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# Quarterly Report

October 2007 – December 2007

Business Regulatory & Tax Administration Reform (BRTA) Project  
Moldova

January 2008

Produced for review by the United States Agency for International Development.  
Prepared by DAI.

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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## List of Acronyms

ANRE	National Energy Regulatory Authority
BNS	Bureau of National Statistics
BRTA	Business Regulatory & Tax Administration Reform Project
CCI	Chambers of Commerce & Industry
CODB	<i>Cost of Doing Business</i> survey
COP	Chief of Party
CNAS	<i>Casa Nationala de Asigurari Sociale</i> (Social Security Administration)
CNAM	<i>Compania Nationala de Asigurari in Medicina</i> (Health Insurance Administration)
DAI	Development Alternatives, Inc.
EMG	Emerging Markets Group
IT	Information Technology
M&E	Monitoring & Evaluation
MGTCP	USAID's Moldova Governance Threshold Country Program
MIP3	Millenium-IP3 Partners, LLC
MSTI	Main State Tax Inspectorate
ODC	Other Direct Costs
OSS	One-Stop Shop
PIT	Personal Income Tax
PHH	USAID's Preventing HIV/AIDS and Hepatitis B and C in Moldova Project
PMP	Performance Monitoring Plan
SOW	Scope of Work
STS	State Tax Service
TAMIS	Technical and Management Information System
TTI	Territorial Tax Inspectorate
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value-Added Tax

## **Project Overview**

The USAID/Moldova Business Regulatory & Tax Administration Reform (BRTA) Task Order was executed by USAID and DAI (for the DAI/Nathan Group) on September 26, 2007. The BRTA Project seeks to improve Moldova's business enabling environment by reducing the administrative burdens on the private sector, streamlining tax administration, curtailing opportunities for corruption, and improving the access for citizens and businesses to government information. The Project places considerable emphasis on promoting public awareness and support for policy reforms to create a better business environment. It also stresses the creative deployment of information and communications technology (ICT) to facilitate transparent data management, streamlined administrative processes, and enhanced private-public sector partnerships.

## **Accomplishments during the Last Quarter (October 2007 – December 2007)**

During the reporting period, the Moldova BRTA project completed several significant achievements:

### **Project Start-Up**

DAI successfully mobilized the BRTA Chief of Party, David Greer, all key personnel, and the entire administrative team by the end of the quarter. This occurred despite early hiccups, including the resignation of the initial COP due to a family emergency; and replacement of all 3 other key personnel, for various reasons.

In-country start-up operations began 18 days after task order award, with the arrival of Project Associate, Donata Kane, and Program Advisor and Acting Chief of Party, Rick Ernst. Ms. Kane and Operations Advisor, Angela Cebotar identified and leased office space, set up a bank account, and registered DAI as a representative entity in Moldova, rendering the BRTA project compliant with Moldovan law. Until office space was ready in mid-November, the BRTA project was generously accommodated by EMG and the USAID/PHH project, led by William Goldman.

Dr. Ernst, with support from licensing expert, Roman Ladus, IT specialist, Sergiu Rabii, and others, engaged immediately in development of the work plan. They were joined by QED M&E expert, Paula Bilinsky, who led the development of the BRTA performance monitoring plan; Alice Liu, who led the development of the BRTA IT procurement strategy, along with Sergiu Rabii and Vasile Goian; and Mark Gallagher, who supported the development of the tax side of the work plan. Hiring issues, contracts requests, subcontracts, budgeting, approvals, and overall project management was led by Project Quality Manager Christina Erickson.

## **Technical accomplishments**

The development of the work plan, PMP, and IT strategy – conceptualizing key project objectives and activities, and translating them into actionable work plan – absorbed the vast majority of the project’s attention during the first three months. Developing these involved several meetings with key project counterparts and other donor and USAID projects in order to reflect the priorities and strategic vision. The submission of these documents, and their revision, are among the most important achievements of the quarter. That said, there were several notable achievements in both technical components as well.

