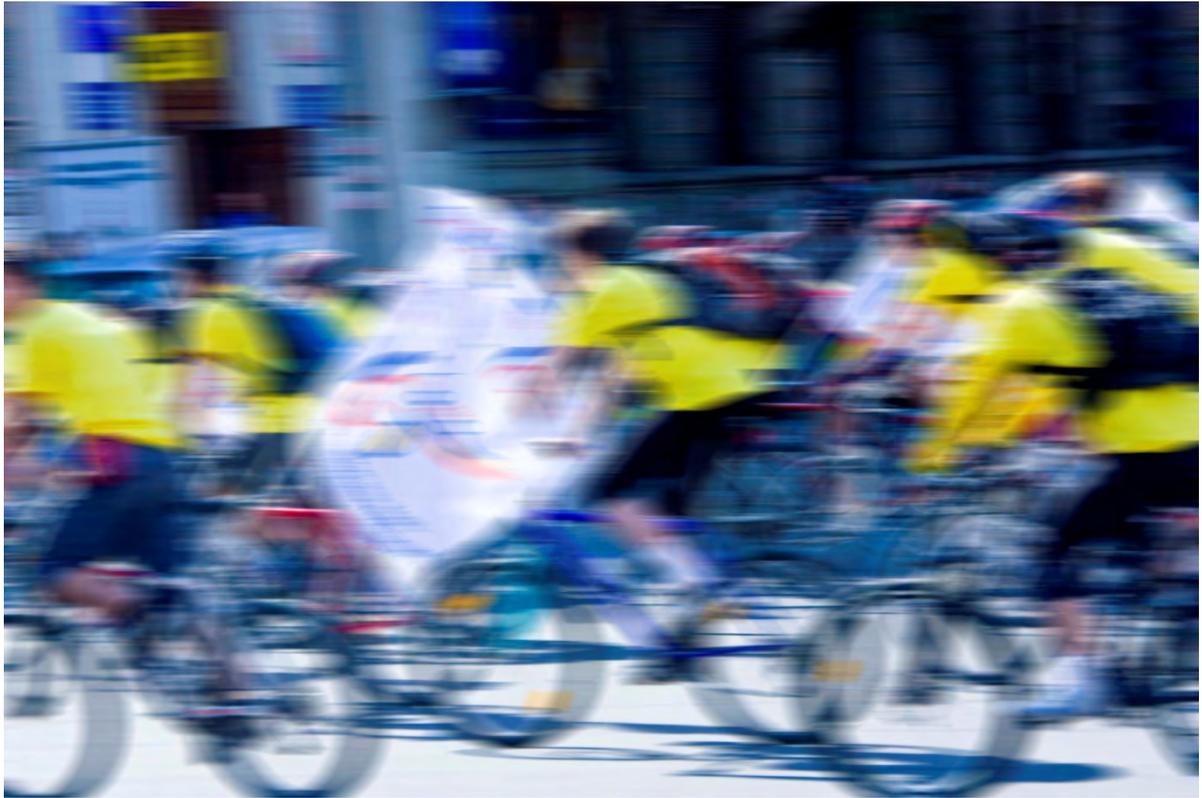




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Business Regulatory & Tax Administration Reform Project

Workplan

October 1, 2009 - September 29, 2010

ACRONYMS

BIZTAR	Business Regulatory & Tax Administration Reform Project
CNAS	National Social Insurance House
CCI	Chamber of Commerce and Industry
GNI	Gross National Income
GRM	Government of the Republic of Moldova
IMF	International Monetary Fund
IRM	Information resource management
IT	Information Technologies
MCTD	Ministry of Construction and Territorial Development
MET	Ministry of Economy and Trade
MID	Ministry of Information Development
MGTCP	Moldova Government Threshold Country Project
NBS	National Bureau of Statistics
NWG	National Working Group on Regulatory Reform
OSS	One Stop Shop
RIA	Regulatory Impact Assessment
RWG	Regional Working Group on Regulatory Reform
STS	State Tax Service
TBD	To be identified
TTI	Territorial Tax Inspectorate
USAID	United States Agency for International Development

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BIZTAR YEAR 3 WORK PLAN NARRATIVE

1. INTRODUCTION

The mandate

On September 26, 2007, USAID and DAI (for the DAI/Nathan Group) executed the USAID/Moldova *Business Regulatory & Tax Administration Reform* (BIZTAR) Task Order. The BIZTAR Project seeks to improve Moldova's business environment by reducing regulatory and administrative burdens on private enterprise, streamlining tax administration, curtailing opportunities for corruption, and improving the access for citizens and businesses to government information. The BIZTAR Project pursues these objectives by working with a variety of government partners to improve their performance, emphasizing the creative deployment of information and communications technology (ICT) to facilitate better regulations for competitiveness, transparent data management, streamlined administrative processes, and enhanced private-public sector partnerships. The Project is also assisting government and the private sector to promote public awareness and support for policy reforms to create a better business environment.

Over the past few years, Moldova has embarked on a program of comprehensive structural reforms to complement its prudent macroeconomic management. These efforts have been aimed at creating a more hospitable environment for business creation and enterprise growth, forming part of a broader transition strategy to build a strong market economy that can compete in Europe. The recent elections have led to the installation of a reform-minded government; while the longer-term prospects for the new government are perhaps uncertain, there is an adequate window to build on such efforts as the Guillotine I and II laws and other steps to foster a business environment that promotes competitiveness. The principal mandate for the Business Regulatory and Tax Administration Reform (BIZTAR) Project is to broaden and deepen that reform agenda, interfacing closely with other assistance efforts.

