30.5%	37.4%	31.8%	27.0%	28.2%	28.3%	28.6%

Source: State Tax Service

Table 11 shows Moldova VAT collections since 2000, disaggregated by amounts and percentages of the total collected (before refunds) by STS and MCS respectively. Total collected before refunds has gone up from about \$128 million to more than \$1 billion. Over the same time period, the amount collected by MCS has gone up from about 61 percent to about 71 percent, with STS's share dropping proportionally. No rational explanation is apparent to explain these relative collection percentages. Inland VAT collections should be several times border collections. This should be true both conceptually and based on experience. Goods subject to VAT are cheapest at the border. After import, they go into the stream of commerce – through wholesalers, retailers, and ultimately to consumers, increasing in value at every sale along the way. Some goods are used to produce higher value added products. In practice, inland collections generally are several times greater than border collections, at least in developed economies with sophisticated revenue agencies.

Fortunately, there are standard tools available to carry out a tax gap analysis to estimate the size of the missed revenue pool as well where, including by sectors, it is missed. It is also likely that under-collection is occurring with respect to other taxes. A common pattern in developing countries, for example, is for businesses to undervalue goods upon import to save in VAT and then overvalue the same goods when filing their income tax returns to reduce that liability. In many cases, such machinations can be detected easily when government agencies like MCS, STS, and the Registration Authorities begin to share their data with each other.

As it happens, these three agencies are beginning to share data, but have not yet begun to appreciate how each can use the others' data to detect non-compliance. BRITE is providing assistance to MCS and STS as they begin to share data, presenting a unique opportunity both to assess the amount of the tax gap, and based on that information, to suggest how the two agencies can work together to close that gap. Identifying the gap is likely to have a very stimulating effect on the willingness of STS and the Ministry of Finance to push forward with the reforms necessary to make tax administration in Moldova much more robust. Closing the gap, especially if it is as large as it appears to be, will have several very positive benefits. It will stabilize government finances, and provide resources for enhanced governance, including pay increases worthy of civil service professionals. If it elevates the role of STS as Moldova's primary revenue agency, then it can liberate MCS to promote trade facilitation, which will dramatically increase trade volumes and values, leading to even greater revenues.

Recommendation – Undertake a tax gap analysis: BRITE should undertake a tax gap analysis of the four major taxes levied in Moldova – value added tax, corporate income tax, personal income tax, and excise taxes – to better understand the areas of non-compliance with the tax laws of the country. Statistical tax gap analysis tools and techniques have been used in some EU member states to increase revenues by orders of magnitude. Identifying the sources of revenue leakages enables tax and customs administrations to target the problems, and significantly reduce administrative burdens for compliant economic operators and tax payers. It is critical, however, to keep in mind that the likely revenue losses to Government probably do not offset the huge compliance costs Government imposes on business. Better revenue enforcement must be accompanied by dramatic compliance cost reductions.

From its unique vantage point of engagement with both MCS and STS, including its knowledge of their respective IT systems, and its involvement in initial stages of their plans to share data, BRITE is positioned to offer very tailored advice to the agencies on how they can work together to close the revenue gap. The recommendations should include examples of how pooled data can identify probable non-payers or under-payers. BRITE should also

develop recommendations for joint investigations, including what items to look for, and how to cross-check their data and that from other agencies like the State Registry.

Starting, Operating, and Closing a Business

Starting a business in Moldova, at least at the national level, is a fairly simple process. Operating a business, however, is an entirely different story. Moldova’s business environment is actively hostile, filled with agencies and officials whose own resources and incomes are so limited they become predatory, demanding that Moldovan firms comply with a myriad of overlapping and duplicative compliance and reporting obligations that bleed profits and competitiveness, and make full compliance virtually impossible. But, the bureaucracy keeps growing, despite Government commitments to reduce it. This trend can’t be blamed on poorly paid line officials. Closing a business can be as difficult and expensive as operating.

This section describes the process for starting a business, and catalogues some of the many difficulties in the operating environment and problems in voluntarily closing a business. Descriptions of ongoing BRITE initiatives and recommendations for additional measures are interspersed throughout. Ultimately, international experience suggests, automation is one of the most powerful tools for protecting businesses and citizens from rent-seeking by government officials. This section concludes with an overview of Moldova’s E-Government Center, and suggestions for how its potential to transform the business environment might be unleashed.

Starting a Business

Moldova’s performance as reported on DB 2015 is quite strong, and its scores compare favorably with OECD

averages,

as shown by Table 12. Overall, Moldova ranks 35th of 189 economies surveyed, and its DTF score of 92.16 puts it most of the way toward the frontier established by the world’s best performing countries.

This is not surprising, because the State Registration Chamber has worked consistently over the past few years to improve its Starting a Business Rankings. Indeed, five of the 20 Moldova Doing Business reforms recognized since DB 2008 relate to Starting a Business, and as shown by Table 13, below, indicator scores have improved almost every year. From DB 2007 to DB 2015, the number of procedures has been reduced from 10 to five, and days required from 30 to six. Registration costs as a percentage of income per capita have been reduced by almost two thirds, and paid-in minimum capital requirements have been eliminated altogether.

Table 12. Moldova's DB 2015 Starting a Business Results

Indicator	OECD	Frontier	Moldova			Lower Bound
			Score	DTF	Rank	
Procedures (number)	4.8	1	5	76.47	43 (26)	15
Time (days)	9.2	0.5	6	94.47	29 (8)	115
Cost (% of income per capita)	3.4	0	4.6	97.71	60	208
Paid-in min. capital (% of income per capita)	8.8	0	0	100	1 (115)	507
Overall				92.16	35	

Source: World Bank Doing Business

Table 13. Moldova's Historical Performance

Indicator	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013	DB2014	DB2015
Rank	84	81	89	77	94	88	92	51	35
DTF	76.51	80.24	82.64	85.74	85.59	87.61	87.79	89.84	92.16
Procedures (number)	10	9	9	8	8	7	7	6	5
Time (days)	30	23	15	10	10	9	9	7	6
Cost (% of income per capita)	13.3	11.5	8.9	7	7.9	6.5	5.7	5.4	4.6
Paid-in min. capital (% of income per capita)	18.8	14.6	13.4	11.4	11.9	9.9	8.7	8.1	0

Source: World Bank Doing Business

In fact, the picture that DB 2015 paints does not yet reflect additional reforms that already have been implemented on the national level. The five procedures it counts, sequential registrations with a number of tax and social agencies in addition to registration with the Chamber, have all been consolidated. All that is required in Moldova today to register at the national level is one step – register with the Chamber -- that takes two days. This is a truly impressive, technical tour de force. If Moldova's achievement had been recognized by DB 2015, Moldova would have ranked second on Starting a Business, behind only New Zealand.

Unfortunately, Doing Business has also failed to recognize the ubiquitous requirement that almost every business, with minor exceptions, must obtain a local trade authorization from the local mayoralty where it does business, before it begins its operations. The trade authorization process is extremely burdensome:

- The applicant must submit up to 10 documents, visit up to five different local authorities, and be subject to inspections by as many as six different agencies.
- It takes about 70 days, meaning the new business has to pay more than two months' rent before income starts coming in.
- The trade authorization must be renewed annually.

Since virtually every business is required to obtain a trade authorization before beginning operations, the additional procedures (say 10 counting visits to and inspections by five local authorities), days (70), and costs (an additional 250 MDL) should be added when calculating Moldova's Starting a Business ranking. These additions more than offset the impressive achievements at the national level. Had they been counted on DB 2015, Moldova's ranking would have plummeted to 161 of 189 economies surveyed.

BRITE has developed a proposal for reform of the trade authorization process. Amendments to the Law on Internal Trade (Commerce) have been proposed that dramatically reduce burdens on business. Most businesses need only notify the mayoralty of their address and business type and may immediately commence operations, and no annual renewals are required. For a very limited number of activities that affect public health and safety, the businesses must provide 15 days advance notice, and are free to open if the relevant officials have not responded.

Recommendations – *Quantify the costs of the current and proposed processes:*
 BRITE should quantify the costs of the current system in detail – lost rent, formal fees, cost of employee/owner's time, transportation, etc. – for each business, and for all businesses. The large numbers that result will add weight to the case for reform.

Although the Starting a Business process at the national level is very competitive, the Chamber appears to offer only rudimentary online services. It's not possible to register online or obtain a company abstract, for example. Obtaining information beyond the name or ID of a company, even just an address, appears to require a personal visit to request the information and a follow-up visit to obtain it. No good reason comes to mind to explain this omission, especially given the fact that the Chamber's back-office IT functions appear robust. They would have to be to act efficiently as the single registration point for five different agencies, and to act with such speed. Moreover, the E-Government Center has developed Mpay, an e-payment platform, so the Chamber could charge for information delivered online.

Recommendation – *Expand on-line resources at the State Registration Chamber*

Given the Chamber's apparent capacity and the resources available through the E-Government Center, the Chamber should be compelled to offer comprehensive online services, including online registration and online access to the contents of the company registry. It could provide a lucrative source of additional income, provide significant savings in transactions costs between business and government, and probably enable Moldova to get to one-step, one day business registration. Although BRITE's assistance might be useful, circumstances suggest that the issue is one of political will, not capacity.

Operating a Business

While making admirable progress in simplifying registration of new businesses, the Government is not making similar progress in removing the many constraints to operating a business in Moldova. Qualitatively, the breadth and depth of the burdens placed on business by uncontrolled bureaucracies is very well known. The Government itself has committed to improving the current hostile business environment in a variety of documents approved over the last several years, including the Moldova National Development Strategy 2020 (see Table 14, below), Regulatory Reform Strategy (RRS) and Action Plan (2013-2020), the Road Map for Removing Constraints to the Business Environment (2013-2014), and the Competitiveness Road Map (2013-2014), to name a few. Several donors, in addition to USAID, have committed to supporting Moldova in reaching the targets set in these documents, as shown in Annex 5.

Table 14. National Development Strategy 2020 Reform Commitments

SPECIFIC OBJECTIVES		
Monitoring indicator	2015	2020
Starting a business		
Time required to start a business, hours	24	1
Reducing the cost of starting a business	by 50%	by 80%
Dealing with construction permits		
Time required to obtain construction permits, days	180	100
Reducing the costs of dealing with construction permits	by 20%	by 40%
Paying taxes		
Reducing the number of payments in paying taxes, fees and contributions	down to 35	down to 25
Time dedicated to paying taxes, hours	215	190
Trading across borders		
Reducing the number of documents required for export/import operations	down to 5	down to 4
Reducing the time required to obtain documents relevant for export/import operations, days	down to 25	down to 10
Reducing the costs of export/import operations (per container)	by 5%	by 10%
Logistics Performance Index (LPI) (customs operation)	2.33	2.55
Logistics Performance Index (LPI) (logistics competency)	2.30	2.50
Closing a business		
Increasing the investment recovery rate	by 50%	by 100%
Time required for business closing, years	2	1.5
Reducing the number of state inspections	by 20%	by 40%
Reducing the number of mandatory reports	by 10%	by 20%
Reducing the number of permits	by 20%	by 40%
Reducing the cost of dealing with permits	by 20%	by 40%
Digitalizing public services for the business environment (no. of services)	20	All

BRITE’S 2012 BizCLIR assessment was entitled “Choosing Prosperity,” because it was clear, even then, that Moldova’s poverty is self-inflicted. The tentative steps taken, with BRITE’s support, documented above, position Moldova for much greater wealth if it just chooses efficiency. Moldova’s Government clearly knows what needs doing, promises to do exactly what needs to be done, in numerous policy documents, then either ignores its commitments to reform, or actively makes the overall business environment ever more burdensome. Some of the more glaring examples include:

- The Government pledged in the National Development Strategy to reduce the number of permits by 20% from 2012 to 2015. In fact, BRITE estimates the number of permits has actually gone up, from 269 to 282, during this period. Local permits also proliferate, but these are harder to measure. By 2020, the target is another 20% reduction. BRITE has presented a package of legal amendments to eliminate 29 permits and licenses, and to employ other less intrusive methods of oversight and control. The proposals also would strengthen the permit law to prevent unwarranted expansion of permits. Under its trade facilitation activities BRITE has prepared proposals to eliminate and streamline import/export permits and other non-tariff barriers. Unfortunately, the Government has failed to act on these despite its stated policy to the contrary.
- The Strategy 2020 document pledges to reduce the time required for construction regulation to 180 days in 2015, with an additional reduction to 100 days by 2020. Costs should also be reduced by 20% by 2015, with another 20% due by 2020. Sadly, as with general permits, the construction permitting process is getting worse not better. The time it takes to obtain construction permits is still 247 days as it was in 2012, and the country ranks 175th out of 189 economies down from 164 in 2012. Here, too, BRITE has developed a set of proposals that could reduce this time dramatically by establishing clear rules, eliminating unnecessary steps, and automating the process through a single window approach. Yet the government still

has not acted on these despite their commitment to do so. The problem is not only the Government, but also Parliament, where a package of reforms to the construction law prepared with the help of IFC has languished for over two years. This is discussed in more detail under Dealing with Construction Permits below.