## **Component I: Business Regulatory Reform**

### **Licensing reform<sup>1</sup>**

#### Implications of amendments to Law on Licensing

In developing specific approaches to promote and support licensing reform, BRTA met twice with Ms. Zinaida Christuga, the Head of the Licensing Chamber to examine the procedures and processes in place and to obtain their views on the amendments to the Law on Licensing adopted by the Parliament and sent for promulgation by the President. The visits included detailed observations of the processes and procedures used by the Chamber to interact with applicants for the licenses granted by this institution. The BRTA Team also met with ANRE (Vitalie Iurcu) to review their approach to granting licenses in the energy field.

The BRTA Team began conducting a review of the draft law to amend the Law on Licensing (as part of the Guillotine II package), and of the Government comments on it that reflect primarily the views of the Licensing Chamber. Under the assumption that the draft law will enter into force shortly, our review focuses on the implications for policy and implementation of licensing at the national level. That review, together with the assessment of current operations, will provide the basis for developing concepts for improved integration of the licensing function into the concept of a national one-stop shop.

We also began analyzing the documents required for different licenses, using the material prepared by the Licensing Chamber as guides. For each of the documents required, such as tax or other certificates, the BRTA Team is examining whether they are already (or potentially) available in some government database to allow license officials to obtain them on-line, rather than requesting separate submission. The Licensing Chamber tried to examine this possibility themselves at the end of 2006, when they requested information from public authorities on the availability and accessibility of electronic data. Several authorities did not reply, which the Licensing Chamber attributed to a lack of IT capacity. To address this issue, the BRTA will dispatch an IT specialist to explore the possibility of electronic data sharing.

#### Work with regional one-stop shops

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<sup>1</sup> Portions of this text were previously submitted to USAID on December 11, 2007 in the U. Ernst’s report, “BRTA Activities since Project Start-Up.”

In a field visit to the Orhei regional one-stop shop (OSS) which provides services in processing applications for construction permits, including occupancy permits, we discussed with representatives of local public authorities which are parts of the OSS system and Ms. Ina Negruta, the OSS operator, the details of the process and particular issues encountered in the day-to-day operations of the OSS.

In terms of the issuance of permits and authorizations at the local level, the BRTA Team is conducting a comparison of the steps and costs estimated for the “Dealing with licenses” indicator of the World Bank’s *Doing Business* series, which apply to Chisinau, with at least two other regions where a one-stop shop is operating. The indicator actually deals with construction permits (for a warehouse), from design through completion. That assessment will ultimately become part of the identification of best practices in regional one-stop operations.

The BRTA Team was also invited to give a brief presentation on the Project to representatives of regional Chambers of Commerce and Industry, at the offices of the national CCI (Sergiu Harea). After the presentation we discussed briefly some of the expectations and aspirations of these partners in the regions. These discussions will provide the background for developing a program of regional events under the aegis of the BRTA Project.

#### Technical Working Group on Licensing

The BRTA Team is also exploring the notion of a Technical Working Group on Licensing, both to explore options for streamlining document access at the national level, and to provide improved access to national databases for permits and authorizations at the regional level. The initial focus will be on the overall mission, potential members, and operating structure.

### **Reducing reporting requirements**

#### E-declarations and e-reporting

The BRTA Team discussed in some detail options and prospects with key players in the move toward a national OSS system. In a meeting with the National Bureau of Statistics, we discussed initiatives toward e-reporting, reviewed their current programs and issues, and sketched the broad outlines of a program of cooperation. The meeting also addressed the implications for the management of reports of the new Law on Accounting that will become effective on January 1, 2008. This meeting, together with further information on the UNDP project in e-reporting, will serve as the basis for a joint work program to be developed in the next quarter.

The BRTA Team also met with the UNDP Manager of the e-declarations project for the State Tax Service, participated in a briefing by UNDP consultants working with the National Bureau of Statistics, and attended a more general briefing on the upcoming e-reporting project by the UNDP on the premises of the Ministry of Information Development. (On the e-declarations project, see below under Tax Administration activities.)

