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Quarterly Report

October - December 2010

Business Regulatory & Tax Administration Reform (BIZTAR) Project
Moldova

January 2011

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

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Cover page:

International Forum of CIS Chambers of Commerce and Industry, organized with support from USAID|BIZTAR, October 7, 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	Casa Naționala de Asigurări Sociale (National House of Social Insurance)
CNAM	Compania Naționala de Asigurări in Medicina (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
MTIC	Ministry of Technology, Information and Communications
ME	Ministry of Economy
MOF	Ministry of Finance
MRDC	Ministry of Regional Development and Construction
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 Program
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 guiding its framework for success. First, BIZTAR identifies and supports reforms which make a

difference in reducing bureaucracy for both business and government. Secondly, BIZTAR works with partners to help them become both able and enthusiastic about making these reforms work for business. Third, the Project works with government at the national and regional levels to encourage a significant number of businesses to take advantage of the reforms, creating a critical mass of satisfied users who in turn promote the reform agenda and processes among other businesses. And fourth, the Project engages its partners to communicate the message that USAID|BIZTAR-related reforms represent one component of the broader GRM reform program.

USAID authorized an extension of the BIZTAR Project in July 2010, to allow successes to be consolidated and to permit BIZTAR to take on new challenges. This report describes the activities undertaken in October – December 2010 as well as the Project's plans for the next quarter.



Executive Summary

This report covers the period October – December 2010, which is the thirteenth quarter of BIZTAR implementation. During this quarter, the government announced and undertook Parliamentary elections. This affected BIZTAR's programming fundamentally in 2 ways: outreach activities were significantly curtailed to avoid any appearance of USAID support to the incumbent government; and key policy makers, such as the Director of Customs and the Vice Minister of Finance, were unavailable due to their campaigning commitments. The re-election of the Alliance and its commitment to continuity of key government executives as well as its renewed commitment to reforms offers BIZTAR good opportunities to finalize its reform agenda with its government partners in the next few months.

Principal impacts this quarter included:

Business Regulatory Reform

- The Regulatory Impact Assessment (RIA) released this quarter shows an annual savings of almost \$6 million for businesses as a result of the streamlining mandated by the new construction law.
- BIZTAR continued to assist the Ministry of Construction and Regional Development to communicate the contents of the new law on construction permitting to Mayors and the private sector throughout the country.
- CNAS electronic linkage with the Registration Chamber was finalized.
- Legislative amendments streamlining the licensing process were approved by Parliament.
- Draft laws were circulated to effectively abolish more than 100 permits and acts identified as unnecessary through the Guillotine 2+ consultative process.
- BIZTAR review of licensing requirements was finalized.
- A draft concept for a legislative framework regarding OSS for local public authorities was presented to the Ministry of Economy.
- The new form consolidating several older required reports, and the use of sampling, was finalized at the National Bureau of Statistics.

Modernization of Customs

- Draft gap analysis to harmonize the Moldovan customs code with the provisions of the Revised Kyoto Convention continued.
- Customs continued to review proposals for assistance in control of corruption, risk management, and implementation of an AEO program.
- BIZTAR presented to the Vice Minister of Finance an initial proposal for a computerized real-time management information system.

Tax Administration Reform

- Declaratia Rapida - more than 7800 taxpayers used Declaratia Rapida at least once.
- STS and FiscServInform started training businesses in Chisinau to use Declaratia Rapida.
- STS and FiscServInform began promoting the Declaratia Rapida module which enables extraction of data from accounting software.
- The STS case management system software was delivered to STS and FiscServInform for testing; testing with tax officials should begin in February.
- With BIZTAR assistance, STS made a formal presentation to the IMF of its new five-year Strategy.

- Draft TOR for an e-filing submission for CNAS, NBS and STS (Declaratia Rapida) was being finalized
- Development and testing for the Taxpayer current account software system was delayed due to STS in-house differences; BIZTAR continues to work with STS to move forward.
- BIZTAR presented to STS a proposal for a taxpayer charter.
- BIZTAR presented again to STS a proposal to implement advance rulings which would provide an obligatory interpretation of tax law for a specific business scenario, thereby creating better predictability about the application of tax law.