- State inspections of businesses were to be reduced 20% in 2015, with another 20% reduction by 2020. Government agencies have been required since 2011 to introduce risk-based inspections, and shift the emphasis of their control activities to encouraging voluntary compliance instead of attempting to discover and punish non-compliance. An inspection registry was introduced in 2013 to create a list of planned and actual inspections, results, complaints, etc. The registry is still not fully functional. At the same time, the World Bank's 2014 Cost of Doing Business (CDB) survey businesses reported the number of inspections had increased over 2013. The companies most often targeted for inspection were those in the Center of the country, locally owned, large-sized firms, and those active in the food industry, commerce, construction, and hotel/restaurant/tourism operators. These are some of the same sectors identified as potentially high-growth by the Government.
- The problem of proliferating permits and inspections is also symptomatic of another serious problem facing local businesses, which is the broad and often overlapping regulatory scope of many agencies. This is a governance failure, as each agency is largely free to define the breadth of its own regulatory authority without much oversight or effective legislative checks. A particularly problematic example is the extent of controls imposed by ANSA and the Ministry of Health and its National Health Center, both of which claim similar competencies, forcing businesses to deal with both over the same or similar issues. Again, BRITE has done admirable work diagnosing and proposing solutions to various individual outbreaks of overlap, which include trade authorizations, construction permits, import/export permits and other non-tariff measures.
- According to the Strategy 2020 plan, the number of business services delivered in electronic form should reach 30 by 2015 and by 2020 all business services should be digitized. While the digitalization of public services is proliferating, it arguably still falls short of targets and still does not include some key services – including electronic business registration, discussed above, and business permits and authorizations, aside from licenses. In addition, some agencies have begun requiring those accessing their services to make use of a digital signature that is only available from the agency itself, for a fee, and only works with the agency's systems and services, and for a limited time, so that another fee can be collected, which requires multiple personal visits to pay for and obtain them. While these fees may not be prohibitively expensive, the cost and inconvenience discourage smaller companies from taking advantage of the digital services.
- Government set as one of its goals that at least 30% of the total volume of permissive acts will be issued through one stop shops by 2017. With the exception of the Licensing Chamber, very few agencies have created one-stop services for their own activities. Exacerbating the problems is a lack of electronic information exchange among different agencies. The result is that businesses are required frequently to collect multiple pieces of paper from multiple agencies to deliver to another agency's one-stop service center. This practice violates a core principle of efficient governance: No government should ever ask a business or citizen for information it already has. These are precisely the kinds of issues that should be regulated by a

comprehensive national information policy framework, and subject to strong oversight, perhaps by the E-Government Center, as discussed below.

Donors face a difficult problem in program design when the beneficiary Government on the one hand commits to essential reforms, and on the other, behaves in contraction to its commitments. An incremental, piece-of-the-problem approach probably won't work, when, uniformly, almost everything is getting worse. IFC, for example, addresses selected control agencies for inspection reform, when the total number is increasing. Similarly, IFC plans to implement pilot one-stop shops for construction in just four municipalities, when over-regulation nation-wide is costing Moldova hundreds of millions in construction projects and tens of thousands of jobs, as discussed below. But, it's not enough to design a flood-control project to stop flooding, it's also necessary to actually build it. BRITE's designs are quite good. Given the nature of this Government, however, nothing will actually get built unless donors succeed in manufacturing the necessary political will.

- A great achievement hailed in the 2012 BizCLIR assessment was adoption of Law 235 on Regulatory Principles of Business Activity, which requires that all draft normative acts that impact business activity must undergo Regulatory Impact Analysis (RIA). Ongoing donor support, including from BRITE, has ensured that the RIA Secretariat in the Ministry of Economy and the National Working Group established by this law are able to work independently and effectively to improve the legislative process and limit unjustified regulations. Moreover, the Regulatory Reform Strategy and Action Plan (2013-2020) call for improvements to the RIA methodology and the capacity of regulators to employ it. However, the Government's own accounting shows that of about 2,260 regulatory decisions taken between April 2012 and August 2014, officials failed to comply with RIA and other requirements to assure transparency and consultation 48 percent of the time. Mandatory anti-corruption review was neglected almost 10 percent of the time, and more than 60 percent of draft regulations were not submitted for RIA assessments as required.

In support of this strategy, BRITE proposed a number of amendments to the RIA methodology (Government Decision no.1230/2006). The proposed changes would streamline the process, making it easier for agencies to comply, improve the quality of the evaluation of any new regulatory initiatives, and increase measures to detect and prevent non-compliance by agencies. This initiative is strategic, because it builds a wider, stronger filter to capture damaging regulatory creep. These proposals were submitted to the Ministry of Economy in January 2015 and despite repeated attempts to advance them through the Government, no action has been taken.

- Another example of targeting a choke point is BRITE's proposal to manage the uncontrolled proliferation of local regulations and approvals. The State Chancellery, which must approve all normative acts before they take effect, asked BRITE's help in getting its approval processes under control. The Chancellery now receives all proposed new acts, in paper form, usually by mail, which creates delays and administrative burdens that impair its oversight functions. Seizing the opportunity to fortify a choke point, BRITE prepared a legislative package that would require all municipalities to submit proposed local acts online to a central, local acts registry. The proposal builds on the web portal that USAID BIZTAR developed to allow local authorities to publish their legal acts and other decisions that may affect local businesses and citizens (<https://controale.gov.md/>). BRITE's proposal makes publication mandatory, reduces processing time for both local and Chancellery officials, and increases transparency and citizen access to information. Publication in a central

repository will also provide national officials with more capacity to identify areas for future improvement and streamlining.

The Chancellery has reviewed BRITE's proposals with local authorities, and approved a final version for submission to the Government, when one is formed, and then Parliament. BRITE has agreed to fund the development of the new local acts registry and back office processes after enactment.

Another egregious burden on business not explicitly addressed in the policy documents arises from uncoordinated reporting requirements. Multiple agencies from the National Bureau of Statistics to STS, the Ministry of Finance, and control agencies, require frequent reports that often overlap. Instead of sharing with each other what they already know, all demand that businesses provide them with the information directly. While it is certainly true that agencies require information to carry out their responsibilities, one wonders why agencies with so little actual capacity require so much information.

In early 2015, the Secretariat of the Economic Council of the Prime-Minister launched an initiative called "one report – many uses," to consolidate the data collected for public institutions from the private sector in order to avoid duplication and, where possible, to eliminate or streamline some requirements for data presentation. BRITE has been participating in this initiative as a technical resource. Participants have completed an inventory of reporting requirements. Among the issues identified is that businesses are frequently required to report the same information to multiple agencies. Employee information, for example, is reported separately to STS, CNAS, and CNAM. The working group found that NBS collects a total of about 160 different reports. The average business is required to submit about 40. Online reporting is available for less than 10 percent of NBS reports, and the registration process to take advantage of even this limited capacity is cumbersome and time consuming. In many cases, other agencies already have the information NBS needs.

Recommendations to Control Over-Reporting:

- **Apply "reverse guillotine:** The current reporting requirements are so burdensome and that burden needs to be drastically reduced. Those remaining can then be managed efficiently. A useful approach for drastic pruning is the "reverse Guillotine," which assumes that a regulatory requirement will be eliminated unless the regulator can make a compelling case for why it should be retained. In most cases, they can't. In fact, in many cases, the data is only collected and is never, or rarely, used. Once the information requirements are rationalized – mostly eliminated – then consolidated, developing streamlined e-reporting procedures becomes much easier.
- **Legal review of reporting obligations:** BRITE should conduct a legal review and operational analysis to determine whether agencies have legitimate needs for the data they ask for, and whether they are authorized to ask for it in the first place. The legal review will help identify weaknesses in the legal framework that give rise to over-reporting, and generate recommended legal improvements that eliminate unnecessary reports, centralize data requests, and mandate data sharing and maximum use of targeted surveys.
- **Standardize, and automate reporting:** Once the overall volume of data requirements are scaled back, BRITE could develop the concept and terms of reference for a single on-line report that meets the legitimate needs of agencies, and does not require information that one already has that others want. The E-

Government's resources could also be used to develop data sharing solutions among agencies so that businesses are not obliged to report the same information many times to many agencies.

Moldova has no shortage of reform opportunities, and BRITE has no difficulty in generating comprehensive solutions that really would solve problems, and help Moldova's businesses to prosper and its economy to grow. BRITE's problem, as well as Moldova's, is not generating the solution, but creating the will to implement. Political decision-makers in various governments have said "yes" many times, in many documents to necessary reforms. But experience suggests that attempts to actually implement reforms to limit burdensome reporting requirements, proliferating approval and inspection requirements, etc. likely will be ignored, delayed, and resisted.

Recommendations for increasing political will:

Based on results, Moldova's political decision-makers have priorities other than reforming the economy. The DCFTA has brought additional ammunition for business environment reforms. As detailed in Annex 1, some chapters of the DCFTA compel Moldova to introduce precisely the types of systemic changes that BRITE's reform initiatives envision to its own internal regulation, including licenses and permitting regimes, because its domestic markets are being opened to EU firms.

More robust engagement may also be required by BRITE, its stakeholders, USAID, and other donors to elevate national prosperity on the current list of political priorities. This can involve both sharpening the message and increasing its volume. Appropriate measures might include:

- **Arm the business community with better weapons for engaging with Government.** Business voices are increasingly pointed about the problems, but complaints are mostly expressed in qualitative terms. Quantifying the costs in time and money that Government overreach imposes on business provides them with an additional tool that they can use with the government and in the media.
- **Increase the cost to government of offenses.** BRITE may want to consider helping establish a public interest litigation capacity that could take on abuse directly. In many cases, Moldovan law provides serious civil liability for infractions. So, such an undertaking might even turn out to be self-funding.
- **Educate the business community about its rights, and equip its members to defend themselves.** Consider launching a comprehensive guide to business rights. Much of what already exists in law is quite business-friendly and facilitative, but is often ignored or poorly implemented. Having a plain language guide would explain the law, what is actually required for compliance, what remedies are in the event of overreach, and provide templates that could be used to initiate administrative or judicial counter-attacks. Developing this guide could be done by BRITE in collaboration with a qualified Moldovan law firm or business service provider to ensure that it is sustainable and regularly updated and disseminated.
- **Remind Government *why* reforms are important.** Shortly after the last new Government was organized, in January 2015, donors presented it with a very detailed consensus action plan for transformation of Moldova's governance and economy. BRITE worked on preparing the action plan, which contained USAID development priorities for Moldova. It was explicit and detailed - a valuable guide to exactly what needs to be done. What was missing is the "why." And the why contains the reward

for reform. As presented, the action plan is a painful pile of necessary measures. The why that was omitted includes the kind of quantification of costs and benefits that BRITE is particularly well-positioned to pioneer. Border agencies must collaborate in an efficient integrated risk management plan because it could increase GDP by 20 percent. Quantifying the why makes politicians responsible for the costs of inaction, and for the benefits of change. That can help create the political will to reform.

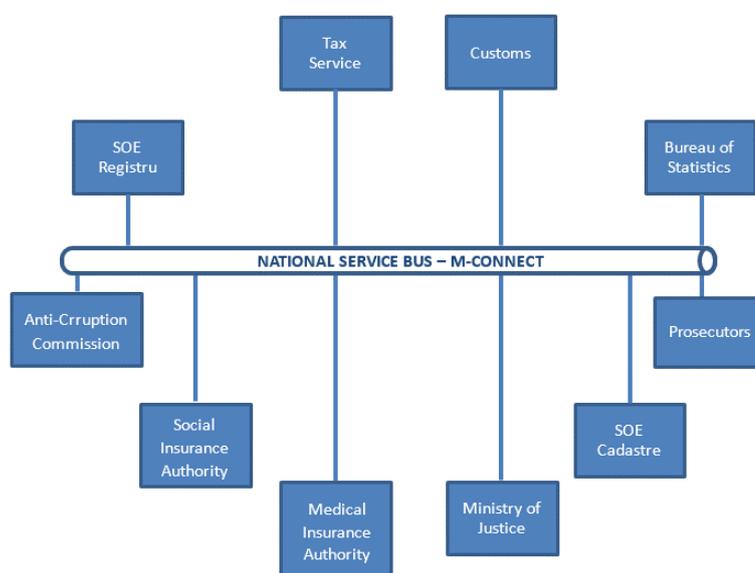
E-Government Center

Automation is ultimately the solution to many of the issues of interaction between government and business that have been discussed above. Unfortunately, e-services sometimes become just another weapon that an agency can use to extract more from business, as in the case of limited digital signatures, described above. Moldova has created quite impressive capacity, but it is passive and uncoordinated. A stronger approach to coordination could help Moldova leap forward dramatically, both in terms of reducing burdens on business and increasing the capacity of regulators to detect non-compliance. Moldova's E-Governance Center has the capacity to lead IT development. It or another agency needs the authority to coordinate and compel Moldovan government agencies to collaborate in creating a more rational, less burdensome system of governance.

The E-Transformation Policy of the Government of Moldova, approved in 2011, is ambitious. By 2020, all public services are supposed to be available electronically and accessible to citizens and businesses through digital means. Transforming manual, paper-based processes to electronic, web-based interactions presents enormous benefits to the public and private sectors, including lower costs, less time required, increased transparency, less opportunity for corruption, and better tools for regulators to detect non-compliance.

To lead this transformation, Moldova has created the E-Government Center, an independent public institution subordinate to the State Chancellery. The agency is resourced, with competent technical team members, who have led a number of important initiatives and collaborated productively with USAID initiatives under BIZTAR and BRITE on a number of occasions.

The Center also has put in place a national service bus, depicted in the graphic at left, which is a huge



Source: E-Government Center

advantage for a developing economy that is transitioning to electronic delivery of public services. The service bus, a combination of hardware and software, dramatically simplifies the implementation of a national data exchange system. Without a service bus, each agency must tweak its software to connect individually to every other agency. Every time one agency makes a change, all others must as well, ultimately resulting in a complex web that is expensive to maintain, frequently fails, and is prone to security leaks.

With a service bus, each agency connects once, and the service bus handles the interactions among all. The Center has trained personnel who can assist individual agencies in making the connection, which includes translating internal agency data into a common national standard for exchange among all agencies. The E-Government Center has also built Mpay, a national online payment platform that allows citizens and businesses to pay online for services received online from individual agencies.