#### Moving toward a national OSS system

We also held discussions with the Ministry of Information Development and the Center for Special Telecommunications regarding their role in the move toward a national OSS system. As plans with individual agencies mature—STS, Statistics, etc.—we will jointly review proposed changes and Project activities. As part of this process, we also studied the Government Decision on the Approval of the Concept of an Integrated Electronic Document Circulation System, and its implications for the operations of key players in the development of a national OSS system. One of the possible tasks is to work with such players to enable them to meet the upcoming requirements of an Integrated Electronic Document Circulation System in the context of moving toward a national OSS system.

During a follow-up meeting with the Director General of the *Compania Nationala de Asigurari in Medicina* (CNAM), the BRTA Team explored current business processes, and examined opportunities for improved on-line access to available government databases. We concluded jointly that the system is functioning well, and that any further steps are dependent on the development of a shared government database.

In another follow-up meeting with the Director General of the *Casa Nationala de Asigurari Sociale* (CNAS), Maria Borta, and her staff, we explored requirements for assisting in the design and implementation of an internal document handling system that would meet the requirements of an integrated system. Such a system will be essential in taking advantage of improved access to national databases for CNAS operations. During the last meeting, we agreed to set up a small working group to develop a joint work program.

The BRTA Team assisted the Licensing Chamber in drafting a Cabinet Decision on OSS implementation with regard to licensing procedures. The OSS would effectively eliminate the red tape for entrepreneurs to obtain relevant documents from public authorities while preparing the license application, i.e. it is the sole responsibility of the Licensing Chamber to collect from other public authorities all needed info about the applicant.

The BRTA Team understands that the Government is poised to adopt a strategy or concept for developing a One-Stop Shop System. Team members of the BRTA Project have been involved in initial discussions, and we expect that the Project will contribute significantly to the implementation of the provisions of that policy.

### **Improved access to government information**

In addition to the access implications of licensing reform, e-declarations and e-reporting, and development of a national OSS system, the BRTA Team also discussed with Corneliu Tusca, in charge of the Ministry of Justice database of normative acts and development possibilities. As we develop and implement our information technology procurement strategy, we will work further with this group to improve access and add services.

### **Development of a strategy to improve Doing Business rankings**

In preparation for this effort, the BRTA Project has conducted a comparison of the detailed specifications for the ten *Doing Business* indicators and their sub-indicators between Moldova

and reference countries to highlight specific issues in relative performance. The analytical report is currently being finalized.

## **Component 2: Tax Administration Reform**

### **General**

Following a series of meetings with the leadership of the State Tax Service (STS), the BRTA Team amended the draft workplan to reflect specific activities agreed upon.

### **Coordination with the Moldova Governance Threshold Country Program (MGTCP)**

Following a meeting at USAID, the BRTA Team met with the Larry Vetter (COP) and Mike Neider of the MGTCP Project to compare notes and workplans, and to structure a close cooperation that would present a joint US government-financed support to the modernization of the STS. This program was presented in some detail to the STS under the chairmanship of Mr. Puscuta, Head of the STS.

### **Support for IT development**

The IT procurement strategy document to be submitted to USAID will pay particular attention to the specific needs of the STS. For example, during the development of this strategy for the Project, the BRTA Team met with the contractor for the UNDP e-declarations project, Deeplace (Mr. Veaceslav Cunev) to understand the current status and specifications of that project. This understanding is reflected in the final draft of the strategy document.

The BRTA Team also held several meetings with the leadership of the STS to explore in detail urgent IT development support needs in the areas targeted for BRTA support in the short term. These activities will include support to developing specific applications that use the existing Informix database.

### **Reduction in tax reporting requirements**

We have also developed a specific scope of work (SOW) for an expatriate short-term adviser to examine the number of tax forms currently used (or of potential use) and develop a strategy for reducing tax reporting requirements. We expect that the initial consultancy on this subject will take place in early 2008. Additional draft SOWs for other expatriate short-term advisors to address Anti-Fraud activities, Taxpayer appeals, Benchmarking, the creation of a Tax Ombudsmen's office, and other activities have been prepared. These activities are forecasted to take place in the next quarter.

### **Streamlining the system of VAT fiscal invoices**

The current system of submitting VAT fiscal invoices is the single biggest form and data burden on taxpayers. The e-declarations project may address this issue, but it is unclear at this point

whether these reforms will work for most taxpayers. The BRTA Team has developed an SOW for an expatriate short-term adviser to study the current system of submitting VAT fiscal invoices and propose detailed solutions to simplify this process. We expect that the initial consultancy on this subject will take place in early 2008.