Central to the Project is support for the full implementation of the Guillotine II Law with its emphasis on a participatory approach through the National Working Group and an advocacy network in the regions that draws on the experience with the Regional Working Groups. Other activities, described in this work plan, complement this focus to support efforts to modernize the country's business environment. The BIZTAR Project also provides targeted support for the modernization of Moldova's tax administration system, in cooperation with other assistance efforts, such as that provided under the recently completed Moldova Governance Threshold Country Plan Project (MGTCP) or the UNDP-supported implementation of e-Moldova.

On the regulatory reform side, the Project pursues three main tasks—i) reduce unnecessary administrative burdens on business of interfacing with government institutions, ii) ensure that government institutions have faster access to the kind of information required by their mandates for service delivery and policy oversight, and iii) make the process of service delivery and policy oversight more efficient and transparent to businesses and individual citizens to facilitate broader participation and greater compliance. On the tax administration side, the BIZTAR Project supports initiatives to broaden and improve tax services, in particular by making some services more user-friendly, such as submission of taxpayer declarations and obtaining taxpayer certifications. The Project works with the STS to strengthen procedures the areas of fraud and appeals, and also addresses selected aspects of tax policy. This assistance will enable the State Tax Service to work more efficiently, and to leverage the information that it gathers for other institutions.

While the presentation here maintains a degree of separation between the regulatory and tax administration reform side, in practice the Project represents an integral approach to reforms, including energizing private sector participation and improving access to more accurate government information. This will synergistically contribute to raising the competitiveness of the Moldovan economy and make it a more attractive destination for investment.

2. OBJECTIVES AND SCOPE OF THE BIZTAR YEAR 3 WORK PLAN

This work plan for the *Business Regulatory & Tax Administration Reform (BIZTAR)* Project lays out scheduled activities for the period October 1, 2009 through the scheduled end of the Project, September 29, 2010. As in previous versions, it reflects consultations with government and private sector partners as well as key donors. However, there is considerable uncertainty at this point regarding the precise priorities of the new government, and this work plan will in all likelihood be subject to review and revision.

Accomplishments over the past year

In Year 1, the ultimate vision that guided the BIZTAR Project was to engage our partners, primarily in the GRM, towards forging an enabling environment to foster enterprise growth and competitive performance. During the second year, the Project built on these relationships to register significant accomplishments:

Business Regulatory Reform

With BIZTAR assistance:

- Moldova emerged as one of the world best reformers in the World Bank's Doing Business rankings, strong evidence of the impact of reforms;
- CNAS began development of its web accessible current account system (to be completed by December 2009);
- CNAS and the Licensing Chamber both launched new websites, which included in the case of the Licensing Chamber downloadable forms and guides to help applicants;
- CNAS concluded its 1st customer satisfaction survey, which showed generally very good results;
- The Licensing Chamber established the electronic register of licenses, and has offered access to that register through its revised web site;
- The Licensing Chamber and CNAS presented summary reports of their activities to the Moldovan business community in Chisinau and in the regions;
- Estimates of the time needed by business to prepare and submit required all reports (monthly, quarterly, and annual reports) to NBS, CNAS and STS were completed and widely communicated; on average they amounted to approximately one accountant month per year;
- NBS agreed to consolidate some reports, and to conduct a new combined survey in early 2010;
- We prepared draft laws to streamline the process and reduce the time to obtain construction permits significantly;
- Five regional partners (Balti, Cahul, Edineti, Chisinau, and Orhei) launched efforts to promote business environment improvements;

- Six regional One Stop Shops were revitalized and strengthened (Telenesti, Orhei, Singerei, Cahul, Soldanesti, Ceadir-Lunga); and
- Special reports on business enabling problems arising from operations of customs and regulatory framework for meat imports were finalized and presented to USAID.

Tax Administration Reform

In tax administration reform, BIZTAR achieved the following:

- A revised joint STS-BIZTAR workplan for Anti-Tax Evasion System was approved;
- The software for the on-line taxpayer declaration software, *Declaratia Rapida*, was completed, and underwent experimental testing; we developed training materials and trained some 200 taxpayers (so far) in the use of this software;
- Training and technical assistance to STS staff in appeals and anti-fraud areas were provided;
- STS has participated in some regional meetings to discuss issues with taxpayers; and
- A revised Draft Concept Paper for creating a system of access to taxpayer current accounts and for the implementation of an appeals Case Management System were submitted.

Strategic priorities for year 3

The overall priority for year 3 is to bring a number of key activities to full fruition, to mark significant accomplishments in the reform agenda described in this document, and to achieve significant business-friendly changes within key government partners. The main strategic emphasis will be to work with the new government to demonstrate the real benefits of rapid reform in the context of an unprecedented economic crisis that reflects the repercussions of the global financial crisis. This emphasis will require concentration on selected aspects of the reforms that have been supported by BIZTAR, and—simultaneously—considerable flexibility in supporting the agenda of the reform-minded government. Our agenda also stresses improved outreach to the business community to ensure full use of administrative innovations, and to reinforce effective structures for a continuing private-public policy dialogue.

While the work plan is organized in line with the established results framework, it seeks to focus and concentrate on a few major axes that in effect link regulatory reform and tax administration. The Project has made considerable progress in working with the State Tax Service to develop a new system, the *Declaratia Rapida*, for filing taxes. That system will be expanded to address reporting and registration requirements for other agencies, notably the NBS and the CNAS—a major step toward realizing BIZTAR’s initial vision of a one-stop shop for filing periodic reports. The implementation of the expanded *Declaratia Rapida* to include NBS and CNAS therefore represents one principal axis for BIZTAR activities in Year 3. In addition, BIZTAR will also assist the GRM in reforms in areas that matter also for the country’s rankings on the *Doing Business* exercise, primarily the passage of legislation to streamline the process of “Dealing with construction permits,” but also improvements for “Protecting investors,” “Starting a business” and “Closing a business.” Several other activities in both regulatory reform and tax administration round out the activity picture.

