



USAID
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Quarterly Report

April – June 2010

Business Regulatory & Tax Administration Reform (BIZTAR) Project
Moldova



July 2010

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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Cover page:

Launching event of Guillotine 2+ Process, chaired by Valeriu Lazar, Vice-Prime Minister and Minister of Economy, organized with the support of the BIZTAR Project Team, May 19, 2010

List of Acronyms

ANRE	National Energy Regulatory Authority
NBS	National Bureau of Statistics
BIZPRO	Enterprise Development Project
BIZTAR	Business Regulatory & Tax Administration Reform Project
CCI	Chamber of Commerce & Industry
CL	Chamber of Licensing
CM	Chisinau Mayoralty
CODB	<i>Cost of Doing Business</i> survey
COP	Chief of Party
CNAS	<i>Casa Nationala de Asigurari Sociale</i> (National House of Social Insurance)
CNAM	<i>Compania Nationala de Asigurari in Medicina</i> (National Company of Medical Insurance)
CST	Center for Special Telecommunications
DAI	Development Alternatives, Inc.
DCM	US Embassy Deputy Chief of Mission
EMG	Emerging Markets Group
GRM	Government of the Republic of Moldova
IT	Information Technology
M&E	Monitoring & Evaluation
MCRD	Ministry of Construction and Regional Development
ME	Ministry of Economy
MOF	Ministry of Finance
MSTI	Main State Tax Inspectorate
ODC	Other Direct Costs
OSS	One-Stop Shop
PIT	Personal Income Tax
PMP	Performance Monitoring Plan
RIA	Regulatory Impact Assessment
RP	Regional Partner
RR	Regulatory Reform
SOW	Scope of Work
STS	State Tax Service
STTA	Short-term technical assistance
TOR	Terms of Reference
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 (BIZTAR) Task Order was executed by USAID and DAI (for the DAI/Nathan Group) on September 26, 2007. The BIZTAR Project is working 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 services and information. The Project is also promoting public awareness and support for policy reforms to create a better business environment. Importantly the project stresses the creative deployment of information and communications technology (ICT) to facilitate transparent data management, streamlined administrative processes, and enhanced private-public sector partnerships.

USAID|BIZTAR has four pillars for its successes. First, BIZTAR identifies and supports reforms which make a difference in reducing bureaucracy for business. Secondly, partners able and enthusiastic about making these reforms work for business. Third, a significant number of businesses utilizing the reforms, establishing a plateau of satisfied users who will assist in promoting use among other businesses. And fourth, a broad understanding among the business community that these reforms represent part of a broader program of GRM reforms, facilitated by USAID|BIZTAR.

USAID graciously authorized an extension of the BIZTAR Project, after the quarter was concluded, to allow successes to be consolidated and to permit BIZTAR to take on new challenges, particularly with respect to Customs. This report briefly only describes new activities begun in this quarter; a fuller discussion of BIZTAR's future activities will be presented to USAID as part of the Year 4 work plan to be submitted in September-October 2011.

Executive Summary

This report covers the period April – June 2010, which is the eleventh quarter of BIZTAR implementation. Principal impacts this quarter included:

Business Regulatory Reform

- Ministry of Construction and Regional Development (MCRD) finalized with BIZTAR support the draft new law to streamline the issuance of construction permits; this law was awaiting final approval in Parliament (expected in July 2010)
- Special report on business reporting burden was being finalized
- CNAS linkage with the Registration Chamber was being finalized
- Legislative amendments streamlining the licensing process received preliminary approval by Parliament (final approval is expected in July 2010)
- BIZTAR-led inventory of permits and authorizations yielded more than 300 permits and acts
- Legislative amendments "protecting investors' rights" were submitted to Parliament as part of a larger law reforming the framework for joint stockholding companies; that law is still under extended consideration by the respective Parliamentary Commission.
- 34 meetings with businesses, with 1233 participants (824 or 67% women)
- Preliminary review of licensing requirements was being finalized

Modernization of Customs

- BIZTAR concluded a first phase of support to Customs in harmonizing the customs code with the provision of the Revised Kyoto Convention

- BIZTAR began a follow-up assessment of customs operations in the areas of risk management, integrity, and regulatory problems



May 18, 2010: Regional meeting with business representatives in Ungheni within Guillotine 2+

Tax Administration Reform

- Declaratia Rapida - more than 3000 taxpayers were using Declaratia Rapida at the end of the quarter)
- STS and Fiscservinform approved and launched a tax payer portal for accessing e-services
- BIZTAR provided assistance to STS in training tax inspectors
- The module to expand Declaratia Rapida functionality to include extraction of data from accounting software was being finalized (should be ready for testing with businesses in July)
- The STS case management system software was being developed (should be ready in September)
- BIZTAR began to assist STS to draft a new Strategy for the next 5 years.