## Status of Activities

Please refer to Annex 1 “Workplan Progress Report” for a status update of all work plan activities. Progress is indicated by the pink color. All tasks envisioned were completed on time, with the following exceptions:

- **Business Survey (#21<sup>2</sup>).** BRTA initially proposed an annual business survey, to estimate time and resource requirements for reporting, and to assess the prevalence of bribe-paying to tax and licensing officials.<sup>3</sup> Since then, we have learned that many related issues are covered in the annual Cost of Doing Business Survey, currently financed by the World Bank’s Competitiveness Enhancement Project. The CODB surveys 600+ businesses in Moldova on the burden imposed on private enterprise by interactions with the state administrations. The timing of the CODB survey would correspond roughly to the one originally proposed by the Project (last year, it was conducted in March/April).

BRTA has conducted initial meetings with the World Bank’s Victor Burunsus to discuss the possibility of co-sponsoring the CODB survey. We will, now that the extended Government holiday schedule has concluded, schedule a meeting with the Ministry of Economy & Trade staff to further discuss cooperating on this survey. Until this is resolved, BRTA has placed plans for an independent business survey on hold.

- **Program for Regional Partners (#76).** To date, the BRTA project has conducted initial meetings with the directors of regional Chambers of Commerce & Industry, and solicited proposals from them for future collaboration. A combination of delays in staffing and the holiday period prevented this program from being fully articulated within the quarter. Roman Ladus and Sergiu Rabii will be leading this component – and will make it an early priority in Q2.
- **Proposed Reforms for Declarations Simplification (#142).** IT/Tax Administration Advisors, Viorel Rusu and Vasile Goian prepared an initial assessment and recommendations for VAT declaration simplification. However, draft reforms have not yet been released to the STS, pending internal discussion with the Chief of Party and BRTA technical team. This will be among Mr. Rusu and Mr. Goian’s first tasks in Q2.
- **IT Strategy (#16).** DAI received a brief extension from CTO, Corneliu Rusnac, for this deliverable, to enable our Moldovan technical team to review it more thoroughly before submission. The Strategy is being delivered with this report, on January 15, 2008.

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<sup>2</sup> Numbers refer to the work plan activity number, (see Annex 1).

<sup>3</sup> These surveys are also referenced in the BRTA task order.

## Performance Indicators

Using the summary table below, BRTA will provide qualitative and, when possible, quantitative quarterly updates on our performance against the indicators defined in our Performance Monitoring Plan (PMP). As required by the task order, the final quarterly report of each US government fiscal year will incorporate annual, cumulative results data and indicators.

As BRTA focused primarily on the development of the work plan this quarter, the following performance updates refer largely to refinements in our targets, and strategies for meeting those targets.

Indicator		Baseline	Target Y1	Quarterly Update
<b>USAID Standard Indicators</b>				
ST 1	Number of mechanisms for external oversight of public resource use supported by USG assistance	0	5	Identified target mechanisms, (e.g. Tax Advisory Council, electronic register of juridical acts, public access to regulatory impact assessment (RIA); and web-based taxpayer current accounts.)
ST 2	Number of USG-supported anti-corruption measures implemented	0	5	Identified target anti-corruption measures, (e.g. Tax Ombudsman's Office; regional hotlines, regional working groups on regulatory reform; and a risk-based audit selection system)
ST 3	Number of municipalities receiving USG assistance with regulatory / admin. Simplification	0	16	Met with Chamber of Commerce representatives from all the regions, and solicited proposals for BRTA support. These will be considered in Q2.
<b>Component I: Business Regulatory Reform</b>				
1	Number of business licensing procedures	30	n/a	Rick Ernst & Roman Ladus are conducting an analysis of performance on the "Dealing with Licenses" indicator in Chisinau v. regional OSSs, to identify ways to improve performance against this metric. See work plan, result 1.1 for planned activities.
2	Number of days required to deal with licenses	292	n/a	See #1.
3	Cost of dealing with licenses	154.2	n/a	See #1.
4	Number of business reporting requirements	TBD	TBD	The BRTA team inventoried all business reporting requirements by the 4 major reporting agencies: BNS, CNAS, CNAM, and STS, but found them to be divergent depending on business size, ownership, industry, etc. BRTA will develop several hypothetical businesses, and then determine their reporting requirements – and include in a full report in Q2.
5	Number of days to meet business reporting requirements	TBD	TBD	BRTA conferred with the World Bank to include this as a question on their annual <i>Cost of Doing Business</i> survey. Negotiations are currently underway. See work plan, result 1.2 for planned activities.
6	Percentage reduction in the number of firms reporting bribery in obtaining licenses	TBD	TBD	See #5.
7	Quality of information	3.4	n/a	See work plan, Result 1.3 for planned activities.