Next quarter (January – March 2011), BIZTAR anticipates the following accomplishments:

Business Regulatory Reform

- The interface between CNAS and the Registration Chamber will be launched, eliminating the need for a separate visit to register at CNAS.
- Agreement by STS and CNAS on an operational framework to eliminate the requirement for businesses to obtain a CNAS certificate of “no debt” to the social insurance budget.
- The procurement for an e-filing submission module for CNAS, NBS and STS will be finalized.
- CNAS is expected to reach its target of 20,000 users of its on-line current account system.
- Legislative amendments streamlining construction inspection and authorization for occupancy process to be reviewed with MCRD after the formation of a new government.
- The first legislative amendments to implement the Guillotine process will be presented to the Parliament.
- Licensing requirements should be changed by the Ministry of Economy and/or the Licensing Chamber.
- The first-ever sample of businesses will begin using the new NBS form consolidating several older required reports.

Modernization of Customs

- BIZTAR will finalize the gap analysis on the 400 articles in the Moldovan Customs code vis-à-vis the provisions of the Revised Kyoto Convention.
- BIZTAR will work with customs staff to update and move forward with actions plans to make improvements in the areas of risk management, integrity, and regulatory problems.
- BIZTAR will with the Vice Minister of Finance to finalize a concept for a computerized real-time Customs management information system.

Tax Administration Reform

- Initial training of STS staff and launch of the case management system.
- Development and testing for the Taxpayer current account software system.
- Internal staff orientation on STS' new 5-year strategic plan.
- If approved by STS, BIZTAR will assist STS to finalize and begin to disseminate its taxpayer charter.

The following table provides a brief summary of the major achievements projected to benefit businesses operating in Moldova by the end of BIZTAR's 4-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 (visits to CNAS and NBS eliminated)	X	X	X	X	X	DONE. Solution integrating Registrations Chamber and NBS was implemented; businesses now no longer need to go to NBS. OSS Solution for CNAS was finalized in late 2010 and will be launched in early 2011.
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
Online services (information and downloadable forms)	X			X	X	DONE, 32 on-line guides, and registry of licensees (number of required licenses has been reduced)
Online submission			X	X		New LC Director is willing to look at a solution for businesses outside Chisinau; this may be implemented by the e-Governance Center.
Reduction in number of licenses			X	X	X	DONE, through amendments adopted in July 2010.
Ease of Submitting required reports						
e- reporting a NBS	X	X	X	X		NBS has agreed to e-reporting and the draft TOR
Some statistics reports will be produced by BIZTAR reporting software						The new Declaratia Rapida software module, to be launched in July 2011, will allow this.
Some NBS reports will be consolidated	X	X	X	X		Form is finalized and will be used by businesses in early 2011.
e- reporting a CNAS	X	X	X	X		The new Declaratia Rapida software module, to be launched in July 2011, will allow this.
Improved website at CNAS				X	X	DONE. 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 on hold depending on new government and new Parliament.
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. UNDP will likely take this on.
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; 7852 users in the month of November 2010.
Declaratia Rapida will be enhanced to allow extraction of data from accounting software			X	X		DONE. Software module was launched in October 2010
e-declarations			X	X		E-submission to be included in Declaratia Rapida by July 2011.
Current account available quickly and accurately	X		X	X	X	Subcontract was signed in June 2010; STS discussions on look-and-feel have delayed development.
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	Legislative amendment increasing time for taxpayer preparation of appeals have been approved; case management system (CMS) allowing inter alia taxpayer communication with STS has been developed; training of STS staff on CMS begins Feb. 2011.
Fraud cases sent to CCECC up 50%						2010 STS Fraud chief does not support this objective; BIZTAR assistance has been halted.
Improved Transparency and capacities in Customs Administration						
AEO Program started	X	X	X		X	Initial training was provided in June 2010 and draft action plan was finalized in July but action plan has not been approved. This is not in 2011 institutional

						work plan, and there seems to be no interest in this now.
Corruption reduced			X		X	Very much delayed; Draft action plan was finalized in July 2010 but has not been approved by Director General of Customs. This is not in 2011 institutional work plan, and there seems to be no interest in this now.
Customs code revised			X	X	X	On track, gap analysis with Kyoto provision is being finalized in February 2011. Customs and MoF need to determine next steps which may not involve BIZTAR. This is the first major priority listed in the 2011 institutional work plan. A draft Customs Code may be ready by Dec. 2011.
Other services						
Active outreach by government agencies to the private sector				X	X	DONE. Many meetings were held in 2009, fewer in 2010 due to elections. LC and STS plan meetings with private sector in 2011.
CNAS current account available online	X				X	DONE. Was launched in March 2010 with a target of 10,000. Y4 target is 20,000 (15,095 have already accessed it).