Next quarter (July – September 2010), USAID and our partners should anticipate the following accomplishments:

Business Regulatory Reform

- The interface between CNAS and the Registration Chamber which will eliminate the need for a separate visit to register at CNAS will be launched
- An operational framework will be agreed upon with STS and CNAS to eliminate the requirement for businesses to get from CNAS the certificate of no debt to the social insurance budget issued by CNAS
- TOR for an e-filing submission for CNAS will be finalized
- E-filing submission for NBS will be discussed
- The legal framework for streamlining construction permitting process will be in force; BIZTAR will assist in the needed communications effort to help business understand and implement the changes



June, 2010: Advanced Training for Tax Inspectors provided by BIZTAR

- Legislative amendments streamlining construction inspection and authorization for occupancy process may be finalized
- Legislative amendments streamlining the licensing process will be approved by Parliament
- Inventory of permits and authorizations will be presented to the Minister of Economy
- Preliminary review of licensing requirements will be presented to Ministry of Economy
- Updated BIZTAR reporting burden assessment will be released
- The draft concept for a legislative framework OSS for local public authorities will be presented and discussed

Modernization of Customs

- BIZTAR will finalize with customs staff draft actions plans to make improvements in the areas of risk management, integrity, and regulatory problems
- BIZTAR will present to Customs some initial proposals for a computerized real-time management information system
- BIZTAR will present to the Vice Minister of Finance some initial proposals to integrate Customs under the Ministry and to strengthen Human resource management and integrity at Customs

Tax Administration Reform

- Training of STS staff and launch of the case management system
- Development will begin of the Taxpayer current account software system (to be delivered by Sept. 1)
- Module to expand Declaratia Rapida functionality to include extraction of data from accounting software will be finalized as well as other enhancements to the DR software
- BIZTAR will sponsor a study tour to Georgia of the Vice Minister of Finance, the STS Director, the Director General of Customs, and the Director of the Tax and Customs Policy Department at the Ministry of Finance
- STS' new 5-year strategic plan will be finalized and submitted to the Ministry of Finance
- BIZTAR will begin a time study to replicate and update the Doing Business assessment of the time to present tax reports to STS, CNAS, and CNAM

- BIZTAR will present to STS some initial proposals for a taxpayer charter
- BIZTAR will present to STS some initial proposals to consolidate reports
- BIZTAR will present to the Vice Minister of Finance some initial proposals for a computerized real-time management information system



May 27, 2010: Beto Brunn, USAID|BIZTAR Chief of Party is welcoming Vice-Prime Minister Valeriu Lazar, and Vice-Minister of Economy, Sergiu Ciobanu, at the BIZTAR stand during the Small and Medium-size Enterprises' Exhibition at Moldexpo.

The following table provides a brief summary of the major achievements projected to benefit businesses operating in Moldova by the end of BIZTAR's 3-year period of implementation. It provides information on the type of impact to be expected and gives a quick update on implementation status.

BIZTAR SUCCESS SCORECARD

	Advances E-Governance	ONE Stop Shop	Significantly reduces costs for business	Benefits businesses significantly outside Chisinau	Increases transparency	End-of-quarter status
Ease of Registering a business						
One Stop Shop integrating other agencies	X	X	X	X	X	Solution integrating Registrations Chamber and NBS has been implemented. Businesses now no longer need to go to NBS. OSS Solution for CNAS will be finalized in August 2010.
Ease of Obtaining a License						
Improved customer service at Licensing Chamber					X	Done
One Stop Shop integrating other agencies	X	X	X	X		Done, includes state-of-the-art touch screens and interagency linkages (10 other agencies)
Online services (information and downloadable forms)	X			X	X	Done, 37 on-line guides, and registry of licensees
Online submission			X	X		Not yet possible, new LC Director may be willing to look at a solution for businesses outside Chisinau
Reduction in number of licenses			X	X	X	BIZTAR proposals largely accepted, law to be changed by August 2010; BIZTAR review of licensing requirements will be presented in the next quarter (Q4/FY2010)
Ease of Submitting required reports						
e- reporting a NBS	X	X	X	X		NBS has agreed to e-reporting and is pursuing this with UNDP support
Some statistics reports will be produced by accounting software						The Declaratia Rapida accounting software module will allow this.
Some NBS reports will be consolidated	X	X	X	X		Agreed in principle. A work plan has been

						developed following the study tour to NBS' sister organization in Romania.
e- reporting a CNAS	X	X	X	X		CNAS has agreed to e-reporting and a strategy has been developed; TOR will be drafted next quarter (Q4/FY2010)
Improved website at CNAS				X	X	Finalized and launched in May
Easier access to construction permits and authorizations						
Regulatory framework revised			X	X	X	1 st law was approved by Parliament in July, 2010 2 nd draft law and other regulatory reforms are being finalized; they should be submitted to Parliament in late 2010.
OSS at Mayoralty connected to State Inspectorate for Construction	X	X	X	X	X	Given little interest in this idea, BIZTAR will not pursue this
Access to improved services at STS						
On-line. Downloadable tax declaration software (Declaratia Rapida)			X	X	X	Launched in Dec 2009, target is 5000 business users; 2500 users by March 31
Declaratia Rapida will be enhanced to allow extraction of data from accounting software			X	X		Software should be launched by May 2010
e-declarations			X	X		e-submission to be included in Declaratia Rapida by December 2010.
Current account available quickly and accurately	X		X	X	X	Subcontract was signed in June; software to be delivered by December 2010.
Taxpayer certifications available quickly and accurately	X		X	X	X	This will be launched with current account.
% Appeals taken to court down 20%	X		X	X	X	Reduced time legislative amendments are being developed; training and STTA continue. Work plan was revised.
Fraud cases sent to CCECC up 50%						New STS Fraud chief does not support this objective