The actual work plan begins with an overview of and timing of activities linked to regulatory reform, responding to four intermediate results: 1.1 Improved business practices, 1.2 Simplified business reporting requirements, 1.3 Improved access to government information, and 1.4 Effective monitoring of reforms and public awareness. The subsequent section lays out the objectives, activities and targets for BIZTAR support for tax administration reform in the third year of the Project, in response to five respective intermediate results: 2.1 Simplified tax reporting requirements, 2.2. Improved taxpayer

services, 2.3 Improved tax appeal procedures, and 2.4 Tax frauds prevented. Some general comments concerning cross cutting activities (IT and monitoring) as well as BIZTAR organization conclude the presentation of this work plan.

REGULATORY REFORM

Result 1.1: Improved business practices

Support the GRM's efforts to improve Doing Business rankings

While the World Bank/IFC's Doing Business indicators tend to give a partial, and sometimes misleading, glimpse of the prevailing business environment, they are widely respected and quoted. From the beginning, BIZTAR has recognized that role, and has stressed that reforms should keep this aspect in mind, and has incorporated this notion in our discussions with counterparts. Over the last year, the GRM therefore sought BIZTAR assistance in tackling some of the weaknesses that show up in the international rankings. BIZTAR conducted an assessment of issues in "Trading across borders" (*Doing Business 2010*: #140 out of 183 countries ranked) and agreed to assist the GRM in exploring steps to improve rankings in "Protecting investors" (#101) and possibly "Closing a business" (#90).

The work that BIZTAR has been undertaking with the Ministry of Construction and Territorial Development (MCTD) and the Mayoralty of Chisinau with respect to "Dealing with construction permits" is likely to be reflected in a significant change of Moldova's ranking on this indicator.

In addition, BIZTAR is currently completing draft legislation to strengthen *investor protection* and limit self-dealing by directors. Once these amendments are adopted by the GRM and introduced to Parliament, their adoption would improve Moldova's standing in the *Doing Business* rankings; it currently is ranked 109th.

Over the first quarter covered by this work plan, BIZTAR will also explore options to improve its standing on "*Closing a business*" (current ranking: #90, based entirely on the "recovery rate" of cents on the dollar for the company's creditors). The analysis will look in detail at the way in which this indicator is estimated to determine where interventions could result in appreciable improvements in this score. Based on that analysis, BIZTAR will propose additional steps, and help implement them.

BIZTAR will also develop special reports on regulatory barriers to economic growth and the conduct of business as these are identified, for example, through activities of the Regional Working Groups.

Team: B. Brunn, S. Hadarca

Guillotine II enactment laws implementation, regulatory reform, and regulatory impact analysis

The Guillotine II Law provides for the mandatory application of Regulatory Impact Analysis (RIA) of existing and new normative acts. The World Bank-funded Competitiveness Enhancement Project working with the Ministry of Economy and Trade is coordinating the RIA review, but the quality of submitted RIAs tends to be highly variable. For normative acts developed and being developed with BIZTAR assistance, BIZTAR will support efforts by the respective Ministries and agencies (Ministry of Finance, MCTD, STS, and CNAS) to develop RIAs and discuss them with the business community. We expect that direct contact with the NWG will revolve around specific issues and draft normative texts.

Team: S. Hadarca

Licensing reform

Over the past two years, BIZTAR has contributed successfully to streamlining the procedures at the Licensing Chamber. For the remainder of the Project, the emphasis will be on completing this assistance to enhance the operations of the Chamber and lighten the burden on business further. A major target for Year 3 is to explore the options for submitting applications and documents electronically (and registering these applications).

Assess Moldova's current licensing scheme and propose revisions: BIZTAR has supported streamlined procedures for the Licensing Chamber that have reduced the administrative burden on businesses seeking a license. The Licensing Chamber is legally responsible for some 37 licenses. The rationale for that range needs to be examined in light of best international practices and net economic benefit to the country. BIZTAR will conduct a comprehensive assessment to compare Moldovan practice to international standards, especially in the EU, and to examine the net economic benefits for selected licenses. That assessment will form the basis for recommended amendments to the underlying legislation.

Develop and pilot test the electronic submission of documents for licenses: The Project will support efforts to develop mechanisms for electronic submission and registration of license requests, relying on current information technology within the existing legislative environment. While under the current system applicants still will have to travel to Chisinau to obtain the actual license, the new process would reduce the burden on businesses, in particular outside of the greater Chisinau area.

Assist the Licensing Chamber in improving its outreach to the business community: The Project may assist the Licensing Chamber in its efforts to enhance its web site with English language capability. The Project will also contribute to improving facilities for searching the database of firms licensed by the Chamber. The support may also include targeted contributions to upgrade the IT infrastructure of the Chamber by replacing obsolete equipment in the customer service areas. The provision of this support is subject to budgetary constraints. Finally, the Project will assist the Chamber in revising its licensing guides, initially in the Russian language, and may also provide resources to translate these guides into Russian and English.

Team: O. Grigoroï & others

Streamlining the process of dealing with construction permits

For "Dealing with construction permits," according to the *Doing Business 2010* report (using 2009 data), Moldova's rank was 161 (down 4 places from the *Doing Business 2009* assessment); 30 procedures are required to obtain the authorizations to build and to use the facility once constructed. The process on average requires 292 days to complete, and cost involved amounts on average to 123 percent of GNI per capita. In Moldova, the procedural requirements remain very ambiguous; indeed the laws and government decisions are too general, allowing for considerable discretionary decision-making by the involved regulatory authorities. The actual procedure is basically impossible to identify clearly just from the legal acts.