These arrangements suggest that Moldova has implicitly chosen the better of two models for managing government data. A centralized approach puts all control over standards, platforms, procurements, etc., under a single agency. This is problematic, because the central controlling agency is not likely to understand, much less share, the priorities of its constituents. The alternative, which Moldova seems to have selected is to distribute control among its constituent elements, allowing them to set their own priorities and requirements, using the service bus to convert their data into a form that can be shared across the Government, and with the public. Some degree of coordination, however, is required, and Moldova appears to lack it. Examples, cited above, include individual agencies each issuing their own digital signatures, for a fee, that only work with their own websites or e-services, and duplicative reporting requirements.

The Center needs to be more than just a passive resource, available to assist when its help is requested. Rather, it should have a degree of authority, including at least the power to compel all agencies to inform it of what data they collect, and to require them to share it according to a government-wide information policy and security framework that protects the integrity of the data, whatever its source, and provides an appropriate level of privacy to the citizens and businesses whose data is collected. The E-Government Center also needs to establish a nationwide digital signature system for all interactions with Government, and to prevent the present fractured system. This essential element of coordination and oversight seems to be missing in Moldova:

Recommendations:

- *Conduct an information policy and security framework assessment:* BRITE should conduct an assessment of the Center's authority and Moldova's overall information policy and security framework, and recommend appropriate measures to ensure that individual agencies have autonomy to set their own priorities and develop their own systems accordingly, but that data is shared broadly, according to a national policy framework. International practice has some very strong examples, including Estonia and Georgia.
- *Facilitate informal meetings of Center and agency IT leaders:* Magic happens when the heads of IT departments get together informally to share ideas, problems, and solutions. Such meetings help to break down inter-agency barriers, and promote consensus for faster advances in broader sharing.
- *Host awards ceremony for best IT solutions:* Recognizing and rewarding success is a great motivator for innovation. BRITE should consider partnering with business organizations to host an awards celebration that recognized achievements in a variety of categories such as best IT department, solution that saved the most time or money, that reached the most businesses or citizens, etc.

Closing a Business

Responsibility for overseeing the voluntary closure of a business by its owners now rests with STS, which has no clear procedures or time limits. As a result, it can take years for closure to

finally, formally be recognized. In some instances, the business can continue to accrue liabilities during this period. For example, an individual entrepreneur is responsible for social security payments while the business is active. That liability continues until formal closure is officially recognized. Failure to pay the accruing liability is sometimes used to justify refusal to let it close.

This situation also inhibits investment. Most investors in developing economies prefer to acquire assets rather than operating businesses, because they don't want to assume hidden liabilities. Moldova's confused closing procedures actually inhibit investment in its economy.

BRITE has submitted to STS and the Ministry of Finance a package of proposed amendments to various laws to provide a clear, structured process, with defined time limits for agency action. The good offices of the Prime Minister's Economic Council have also been enlisted to move the matter forward. If enacted, BRITE's proposals would reduce the time for a voluntary closure from years to months. A businessman in a hurry could probably complete the process within four months, a very reasonable timeframe. The only concern raised by the proposal is the apparent absence of room for risk management. STS appears to be obliged to act affirmatively in every case for a closure to go forward. Among its affirmative obligations are to conduct an inspection and approve the closure, complete a final fiscal control to ensure all state debts are paid, and advise the State Registration Chamber that the company has paid its debts to the state and can be liquidated. In most cases, which will involve micro-enterprises, STS has far more important things to do.

Recommendation – *Build in silence-is-consent principle:* The process should be designed to require the Chamber to strike the company from the business registry after passage of the time within which STS should have submitted formal notice to proceed with de-registering the company. This will allow STS to do nothing, as it should in most cases, without penalty to the company or its owners.

Dealing with Construction Permits

Construction regulation provides a specific, sectoral example of how multiple, rent-seeking bureaucracies can oppress business, suppress economic growth, and pervert the legal norms intended to constrain them. BRITE’s 2012 BizCLIR assessment provides a detailed accounting of the depressing nature of construction regulation in Moldova. At the time of that assessment, Moldova ranked 168th of 189 economies surveyed on the Doing Business “Dealing with Construction Permits” indicator. As appears from Table 15, the situation has only gotten worse.

Moldova now ranks 175th of 189 economies surveyed. Its 27 procedures rank it dead last on DB 2015 of 186 economies that actually issue construction permits. The 247 days the regulatory process adds to the construction cycle ranks

Table 15. Moldova’s Dealing with Construction Permits Performance

Indicator	OECD Average	Frontier	Moldova			Lower Bound
			Score	DTF	Rank	
Procedures (number)	11.9	6	27	12.00	186	28
Time (days)	149.5	26	247	36.31	166	395
Cost (% of warehouse value)	1.7	0.2	0.8	96.02	58	2,560
Overall				48.11	175	

Source: World Bank Doing Business

Moldova 166th in the world. Its costs, 0.8 percent of the value of the hypothetical warehouse used in the indicator methodology, appears to be the one bright spot, ranking 58th. However, Doing Business counts only official fees and costs, and most of the 27 procedures exist only for unofficial payments to change hand.

The cost to Moldova’s economy of this abusive regulation has been very high. One symptom is the likely widespread illegal construction across the country. Another symptom is how little construction contributes to GDP, only 3.3 percent in 2014, a figure that has been similarly low over the past few years. The OECD average was 7.9 percent in 2014. Moldova, a transitional economy with a pressing need for infrastructure development, should have had an even higher rate. Thus, Moldova’s abysmal construction regulation has probably cost the country sector construction investment of at least 4.6 percent of GDP, or about \$365 million dollars in 2014 alone.

About 66,400 Moldovans were employed in the construction sector in 2014. Just as efficient regulation could more than double the total value of construction, it’s probable that employment would soar at a similar pace. Increased demand for construction workers would also raise wages.

Moldova’s long delays put its construction sector businesses at a severe competitive disadvantage. Builders must commit funds in advance, and don’t begin to recoup their investment and earn a reasonable return until after the project has been completed. Regulation in Moldova takes about 100 days more than the OECD average. The cost to investors of those extra 100 days can be estimated:

- Construction totaled about \$262 million in 2014 – 3.3 of the sector’s contribution to GDP X 2014 GDP of about \$7.9 billion.
- The opportunity cost of each day of delay can be calculated by dividing the World Bank’s annual lending rate, a useful proxy for the cost of money, by 365 days. Moldova’s lending rate – 11 percent – divided by 365 days equals about 0.03 percent per day.

- The additional cost to Moldovan builders because construction regulators take 100 days more than the OECD average is about \$7.9 million – \$262 million in 2014 construction costs X 0.03 percent daily opportunity cost X 100 days.

This additional \$7.9 million in costs is about three percent of the total 2014 construction value of \$265 million, a direct expense caused by unnecessary delay. That might not seem large. However, the developer has to make at least 11 percent on its investment just to break even on the cost of capital. The additional three percent represents almost 30 percent of that 11 percent break-even return, making construction investments in Moldova much less attractive than investments elsewhere.

Moldovan reformers attempted to transform regulation of the construction sector with passage of a very progressive new legal framework in 2010, Law 163 on Authorizations of Construction Works. Stakeholders at the time called it “revolutionary,” because it introduced a new conceptual framework and important process improvements. Key elements introduced include:

- Construction permitting is organized into three phases::
 - Zoning approval – “urbanistic certification” authorizes construction of a certain type of project in a certain place.
 - A construction permit is issued after review and approval of the project drawings and design.
 - At the final reception phase, authorities confirm that the project has been built as designed and is fit for purpose.
- Law 163 envisions a relatively simple and straightforward process for the first two phases that should take about 20 days. The applicant should deal directly with a single approving authority, who obtains input and sign-off from relevant agencies.
- Unfortunately, individual agency sign-offs were retained at the final reception phase, and they have used this ultimate veto, in practice, to require that builders also engage with them at the first two stages. These efforts are assisted by the fact that most municipalities don’t have master plans, so sometimes other agencies really do need to be consulted for urbanistic certification.

For these reasons, the revolution promised by Law 163 has been unrealized. Moreover, after passage of the law, new burdens were introduced for builders. New approval authorities were added like the Archaeological Agency and the Council of Historical Monuments, and new fees were introduced in 2013 for the urbanistic and construction permits that are based on the building area.

The result – 27 procedures, 247 days, and a depressed construction sector.

The IFC has proposed a package of amendments to the law that would complete the reform that Law 163 started. Unfortunately, the legislation has stalled in the face of fierce opposition. BRITE has developed an alternative approach to accomplish the desired result. BRITE has drafted a Government Regulation that would establish a virtual one-stop shop for construction regulation. Instead of individual interactions with up to eight different agencies at each of the three phases of the construction process, BRITE’s regulation establishes a single point of entry to seek local approval. Behind the door, agencies may confer as they will, but the draft regulation forbids interactions with the applicant outside that single point of entry. The draft regulation, which is accompanied by a process map, and interpretive notes, explicitly operationalizes the silence-is-consent principle. The software that will support implementation, which BRITE will help develop, will automatically issue the necessary approvals when the local authorities miss deadlines or otherwise fail to comply with their

obligations. The software, a national platform for local activity, will also provide an important monitoring tool, enabling the State Chancellery to identify problematic behavior by local authorities.

The BRITE regulation would reduce the number of procedures from 27 to 12, and the number of days from 247 to 90, which far exceeds the OECD average. In addition to boosting Moldova's Dealing with Construction Permits ranking from 175th to about 26th, this reform would liberate the construction sector, increasing GDP, and generating tens of thousands of new jobs, and higher wages.

Recommendation – Support construction regulation reform with quantified cost/monetized benefits analysis: The technical proposal is very strong. It is unlikely, however that counterparts understand just how much harm the current dysfunctional system causes. Construction sector reforms tend to produce real growth faster than other types, so it is very important to buttress arguments for the proposal with evidence of the economic benefits likely to result.

The construction sector also suffers from several problems that may take longer than BRITE has left:

- The technical regulations that govern most construction in Moldova are the Soviet-era “SNiPS,” or “Stroitelnye Normy i Pravila.” These standards are often obsolete because of changes in building materials and technological improvements. They also reflect a different conceptual understanding of the nature of construction regulation. Continuing reliance on the SNiPS isolates Moldova from the EU industry. Although Moldova has begun transition to the EU's Eurocode standards, much more work remains. Completing the transition is likely to be a long, arduous, technical task, which will require not only producing a voluminous body of written work, but providing training and education to equip construction professionals to use the new system.
- Technical assistance to complete drafting and enactment of a comprehensive new Construction Code, which has been underway for several years, and to support implementation, would be a valuable contribution for follow-on programming. The many and conflicting laws now affecting the construction sector need to be consolidated and modernized.
- Municipal master planning is another area in which much work needs to be done. Local authorities are tasked with responsibility for developing master plans. When a master plan is adopted, zoning approval is faster. The DB 2015 report highlights the development advantages of master planning in one of its case studies, “Zoning and Urban Planning: Understanding the Benefits.” While development of a municipal master plan is an intensely local undertaking, there may be national actions that could simplify and systematize the task facing local officials, and help to produce a more consistent product across the county. This task, identifying national initiatives to speed local master planning, is within BRITE's manageable interest.

Recommendation – Study on how national government can promote local master planning: BRITE could undertake a study of the obstacles to local master planning and develop recommendations for national systems that could support this undertaking. One idea, by way of illustration only, is to create a national, web-based platform to host all local master plans. The Cadastral Registry already has a fully digital database of parcel maps. Providing it with the capacity to host layers that overlay the parcel maps with utilities networks, geographical information like elevations, etc., can greatly simplify the task of local planners, builders and developers, as well as regulators. Such an engine could also host other types of

layers, including water resources, tourism sites, business locations, transportation networks, greenfield industrial sites, etc., developing into a powerful tool that could be accessed by potential investors and government officials promoting investment. The technology for development of such a platform is well-developed and not particularly expensive. Another approach to speed and systemize local master planning might be to develop checklists, process guides, and training materials for local officials.

Getting Credit

Moldova's ranking of 23rd of 189 countries surveyed on the Getting Credit indicator of the DB 2015 report is one of its best scores. This high ranking seems anomalous, given the many complaints from the private sector about the cost and availability of credit in Moldova. Several reasons may help explain the discrepancy:

Table 16. Moldova's Performance on Getting Credit

Indicator	OECD Average	Frontier	Moldova			Lower Bound
			Score	DTF	Rank	
Strength of Legal Rights Index (0-12)	6	12	6	75.00	33 (21)	0
Credit Information Index (0-8)	7	8	8	66.67	24 (40)	0
Moldova's Overall Getting Credit Ranking			---	70.00	23	

Source: World Bank Doing Business

- The DB 2015 report introduces a new methodology for Getting Credit that acknowledges the ascendancy of an approach to secured transactions that has been the subject of debate in development circles for several years. Moldova has been the recipient of recent technical assistance in this area, that incorporated much, but not all, of the new approach into its legal framework.
- Some aspects of the new approach, particularly in the nature of the collateral registry required, is still in the implementation phase in Moldova.
- Some of the most important aspects of the new approach have not been incorporated into Moldova's legal framework.

The Getting Credit ranking is based on the scores of two indices:

- The Strength of Legal Rights (SLR) Index measures the flexibility and effectiveness of a country's secured financing regime. The DB 2015 methodology makes the indicator a much better measure of the true status of a country's secured financing regime. The changes in methodology increase the number of questions from eight to 12, of which Moldova gets eight right. The changes in methodology test three primary aspects of secured financing:
 - **Collateral options:** The more options that business borrowers and lenders have in using the debtor's assets as collateral, the more access businesses have to finance. In a strong system, every asset of the debtor, tangible and intangible, can be used as collateral, whether currently owned or acquired in the future.
 - **Collateral registry:** A strong collateral registration system provides a single point of access to universal notice of all claims to any type of movable and intangible property owned by any type of borrower. The registry should allow lenders to easily search and file claims themselves, online, cheaply, and in seconds.
 - **Functional equivalents:** Commercial practice, especially in common-law countries, has developed a variety of ways to accomplish the same thing -- securing a debtor's obligation to repay money used to acquire property. A finance lease, for example, is already recognized by International Financial Reporting Standards, as functionally equivalent to a standard secured loan. All such functional equivalents should be covered by a comprehensive "Personal Property Security Act," and subject to the same registration requirements. A weakness of Moldova's regime in practice is that it does not treat a financial lease as a functional equivalent that must be registered in the collateral registry.