Improved Transparency and capacities in Customs Administration						
AEO Program started	X	X	X		X	Training began in June 2010; draft action plan to be finalized in early July
Corruption reduced			X		X	Draft action plans to be finalized in early July; this problem will be approached by suggesting to the Director General of Customs to directly enhance integrity in operations and indirectly by institutionalizing more broadly risk management systems; also a computerized management information system will be developed
Customs code revised			X	X	X	Plan for rewriting customs code is being finalized; new Customs Code may be ready by March 2010
Other services						
Active outreach by government agencies to the private sector				X	X	LC, CNAS, NBS, and STS each held meetings with private sector representatives in Chisinau, Orhei, Soldanesti, and Balti. In 2010, CNAS has started; the others should follow.
CNAS current account available online	X				X	Was launched in March 2010 with a target of 10,000.

Accomplishments during the Last Quarter (April - June 2010)

Component I: Business Regulatory Reform

IMPROVED BUSINESS PRACTICES (RESULTS AREA 1.1)

Assistance to the Ministry of Economy

The Ministry of Economy is leading GRM's efforts to improve the business enabling environment; it is using BIZTAR assistance to make significant advances in this regard.

Following meetings with the Minister of Economy and several meetings with Business Enabling Environment Coordinator Alexandru Gozun, the following activities were undertaken.

a) Review of licensing requirements

The Ministry of Economy has largely accepted the BIZTAR report recommending the reduction in the number of licenses and is revising the law on licensing to eliminate some 12 licenses. That revised law received preliminary approval from the Parliament (1st reading) and is expected to be approved by Parliament in July.

BIZTAR started this last quarter a review of license requirements and assistance in defining how MOE can transfer review of its own permits to the Licensing Chamber. That report will be presented and discussed in July.

Unfortunately, the Licensing Chamber did not to hold any meetings with the business community to present its activities and improvements and answer questions about licensing.

Next Quarter

BIZTAR may provide support to disseminate the changes in the licensing requirements once the law is passed.

The report on the review of license requirements and how MOE can transfer review of its own permits to the Licensing Chamber will be presented and discussed in July.

The Licensing Chamber may hold meetings with the business community to present its activities and improvements and answer questions about licensing.

b) Inventory of permits and authorizations

Prior to undertaking a comprehensive Guillotine 3 process, MOE tasked a special team of consultants from BIZTAR to prepare an inventory of all permits and authorizations required by all central and local public authorities of business. BIZTAR began this activity in late April in cooperation with an inter-ministerial working group. In a launch meeting with the private sector, representatives of the private sector asked the Minister of Economy to expand the inventory process to local public acts, and that suggestion was accepted and added to the BIZTAR mandate.

This comprehensive review process has been branded as the Guillotine 2+ process, to show that it is an extension of the successful guillotine process undertaken in 2005-2006 with the assistance of the USAID/BIZPRO Project.

In the course of this last quarter, BIZTAR held 21 meetings in different sites, involving more than 632 persons (52% women) to contribute to this inventory. This has included analyzing the activity of 55 central public authorities and subordinated institutions. BIZTAR also participated in an inter-ministerial working group on this process. And BIZTAR established a website (www.ghilotina.md) to facilitate citizens individually providing inputs. By the end of June more than 350 permissive acts had been identified.

Next Quarter

A final inventory report will be presented in late July. Subsequently MOE is expected to use BIZTAR assistance to review the permits and to suggest reforms.



May 18, 2010: Regional meeting with business representatives in Ungheni within Guillotine 2+

c) OSS legislative framework

In 2008 BIZTAR began to suggest a legislative framework to provide some guarantees for the OSS established by BIZPRO. However, MOE at that time was not interested in the idea so a possible legislative framework was not finalized. In 2010, MOE continues to doubt that a workable legislative framework is possible but has challenged BIZTAR and its regional partners to develop a proposal. BIZTAR was unable to identify a specialist to provide a more detailed report; however, BIZTAR has suggested to the Ministry the following guidelines:

OSS principles for local public authorities

- a) Every Mayorality and Raion Counsel must establish a One Stop Shop for the submission of documents to obtain permits and authorizations. The OSS will have clearly posted and available in print and on the website of the Mayorality or Raion council the requirements and cost for obtaining each permit or authorization. And it will have clearly visible signs indicating the maximum number of days for processing the requests.