With respect to this element, BIZTAR will focus on three priorities for the next year:

- (1) Review with government and the business community, and passage of a comprehensive law that restructures and streamlines the process of dealing with construction permits in Moldova;
- (2) effective outreach to the business community and the population at large regarding the implications of this policy innovation; and

- (3) establishment of a flexible and searchable electronic database regarding construction permits and related data on construction projects in Chisinau.

Based on an early assessment conducted under the Project,¹ BIZTAR supported GRM governmental initiatives, in particular by the Ministry of Construction and Territorial Development (MCTD) to improve construction regulations by making them more transparent and simpler, thereby facilitating the process for businesses to obtain construction licenses and permits. Project staff drafted two major pieces of legislation (one dealing with procedures 1-17 identified by the *Doing Business* exercise, the other for procedures 18-30). In addition, there is a third draft law referring to the criteria for a certificate of completion of construction. The drafts were approved by the GRM, but before they could be voted on in Parliament, new elections were held.

Facilitating final adoption of construction permit law: Over the next few months, BIZTAR will work with the GRM and Parliament to relaunch to the process for the adoption of a law that will streamline the construction permit process. We expect to start with a discussion of the impacts of inspections during construction, and of procedures required for the certificate of completion of construction at the National Working Group (NWG) for regulatory reform. We will subsequently organize a roundtable discussion with representatives of the new government of the three draft laws.

Based on these discussions, the Project will then update the draft laws and if possible package them as one. The next steps include support for government approval of the new construction permit law, and for the debate and adoption by Parliament.

Realizing the potential of the new construction permit law: Passage of the law restructuring the process is the first step. It must be complemented by a broad outreach effort to prepare builders and the general public about the implications of the new procedures. BIZTAR will assist in the preparation of construction guides, outlining the process. Once approved, the Project will publish and disseminate construction guides and posters. More generally, we will support initiatives to increase awareness of the construction law and guides.

Develop an accessible and searchable database of approved and completed construction projects: To facilitate management of the new system by the MCTD, BIZTAR will support the development and implementation of an electronic construction register. We expect to create a working group involving the Mayorality and the MCTD to oversee the process. Individual steps include the development of a scope of work for this database, the selection of a provider in charge of development, and the testing of a prototype. Based on the tests and evaluation, the system will be revised as necessary. Once the database has been launched, targeted for June 2010, BIZTAR will monitor and evaluate the deployment of the electronic construction register, and support outreach efforts to increase awareness of the new database and its potential uses. It will include reports on on-going inspection activity by the State Inspectorate for Construction.

Support for one-stop shops: One of the key elements of improving business practices and streamlining administrative processes, particular in the regions, is the institution of the one-stop shop (OSS). Building on the partial success of BIZPRO in promoting and equipping OSSs in the regions, BIZTAR has been working with selected OSS operations. The Project will sponsor a series of “celebrations” of the success of these institutions, for example in Singerei and Ceadir-Lunga.

However, experiences with one-stop shops have varied, and to date there has been no consistent assessment of the OSS experience in Moldova—economic gains, administrative arrangements, and les-

¹ Perspectives to optimize authorization in the field of construction: Comparative study of Chisinau and two local OSSs in Moldova', USAID|BIZTAR, by R. Ladus, May 2008.

sons learned. Part of the lack of success of the OSS concept in some places has been attributed to the lack of a common legal framework that directs government agencies at both the central and local level to cooperate with an OSS, or lays out the criteria for the operation of a functioning OSS. The Project is therefore considering a comprehensive analysis of the OSS experience in Moldova, which will culminate in a conference to present the results and discuss next steps.

Team: O. Grigori, M. Bologan, E. Stancu, S. Hadarca, S. Rabii

Result 1.2: Simplified business reporting requirements

Businesses operating in Moldova provide information with applications and also in compliance with reporting requirements. BIZTAR has been working and will continue to work with the National Bureau of Statistics (NBS) and the National Social Insurance House (CNAS) to reduce reporting burden on businesses.

National Bureau of Statistics (NBS)

The principal objective of BIZTAR assistance to NBS and its stakeholders is to ease reporting burden and to improve access to government information. BIZTAR has succeeded in improving linkages to the Registration Chamber to alleviate the need for entrepreneurs to seek certificates for their statistical code(s) from NBS. Assistance to the NBS in Year 3 will focus on three priority areas—adaptation of the *Declaratia Rapida* approach to meet key reporting requirements of NBS, the development of consolidated monthly statistical survey to replace some of the current reports, and the implementation of a web-based information service option that will provide guidance to users to reporting requirements. The move to a new consolidated report will also mark a shift to sampling-based data collection, replacing the current restriction on a complete census of the respective populations.

Promoting the use of the Declaratia Rapida for NBS reporting requirements: This activity will form part of the core effort for the Project during Year 3. It will involve the negotiation of a Memorandum of Understanding between the STS and NBS to ensure adequate data security and regulate access to information. Beyond that, BIZTAR will outsource the actual development of the system for the NBS, starting with the development of an RFP, issuing the tender, selecting the provider, and overseeing the development of the system, together with both officials of the NBS and the STS. Once the system has been developed, BIZTAR will ensure appropriate testing and revision before the system is launched “live.” As in other instances, the Project will also focus on the promotion of the new approach among the customers of the NBS. As we are moving to shift toward the electronic submission of the DR (see the discussion below under tax administration), we will also work with the NBS to take advantage of this option. The process will be linked to the extent possible to the efforts to facilitate e-reporting, in part supported by the UNDP.