Indicator	Baseline	Target Y1	Quarterly Update	
	regarding changes in policies and regulations			
8	Presence of demanding regulatory standards	3.6	n/a	See work plan, result 1.3 for planned activities.
9	Burden of government regulation	2.5	n/a	See work plan, result 1.4 for planned activities.
10	Efficiency of the legal framework	2.6	n/a	See work plan, result 1.4 for planned activities.
<b>Component 2: Tax Administration Reform</b>				
11	Number of tax payments for business	49	n/a	Identified ways to reduce tax payments, including: expand e-filing and combine tax and contributions onto the same form.
12	Number of hours for individuals to prepare and pay taxes	218	n/a	Identified ways to reduce number of hours spent, including: expand e-filing and draw tax reporting directly from existing business accounts.
13	Percentage reduction in number of firms reporting bribery in contacts with tax authorities	0	15%	See #5. See work plan, result 2.2 for planned activities.
14	Number of audits and controls of individual taxpayers	40,000	TBD	Clarifying definition: STS includes inspectorate visits to businesses, in addition to traditional audits, in their calculation of 40,000. BRTA will meet with STS to discuss assumptions behind figure on 1/20/08. See work plan, result 2.3 for planned activities.
15	Number of small businesses audited/controlled	10,569	TBD	See #14.
16	Cost of tax administration	1.3%	TBD	This indicator will be negatively affected by the elimination of the corporate income tax in 2007; BRTA will confer with STS on 1/20/08 to discuss implications, and identify a reasonable target. See work plan, result 2.3 for planned activities.
17	Appeals sent to courts	25%	TBD	See #14. See work plan, result 2.4 for planned activities.
18	VAT c-efficiency	68	TBD	Benchmarking study, which will confirm the baseline and help set a target, has been set for Feb 2008. See work plan, result 2.5 for planned activities.
19	PIT productivity	0.25	TBD	See #18.

## List of Reports / Deliverables

The following technical reports were completed by BRTA during the last quarter.

Report Title	Primary Author	Date Completed	Type of Report*
Tax Administration Reform: Activities under the Moldova Governance Threshold Country Program (MGTCP) and Business Regulatory & Tax Administration Reform (BRTA) Project	U. Ernst	11/2/07	R
First Year Work Plan	U. Ernst	11/9/07	D
Performance Monitoring Plan	P. Bilinsky	11/9/07	D
Review of Cost of Doing Business Survey	U. Ernst	12/7/07	R

BRTA Activities since Project Start-Up (produced for USAID)	U. Ernst	12/11/07	R
Summary of Project Activities and List of Contacts & Meetings since Start-Up (produced for Ministry of Economy & Trade)	D. Greer	12/12/07	R
Opinion on STS' Draft Law on Tax Arrears Procedures	V. Rusu	12/19/07	R
Cabinet Decision on OSS Implementation for Licensing Procedures	E. Osmochescu	12/28/07	R
Opinion Regarding Some Aspects of Value-Added Tax Application (draft report)	V. Rusu, V. Goian	12/31/07	R
Report on STS Actions towards IMF Recommendations	V. Rusu, V. Goian	12/31/07	R
Draft Report on Licensing in Moldova	R. Ladus, E. Osmochescu, S. Rabii	12/31/07	R

\*D = deliverable; R = other report

## Problems and Implementation Issues

- Staffing.** As noted above, our biggest challenge in the last quarter was related to re-staffing the project – replacing the Chief of Party, 3 key personnel, and our Operations & Finance Manager. By the end of the quarter, each of these positions had been filled. There are two outstanding positions to be filled: the Regulatory Reform Implementation Advisor and the Public Outreach & Media Advisor. We expect to fill these positions by the end of January.