- b) The OSS will receive and distribute to all other public authorities, local and central government authorities, copies of all documents, so that the citizen or business person is not required to deliver documents anywhere else. The OSS may charge a reasonable fee for making copies, or it may require that the applicant present more than one copy of each document, depending on the permit or authorization
- c) If representatives of public authorities must visit the business or the proposed site of an activity, representatives must go together or it is assumed that the representative not making the visit is giving tacit consent to the application.
- d) For each permit and authorization, the Government of the Republic of Moldova establishes a maximum time period to provide an answer, mandating that the permit or authorization be granted if no cause for rejection is provided in writing to the applicant.
- e) The maximum period for review and rejection is 30 days.
- f) Each public authority is required to provide a response within 25 days, and if the response is a rejection, the cause of the rejection and what is required to eliminate the objection must be clearly specified.
- g) If a public official wishes to discuss an application, that meeting must take place in the OSS.
- h) To economize on the costs of the local public authority and to increase transparency, a Mayoralty or Raion Counsel is authorized to “license” by decree of the respective council an independent entity, such as an NGO or a business association, to act as a OSS, establishing a processing fee for each application of not more than a value to be determined to cover its operational costs. The license shall be for a period of not less than 4 years; if revoked before the minimum 4-year period, then the respective Mayor or Raion Counsel shall be liable to reimburse the independent entity, the cost of its movable property housed at the OSS.

Next quarter

The Ministry of Economy is expected to reviewing the above proposal and may discuss next steps with BIZTAR in July or perhaps after vacations in September or October.

Streamlining Regulation Procedures on Construction and Trade

Assistance Improving the Draft Law on Authorizing Construction Works

The Ministry of Construction and Regional Development (MCRD) apparently finalized the first law to streamline the time and costs associated with obtaining the needed permits to undertake a construction permits. It was presented to the respective parliamentary Commission. The draft law received preliminary approval by Parliament (1st reading) in May.

However, in the review process following its first reading with the Ministry, Ministry officials attempted to reintroduce an GRM agency, the State Inspectorate for Construction (SIC), into the permitting process, a move which was resisted by the private sector, the World Bank, and BIZTAR because it had in the past required a lengthy period to issue a “final” review, duplicating the review by the Mayor’s office, which seemed to lack technical rigor, and that review was often associated with under the table payments. In a special meeting with the Minister of Economy (acting as the Deputy Prime Minister), the Minister of Construction, the USAID Country program Manager, representatives from the World Bank and private sector, as well as BIZTAR, a construction-related OSS was proposed from which the SIC would receive the technical documents early in the process and have 15 days to provide a response or tacit approval would be granted. That proposal seemed to be a good compromise and it was included in the version that was approved by Parliament in the first week of July.

Limited additional work on the 2nd law, on the inspection and reception of construction works, was undertaken.

Next Quarter

The law was indeed passed in July, including in its provisions a registration role for the SIC; it should be promulgated by the interim President by early August). It is not yet clear how the MCRD will operationalize that requirement. The World Bank is expected to launch a procurement for a software system to link the different mayors' offices which issue the construction permit and the SIC which must register the construction for subsequent follow-up as inspectors and for the final authorization for occupancy.

BIZTAR may support a public launch of the new law with explanatory guides. An updated Regulatory Impact Assessment will be finalized. MCRD may resume work on the 2nd law on reception of construction works with BIZTAR assistance.

Developing OSS solutions in trade authorizations

BIZTAR discussed its assessment of the processes and requirements for obtaining trade authorizations with the Vice Mayor of Chisinau Mayorality (a request for a meeting with the Mayor went unanswered). In that meeting, given the interest of a soon-to-start World Bank project in assisting the Chisinau Mayorality, BIZTAR advised the Chisinau Mayorality to work with the World Bank, a suggestion which was graciously accepted.

Next Quarter

No further work on this is contemplated.

Improving Moldova's recognized performance on the Doing Business Indicators

BIZTAR delivered the Report on Insolvency Reform in Romanian to the Ministry of Economy. The report discusses the problems and factors which keep the recovery rate in the case of bankruptcy down in Moldova. BIZTAR will not provide further assistance in this area.

BIZTAR participated in some meetings with World Bank specialists to discuss BIZTAR activities and its assessment.

Legislative amendments improving "protecting investors' rights" were submitted to Parliament as part of a larger law reforming the framework for joint stockholding companies; that law is still under extended consideration by the respective parliamentary Commission.

A local World Bank specialist has advised that there will be little, if any improvement, in Moldova's scores for 2010.

Assistance to CNAS

CNAS has decided it wants a separate e-submission software solution and does not want to use the Declaratia Rapida software as it is linked to the STS and thereby creates the impression that CNAS contributions are taxes. BIZTAR has discussed a conceptual approach to an alternative software solution, which will be developed next quarter. However, building separate systems for CNAS, NBS, and Declaratia Rapida is not cost-effective.