Assisting the move to a consolidated survey: The NBS has declared its intent to consolidate some existing monthly and quarterly reports into a single survey, but the staff have raised a number of questions. In response, BIZTAR has organized an observational visit to Romania to familiarize NBS officials with the concepts and practice of preparing a consolidated survey. This visit is scheduled for October 2009 (although the modalities of the encounter are still being discussed). October will also see the start of the development of all needed instruments for consolidated monthly survey. This development effort will focus on the revision of questionnaires into comprehensive instruments, and instructions to the business community for data reporting. It may be complemented by the development of appropriate sampling procedures for this survey to replace the census-like approach that has prevailed until now. During December, we expect that the survey will be ready for pilot testing, and revision as required. BIZTAR will support outreach efforts to let businesses know about the new ap-

proach and solicit their cooperation. The actual survey is expected to be administered in January, with the initial consolidated report to be issued by the end of the month.

Development of NBS web-based information services for reporting requirements: As part of its improved customer service orientation, NBS is planning the development and implementation of a web-accessible option to provide users with information regarding reporting requirements. BIZTAR stands ready to assist in this development effort. Initially, BIZTAR staff will explore with NBS counterparts the specific modules under consideration, and select one or more for Project support. Once the conceptual framework has been agreed upon, BIZTAR will outsource the actual development of the system, as needed. The selected provider will develop, test and revise the system, prior to its roll-out. As in other applications, BIZTAR will provide support for outreach efforts to familiarize potential users with the new service.

National Social Insurance House (CNAS)

The principal objective of BIZTAR assistance to CNAS and its stakeholders during Year 3 is again to ease reporting burden and to improve access to government information. The planned support includes a focus on facilitating access to the current account for individuals and businesses through a web-based system. BIZTAR will also provide assistance to enable remote CNAS registration of businesses by the Registration Chamber. In addition, BIZTAR will also support efforts to get rid of irritants, such as the requirement of a no-debt certificate.

Improved access to current account: CNAS has been challenged by the World Bank to provide up-to-date information to employees on payments to their accounts. BIZTAR is assisting CNAS achieve that objective. In October, BIZTAR will organize a meeting with the directors of the territorial offices of CNAS (CTAS) to discuss options and opportunities for improved access to the current account. At the same time, the BIZTAR-supported effort to develop and pilot-test the system will be proceeding. We expect at this point that the new system will be ready for launch by early December and will be deployed during December 2009-March 2010. The launch of the system will be accompanied by a special communications/outreach effort, and over the remainder of the program, BIZTAR will ensure adequate promotion and utilization of this new service.

Remote CNAS registration of businesses by the Registration Chamber: The draft scope of work for the development of the system (the RFP has been issued) includes a draft data exchange agreement between the Registration Chamber and CNAS which will specify data security and access protocols. Using that scope of work, BIZTAR will select a provider for the development of the system. The testing and revision of the system should be concluded by April 2010. The BIZTAR Communications Team will organize a special outreach effort to present the May service and its implications for businesses at that time. During the remainder of year 3, the Project will provide additional support for the promotion and utilization of this service.

Removal of “irritants” associated with CNAS interaction: There are a number of procedures that have their origin in some bureaucratic reasoning that yield few benefits, but impose unnecessary costs on businesses. One of these issues is the requirement that CNAS has to issue a certificate of “no debt” before taxpayers can obtain their certificate of no debt to the state. As the improvement of systems moves along, it would be possible for the STS to check on any debts to CNAS directly (as reports to CNAS are made quarterly, but payments are made monthly), rather than requiring taxpayers to obtain the certificate themselves. BIZTAR will conduct an analysis, together with CNAS and STS, of options for eliminating this requirement in the first quarter of FY 2010. Based on the consensus achieved during this analysis, the Project will provide support for the implementation of the most appropriate solution. We will also ensure adequate communication to the business community to keep everyone aware of these changes. CNAS is also expected to post completed model reports on its web site to provide guidance to businesses in filling out the reports.

Other “irritants” include reporting deadlines for CNAS that are out of tune with normal business patterns, and the insistence on presenting declarations even when no information is being reported. In both cases, BIZTAR will work with CNAS and users to examine the problem, identify solutions and assist in carrying out the required steps to ease the burden on business.

Presentation of registration simplification for CNAM: While CNAM is not one of our core GRM partners, BIZTAR has agreed to support a presentation of simplified registration for this agency, an event scheduled for mid-November.

Team: O. Grigoroï (team leader)

Result 1.3: Improved access to government information

Virtually all of the systems development efforts just described are aimed at facilitating access to information—whether it concerns individual records (CNAS), or statistical data (NBS). Also the assistance to be granted in improving the effectiveness of web sites for the counterpart agencies, in particular for the Licensing Chamber, will benefit businesses and individuals who need that information. Moreover, the emphasis in all cases on treating the on-going promotion of new services as a separate task will ensure better access to government information.

The development of a reform advocacy network, discussed below, entails improved access to new or amended normative acts as part of a broader process of private-sector participation in the RIA process. One of the options considered is to establish on-line access to changes in business laws; BIZTAR expects that Balti may represent a pilot operation for such a system.

Team: S. Rabii (Team leader)

Result 1.4: Ensure effective monitoring of reforms and public awareness

Surveys: The major tool for monitoring the implementation and impact of reforms are the business surveys conducted by BIZTAR that focus on the *reporting burden* with respect to STS, CNAS and NBS. Three of these surveys are scheduled for Year 3—October/November 2009, February/March 2010, and July 2010. The target dates for publishing the results of these surveys are late December or early January, late April, and August.

The data from these surveys will be complemented by two other surveys, the regional activity surveys that will focus on the impact of BIZTAR activities (November/December 2009, July/August 2010), and the customer satisfaction surveys for STS and NBS.

A major effort during Year 3 will focus on reinforcing and expanding the network of regional partners to open lines of communication about new or amended normative acts as part of a broader RIA process.