- The Depth of Credit Information (DCI) Index measures how well public credit registries and private credit bureaus meet the needs of borrowers and lenders in providing timely and accurate credit information. The new DB 2015 methodology increases the number of questions from six to eight. The new questions ask whether online access to credit information is available, and whether the system generates credit scoring.

Table 17. Moldova’s Wrong Answers on Getting Credit

No.	Question	Answer
Strength of legal rights index (0-12)		
1	Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?	No
2	Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	No
3	Does a notice-based collateral registry exist in which all functional equivalents can be registered?	No
4	Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?	No
Depth of credit information index (0-8)		Credit Bureau
1	Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed?	No
2	Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers?	No

Source: World Bank Doing Business

Table 17 reproduces the Getting Credit index questions on which DB 2015 scores Moldova as having the wrong answers. The four SLR issues on which Moldova falls short directly impact the cost and availability of credit. Right answers to the first two questions reflect some aspects of a legal framework that affords great flexibility in shaping the security agreement to the debtor’s circumstances. A modern law allows almost anything of value that the debtor now has or may have in the future to be given as collateral. Of particular importance to Moldova, is that such laws contain special provisions simplifying the use of agricultural assets as collateral – including crops, livestock, warehouse receipts, etc. The second two SLR questions Moldova gets wrong relate to the nature of the collateral registry. The modern model legal framework has been optimized to be implemented with web-based online access, which reduces the risk and transaction costs for creditors to protect their security interests against competing claims.

Of the two DCI Index questions on which Moldova is scored as having a “no” answer, the first is important for first-time borrowers who don’t have an established credit history. Data from utility companies or retailers can help show that such borrowers customarily pay their bills on time, affording more comfort to lenders. The obstacle to providing this information is that, though utilities and retailers are apparently willing to participate, they deemed fees proposed by the regulator to be excessive. The second question relates to credit scoring – providing the lender with a qualitative ranking of the debtor’s credit worthiness based on the information contained in the borrower’s credit history. Credit scoring is generally automated, and ought not to be difficult to provide.

With a few notable exceptions, Moldovan banks are reported to be well-capitalized and liquid. However, credit, particularly for SMEs, is expensive, maturity is generally less than a year, and hard collateral is generally required. Leasing, which helped fuel Korea's transition from developing to developed economy, represents a very small fraction of bank lending, and is mostly used for leasing of cars to consumers. A lender's ability to effectively enforce its interest in collateral in the event of a default is a key issue in making credit more available on better terms. Best international practice is to provide the creditor with the ability to liquidate the collateral without going to court. Moldova apparently does not allow this option, even to lessors. It has, however, in recent years allowed private bailiffs to operate. Not much information is available on how well this has worked out in practice.

Recommendation – Assess secured lending environment: Although donors, including USAID, have invested significant resources in secured lending in recent years, some evident departures from current best practice are present. This is most apparent in the case of financial leasing, which is not treated as a functional equivalent of a secured loan, to the detriment of development of the industry. USAID has generally been ahead of the rest of the donor community in implementing the new model for secured finance now recognized by the Getting Credit indicator. Implementation of this model in countries like Kosovo and Albania was accompanied by measurable increases in secured lending, particularly to SMEs. USAID has also developed a self-assessment tool that could be used by BRITE for a preliminary diagnostic to determine whether Moldova would benefit from an in-depth analysis. The diagnostic covers not only the legal framework, but the practical function of the collateral registry, and the enforcement environment.

Public Procurement

Public procurement (PP) is often overlooked as a market opportunity for local firms, particularly for SMEs, which, as noted in this report, account for the vast majority of firms in Moldova. The total value of public procurements in Moldova has been steadily growing over the last several years, reaching MDL 10.8 billion in 2014, about 9.7% of GDP. The EU-Moldova AA agreement requires Moldova to harmonize with EU legislation, and provides for a transition to open competition for public procurements among all signatories.

Business and donor organizations have identified a variety of issues with the way public procurements have been carried out in the past. Weak oversight by supervising institutions, and poor follow-through by law enforcement and judicial bodies has been blamed for a variety of problems, including rigged tenders, preferences for state-owned enterprises, conflicts of interest, failure to publish tender announcements, etc. Recent progress has been observed, however. Between 2013 and 2014, the number of public procurements made by open tender announced by the Public Procurement Agency increased from 1,004 contracts worth MDL 2 billion to 2,469 contracts worth 3.5 billion. The number of public procurement contracts implemented without prior publication in the Public Procurement Bulletin fell sharply from 22% in 2011 to only 2.2% in 2013.

Moldova's Parliament enacted a new Law on Public Procurements in June 2015. Drafted with EU assistance, the new law complies with EU requirements, and creates a modern legal framework, that, if properly implemented, will provide a fair, transparent, fully competitive public procurement process that delivers quality goods and services to Government agencies. The law introduces too many new provisions and procedures to itemize, but key provisions include:

- The Public Procurement Agency will keep its current functions of supervising and inspecting the procurements by Government agencies, but a new PP Dispute Resolution Agency will be established to investigate complaints of irregularities. Both agencies will be under the Ministry of Finance.
- New criteria are provided for evaluating the costs of various types of operations (leasing, insurance, concessions, financial services, engineering works, etc.)
- Exceptions to application of the law are taken largely from the EU Directive.
- Seven methods for public procurements are authorized and the rules for each spelled out: open auction, restricted auction, negotiations, competing dialog, request for price offers, competition among alternative technologies, and tenders for architectural plans for construction of public housing.
- The law defines the roles, functions, and duties of contracting authorities, who must organize the procurement process, draft the tender materials, etc., through working groups that include representatives of civil society.
- All specific terms and conditions of the proposed agreement must be disclosed before the tender, announcements published in a specialized bulletin, and all communications relating to a tender must be in writing.
- Standards for qualifying bidders (general criteria including financial, technical, professional capacity, etc.) or disqualifying bidders (insolvency, debts to the state budget, criminal record, etc.) are clearly spelled out. The contracting authority working groups are responsible for applying the qualification criteria to screen bidders.

- Selection must take into account a range of elements, e.g. price, quality, payment conditions, additional costs, etc., and can be based either on the best price, or the value based on both technical and economic criteria combined.
- Detailed procedures are spelled out for the different phases of the procurement process, in including comparing the bids, selecting the winning bid, guaranty, canceling the tender, announcing the results of tender, conflict of interest rules, etc.
- Dispute resolution and litigation procedures related to PP procedures and operations.

State Procurement Agency officials, in meetings both before and after passage of the new law, have asked BRITE for two types of assistance:

- **IT system upgrades:** IT system issues were identified even before passage of the new law. A December 2014 evaluation by the State Audit Chamber¹¹ was highly critical of the SPA system, despite prior donor support in 2011 and 2012 by UNDP and the World Bank, respectively. The evaluation recommended that SPA work with the CRIS Register and E-Government Center to ensure a modern and functional procurement IT system. SPA is also discussing support with both the World Bank and EU, and both have funding options that will be available in 2016. SPA would like BRITE's help in developing the technical specifications for the project that World Bank or the EU would implement.
- **Implementing regulations:** The new law requires that implementing regulations be in place within nine months after enactment. SPA officials estimate that drafting of about 25 documents will be required, and have asked for help not only in drafting, but in organizing the work, including the approach taken.

Recommendations:

- ***Support drafting of regulations, but not IT system upgrades:*** Support for drafting of the regulations is a concrete, specific task that is well within BRITE's manageable interest and could have far lasting impact on the conduct of state procurements and their impact on the business environment, the quality of goods and services procured, and the level of corruption involved. As a part of this process, general guidelines for IT implementation could be developed. The ultimate funder, however, is not likely to accept someone else's technical specifications, but will want to participate in the development process.
- ***Support SPA in developing appropriate metrics:*** BRITE should assist SPA in developing indicators that can be used to assess its performance, as well as the impact it is having on Moldova's business community. For example, data should be kept on the volume and value of awards to SMEs and SOEs, to foreign and domestic firms, etc. Such metrics will help the Ministry of Finance and other agencies evaluate SPA's performance and the effectiveness of the new law, as well as make adjustments to procurement policies as necessary to achieve values such as increased awards to SMEs. These metrics would also be consistent with and lead to direct improvements in BRITE's own performance monitoring measures.
- ***Develop plain-language guides and explanatory materials:*** BRITE can help increase participation by Moldovan SMEs in public procurements by preparing clear guides on the process and requirements, and perhaps other tools like budget templates, that will help them compete more effectively.

• ¹¹ The assessment (in Romanian) is available online at:
<http://lex.justice.md/viewdoc.php?action=view&view=doc&id=356041&lang=2>

Labor Issues

Though not addressed by USAID BRITE directly in the past, problems with the labor code, i.e. its lack of flexibility and over-emphasis on employee protections has long been a complaint of domestic and foreign businesses in Moldova. This problem becomes more acute in an environment where labor, particularly skilled labor, is in increasingly short supply. As noted earlier, this is a major constraint for foreign investors, and, in practice, actually leads to fewer protections for workers, particularly women.

The American Chamber of Commerce (AmCham) has so far led the way in engaging the Government and private sector in revising the Labor Code to provide more flexibility to employers and encourage more formal employment. An AmCham-led working group that included the Ministry of Labor, Social Protection and Family, trade unions, and employer groups, developed a package of draft amendments that were presented to the Government earlier this year and adopted in June 2015. They are now pending parliamentary approval.

Some of the key amendments proposed in this draft include the following:

- Termination of an employment contract by mutual agreement of the employer and employee is permitted. Under the current law, only resignation or formal dismissal are considered legal grounds to terminate employment.
- An employment agreement may require confidentiality for up to two years after termination, rather than the one year allowed in the current law.
- Economic reasons are added as a basis for staff redundancy terminations. Currently, only purely legal reasons can justify redundancy.
- The draft amendments expand the ability to enter into a fixed-term employment contract for implementation of an investment or technical assistance project, i.e., expressly recognizing the temporary nature of these types of projects and therefore their eligibility for fixed-term employment.
- The new law will also simplify procedures for resignation of a company manager, his deputies, and the chief accountant.
- The amendments clarify the rule relating to unauthorized absence from work (at least four hours), and eliminate the requirement of prior consent of the union for terminating an employee.
- Dismissal procedures in case of liquidation of the enterprise or one of its subdivisions are improved, and termination is allowed when an employee refuses transfer to another unit within the company.
- The amendments will require an employer to rehire an employee within three days of a court decision finding an earlier dismissal was illegal or unwarranted.

While many of these clearly benefit employers and provide them more flexibility with regard to hiring and firing, there remain other aspects of concern to local companies. According to AmCham, the working group accepted only about 50% of their requested amendments, but these were tabled for later discussion in favor of pushing through these more critical reforms.

AmCham and its member organizations, which include large employers and prominent law and accounting firms, have expressed the view that donor technical assistance in support of their activities is not really necessary. One area in which BRITE might be able to play a useful role is applying its quantified cost analysis to particular issues of disagreement between employers and employees. In Malaysia, for example, a labor market working group that includes representatives of groups, as well as government, saw employers and employees unite against the government on a proposal to streamline employee appeals of dismissals.

Employers had thought the government's intervention reduced their liabilities, but the math showed instead that the delay increased total liability. Employees also supported efficiency reforms that reduced business costs, because they recognized the adverse impact of government inefficiency on employers' ability to add workers or pay higher wages.

Recommendation – *Monitor employer/employee discussions, and where appropriate, quantify costs:* This approach will require minimal resources, and may on occasion produce surprising results.

Strategic Communications and Performance Monitoring

USAID designed BRITE with Strategic Communications as one its three core components. Lessons learned in its first three years prepare the project to make this component one of the centerpieces of its last year, and to use its resources to leverage support for its trade and tax administration and regulatory reform initiatives. BRITE's Performance Monitoring Plan can play a key role in this effort, providing some of the key data necessary to power stronger communications outreach.

Recent efforts to involve the media in promoting reforms and holding the government accountable for policy failures are a very positive development. It reflects an understanding of the need for more advocacy not just with Government, but directly with citizens and businesses that have the most at stake. Outreach efforts would be more effective if coupled with more rigorous analysis. Many of the recommendations herein involve supplementing BRITE's very strong technical proposals to solve problems with a greater emphasis on quantifying the staggering costs to Moldova's economy and its businesses that arise from those problems. BRITE needs to clearly communicate the evidence that suggests that Government unwillingness to change is impoverishing the nation.

International experience suggests that when citizens and businesses are able to quantify their pain, they are more effective in holding politicians to account, and demanding change. BRITE already uses the basic methodology for quantifying the costs of regulatory inefficiency. Two of the indicators in its Performance Monitoring Plan directly measure the monetized benefits – efficiency savings – to business and to government from the reforms BRITE implements.

Calculating monetized benefits requires the same approach, applied after reforms have been introduced, as quantifying the costs of inefficiencies that need to be reformed. BRITE needs to devote more emphasis on quantifying costs before reforms as an essential part of making the case for change. The costs are staggering, as was apparent from the previous discussion, particularly in the areas of trade and construction. Quantifying costs can help mobilize citizens and businesses to demand change, and make political decision-makers more receptive to making change. Thus, quantifying costs can be a powerful tool in creating the political will to implement reforms.