The interface was being finalized with the Registration Chamber to allow data sharing between these institutions, which in turn would allow the Registration Chamber to act as an inter-agency OSS and to automatically register the entrepreneur with CNAS without requiring a separate visit to CNAS was being finalized; the system should be delivered with testing finalized by April 2010).

Since its launch (early November 2009), through June 30, 9607 different persons (IP addresses) have accessed the CNAS Current Account; this includes 4,770 this past quarter, an 18% increase over the prior quarter (Jan. – March 2010). The CNAS-BIZTAR 2010 target is 10,000 users; through June 30; at the end of the quarter 96% of that target had been achieved. (Note: the 10,000 user target was surpassed July 7, 2010.)

In general, 83,242 different persons (IP addresses) accessed the CNAS website in the first semester of 2010, including 37,738 in this last quarter. The higher rate for the prior quarter (Jan – March 2010) is likely due to the annual submissions of CNAS reports in March.

Next quarter

CNAS and BIZTAR will refine strategies for e-submission of CNAS reports, potentially with a solution integrated with e-submissions of Declaratia Rapida.

CNAS will launch its interface with the Registration Chamber to allow data sharing between these institutions, which in turn would allow the Registration Chamber to act as an inter-agency OSS and to automatically register the entrepreneur with CNAS without requiring a separate visit to CNAS. That interface will subsequently be used to allow the STS to access current account data for entrepreneurs eliminating the need for a separate visit and request for a current account statement at CNAS.



June 18-19, 2010: Sergiu Rabii, BIZTAR IT/Strategy and Applications Manager is moderating a panel at the Moldova e-Gov Summit

SIMPLIFIED BUSINESS REPORTING REQUIREMENTS (RESULTS AREA 1.2)

The reporting requirements of NBS, CNAS, and STS create the main reporting burden on businesses. Reducing tax-related reporting requirements at STS is described in the Component 2: Tax Administration Reform section of this report.

BIZTAR is measuring the reporting burden to provide objective information on the nature and cost of reporting to key government agencies to encourage their review of their reporting requirements and systems to ease the reporting burden. Using an internationally tested methodology, BIZTAR began to update its 2008-9 assessment of the time needed by business to prepare and submit required monthly and quarterly reports to NBS, CNAS and STS to include annual reports due in March and April 2010. A final report will be issued next quarter. This report will provide an initial 2010 estimate of the time as well as the cost burden of reporting.

Assistance to NBS

Following the study tour to Romania, NBS did not submit a work plan to BIZTAR – until July 2010. However, it has been working on developing its consolidated form, called Unica.

UNDP developed the specifications and undertook the procurement of an e-submissions solution independent of BIZTAR, using the assistance of the BIZTAR IT Applications Manager in evaluating proposals. We have been told that NBS has rejected the results of the procurement process and now wants to develop an e-submission solution with BIZTAR.

NBS has shown no interest in integrating its forms with Declaratia Rapida. NBS did not hold any meetings with the business community to present its 2009 activities and projected service improvements.

Next Quarter

NBS is expected to discuss in more detail with BIZTAR the development of its consolidated form and an e-submission solution.

NBS is not expected to hold any meetings with the business community to present its 2009 activities and projected service improvements.

IMPROVED ACCESS TO GOVERNMENT INFORMATION (RESULTS AREA 1.3)

BIZTAR activities last quarter and next quarter with its regional partner are discussed below.

Only CNAS held meetings with the business community to present its 2009 activities and projected service improvements.

Next Quarter

Both CNAS and the Licensing Chamber are expected to hold meetings with the business community to discuss projected service improvements.

A BIZTAR subcontractor, to be identified, will begin design of a registry of local acts for Balti and in Gagauzia, which will be coordinated with the Ministry of justice. It is envisioned that this will

be a modular system, allowing other local public authorities to easily adapt it. It may be operational by December 2010.

EFFECTIVE MONITORING OF REFORM AND PUBLIC AWARENESS (RESULTS AREA I.4)

Regional Partnerships

The overall objective of our regional partnerships is to assure that businesses outside Chisinau understand and adopt the mostly voluntary reforms BIZTAR is developing with our governmental partners. In this quarter, BIZTAR held regional meetings with all partners to undertake, principally, the regulatory inventory. In total there were 34 meetings with 1233 participants (67 % women).

Next quarter

In the next quarter, BIZTAR's regional partners will continue to hold meetings on business issues. Regional partners will continue to lead the promotion of the Declaratia Rapida software, reforms in the licensing requirements, and the CNAS current account. They will play a major role in the discussing next steps with respect to the inventory of authorizations and permits.

BIZTAR Communications

The USAID|BIZTAR Communications team is continuing to develop a comprehensive communications campaign aimed at informing and updating the business community and public authorities about the status of regulatory and tax administration reform and the benefits it can provide for both. This quarter BIZTAR's sixth newsletter was published and distributed in English, Romanian and Russian, as well as a special promotional newsletter issue of BIZTAR achievements in advancing e-governance for the National SME Forum and Exhibition.