Outreach to private sector: Building on a solid record of accomplishments in helping GRM agencies to improve their regulatory and administrative performance, BIZTAR will emphasize a greater outreach to private enterprise. The focus will be twofold: leveraging the policy and administrative innovations fully to the benefit of competitiveness, and engaging the private sector more proactively in the development of new policies and administrative procedures.

We expect to “kick off” these efforts with a conference on construction laws, tax appeals, and other tax administration innovations. This conference is tentatively scheduled for November 2009. It should mark a milestone in establishing a private sector reform advocacy network, in particular in the regions, to ensure full benefits to the economy and engage the private sector in a broader RIA process for new or amended normative acts.

Subsequently, BIZTAR will explore with CCI and regional partners options for reinforcing and expanding a network involving both private enterprise and non-governmental institutions in the regions. This network needs to be structured to allow for easy participation, à la Twitter, and a minimum of “animation,” that is, active coordination. We have seen the power of such networks operating with few coordinators in yielding broad participation in examining particular policy issues, such as new or amended normative texts.

Once the basic framework has been established, BIZTAR staff will work with stakeholders to develop structures and principles for orchestrating such a reform advocacy network. In order to tie this network into a broader RIA process, BIZTAR will also organize a series of regional training sessions on principles of RIA. We also expect to conduct one or more regional conferences on options for participating in the RIA process for private businesses, citizens, and NGOs.

During this process, BIZTAR will establish and launch a web site and formulate appropriate participation protocols. The Project will also provide initial support to network operations.

Business Agenda: In cooperation with relevant NGOs and think tanks, BIZTAR will seek to contribute to the broader policy debate on a business that addresses specific needs of business competitiveness. During the past year, BIZTAR has already examined the competitiveness impacts of import regulations on the competitiveness of the meat value network in Moldova. In the final year, BIZTAR will complement that study by quantifying the competitiveness impacts of a selected element of the business environment, such as “Trading across borders,” on the competitiveness of key value chains involved. Such a study would explore the effects of costs or delays on the ability of value chains such as textiles to compete effectively on the basis of their revealed comparative advantage. Alternatively, the study would target another value network, identify the most important elements of the business environment, and quantify their impact on competitiveness—a more standard application of USAID’s CIBER (competitiveness impacts business environment reforms) tool.

The results of this analysis, together with evidence from the meat study and other sources will contribute to a draft document describing the list of improvements for businesses that need to be accomplished, the Business Agenda. The draft document will be discussed at a conference for representatives of the government and the private sector, prior to publishing this Business Agenda as a white paper to guide further reforms.

Team: M. Bologan, S. Hadarca, E. Stancu

TAX ADMINISTRATION REFORM

The *Doing Business* 2010 report (using 2009 data) showed an improvement in Moldova’s ranking from 125 to 101 on the “Paying taxes” indicator. However, the improvement was primarily due to a reduction of the “total tax rate” from 42.1 percent of profits to 32.1. There were also marginal improvements in the number of payments (from 52 to 48), and the time spent on paying taxes (from 234 hours per year to 228). The major factor, reduction in the total tax rate, was due to the GRM decision to zero-rate the corporate income tax—a poorly thought-out policy move, which is likely to be reversed by the new government.

Over the first two years, BIZTAR has achieved a major milestone, the development of a simplified tax declaration system, known as the Declaratia Rapida. While the system is still paper-based, using bar codes, it creates the basis for expanding electronic submissions without disrupting the operations of the agency. Moreover, the Declaratia Rapida can and should serve as the key element of a single reporting system that meets the requirements of STS, NBS and CNAS—the core of BIZTAR efforts

in Year 3. For the STS, testing of the DR system is being finalized, much effort will be necessary to support its full introduction.

Result 2.1: Simplified tax reporting requirements

Declaratia Rapida—gaining traction and moving to electronic submission: Simplification of the tax administrative burden on Moldovan businesses can improve the competitiveness of the economy. The BIZTAR Team has prepared a taxpayer software package for preparation of all declarations which will be submitted in printed form and contain bar codes to allow for faster and more accurate processing of tax payer declarations. The software development contract was signed at the conclusion of Year 1. The software has by now been developed and tested; STS staff have been trained. These steps allowed BIZTAR-STS to disseminate the software availability and support to a pilot group of users to enable them to begin submitting this Declaratia Rapida (DR). In the roll-out in early 2010, BIZTAR will include—but certainly not be limited to—clients of the CEED project. So far, some 200 accountants around the country have been trained, and the training continues with about five to seven groups trained per week.

In Year 3, BIZTAR will provide further support to the dissemination of the DR system for filing taxes. Initially, in October 2009, we will organize presentation events in Chisinau, and in selected regions to raise the visibility of the new service to encourage use. (Using the DR is voluntary.) The events will also kick off a series of training events for accountants in private businesses.

At the same time, BIZTAR will help establish a Level 3 Certification Center for issuing electronic certificates for declarations. That step will be crucial in establishing the framework for electronic submission of the Declaratia Rapida.

To address the voluntary character of compliance with the DR system, BIZTAR will sponsor the development of a system that will use existing accounting data to generate the form automatically. That step will in fact save accountants time and money, and is therefore likely to emerge as a major factor in promoting the penetration of the system. BIZTAR will select a provider to develop this software to extract data from existing accounting applications in November 2009, with development starting in December and concluding at the end of March 2010. During the final phases of the software development, BIZTAR will sponsor outreach and training events to familiarize accountants in businesses with the new tool. The software module to extract XML files will focus on 1C accounting software, used by more than 70 percent of businesses in Moldova, but will also cover other accounting/bookkeeping applications available on the local market.