The approach BRITE uses to monetize benefits is based on the “Standard Cost Model” of assessing the information burdens that government regulatory requirements impose on business. Initially developed by Dutch regulators, it omits some significant costs that regulation imposes, including opportunity costs arising from delay, official fees and charges, etc. BRITE should take a more expansive approach, including all of the actual compliance costs that businesses bear, not just the limited set counted by the Standard Cost Model.

BRITE's PMP also misrepresents the relationship between monetized benefits for business and those for government arising out of the same reforms. The PMP assumes similar savings for each, setting a project life target of \$100 million for monetized benefits both to business and government. International experience demonstrates unequivocally that the costs of inefficiency are not shared equally. The same inefficiency almost invariably costs business orders of magnitude more than it costs government – 20 to 50 times greater in most cases. In fact, the discrepancy is so great that efficiency cost/savings to government probably aren't

worth tracking. The reason for the discrepancy is fairly obvious upon reflection: A small body of regulators imposes requirements for its immediate convenience upon the much larger body of those it regulates.

The greatest benefit to government from reforms that reduce compliance burdens on business is generally the increased revenue that arises from the increase in the volume and value of regulated, taxable transactions. Whenever government makes it easier, faster, and cheaper for business to do something, they do it more often. Tracking increased transaction values and volumes should be built into the communications strategy and performance monitoring. If transaction volumes and values don't go up after a reform, then there is another problem to be addressed. If for example, trade volumes and values don't increase after MCS implements 70 percent green channel, another issue remains – perhaps other agencies are causing delays that MCS can't counter. Increased volumes and values should also be at the core of the communications message, because they are part of the proof that reform is working and the economy is growing.

This assessment has provided examples of some of the simple tools and methods that can be used to quantify costs and benefits. Installed capacity to do the simple analysis required would be a valuable result for BRITE to leave behind. The methodology can be used to attribute responsibility, set priorities among competing reforms, generate political will to reform, and provide reformers with cause to celebrate. The Moldova Development Strategy 2020 document requires Government to perform an ex-post analysis of the impacts of its regulations on business. This requirement may not be taken as seriously as it should be if undertaken by the Government itself. A more useful approach would be to work with business organizations and train them to work with their constituents to quantify the costs of the regulatory inefficiencies they deal with daily

Recommendation – Transfer quantified costs/monetized benefits methodology:

BRITE should conduct workshops with stakeholders of particular regimes to test and adapt the methodology to its own needs. Other developing economies use the methodology in stakeholder workshops with members from business and government to design reforms to Doing Business indicators. Inefficiency cost calculations in that context promotes consensus for further and faster reforms. After exploring the methodology, BRITE could develop a simple guide to produce consistent results that others can replicate, and offer workshops to business organizations, think tanks, universities, and even to Government agencies. A likely result will be louder, more informed, and more determined calls for reform.

Conclusions

Several preliminary conclusions emerge from this assessment of Moldova's development context, and the work of BRITE and other donors. These lead to a final conclusion. The preliminary conclusions are as follows:

- Moldova's prolonged poverty and fragile economy is largely self-inflicted, a product of poor governance and pervasive corruption.
- Bureaucratic overreach is crippling Moldovan businesses, suppressing economic growth, and forcing its citizens to leave the country to find work.
- To a remarkable degree, successive Moldovan Governments appear to have understood what is wrong, and committed, with a degree of specificity that is surprising both in its breadth and its depth, to change. These commitments are reflected in a number of different national action plans and strategy documents.
- Moldova has made some significant strides forward what could help lay the foundations for dramatic improvement. Examples include introduction of risk management by MCS, the online Taxpayer Current Account introduced by STS. These reforms meet immediate needs but create platforms that can be built on to great effect to reap far broader benefits in the future. Another example is the E-Government Center and the technological capacity it has introduced, including a platform for national data exchange and electronic payments.
- Despite the commitment to change, and development of important platforms to support change, the stifling embrace of Moldovan bureaucracy is in many cases either not improving or getting worse.
- The EU-Moldova AA and DCFTA present an opportunity and a threat. If Moldova meets its obligations, prosperity could lie ahead. If it continues to fail to address its bureaucratic excesses and pervasive corruption, however, precipitous decline is the likely outcome.
- The costs to Moldova's economy of the extraordinary inefficiency and excess that characterizes its regulatory regimes are readily visible in many sectors. Order-of-magnitude estimates of those costs have been developed in this assessment. These are ripe fruits, hanging low, ready to be picked.
- BRITE's interventions are aesthetically pleasing from a technical perspective. They are precisely targeted at bottlenecks and chokepoints to leverage impact, and produce cascading benefits. They are precisely the types of interventions required for national transformation.

These preliminary conclusions lead to a final observation. Moldova is balanced precariously on a precipice. It can either choose prosperity, which is well within reach, or plunge into further economic disarray. Telling that truth could well tip the balance. BRITE's Strategic Communications team should be unleashed to tell this story in aid of its initiatives.

Annex 1: Table of DCFTA Activities and Implementation Gaps

SUMMARY VIEW:

No.	DCFTA Chapter Topic	GOM	Donor Activity	Gaps/Opportunities
1	National treatment and market access for goods: Most tariffs on imports are to be eliminated by both sides. Each signatory will provide same national treatment to others as is provided to own producers. Moldova has some protections that afford its producers time to transition and prepare to compete more effectively with EU producers.	MOE, MOF, MCS	EU, WTO consultation/collaboration	BRITE providing assistance in some areas.
2	Trade remedies: Each side can use WTO-sanctioned defensive remedies in case of trade violations by the other, or reintroduce tariffs where increased imports create a risk of serious injury.	MOE	EU, WTO consultation/collaboration	No opportunities for BRITE identified.
3	Technical barriers to trade, standardization, metrology, accreditation and conformity assessment: Moldova commits itself to gradually align with EU technical regulations and standards, and conformity assessment procedures governing industrial products, and to developing the extensive implementation infrastructure required to fully implement. Given Moldova's current capacity, this is a challenging obligation in many dimensions.	MOE	EU is supporting harmonization of laws and standards.	BRITE inventoried overlaps and overreaches, and specified what needs to be done. USAID could support legal reforms and quality upgrades targeting priority, high-value sectors products where the impact will be more immediate.
4	Sanitary and phyto-sanitary measures: Moldova will gradually align with EU norms for agricultural products, which are consistent with existing WTO requirements. The payoff for Moldova is EU market access for agricultural products now barred because they fail to meet EU standards.	MOE, ANSA, Ministry of Agriculture	EU, IFC	BRITE inventoried overlaps and overreaches, and specified what needs to be done. USAID could support legal reforms and quality upgrades targeting priority, high-value sectors products where the impact will be more immediate.
5	Customs and trade facilitation: Moldova's customs legislation and its clearance practices and procedures must converge with EU norms.	MOF, MCS	USAID BRITE, EUBAM, IFC	BRITE best positioned to lead Customs reforms
6	Establishment, trade in services and electronic commerce: Moldova is to be integrated into the EU services market, and opportunities for cross-border service providers expanded, with free movement for business purposes for key personnel, graduate trainees, contractual service suppliers, and independent professionals. Moldova must align regulation of financial, electronic commerce, postal and courier services, and international maritime law with current and future EU legislation.	MOE, MOJ, NBM, NCFM, Licensing Chamber	BRITE, EU, IFC, WB	Chapter 6 relates to BEE/RR activities of all donors. Great leverage for ongoing BRITE activities

No.	DCFTA Chapter Topic	GOM	Donor Activity	Gaps/Opportunities
7	Current payments and movement of capital: Parties authorise, in freely convertible currency, as per IMF Agreement, any payments/transfers on the current account of the balance of payments between the parties. Moldova must draft amendments to Law on Foreign Exchange Regulation to liberalize certain capital transactions	NBM, MOF		Not in BRITE's scope.
8	Public procurement: Moldova is required by the AA to adopt current and future EU legislation on government procurements of public works, goods, and services. Procurements above a certain threshold amount in all signatory countries must be open to all qualified bidders from any of them. This will require significant changes in Moldovan practice. Preferences for domestic providers must be eliminated, and corrupt decision-making must be addressed.	MOF, SPA	EU, World Bank to support IT upgrades in SPA	USAID BRITE could support implementing regulations to new EU-compliant Procurement law.
9	Intellectual property rights: Moldova will be required to enforce EU IPR rules on matters such as copyright, designs, patents, trademarks and geographical indications (GIs), which are consistent with the signatories' WTO obligations. A strong MCS will be required to ensure that no counterfeit or other products that violate IPR enter or exit the country.	Various relevant agencies	EU	Narrow opening for BRITE
10	Competition: Moldova has agreed to develop a legal framework and enforcement capacity to address anti-competitive behavior and transactions, such as cartels, abuse of a dominant position, and mergers that lead to monopoly power. Moldova's state-owned companies will be subject to the proscriptions against anti-competitive behavior. US and EU approaches to competition are not always consistent.	MOE, Competition Council	World Bank, EU support to Competition Council	Fully covered by other donors
11	Trade-related energy: The AA requires that all signatories allow the market to establish prices for electricity, crude oil, and natural gas, with no price regulation for industry allowed. Prices for energy exports cannot be higher than those that prevail on the domestic market. Energy supplies transiting through a country cannot be interrupted. Moldova will also be required to assure that a legally distinct, functionally independent regulator is in place to protect price competition and efficient operation of energy markets.	NAER		Harmonization, coordination, implementation at macro level outside BRITE's core concerns. Room for micro-level work with regulator to assure efficient connection procedures for "Getting Electricity" and to boost construction sector

No.	DCFTA Chapter Topic	GOM	Donor Activity	Gaps/Opportunities
12	<p>Transparency: This chapter sets general norms for AA/DCFTA, and will affect Moldova’s governance in several ways. First, all stakeholders – government policy-makers, businesses and exporters, investors, civil society organisations and society at large – must have access to information about implementation of the EU-Moldova free-trade area, and an opportunity for input into the decisions taken. This includes providing mechanisms for interested parties to review and comment on proposed legislation, transparent information about acts relating to implementation, and designated points of contact to ask questions about the application of regulations. Moldova must also meet due process requirements in all administrative proceedings in trade-related matters, including transparent review and appeal procedures.</p>	GOM, MCS	USAID BRITE, World Bank	NAP doesn't include activities specific to this chapter. Transparency initiatives are incorporated into other chapter work plans. Values detailed in this chapter provide useful support for BRITE and other donors in many other initiatives.
13	<p>Trade and sustainable development: Moldova will be required to accommodate EU norms on social, environmental, and labor values as trade regulation and relations are liberalized. To ensure wide representation of all interests affected in trade policy development and implementation, the AA envisions broad engagement with civil society, including trade unions, non-governmental organizations, employer and business associations, environmental interests, etc. The Agreement also contains explicit commitments to implement International Labor Organization (ILO) conventions and its Decent Work Agenda, and all multilateral environment agreements to which the EU and Moldova are party. Both sides are required to establish a broadly representative civil society trade and sustainable development advisory group that must meet at least annually in a joint, open dialogue to discuss sustainable development aspects of DCFTA implementation.</p>			NAP doesn't include activities specific to this chapter. Values including broad engagement of civil society provide useful support for BRITE and other donors in many other initiatives.
14	<p>Dispute settlement: Provisions for resolution of disputes that arise between the parties are a streamlined version of the WTO Dispute Settlement Understanding. If an initial consultation between the parties fails to resolve the issue, it will be resolved by binding arbitration before a three-member panel within 120 days. The DCFTA also contains a mediation mechanism to resolve issues on “hampering trade in goods,” which might be deployed usefully in making Moldova’s trade regulation approximate the efficiency standards that prevail among EU member countries.</p>			NAP doesn't specifically address. Issues of how parties to AA/DCFTA resolve disputes arising therefrom outside BRITE's core concerns.
15	<p>General provisions on approximation under Title V: General rules are set out for governing Moldova’s alignment of its legislation with that of the EU in specific trade-related areas. The parties’ mutual obligations to ensure clarity about the process and the resulting commitments are also set out and require information exchanges and consultations.</p>			NAP doesn't specifically address, this chapter, which guides parties in evaluating Moldova's efforts to harmonize its legislation with EU norms. Not directly relevant to BRITE's core concerns.

DETAILED VIEW:

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
1		National treatment and market access for goods: Most tariffs on imports are to be eliminated by both sides. Each signatory will provide same national treatment to others as is provided to own producers. Moldova has some protections that afford its producers time to transition and prepare to compete more effectively with EU producers.	MOE, MOF, MCS	EU, WTO consultation/collaboration	BRITE providing assistance in some areas.
	2	Sec. 2: Elimination of Customs Duties, Fees and Other Charges -- Harmonize classification of goods and legislation, implement tariff reductions, monitor sensitive products	MOE, MOF MCS		See WTO TFA table. This is mandatory measure that BRITE is addressing.
	3	Sec. 3: Non-Tariff Measures -- Harmonize treatment of each other's products, eliminate import/export restrictions,	MOE, MCS		BRITE supporting aspects, including elimination NTB and developing consolidated integrated tariff.
2		Trade remedies: Each side can use WTO-sanctioned defensive remedies in case of trade violations by the other, or reintroduce tariffs where increased imports create a risk of serious injury.	MOE	EU, WTO consultation/collaboration	No opportunities for BRITE identified.
3		Technical barriers to trade, standardisation, metrology, accreditation and conformity assessment: Moldova commits itself to gradually align with EU technical regulations and standards, and conformity assessment procedures governing industrial products, and to developing the extensive implementation infrastructure required to fully implement. Given Moldova's current capacity, this is a challenging obligation in many dimensions.	MOE	EU (technical assistance to Support the Implementation of DCFTA Process in Quality Infrastructure, Market surveillance, etc.) is supporting harmonization of laws and standards.	BRITE inventoried overlaps and overreaches, and specified what needs to be done. USAID could support legal reforms and quality upgrades targeting priority, high-value sectors products where the impact will be more immediate.
	1	Affirmation of the TBT Agreement: Develop capacity: * To operate TBT Center, * To post timely TBT notices on MOE website	MOE		Low value for BRITE.
	2	Technical cooperation: Engage Moldova in EU TBT networks for scientific/technical exchanges, consultation, dialogue, etc.	MOE, NAC, NIC, NIM	EC	Fully covered by other donors
	3	Approximation of technical regulations, standards, and conformity assessment: * Adopt EU-compliant regulations; Replace national with EU standards; * Upgrade/reform national standards bodies so they will be eligible to join EU standards organizations; * Educate business community	MOE, MRDC, MICT, MOEnv, MAFI, NAC, NIM, NIS	BRITE inventoried standards and overlap. EU leading harmonization.	* Requires IT systems for online access to standards and regulations. * BRITE proposes updating integrated tariff, and expanding to web-based trade hub.
	4	Negotiate Agreement on Conformity Assessment and Acceptance of Industrial Products	MOE		Huge work for future. Not within BRITE's scope.