An intensive communications campaign was drawn up and implemented in support to the Guillotine 2+ Regulatory Inventory Process, comprising video and audio spots, broadcasted nationwide at both national and local media, including Gagauzia and supermarkets, posters and flyers distributed in all promotional regional meetings and major national events, internet promo on popular media and state agencies websites, radio and TV interviews and talk shows, publicity and articles in national and local newspapers.

A 30sec video spot promoting Declaratia Rapida continues to be aired widely and without cost in most cases.

There were 1463 different visitors to biztar.md website during the quarter.

The BIZTAR Communications team organized a stand at Moldexpo within the SME Exhibition and at the 20th anniversary celebration for STS. As part of the program for the latter event, BIZTAR developed communications materials to communicate and promote the STS reform agenda, including articles in leading business magazines.

Next Quarter

The USAID|BIZTAR Communications team will organize launch and promotion of the CNAS-Registration Chamber interface and the publication of the BIZTAR 2009 assessment of reporting burden.

Special communications support will be provided in connection with the launch and promotion of the new Construction Law

INCREASED TRANSPARENCY IN CUSTOMS (RESULTS AREA 1.5)

An early 2009 BIZTAR assessment by a team of international customs specialists identified several strengths and several weaknesses in the operations of the Moldovan Customs Service (MCS) with reference to the target areas of risk management, integrity in customs operations, internal and external communications, and human resource management. Due to the electoral period, that report was not presented to Customs until November 2009. Customs has reported that many deficiencies had been corrected in the months following the assessment. Given the severity of some of the deficiencies, Customs, Ministry of Finance and BIZTAR have determined that it would be appropriate to follow up on the 2009 assessment, review improvements and developments achieved since that assessment, and assist in planning future reforms.

BIZTAR developed with USAID review a scope of work for a follow-on special assessment of customs. BIZTAR brought international customs specialist Patricia McCauley to Moldova in May-June (4 weeks) to begin review of the Customs Code to identify areas where the customs code must be modified or strengthened to embody the provisions of the Revised Kyoto Convention. In the course of 4 weeks, she and a team of Customs lawyers reviewed 70% of the customs code, identifying sections that customs lawyers must revise.

The initial decision is that a completely new Customs Code is preferable to a myriad of amendments to specific sections of the current Customs Code.

Toward the end of the quarter, 2 other international consultants, Lynda Wilcox-Daugherty and Robert Holler, returned to develop work plans to address weaknesses in risk management and integrity and to prepare an action plan to implement an Authorized Economic Operator (AEO) Program. By the end of June, the team had not met with the Customs Director, but the Vice Minister of Finance asked the consultants to give him an update on the extent to which reforms had already been undertaken – the initial impression was that a large number and several important reforms to strengthen risk management had been undertaken, but that very little action had been taken to address the poor integrity at Customs.

Next Quarter

BIZTAR will conclude the assessment and corresponding action planning of risk management, integrity, and AEO. The risk management and AEO implementation plans are rather comprehensive, clearly aimed at producing results, and doable with little assistance from BIZTAR's international specialists. The angrily strengthening planning process had few Customs participants and the draft plan outlined by the BIZTAR consultants may not be accepted and even if accepted may not be enthusiastically implemented.

The results will partially provide the framework for a longer-term effort to strengthen customs by increasing transparency, reducing corruption and increasing its efficiency in collecting tax revenues to be led by the Government of Moldova. The GRM will use the results of the report and the action plans to revise its policies and plans for strengthening customs operations and establishing the appropriate intra-institutional linkages and synergies. It will also use the recommendations to inform the public, the business community, and other donors of revised priorities and reform plans as well as seek assistance from other donors.

Customs is also expected to form a working group of its own lawyers with a private sector representative to begin revision the customs code. Additional assistance from Mrs. McCauley is expected in late September.

Component 2: Tax Administration Reform

BIZTAR's objectives are to simplify and reduce the burden associated with reporting and making payments for taxes, fees and social contributions in Moldova, as well as to create ways that compliance might be made administratively simpler for taxpayers, without creating tax administration difficulties. The aim is not to reduce the amount of tax that businesses and individuals pay, but to reduce the administrative costs to businesses of reporting and actually paying taxes that are due, as well as the administrative costs to the State Tax Service (STS) of collecting those taxes, improve taxpayer services and reduce the costs for physical persons with insignificant revenues. Achieving this objective not only means identifying and eliminating unnecessary or redundant forms but also relevant procedural mechanisms.

SIMPLIFIED TAX REPORTING REQUIREMENTS (RESULTS AREA 2.1)

The consultancy on consolidation of tax reports was nearing its conclusion.

Next Quarter:

The report on consolidation of tax reports, particularly for local taxes, will be presented.

IMPROVED TAX PAYER SERVICES (RESULTS AREA 2.2)

On-line downloadable Taxpayer Declaration software with Printable Bar-coded tax declarations: The objective of the Declaratia Rapida software is to provide a single vehicle for preparing reports for government agencies, starting with STS, then expanding to CNAS and NBS. Initially a software generating bar-coded reports, it is expected to be expanded to include e-submissions.