It is worth noting that this start-up period was hampered by difficult salary negotiations, most of which relate to the challenge of working within the USAID-approved local compensation plan. DAI has submitted a letter to CTO, Corneliu Rusnac outlining these difficulties, and we look forward to working with USAID to improve parity between market rates and the local compensation plan.

- IT Equipment Delivery & Project Registration.** BRTA's shipment of IT equipment was delayed, as we prepared documentation for DAI's registration as a representative entity in Moldova. Full registration is encouraged by USAID, as of April 2007, but entails some legal risk for the Contractor. Consultation with legal advisors and internal corporate discussions delayed DAI's filing for project registration – which in turn, delayed our fiscal code and our ability to move goods through Moldovan customs. Project registration was ultimately granted on December 21<sup>st</sup>, and IT equipment arrived in country in early January.

## Activities Planned for Next Quarter

For a full list of BRTA's scheduled activities for the next quarter, please see Annex 1, "Workplan Progress Report." Among these, highlights include:

### Project Management

- **IT & TAMIS.** Project IT equipment will be installed and configured, and DAI's Technical & Management Information System project management tool will be fully active.
- **COP Training.** COP David Greer will complete 1 week of COP training at DAI in Bethesda, covering compliance, project management, financial management and budgeting, and learning about project resources available from the home office.
- **Administrative team training.** DAI's Associate Business Manager, Bryn Saxe will train the BRTA administrative team in all aspects of DAI and USAID financial regulations, accounting procedures, and administrative processes.
- **Hiring Regulatory Reform Implementation Advisor and Public Outreach & Media Advisor.** DAI is currently interviewing candidates for this position, and expects to make a decision within the month.
- **BRTA Roundtable.** DAI plans to host a roundtable in March 2008 to confer with key project counterparts on BRTA's major initiatives going forward.

#### Component 1: Business Regulatory Reform

- **Statistics Reporting.** Statistics expert, Alex Kornis will consult with the BRTA team and the National Bureau Statistics on recommendations for reducing reporting requirements for business and collaboration with other government reporting agencies.
- **Business Survey.** BRTA will work with the Ministry of Economy and Trade, ideally collaborating through the *Cost of Doing Business Survey*, to implement a survey of Moldovan businesses on the time and cost of licensing and the incidence of corruption.
- **“Dealing with Licenses.”** Program Advisor, Rick Ernst and Licensing Expert, Roman Ladus will finalize their regional analysis of the “Dealing with Licenses” *Doing Business* indicator.
- **Licensing Regime Review.** BRTA will bring short-term experts to review and provide recommendations on the new licensing legislation, and provide recommendations for simplifying and streamlining licensing processes.
- **Reform Branding.** BRTA will assess options and provide recommendations for branding the reforms promoted by the project.

#### Component 2: Tax Administration Reform

- **Benchmarking Study.** BRTA will lead a benchmarking study that benchmarks aspects of STS tax administration against those in other countries, and against itself over time. This first study will provide a baseline, to track progress in the coming years.

- **Declarations Simplification.** BRTA's Viorel Rusu will review options for simplifying the declarations process, provide recommendations, and draft any proposed reforms.
- **Tax Ombudsman's Office.** BRTA will explore with STS the possibility of a Tax Ombudsman's Office, bringing short-term expertise to explain the merits of such an office, and the particulars of how they work in similar countries.
- **Anti-fraud support.** BRTA will commission an expert to assist in reviewing the activities of the Division of Internal Control and Anti-Fraud and make recommendations on its structure, methods, and training needs.
- **Taxpayer appeals.** BRTA will review the tax appeals processes and organizational aspects of the tax appeals function and make recommendations to strengthen them. If appropriate, BRTA will provide recommendations for a case management system for tracking appeals cases to ensure that the above processes are properly administered, tracked, and reported.