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
4	Sanitary and phytosanitary measures: Moldova will gradually align with EU norms for agricultural products, which are consistent with existing WTO requirements. The payoff for Moldova is EU market access for agricultural products now barred because they fail to meet EU standards.		MOE, ANSA, Ministry of Agriculture	EU, IFC, BRITE	BRITE inventoried overlaps and overreaches, and specified what needs to be done. USAID could support legal reforms and quality upgrades targeting priority, high-value sectors products where the impact will be more immediate.
	1	Adopt EU-compliant legislative framework; Replace national with EU standards - develop action plan			BRITE active in trade-related issues. EU active generally
	2	Upgrade/reform ANSA, human capacity and infrastructure/IT systems, border presence, etc., to function at EU-level			BRITE supporting aspects, including streamlining export/import processes, and developing IT solutions.
	3	Introduce risk management			IFC developing RM capacity; BRITE should develop integrated border risk management procedures and IT system.
	4	Dialogue with private sector and civil society, timely reporting of developments, ongoing consultation			Possible gap
	5	Implement animal registration/tracing system for entire food chain, disease control system			Not within BRITE's scope.
	6	Develop M&E mechanism for approximation, and periodic reporting system			EU handling
5	Customs and trade facilitation: Moldova's customs legislation and its clearance practices and procedures must converge with EU norms.		MOF, MCS	USAID BRITE, EUBAM, IFC	BRITE best positioned to lead Customs reforms
1. Legislation and Procedures:					
	a	Transpose provisions of international Customs instruments (conventions on standards, valuation, HS descriptions, controls, etc.) into national law	MCS	USAID BRITE, EUBAM	BRITE and EUBM sharing work in this area in support of their specific initiatives.
	b	Harmonize customs legislation with EEC Regulation No 2913/92 of 12 October 1992 establishing the Community Customs Code	MOF, MCS	New 2016 EU project to handle	Covered
	c	Simplify and standardize customs clearance procedures to EU norms	MOF, MCS	USAID BRITE, EUBAM	BRITE leads in most areas, collaborates with EUBAM, IFC, others
	d	Introduce "Import/Export Control System" to eliminated Customs Transit Declaration document	MOF, MCS	USAID BRITE	
	e	Implement deferred payment of import duties	MOF, MCS	USAID BRITE, EUBAM	
	f	Improve security deposit system, to ensure relief from customs duties, which will reduce cost to importers of guarantee	MOF, MCS	USAID BRITE	

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
	g	Simplify the mechanism for confirmation of export operations	MOF, MCS	USAID BRITE	
	h	Implement simplified declaration procedures (incomplete, periodic and simplified declaration)	MOF, MCS	USAID BRITE	
	i	Reform framework for offenses/penalties to implement EU norms (proportionality and discriminatory)	MOF, MCS	USAID BRITE/IFC	
	j	Develop AEO program	MCS	USAID BRITE, EUBAM	
	k	Revise and adjust technical standards for detailed filling of customs declarations in conjunction with SAD requirements	MCS, MOE	EU	EU handling
	l	Implement effective mechanism for setting and revising RM cargo selectivity criteria, and optimize use of system	MCS	USAID BRITE	BRITE handling. Activity should be enlarged to incorporate integrated RM system for all border agencies.
	m	Implement the New Computerised Transit System (NCTS).	MCS	EU	EU handling
	n	Implement system for advance, binding rulings on tariff and origin issues according to EU requirements	MCS	USAID BRITE	BRITE developing guidance and promoting publication
	o	Adjust rules of origin framework to EU norms, improve enforcement capacity, take steps necessary to accede to regional Convention on Pan-Euro-Mediterranean preferential rules of origin	MCS		Possible gap
2. Relations with the business community:					
	a	Expand engagement with Customs Consultative Committee to include review and comment on draft regulatory acts	MCS	BRITE	BRITE developing sustainability plan to transfer its secretariat functions
	b	Implement provisions of signed MOU and negotiate new MOU with business organizations in the field of Customs	MCS		Possible gap
	c	Survey business community to determine the degree of satisfaction with reforms	MCS	USAID BRITE	BRITE takes periodic surveys for its purposes and for MCS. Capacity needs to be institutionalized.
	d	Develop official MCS website	MCS	USAID BRITE	Ongoing BRITE activity
	e	Implement the Customs Service Communication Strategy and its Action Plan	MCS	USAID BRITE	Ongoing BRITE activity
	3. Fees and charges: Gradually replace ad valorem fees that do not meet WTO and EU requirements and replace with fixed fees for specific customs activities that meet international standards		MOF, MCS		BRITE diagnoses and advocates for change. Big issue that needs continuing work.
4. Customs valuation:					
	a	Harmonize legislation on valuation with GATT/WTO requirements	MOF	USAID BRITE	Ongoing BRITE activity
	b	Ensure implementation of modern techniques for customs valuation	MCS	USAID BRITE	Ongoing BRITE activity
	c	Strengthen cooperation with European partners on common issues related to customs valuation	MOF, MCS	EU	EU handling

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
	5	Customs Cooperation:			
	a	Strengthen cooperation with European partners in the field of Customs	MCS	EU	EU handling
	b	Adjust the personal data protection system to EU standards in the Customs Information System	MCS, NCPDP		Possible gap, needs global whole-of-government solution
	c	Organize and conduct joint border controls and anti- fraud operations along the RM-EU border	MCS	EUBAM	EU handling
	d	Identify, negotiate and implement technical assistance projects for institutional capacity building of the Customs Service	MCS	All donors	BRITE and other donors respond as appropriate to MCS requests.
	e	Develop and modernise intellectual property protection procedures along border in line with National Strategy on Intellectual Property	MCS		Possible gap.
	f	Improve and develop, in line with “multi-agency” cooperation principles, the “FRONTIERA” Information System facilitating the on-line exchange of information between authorities involved in the border control of goods and means of transport	MCS		Possible gap.
	g	Promote mutual recognition of AEO status	MCS		Possible gap.
6		Establishment, trade in services and electronic commerce: Moldova is to be integrated into the EU services market, and opportunities for cross-border service providers expanded, with free movement for business purposes for key personnel, graduate trainees, contractual service suppliers, and independent professionals. Moldova must align regulation of financial, electronic commerce, postal and courier services, and international maritime law with current and future EU legislation.	MOE, MOJ, NBM, NCFM, Licensing Chamber	BRITE, EU, IFC, WB	Chapter 6 relates to BEE/RR activities of all donors. Great leverage for ongoing BRITE activities
	1	Establishment: National treatment must be afforded to branches, subsidiaries, representative offices, etc., of cross-border service providers	MOE, MOJ, NBM, NCFM		National Action Plan weak, focused on establishing working groups, assessing legislative framework, sharing info with EU.
	2	Cross-border supply of services:	MOE		National Action Plan weak, focused on establishing working groups, assessing legislative framework, sharing info with EU.
	3	Temporary presence of natural persons for business persons			National Action Plan contains no implementing provisions
	4	Regulatory framework: Licensing, information transparency/confidentiality,	MOE, Licensing Chamber		

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
	a	<u>Domestic Regulation</u> : Ensure the conditions necessary for carrying out licensing and qualifications procedures in accordance with Agreement provisions.	MOE, Licensing Chamber		NAP is very weak, mere "ensure" compliance. Huge task ahead that current BRITE RR initiatives support: All licenses must be linked to legitimate purpose, clear, transparent, accessible, etc. Good rationale for complete overhaul of all licenses and permits.
	b	<u>Transparency and disclosure of confidential information</u> : Ensure all information about regulatory framework and licensing/qualifications is transparently available, and that confidentiality is protected.	MOE, MOFAEI		NAP proposes only to establish inquiry points and inform EU of them, and establish nationwide compliance monitoring mechanism. Good support for current BRITE activities to increase transparency.
	c	<u>Understanding on Computer Services</u> : * Implement the National Strategy for Information Society Development "Digital Moldova 2020" * Implement the Strategic Program for Technological Modernization of Governance (e-Transformation) * Draft regs and standards to implement Law on Electronic Signature and Electronic Documents * Draft law on the distance contracts (including electronic commerce)	MOICT, relevant institutions, MOE		BRITE IT initiatives consistent, but not directly targeting these issues.
	d	<u>Postal and Courier Services</u> : * Adopt Law on Postal Services (aligned with Directive 97/67/EC on common rules for the development of Community postal services and the improvement of quality of service)* Incorporate EU licensing principles in adopting Regulation on Universal Service	MICT		Not in BRITE's scope.
	e	<u>Electronic Communication Networks and Services</u> : Signatories must open markets to others' communications service providers, provide access to spectrum, etc. Requires significant legal framework reform, regulatory capacity building, application of competition policy, data protection, data security, etc.	MICT, NRAECIT, SCRF, NCPDP		Not in BRITE's scope.
	f	<u>New financial services</u> : Open access, requires significant legal framework reform on many fronts. Access to credit issues noteworthy inclusion.	NCFM, NBM, NCPDP		Access to credit issues, discussed in report, may present BRITE opportunity.
	g	<u>Transport Services</u> : Liberalize market access for sea, air transport. Requires legal reforms.	MOTRI, PGC, CAA,		Possible gap
	h	<u>Electronic Commerce</u> :			

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
	1	Draft EU-compliant Law on Electronic Commerce	MOE, EGC, MICT, PCA		Legal and technical barriers could be addressed by USAID.
	2	Designate contact points for dialogue with the EU regarding e-commerce and in particular regarding recognition of electronic signature certificates	MOE, EGC, MICT, PCA		Possible gap re implementing national, secure digital signature system. Would support other BRITE activities.
7		Current payments and movement of capital: Parties authorise, in freely convertible currency, as per IMF Agreement, any payments/transfers on the current account of the balance of payments between the parties. Moldova must draft amendments to Law on Foreign Exchange Regulation to liberalize certain capital transactions	NBM, MOF		Not in BRITE's scope.
8		Public procurement: Moldova is required by the AA to adopt current and future EU legislation on government procurements of public works, goods, and services. Procurements above a certain threshold amount in all signatory countries must be open to all qualified bidders from any of them. This will require significant changes in Moldovan practice. Preferences for domestic providers must be eliminated, and corrupt decision-making must be addressed.		EU, World Bank to support IT upgrades in SPA	USAID BRITE could support implementing regulations to new EU-compliant Procurement law.
	1	Draft regs, procedures, educational materials for new EU-compliant Law on Public Procurement	MOF, SPA	BRITE	BRITE asked by SPA to assist on this issue
	2	Development and implement modern E-Procurement IT system	MOF, SPA	EU, WB	EU and WB both have TA/funds available in 2016.
	3	Create new National Agency on Resolving Complaints re procurements	MOF, SPA	EU	Not in BRITE's scope.
	4	Elaborate road-map to full implementation of open access for all signatories to local, regional, and national procurements	MOF, SPA	EU	EU better position to handle.
9		Intellectual property rights: Moldova will be required to enforce EU IPR rules on matters such as copyright, designs, patents, trademarks and geographical indications (GIs), which are consistent with the signatories' WTO obligations. A strong MCS will be required to ensure that no counterfeit or other products that violate IPR enter or exit the country.	Various relevant agencies	EU	Narrow opening for BRITE
	1	Promote innovation and patenting of new products; programs with finance, universities, Academy of Science	MOF, Academy of Sciences, SAIT, SAIP, MOEd, MOF, MOL, MOLSPF		Not in BRITE's scope.
	2	Harmonize legal framework, procedures with EU norms across all relevant topics	SAIP, Relevant subject matter agencies	EU	EU better positioned

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
	3	Engage stakeholders, ensure ongoing collaboration with and reporting to EU on compliance efforts	SAIP, Relevant subject matter agencies	EU	EU better positioned
	4	Training, public awareness, institutional capacity building	SAIP, relevant agencies	EU	EU better positioned
	5	Create an information system to ensure the exchange of data in the field of IPR enforcement and compliance with participation of authorities competent in the IPR field;	SAIP, MOIA, MCS, Prosecutor General's Office, NIA	EU	Not in BRITE's scope.
	6	Develop and modernize procedures on protection of IPR at border	MCS		Possible gap that could be handled as part of BRITE's RM activity with MCS
10		Competition: Moldova has agreed to develop a legal framework and enforcement capacity to address anti-competitive behavior and transactions, such as cartels, abuse of a dominant position, and mergers that lead to monopoly power. Moldova's state-owned companies will be subject to the proscriptions against anti-competitive behavior. US and EU approaches to competition are not always consistent.	MOE, Competition Council	World Bank, EU support to Competition Council	Fully covered by other donors
11		Trade-related energy: The AA requires that all signatories allow the market to establish prices for electricity, crude oil, and natural gas, with no price regulation for industry allowed. Prices for energy exports cannot be higher than those that prevail on the domestic market. Energy supplies transiting through a country cannot be interrupted. Moldova will also be required to assure that a legally distinct, functionally independent regulator is in place to protect price competition and efficient operation of energy markets.	NAER		Harmonization, coordination, implementation at macro level outside BRITE's core concerns. Room for micro-level work with regulator to assure efficient connection procedures for "Getting Electricity" and to boost construction sector
12		Transparency: This chapter sets general norms for AA/DCFTA, and will affect Moldova's governance in several ways. First, all stakeholders – government policy-makers, businesses and exporters, investors, civil society organisations and society at large – must have access to information about implementation of the EU-Moldova free-trade area, and an opportunity for input into the decisions taken. This includes providing mechanisms for interested parties to review and comment on proposed legislation, transparent information about acts relating to implementation, and designated points of contact to ask questions about the application of regulations. Moldova must also meet due process requirements in all administrative proceedings in trade-related matters, including transparent review and appeal procedures.	GOM, MCS	USAID BRITE, World Bank	NAP doesn't include activities specific to this chapter. Transparency initiatives are incorporated into other chapter work plans. Values detailed in this chapter provide useful support for BRITE and other donors in many other initiatives.