The target set for this activity is 5000 by the end of the project, with about 2500 users by the end of March 2010. By the end of June, there were about 5,000 users including a significant portion of individuals.

This quarter a software subcontractor made significant advances in developing a converter, to allow businesses to export data from accounting software to Declaratia Rapida.

The taxpayer portal, allowing additional electronic services, and the certification center, allowing electronic submission of taxpayer declarations, was made operational this quarter.

The tender for the development of the current account was finalized with USAID approval to expand the subcontract ceiling for DAAC Systems; development started in June and the software is expected to be finalized for broader testing in October. It will include online access for citizens using the free e-signatures offered by Fiscservinform and a streamlined access to taxpayer certificates of no debt.

BIZTAR trained some 140 tax officials in Chisinau on basic accounting and accounting analysis.

BIZTAR began to provide assistance to develop a new 5-year strategic plan.

A draft Taxpayer Charter was being finalized prior to STS review.

Next Quarter:

The converter module, allowing businesses to export data from accounting software to Declaratia Rapida will be tested, refined if necessary, and released for business use with training of entrepreneurs in different regions of the country.

The current account software will be pretty much finalized by the end of the next quarter.

Other improvements in the DR software used by STS will be defined this next quarter and may be finalized by September 2010.

Additionally plans for the incorporation of NBS and CNAS forms will be developed.

BIZTAR will continue training of the same 140 tax officials in Chisinau on how to conduct an audit.

The new 5-year strategic plan will be finalized in mid August, after an initial review by an IMF specialist.

A draft Taxpayer Charter will be presented to STS for review.

BIZTAR will also support a study tour to Georgia for the STS Director, the Vice Minister of Finance, and the Director of the Tax and Customs Policy Department.



June 01-23, 2010: Advanced Training for Tax Inspectors supported by BIZTAR

COMMUNICATIONS (CONTINUATION OF RESULTS AREA 1.3 – IMPROVED ACCESS TO GOVERNMENT INFORMATION AND RESULTS AREA 1.4 – EFFECTIVE MONITORING OF REFORM AND PUBLIC AWARENESS)

This quarter featured continued promotion of Declaratia Rapida and very limited support, at the request of Fiscservinform, to its e-signatures.

BIZTAR also supported communicating STS' reform agenda as part of its 20th anniversary celebration. At that event, with participation of both the Prime Minister and the Minister of Finance, STS Director Platon publically praised the support of USAID/BIZTAR.

STS did not hold any meetings with private sector representatives to present and discuss its annual reports, including ongoing and planned improvements in customer service systems, as well as business taxpayer problems outside Chisinau.



July 01, 2010: 20th State Tax Service's Anniversary Ceremony at Philharmonic Palace - BIZTAR provided support for the event with a specific focus on STS' reform agenda.

Next Quarter:

BIZTAR will assist in the launch and promotion of the enhanced on-line downloadable Declaratia Rapida software, as well as will assist in promotion of the new fiscal electronic services launched by Fiscservinform.

STS will likely not hold any meetings with private sector representatives to present and discuss its annual reports, including ongoing and planned improvements in customer service systems, as well as business taxpayer problems outside Chisinau.

IMPROVED TAX APPEALS PROCESS IN STS (RESULTS AREA 2.3)

The appeals case management software system was underdevelopment; it should be delivered in August 2010.

Next Quarter:

The appeals case management software will be delivered by August 2010, to be followed by extensive training of STS staff.

BIZTAR may provide some additional assistance in revising the Tax Code with respect to the appeals process.

BIZTAR will provide positive response to a request for USAID support for Moldova's membership in the International Association of tax Authorities in 2011; however, due to limited funding, the a study trip to Kazakhstan has been cancelled.

IMPROVED TAX AUDIT PROCEDURES (RESULTS AREA 2.4)

No activities were undertaken in this area this quarter.

Next Quarter:

No activity is planned for this next quarter; STS audit capabilities will be linked to the Case Management Software and the taxpayer current account software when these are finalized in late 2010.

TAX FRAUD PREVENTED (RESULTS AREA 2.5)

The consultancy on consolidation of tax reports was nearing its conclusion.

Next Quarter:

No activity is planned for this next quarter

EFFICIENT AND EFFECTIVE COLLECTION OF DUTIES AND VAT BY CUSTOMS SERVICE (RESULT AREA 2.6)

This quarter two international customs specialists began working with Customs personnel on risk management, enhancing and on the eventual implementation of an AEO Program. These initiatives are designed to facilitate compliance, increase revenues, and reduce corruption. The consultants found that many improvements had been made in risk management systems since the 2009 BIZTAR assessment which had been shared with the Risk management team.

For example, the Risk Management Department has successfully reduced the number of existing criteria by half and is now including scheduled reviews as an element of each criterion. And analysts now have direct access to workload and productivity data within the ASYCUDA database, and they have demonstrated the necessary skills to properly analyze the wealth of data within the database. And very importantly, new risk criteria and approval forms have been developed and implemented. During the course of the BIZTAR risk management workshop the BIZTAR specialists provided a somewhat different format for the actual risk criteria and suggested that the risk management department will incorporate some of the new concepts into their existing forms.