The development of an electronic submission capability is somewhat more complicated. The choice basically will depend on a series of negotiations among the partners, basically STS, NBS and CNAS. One option would be to work with the STS portal that supports e-services by combining in some fashion the barcode Declaratia Rapida and the e-declarations that had been developed under the UNDP project. This approach has the advantage of building directly on existing applications, but that also can create problems in ensuring compatibility. The other option is to start with a reporting mechanism for NBS that incorporates the key structure of the Declaratia Rapida, but can be directly integrated into the development of the new IT architecture for NBS now under development. Once it has been developed, it can then be applied to upgrading the services of STS and CNAS.

Digital signatures: There is another development under way that will affect options for the development of electronic submission. Some of the regions are interested in obtaining and distributing digital signatures. The pilot test for this option has been launched in Cahul; BIZTAR will support this effort, including participation in the launch events.

Based on the experience in Cahul, BIZTAR will support further initiatives. Comrat, Balti and Orhei are interested in becoming regional centers for obtaining and distribution digital signatures. As penetration grows, it adds an option to the development of systems for electronic filing of the Declaratia Rapida, for the STS, NBS and CNAS.

Team: S. Rabii, G. Gordila

Result 2.2: Improved taxpayer services

Current taxpayer accounts: The notion of providing taxpayers the option to examine their current accounts on-line has been under development in the context of BIZTAR for some time. This option has been designated as a priority area, but remains fraught with problems. BIZTAR jointly with STS developed a concept more than a year ago, but it was not accepted. To move forward, the STS needs to provide further guidance on how this concept needs to be refined. To assist in this process, STS has requested that BIZTAR organize observational travel to another country to gain firsthand knowledge of how such applications are used, and to understand be the business processes behind the current account application.

There have been several candidates for this observational travel, but it can pose a significant burden on the host country, so some of the options would be available too late for guiding implementation within the Project timeframe. At present, BIZTAR is still exploring further options that can provide guidance in time for completion under Project. Under the assumption that this observational travel can be organized within the first quarter of FY 10, the following process can take place.

Draft and issue a tender for the development of the current account. The selected provider would develop the system, and provide a version ready for pilot testing by mid-February 2010. Following the pilot test (and revisions, as necessary), the system can be launched gradually in February-March 2010. The launch phase would also include training for both STS staff and users. The remainder of the Project will provide support for the promotion of this service.

Improved taxpayer services: There is some interest among the STS leadership in adopting a Taxpayer Charter. However, it appears that the format and benefits of such a document are only dimly perceived. In order to promote this notion, BIZTAR will therefore prepare and circulate a document illustrating the nature of such charters, and the benefits to the taxpayer and the institution. Based on the response, BIZTAR would work with the STS in drafting and adopting a Taxpayer Charter.

BIZTAR will also assist in the preparation and dissemination of the STS Annual Report, and provide assistance to the launch of www.servicii.fisc.md.

Result 2.3: Improved tax appeal procedures

Case management system (CMS) for appeals cases: This task will be tackled early in the first quarter of FY 10. A BIZTAR consultant will work with STS staff in reengineering the business processes for appeals. The task is doable, since there are only a few hundred at any one time to manage. The reengineered process will form the basis for a case management system (CMS) that make the appeals process fairer to taxpayers but will also reduce the number of court cases that occupy the tax authorities.

The original design of the CMS will undergo test and modification, as appropriate. Its launch also includes training STS staff in the use of the new system. Finally, BIZTAR will also engage in conducting a series of outreach events to familiarize businesses with new procedures and options.

Development of draft legislation: The consultant who will be fielded in October/November 2009 will also be charged with developing draft legislation for advanced ruling and tax mediation. These

drafts will be submitted to STS and then the GRM. Once the government accepts these drafts, they would go to Parliament for debate and adoption. BIZTAR will promote adoption of these draft laws.

Once the laws have been adopted, BIZTAR will train STS and businesses in new procedures.

Negotiations training: We also expect to repeat the successful training session in negotiations.

Result 2.4: Tax fraud prevented

In the context of support to the anti-fraud activities of the tax authorities, developing the strategy and procedures for tackling fraud in the area of VAT payments is the priority.

Help fight VAT fraud: This task involves the development of an appropriate risk management strategy and procedures for identifying and pursuing high value cases of VAT fraud. The emphasis in this task will be on developing criteria for selecting cases for further analysis. Once the concepts and procedures have been adopted, BIZTAR will assist in implementing anti-fraud procedures for VAT.

Team: L. Agarcova

3. BIZTAR YEAR 3 PROJECTED SUCCESSES

(subject to review with a new government in Moldova)

Improved Business Enabling Environment in Moldova

Improvement in 4 Doing Business rankings (starting a business, paying taxes, construction permitting, investor's rights), most likely resulting in a Sept 2010 overall rating as a top 10 reformer and a consistent reformer (there may also be improvement in "closing a business")

One Stop Shop for construction permitting at Chisinau Mayoralty

One Stop Shop for business permits (autorizați de comerț) at Chisinau Mayoralty (with Chamber of Commerce and Industry)

Electronic submission of licensing applications

Integrated software (Declaratie Rapida) allowing business to prepare and submit reports to STS, CNAS, and NBS, including extraction of data from the most commonly used accounting software packages

Electronic submission of tax declarations, reports to CNAS, and possibly to NBS

Electronic access to contributions account at CNAS

Electronic access to tax liabilities account at STS

Improved tax appeals process, probably including tax mediation services and advanced ruling

Develop of a reform advocacy network as an acknowledged permanent partner of government, particularly the Ministry of Economy and Trade, in developing reforms