Chapter	Item	DCFTA Requirement	GOM	Donor Activity	Gaps/Opportunities
13		Trade and sustainable development: Moldova will be required to accommodate EU norms on social, environmental, and labor values as trade regulation and relations are liberalized. To ensure wide representation of all interests affected in trade policy development and implementation, the AA envisions broad engagement with civil society, including trade unions, non-governmental organizations, employer and business associations, environmental interests, etc. The Agreement also contains explicit commitments to implement International Labor Organization (ILO) conventions and its Decent Work Agenda, and all multilateral environment agreements to which the EU and Moldova are party. Both sides are required to establish a broadly representative civil society trade and sustainable development advisory group that must meet at least annually in a joint, open dialogue to discuss sustainable development aspects of DCFTA implementation.			NAP doesn't include activities specific to this chapter. Values including broad engagement of civil society provide useful support for BRITE and other donors in many other initiatives.
14		Dispute settlement: Provisions for resolution of disputes that arise between the parties are a streamlined version of the WTO Dispute Settlement Understanding. If an initial consultation between the parties fails to resolve the issue, it will be resolved by binding arbitration before a three-member panel within 120 days. The DCFTA also contains a mediation mechanism to resolve issues on “hampering trade in goods,” which might be deployed usefully in making Moldova’s trade regulation approximate the efficiency standards that prevail among EU member countries.			NAP doesn't specifically address. Issues of how parties to AA/DCFTA resolve disputes arising therefrom outside BRITE's core concerns.
15		General provisions on approximation under Title V: General rules are set out for governing Moldova’s alignment of its legislation with that of the EU in specific trade-related areas. The parties’ mutual obligations to ensure clarity about the process and the resulting commitments are also set out and require information exchanges and consultations.			NAP doesn't specifically address, this chapter, which guides parties in evaluating Moldova's efforts to harmonize its legislation with EU norms. Not directly relevant to BRITE's core concerns.

TABLE ACRONYMS

CAA	Civil Aviation Authority
CPA	Consumer Protection Agency
EGC	E-Government Center
MAFI	Ministry of Agriculture and Food Industry
MICT	Ministry of Information and Communications Technology
MOE	Ministry of Economy
MOF	Ministry of Finance
MOFAEI	Ministry of Foreign Affairs and European Integration
MOJ	Ministry of Justice
MRDC	Ministry of Regional Development and Constructions
MTRI	Ministry of Transport and Road Infrastructure
MOTRI	Ministry of Transport and Road Infrastructure
NAC	National Accreditation Center
NAP	National Action Plan for Implementation of RM-EU AA
NBM	National Bank of Moldova
NCFM	National Commission for Financial Markets
NCPDP	National Center for Personal Data Protection
NIM	National Institute of Metrology
NIS	National Institute of Standardization
NRAECIT	National Regulatory Agency for Electronic Communications and Information Technology
PGC	IP Port Giurgiulești Captaincy
SCRF	State Commission for Radio Frequencies
SPA	State Procurement Agency

Annex 2: Table of WTO TFA Measures and Implementation Gaps

WORLD TRADE ORGANIZATION (WTO) TRADE FACILITATION AGREEMENT ASSESSMENT OF MOLDOVA'S COMPLIANCE AND POSSIBLE ASSISTANCE GAPS

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
1.1	Publication	Most trade related legislation is published and accessible. Some agencies, such as Customs, ANSA, etc. occasionally issue internal orders impacting economic operators that may or may not be published.	MoE	USAID BRITE	BRITE works with MCS to ensure all internal orders impacting trade are, at a minimum, published.
1.2	Information Available Through Internet	Customs and other border agency websites publish some but not complete practical information on the internet.	GoM	USAID BRITE	Continue support for development of online trade guides. Finalize integrated Tariff (TARIM) Review available information and make recommendations for enhancing as required. Consider developing a single Trade Facilitation Portal to consolidate all trade-related information and material.
1.3	Enquiry Points	Customs, ANSA, Border Police operate call centers today but stakeholders indicated preference for a single national enquiry point. Stakeholders also noted need for information technology and communications support.	MoE, Others		BRITE determined support to individual enquiry points was not feasible. Could be solved through Trade Facilitation Portal given scarce resources.
1.4	Notification	This requires MoE to make the certain notifications to the WTO Secretariat. We have assumed that no delay or technical assistance support is required.	MoE		MOE Trade Policy Directorate seems adequately resourced to handle this task.
2.1	Opportunity to Comment and Information before Entry into Force	Opportunity to comment in existing law. Current legislation does not require publication of laws and regulations prior to entry into force	MCS GoM	USAID BRITE	Publication prior to entry is not a practice in Moldova and would require changes to legislation. Low priority for BRITE. BRITE will continue support to MCS in Regulator Impact Assessment (RIA).

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
2.2	Consultations	Customs and Border Police have established formal mechanism for regular consultations with stakeholders, but such do not yet appear to be established by ANSA. Stakeholders also noted a need for support to maintain these activities.			Gap: No formal consultation mechanism with ANSA and trade.
3	Advance Rulings	Customs complies with minimum WTO agreement requirements; stakeholders indicated that improvements can be made in implementation and suggested that consideration be given to extend the scope of rulings to valuation and other matters. In addition, IT and training needs were identified as necessary to improve the tariff classification rulings program.		USAID BRITE	BRITE is preparing public guidance on advance rulings for origin and classification. These will help provide clarity and improve implementation Support also provided on a sectoral level, e.g. help ATIC secure classification rulings for IT equipment. Additional guides can be added.
4	Right to Appeal or Review	Customs stakeholders state that they fully comply with this measure; private sector stakeholders recommended certain improvements.	MCS	IFC	IFC plans to improve procedures of the appeal and review.
5.1	Notifications for enhanced controls or inspections	Although not noted by any stakeholder, the EU Association agreement appears to require that Moldova implement a National Rapid Alert System for Food and Feed (NASFF) and a National Early Warning Mechanism (NEWM).	ANSA	TBD	Gap: ANSA will likely require technical assistance to develop the necessary procedures to operate a WTO-compliant system. This should be validated by ANSA.
5.2	Detention	According to stakeholders, Moldova meets these requirements, although written, formal published procedures have not been established.	MCS		No gaps identified
5.3	Test Procedures	Right of importer to request a second test does not exist in legislation or formal procedures. Sometimes happens in practice.	MCS ANSA Other		Gap: Customs and ANSA legislation needs to be reviewed and, if necessary, conforming provisions drafted.
6.1	General Disciplines on Fees and Charges Imposed on or in Connection with Importation and	Moldova's legislation does not require fees to be published in advance or that reasons for such fees be published.	MoE MoF		Gap: Revise legislation to require more information on fees – reason, when and how paid; publication of fees in advance of effective date.

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
	Exportation				
6.2	Specific Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation	<p>Under its commitments to EU, Moldova was to fully conform to this measure as of January 1, 2015. This reform was rejected by the MoF MoE.</p> <p>The DCFTA requires Moldova to abolish 'Customs Fees for Procedures' which is seen as taxation of imports and exports for fiscal purposes contrary to Article VIII of GATT 1994 and the Association Agreement</p>	MoE MoF	USAID BRITE	
6.3	Penalty Disciplines	<p>Stakeholders identified changes required in legislation and procedures (particularly, development of guidelines for Customs assessment of appropriate penalty amounts), and indicated a need for technical assistance in making those changes.</p> <p>BRITE efforts to reform the system of penalties/sanctions were strongly resisted by MCS and MoF. Draft legislation complete.</p> <p>New EU Directive will standardize all customs-related penalties and sanctions and be applied to Moldova when adopted.</p>	MCS GOM	BRITE IFC	IFC will undertake beginning in late 2015. BRITE can support.
7.1	Pre-arrival Processing	<p>Stakeholders identified changes required both in legislation and IT to implement this procedure.</p> <p>BRITE proposed amendments to Customs Code to implement pre-arrival processing, i.e. import/export control systems. These were rejected by MCS in 2014.</p> <p>Current version of ASYCUDA cannot</p>	MCS	USAID BRITE Other	<p>BRITE will continue to promote legal reforms and upgrades to ASYCUDA.</p> <p>MCS also requested assistance from Romania Customs in this regard.</p>

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
		support EU pre-arrival processing.			
7.2	Electronic Payment	No gaps identified by stakeholders.	MCS		BRITE is supporting MCS to develop data exchange with other public authorities to eliminate some paper documents related to payments and refunds.
7.3	Separation of Release from Final Determination of Customs Duties, Taxes, Fees and Charges	<p>Implementation of this WTO measure is generally dependent upon change in government policy that now requires payment of duty and tax in advance and limits the use of duty/tax deferral.</p> <p>BRITE and EUBAM addressed this issue directly to MoE and MoF.</p> <p>Draft amendments to Customs Code prepared by BRITE.</p>	MoF MCS	USAID BRITE EUBAM	BRITE will promote this reform within the PM's Economic Council.
7.4	Risk Management	<p>Customs complies with the minimum requirements of the WTO TF Agreement; however, stakeholders noted need for IT support, training, and improvements related to legislation and procedure, particularly to ensure that risk management is applied in border operations.</p> <p>BRITE has helped MCS develop risk management strategy to reduce controls at the border and has introduced Blue Lane for post-release reverifications.</p> <p>IFC providing risk management training to ANSA and developing risk management procedures for border clearance.</p>	MCS ANSA Border Police	USAID BRITE IFC	<p>BRITE to continue support to strategic Risk Management and Blue Lane implementation.</p> <p>Mentor High-Level RM Group; monitor impacts.</p> <p>Support IT for data management and mining; train in data analysis.</p> <p>Assist to refine valuation approach to reduce number of interventions relating to valuation matters</p> <p>Gap: Integrated risk management in ASYCUDA</p>
7.5	Post-Clearance Audit	Customs appears to comply with the minimum requirements of the WTO TF Agreement; stakeholders noted need for enhancement of IT support systems and procedure to ensure audit is actually used to expedite release of goods.	MCS	USAID BRITE EUBAM	No gaps identified.

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
		Blue Lane implemented by BRITE; EUBAM supporting implementation of EU practices in PCA.			
7.6	Establishment and Publication of Average Release Times	<p>Stakeholders identified a need for training on use of WCO TRS software and development of formal procedures to implement this measure.</p> <p>MCS does not use the WCO Time Release Study (TRS) methodology and was reluctant to do so. BRITE supported TR studies in 2013 and 2014 and plans another in 2016.</p> <p>New version of ASYCUDA World includes feature to generate reports tracking WCO Key Performance Indicators.</p>	MCS	USAID BRITE	<p>Offer MCS training in WCO TRS and implement 2016 TRS using TRS methodology.</p> <p>Support adoption of KPIs in MCS as a normal management tool; publish results regularly.</p>
7.7	Trade Facilitation Measures for Authorized Operators	<p>BRITE supported amendments to legislation introducing EU simplified procedures and AEO.</p> <p>Stakeholders identified a need for technical assistance and/or funding support to make IT system changes to implement simplified/incomplete procedures. In addition, stakeholders noted that use of deferred payment is not permitted and technical support/analysis might be required or useful.</p> <p>MCS has received support in AEO programs from EU and other countries through TA and study tours.</p> <p>MCS is now implementing a pilot AEO recognition program with EU at the Leuseni BCP.</p>	MCS	USAID BRITE EUBAM Other bilateral assistance	BRITE's focus is on implementing simplified/incomplete declarations and duty deferment as tangible benefits for AEOs.