However, Green Channel shipments are still not subjected to only a computer validation of the electronically submitted data. There is almost always a document review and often a physical inspection, negating the usefulness of "green channel" statistics. Clear examination instructions have been developed for all active criteria and the risk management workshop helped to strengthen that process. But supervisors are not insisting that examination instructions be carried out by examining officers.

Similarly, written procedures on the utilization of the Inspection Act module of ASYCUDA World have been developed and communicated to the field. However, the existing instructions only require the inspection act report to be made if a discrepancy has resulted from the examination. BIZTAR's specialists have recommended that those instructions be revised to require inspection act reports regardless of whether discrepancies are found on not. This is important from a compliance

measurement perspective.

In June the BIZTAR consultants conducted an intermediate risk management workshop and facilitated the Customs risk management department in developing an 18-month action plan. They also held a workshop on an AEO program and implementation steps, using the respective USAID manual one of the consultants had recently developed; they facilitated a composite group of Customs officers from different disciplines in developing a 15-month AEO implementation action plan. The integrity action planning work group had very few member, often changing and the resulting work plan is unlikely to be owned by any champions.

Next Quarter:

Review of work plans by the Director General

The work plan BIZTAR proposed to the Director General for the two consultants who arrived in June was to develop action plans with specific groups of customs officials in the areas of risk management, AEO Program implementation, and enhancing integrity. The Director General would review them in the 3rd week of a four week consultancy and the working groups would improve them with him feedback in the fourth week.

Unfortunately the Director General did not have time to meet with the consultants themselves until the end of the 2nd week; he was not available for any meetings in the 3rd week, and it seems unlikely he will have time for meetings in the 4th week, leaving in doubt the acceptance of the work plans and clarity on a future assistance role from BIZTAR.

Status report and special recommendations to the Vice Minister of Finance

The Vice Minister of Finance met with the Customs specialists and the COP during the first week of their 4 week consultancy. He asked for an assessment of changes since the 2009 assessment. USAID approved a short extension of the stay of the team leader to present that special assessment to the Vice Minister of Finance on July 19 or 20. That assessment, to be presented next quarter, will note significant improvements in risk management, but virtually no improvement in human resource management practices and in enhancing integrity in customs operations.

The Customs Team Leader will also present to the Vice Minister of Finance a special report recommending 2 important steps to integrate and strengthen oversight of Customs activities to strengthen integrity: transferring oversight of human resource management and internal security to the Ministry of Finance, as the prevailing attitude in these two units is that corruption is prevalent throughout government so why worry about it at Customs.

IMPROVED FISCAL POLICY (RESULTS AREA 2.7)

In this quarter BIZTAR began to identify potential consultants to assist the fiscal policy unit to strengthen its skills and apply those skills to targeted policy issues in both tax administration and customs. At the end of the quarter this task was explicitly included in the BIZTAR scope of work as part of the 12-month extension.

Next Quarter:

BIZTAR will propose a scope of work and consultant to assist the Head of the MoF Fiscal and Customs Policy Unity, and with her and USAID approval, being that assistance in September.

Problems and Implementation Issues

- **STS**

Change of personnel is affecting the continuity of some BIZTAR assistance, especially in anti-tax fraud and appeals.

The Fiscservinform policy of charging a very high fee to business, which more than negates the new GRM policy of reducing the fee for electronic signatures and runs counter to accepted practice to use promotional pricing to get a surge of new users. BIZTAR will be preparing a special study on the benefits –costs of alternative pricing regimes to show that a low cost may actually save Fiscservinform resources by reducing the need for a large number of data processors.

STS continues to be disinterested in further reforms in the appeals and anti-tax fraud areas, partially due in the case of anti-tax fraud to the assistance program with the Government of the Netherlands.

- **Customs**

There is very little evidence that the Director General is enthusiastic about assistance from USAID/BIZTAR having only found time to meet with the risk management/AEO/integrity consultants after raising the issue of his unavailability with the Vice Minister of Finance. The participation in the working groups ranged from outstanding for risk management action planning to abysmal for integrity strengthening planning.

- **Parliament and legislative change**

The Government's agenda for reform in many important instances mirrors and incorporates many current and planned BIZTAR-support reforms. However, the detailed work of review of specific legislative proposals and the associated negotiations have in some important cases either diluted expected reforms, e.g., construction law 1, or sidelined important reforms, e.g., the law strengthening protections for investors' rights.

List of Reports / Deliverables

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

Report Title	Primary Author	Date Completed	Type of Report*
Report on Implementation of the Current Account in the Social Insurance System (ACCES CPAS)	Nicolae Boțan	June 2010	Report Completed in Romanian

R = Report D = Deliverable

List of Reports submitted to DEC (January – March 2010)

No reports were submitted to DEC during the last quarter.