A consolidated form at NBS

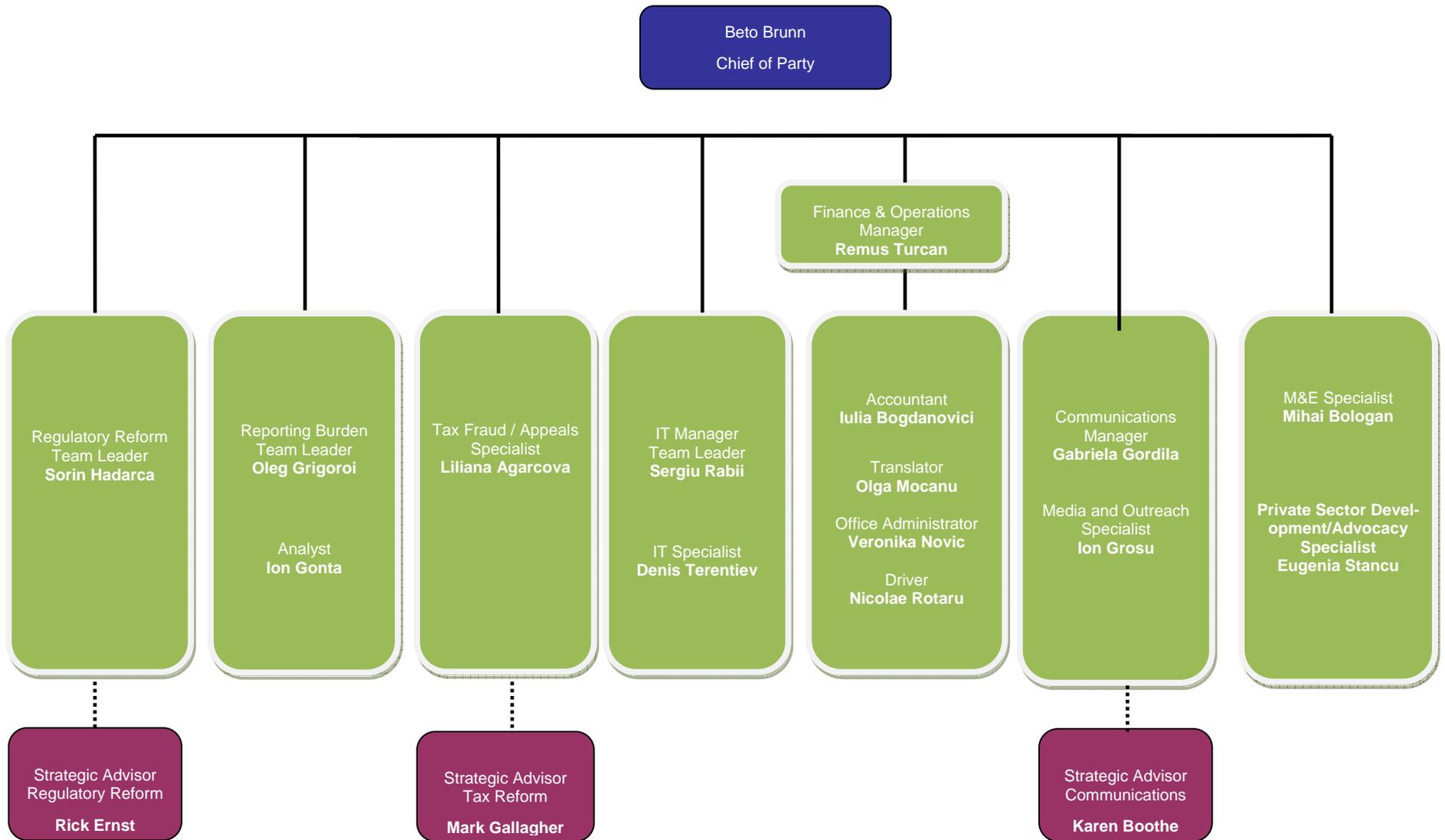
Proposals to new government on:

- Rethinking licensing: appropriate scope and requirements for licensing in Moldova
- Increasing tax revenues
- One Stop Shop for import permits for transformation and reexport of products
- Facilitating issuance of business permits (autorizați de comerț)

4. BIZTAR YEAR 3 ORGANIZATIONAL STRUCTURE

The projected staffing structure and staff for year 3 are shown in the following table. Ms. Stancu, Mr. terentiev, and Mr. Grosu will join the BIZTAR after approval by USAID.

BIZTAR ORGANIZATION AND STAFF CHART, YEAR 3



5. FINANCIAL PROJECTIONS

BIZTAR, fully obligated at \$6,496,632, will have spent approximately \$3.9 million by September 30, 2009; this represents approximately 60% of the contracted budget. The estimated budget for Year 2 is the remaining \$2.7 million. This will include \$350,000 for regional and advocacy activities, \$200,000 for communications and events, \$500,000 for software development, \$100,00 for training on use of \$40,000 for study trips (construction, licensing, reporting burden) as well as limited hardware acquisition, and approximately 650 days of international and Moldovan short-term technical assistance. If those targets are met, by September 30, 2009, the DAI/Nathan Consortium will have expended all obligated and contracted funds. The FY2010 initial STTA calendar is presented in the following table.

BIZTAR Year 3 STTA Calendar (assignments and projected LOE)

PROJECTED ASSIGNMENTS	Q1	Q2	Q3	Q4
International assignments				
Tax Fraud		20		
Tax Appeals and special taxpayer services	50	15		
STS software development	25	15		
Licensing requirements	30			
Customs report presentation	14			
Special assessment on increasing government revenues	20			
Special assessments as required by GRM	40	30		
Strategic Advisor on Communications	3	5	5	5
Strategic Advisor on Tax Administration Reform	5	5	4	0
Strategic Advisor on Regulatory Reform	10	10	6	4
DAI Project Manager	18	18	18	10
DAI Project Assistant	15	15	15	20
International assignments total	230	133	48	39
Moldovan assignments				
Software TORs development	60	10		
Construction legislation	25	15		
Special assessments as required by GRM	45	45		
Moldovan assignments total	130	70	0	0
TOTALS	360	203	48	39