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
		AEO mutual recognition is in the development plan of CEFTA.			
7.8	Expedited Shipments	No provisions or systems for expedited shipments (air cargo express consignments) exist at present. BRITE has worked with air cargo companies and MCS to implement practical facilitation measures through MCS internal orders.	MCS	USAID BRITE	Gaps: Revise legislation to provide for control and release simplifications for expedited shipments. Implement through training, revisions to declaration procedures, and publication of new procedures.
7.9	Perishable goods	Customs Code allows MCS to expedite shipments of live animals and perishable goods. Legislative provisions and procedures required for actual implementation are missing.	MCS		Review and revise legislation to incorporate perishable goods disciplines.
8	Border Agency Cooperation	WTO TF Agreement minimum requirements are met. There were no gaps identified by stakeholders, other than the general need for improved infrastructure at the border. EUBAM has implemented pre-arrival information systems between Ukraine and Moldova and planning Integrated Border Management at one BCP in 2015. EU-Moldova negotiating pre-arrival information between Moldova and Romania	MCS Other Border Agencies	EUBAM EU	No gaps identified
9	Movement of Goods under Customs Control intended for Import	Moldova meets WTO TF Agreement minimum requirements (national transit). Gaps and needs with respect to transit generally are covered under Article 11.	MCS		See Article 11

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
10.1	Formalities and Documentation Requirements	<p>Moldova regulatory impact assessment laws and procedures to be enhanced to take into account trade-related impacts as well as periodic review of existing customs and border agency formalities and documentation requirements. Stakeholders also noted need for RIA technical training.</p> <p>BRITE has provided extensive training and capacity building to MCS on RIA methodology and practices.</p>	GoM MCS	USAID BRITE	<p>BRITE to include “trade impact assessment” to RIA methodology.</p> <p>Possible impacts include, crossing times and costs, locations and working hours, etc.</p>
10.2	Acceptance of Copies	<p>At present, presentation of the original document for import is required under Customs rules.</p> <p>BRITE prepared revised legislation on submission of supporting documents that will limit the number of documents and allow for copies in most cases.</p>	MCS	USAID BRITE	<p>BRITE to assist MCS in implementation once approved.</p> <p>Publish procedures</p>
10.3	Use of International Standards	<p>By virtue of the EU Association Agreement, among other international customs and trade related agreements to which Moldova is a signatory, Moldova meets the WTO TF Agreement minimum requirements.</p>	GoM		No gaps identified
10.4	Single Window	<p>No legal provisions or systems for implementation of single window exist at present.</p> <p>BRITE is working to finalize a streamlined and legally binding integrated tariff with all non-tariff trade regulations by HS Code.</p> <p>BRITE has proposed legal changes to streamline issuance of phyto-sanitary and veterinary permits for import/export and can develop electronic back office for ANSA permits.</p>	MCS	USAID BRITE EU	Gaps: Integration of other border agencies and regulators into the electronic SW, e.g. ANSA, Border Police, Licensing Chamber.

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
10.5	Pre-shipment Inspection	Moldova fully complies with the WTO requirements.	MCS		No gaps identified
10.6	Use of Customs Brokers	Moldova fully complies with the WTO requirements. Certain stakeholders indicated a need for review of the current system to determine whether responsibility for supervision of brokers should be returned to Customs, and that technical assistance might be useful in that analysis. EU with Lithuanian Customs provided recommendations to MCS on regulation of customs brokers.		EU IFC	IFC will undertake this task in late 2015.
10.7	Common Border Procedures and Uniform Documentation Requirements	No gaps identified by stakeholders.	MCS ANSA Border Police		
10.8	Rejected Goods	No gaps identified by stakeholders.	MCS		
10.9	Temporary Admission of Goods and Inward and Outward Processing	Moldova complies with the WTO TF Agreement minimum requirements. Stakeholders noted need for technical support for closer alignment to EU legislation, improvement of authorization system, and IT. BRITE prepared legal amendments to bring these customs regimes into closer alignment with EU norms – pending Government approval and adoption by Parliament. BRITE also developed internal procedures for customs officers in inward processing and temporary admission. Other pending.	MCS	USAID BRITE	No gaps identified

No.	Measure	Stakeholder Feedback/Status	Responsible Agency	Donor Assistance	Comments/Gaps
11	Transit	Provisions to allow pre-arrival transit declarations have not yet been implemented. Stakeholders also noted a need for technical assistance and financial support for closer alignment to EU legislation particularly transit simplifications; IT support for implementation of selectivity and NCTS; and infrastructure for transit at BCP's and ICP's (including establishment of separate lanes).	MCS	EU	EU to support UNCTAD to integrate NCTS into ASYCUDA. Project begins in 2015. Gaps: Improve infrastructure at key BCPs to facilitate transit.
12	Customs Cooperation	To be verified by the Customs Service. Preliminary information from Customs stakeholders indicates that this measure may be placed under Category A.	MCS		No gaps identified

Annex 3: Donor Support Projects in Moldova – Trade Facilitation

Donor/Project	Main Activities	Timeframe
USAID BRITE	Streamline customs procedures and regimes in line with EU/Int'l norms; implement E-Customs (paperless processing, reduced documentation) Implement EU simplified procedures, AEO Implement risk management strategy; reduce controls at the point of clearance IT enhancements, including ASYCUDA upgrade Streamline trade permits; develop integrated tariff (TARIM) Streamline permits issued by National Food Safety Agency (ANSA); implement Support to Customs Consultative Council Improved communications – new Customs website, online guides for traders	June 2012-June 2016
EU Border Assistance Mission for Ukraine and Moldova (EUBAM)	Joint Border Management (Ukraine-Moldova) EU Approximation/Trade Facilitation Support Human Resource Management Reform in Customs Support to Regional Customs Houses	November 2014-November 2016
International Finance Corporation (IFC)	Establish and support a National Trade Facilitation Committee Implementation of WTO TFA commitments E-learning in Customs Improve penalties framework Improve appeals procedure Improvements to Customs Broker licensing and service Implement risk management and risk-based inspections in ANSA	September 2015-July 2018
EU Support to DCFTA Implementation	Support to DCFTA working groups Targeted STTA Lead donor coordination on DCFTA implementation	November 2013-April 2016
EU TAIEX and DG TAXUD	Ad-hoc support for DCFTA and trade facilitation – training, seminars, short-term STTA as requested by GOM	Ongoing
EU Twinning Project - NCTS and Single Window (SW)	Introduce EU legal norms to implement NCTS and SW Support integration of Customs and other state agencies IT support to activate NCTS and link to ASYCUDA (UNCTAD)	Late 2015
EU Technical assistance to Support the Implementation of DCFTA Process in Moldova	Component 1: Capacity-Building and Institutional-Strengthening in the field of Quality Infrastructure Component 2: Capacity-Building and Institutional-Strengthening in the field of Market Surveillance Component 3: Capacity-Building and Institutional-Strengthening in the field of developing and diversifying Moldova's internal and external market conditions and opportunities Component 4: Support to the execution of a Competitiveness Awareness Programme in AA/DCFTA Context	Late 2015 24 months
EU Twinning Project - Draft EU-compliant Customs Code	Draft EU-compliant Customs Code	2016

Annex 4: Donor Support Projects in Moldova – Tax Administration

Donor/Project	Main Activities	Timeframe
USAID BRITE	<ul style="list-style-type: none"> • Develop and enhance the Online Taxpayer Current Account providing online access to taxpayer records and reports to both taxpayers and tax inspectors. • Develop the concept of the single account to consolidate multiple tax payments into a single payment via the Current Account and Treasury. • Streamline the process of voluntary liquidation of enterprises – reduce the involvement of STS and set strict time limits for agency action. • Improve communications capacity in STS – develop the logo and brand book; enhance website and outreach material, develop communications strategies linked to reforms. 	June 2012-June 2016
European Union High Level Policy Advice Mission to the Republic of Moldova (EUHLPAM) – Main State Tax Inspectorate	<ul style="list-style-type: none"> • Policy-making, strategic planning and policy management capacities of selected line Ministries and State Agencies involved in the implementation of the Association Agreement and Visa Liberalisation are strengthened; • Stakeholders’ knowledge and awareness of EU policies, legislation and regulations in sectors strategic to the implementation of the Association Agreement including the Deep and Comprehensive Free Trade Area, and to the implementation of visa liberalization are enhanced. 	Ended June 2015 but may be extended in September 2015
Government of Sweden - Swedish International Development and Cooperation Agency (SIDA)	<p>The project has two main components: Taxpayer Service and Tax Audit.</p> <p>The main focus in the Tax Audit component is to</p> <ul style="list-style-type: none"> • enhance the present audit processes and procedures; • develop the risk management approach; • enhance skills and competence of tax auditors; • introduce audit supporting tools; • increase the usage of third party information (indirect methods for assessment of tax); • increase experience in tax fraud investigation <p>in order to increase the efficiency of the STS tax audit operations and thereby increase the taxpayer compliance and the revenue collection.</p> <p>The main focus in the Taxpayers Service component is to</p> <ul style="list-style-type: none"> • enhance access of information for the taxpayers; • make it easy for taxpayers to comply (forms, payment etc.); • make it difficult to do wrong (pre-printed forms, third party information); • make the staff of STS knowledgeable about the importance of behaviour, attitudes etc. • in order to increase the efficiency of the STS Taxpayers Service operations and thereby increase the taxpayers’ voluntary compliance and the revenue collection. <p>The Government of Sweden has agreed to expand its cooperation to the STS in 2015/2016.</p>	October 2013-September 2016

Donor/Project	Main Activities	Timeframe
World Bank – Tax Administration and Modernization Project (TAMP)	<p>The proposed project seeks to modernize the working of the tax system in Moldova to benefit from an integrated, highly automated, low-discretion, risk-based structure. The project will be implemented over five years to help the GoM achieve its objectives stated in the Strategic Plan for 2011-2015. This will include organizational restructuring, business process improvement, human resource management and training, and IT infrastructure changes necessary for optimal deployment of an Integrated Tax Management System (ITMS). The project would include financial and technical support for improving revenue collection methodologies and procedures; information technology and other technological infrastructure; training, and technical assistance to underpin STI’s organization structure and management, and operational systems refinements. In addition, technical assistance would be provided to the MoF to draft a new Tax Code to replace the significantly outdated Tax Code 1998. Project components would include:</p> <ul style="list-style-type: none"> Component 1. Tax Policy and Analysis Component 2. Institutional Development Component 3. Operational Development Component 4. IT Infrastructure and System Modernization Component 5. Project Management and Change Management 	<p>June 2016 – June 2021</p> <p>Grant program for project preparation approved and in process.</p> <p>Estimated budget = USD 20 million</p>

Annex 5: Donor Support Projects in Moldova – Business Environment Improvement

Donor	Project	Activities	Timeframe
USAID	Business Regulatory Investment and Trade Environment Program (BRITE)	<p>Support the Ministry of Economy (MoE) in developing and implementing high-impact business environment reforms included in the GoM’s Regulatory Reform Strategy (RRS) and Action Plan (2013-2020), the Road Map for Removing Constraints to the Business Environment (2013-2014), and the Competitiveness Road Map (2013-2014). USAID BRITE initiatives are also included in the Policy Briefing Book presented to the GoM in February 2015.</p> <ul style="list-style-type: none"> • Reform internal trade (commerce) permits by eliminating pre-approval inspections, substituting authorization for notification, and implementing electronic OSS. • Streamline issuance of construction permits by eliminating duplicative controls and introduce electronic OSS for approval. • Eliminate unnecessary and duplicative permit documents, including for import/export. • Improve the methodology and application of RIA and strengthen legal requirements for RIA. • Implement a State Local Acts Registry that includes all local normative acts in electronic form and is publicly available. 	June 2012-June 2016
World Bank	Second Competitiveness Enhancement Project (CEP II)	<p>Regulatory Reform Support GoM in improving the business enabling environment in Moldova, and specifically in implementing its regulatory reform strategies over the next five years.</p> <p>SME Development Strengthen Moldovan SMEs’ linkages to markets and ability to compete in those markets. through two closely related aspects:</p> <ol style="list-style-type: none"> (a) Strengthen the institutional capacity of ODIMM and MIEPO, so that they can play a more effective role in facilitating market-based SME growth; (b) Provide matching grants to SMEs to implement business improvement projects focused on export competitiveness. <p>Access to Finance Improve access to medium to long-term finance for export-oriented enterprises, reduce barriers to finance due to perceived high credit risk in SME finance and high collateral requirements, and promote suitable models for value chain financing, particularly in the agriculture sector.</p> <p>Competition</p> <ul style="list-style-type: none"> • Address competition issues in priority sectors, by conducting competition assessments, and making regulatory changes in case of anticompetitive regulation (e.g. sunflower seeds, sugar, wheat markets) • Improve implementation of state aid control framework; enforce public authorities reporting to State Aid Registry <p>Governance Reform</p> <ul style="list-style-type: none"> • Develop and implement performance indicators for public authorities that regulate business. • Ensure 100 percent application of RIA and sound oversight of regulatory reform implementation; financial support to RIA Secretariat. 	January 2015-January 2020

Donor	Project	Activities	Timeframe
EBRD	Support to the Economic Council to the Prime Minister	<p>Provide expertise to the Government from the business environment in the implementation of public policies in economic, budget, fiscal, trade sector and other. Monitor and evaluate the impact of implementing of the concerned policies.</p> <ul style="list-style-type: none"> • Examine all the Prime Minister’s requests and present needed comments and recommendations. • Contribute to the Government’s vision on some reform processes. • Initiate proposals on economic development policies, present recommendations on public investment programs developed by ministries and other government authorities. • Initiate proposals for improvement of the monetary-lending, fiscal, foreign and domestic trade policies, supporting of the real economic sector, infrastructure development, improvement of the labour market situation, human development and social protection etc. • Examine and propose solutions for the economic and social state pressing problems. 	November 2013-November 2015
IFC/Sweden	Investment Climate Reform	<p>Improve the investment climate for business operations and exit; streamline agribusiness regulation; and promote investment in agribusiness.</p> <ul style="list-style-type: none"> • Introduce risk-based inspections in select controlling bodies, e.g. ANSA; implement inspection register; increase the quality of inspections • Implement OSS for construction permits in four municipalities; reduce construction permit compliance costs by 10 percent. • Identify policy reforms to remove obstacles to investment retention and attraction. • Improve the insolvency framework for troubled businesses. • Increase export of high-value agriculture (HVA) products and other targeted agribusiness products • Increase the value of investment in HVA, agribusiness, and cold storage. 	September 2015-July 2018
GIZ	Support to the Prime Minister on Attraction and Retention of FDI	<ul style="list-style-type: none"> • Effectively present Moldova abroad • Improve the assistance provided to investors, thus generating new investments • Provide professional assistance to existing investors and support to overcome bureaucratic and technical obstacles • Coordinate the dialogue between the political partners involved in developing the political and economic prerequisites for optimizing business regulatory environment • Train the beneficiaries in promoting the country and develop strategies to attract investment, through establishment of regional units. 	December 2013-December 2015