Accomplishments during the Last Quarter (October – December 2010) & Planned Activities for the next Quarter (Jan. – March 2011)

COMPONENT 1. REGULATORY REFORM

RESULT AREA 1.1 IMPROVED BUSINESS PRACTICES

1.1.1 Improved Doing Business rankings

Contract Objectives (and current summary status):

2 construction laws passed and disseminated (1 passed and 1 being drafted)

Law increasing protections for investors' rights presented to Parliament (and disseminated if passed) (DONE – law has been presented to Parliament)

Streamlined import processing procedures enacted at Customs (5000+ business benefited).
(no progress and little progress is likely)

General Background

While improving the business enabling environment is at the core of the BIZTAR program of improvements, initially the Doing Business rankings were not an explicit objective of BIZTAR. However, as opportunities have presented themselves, BIZTAR has responded to help the Government of the Republic of Moldova (GRM) explicitly address the problems which have resulted in Moldova having an overall rank of 90 (for calendar year 2009). In this last quarter, BIZTAR helped in 3 areas: construction permits, starting a business, and paying taxes; the last activity (paying taxes) is discussed under component 2.

Year 4 Activity 1.1.1: Construction law on streamlined permits to undertake a construction - disseminated

Background: In 2009, Moldova ranked 161st of 183 countries in terms of the ease of obtaining construction permits; Moldova required 30 procedures (separate visits) by business representatives, and on average 292 days to obtain a permit to undertake a construction and a subsequent permit to utilize a constructed facility. That ranking marginally increased to 159th for calendar year 2009, due to worsening performance in other countries.

A law, drafted with private sector participation, was passed in July 2010 and promulgated the following September; it streamlines significantly the process for obtaining permits and approvals to undertake a construction, reducing the procedures as quantified by the World Bank annual Doing Business reports from 17 to about 10 with similar savings in terms of time and costs required for obtaining these permits. A Regulatory Impact Assessment was finalized; the law is estimated to generate annual savings of more than \$5 million for the public. The law changes considerably the process at the local level, requiring public authorities to coordinate among themselves as de facto One Stop Shops. And it establishes a tacit approval and time standards as well as maximum fees. Effective implementation will require some orientation of local public authorities.

In this quarter, BIZTAR and its business association partners have facilitated meetings in 20 localities including Chisinau with 972 representatives of the private sector and of local

governments to disseminate and discuss the law. In these meetings, the new customer orientation guide for consumers was distributed and explanatory posters describing the new process were distributed to local governments for use in public service areas.

Many mayors and their technical staff have expressed concerns about the mandate to create urban development plans, rather than require potential builders to undertake extensive studies. The Minister of Regional Development and Construction has also indicated his desire to repeal that provision in the law.

With the organization of the new government, BIZTAR is expecting that the Vice Minister who was the champion of reform of the construction laws may be replaced.

Next Quarter:

1. Final meetings with business groups and local public authorities to explain changes and provide oral and written guidance on new procedures
2. Discussions will begin with the parliamentary commission to determine the likelihood of a partial repeal of the law and possible responses.

Year 4 Activity 1.1.2: Construction law on approvals to use a completed construction (2nd law)

Background: A preliminary draft law was prepared in May 2009 and then reworked in the spring of 2010; it streamlines procedures #18 through #30 on the Doing Business assessment related to obtaining authorization to occupy and use a finished building. This last quarter BIZTAR did not encourage the formation of a working group due to the elections.



Launching of the Promotion Campaign for the new Law in Construction, - Balti, October 1, 2010

Next quarter:

1. Discussions will begin with Ministry on possible assistance for a second law.

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 status	End-of-quarter status(estimated	Year 4 Target
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		by BIZTAR)	
Number of procedures businesses must complete for obtaining construction permits (R1) (estimated)	30	22	15
Minimum number of days required to deal with constructions permits (R2)	292	236	200
Minimum cost of dealing with constructions permits (as % of GDP) (R3)	120.5	TBD	100

* World Bank Doing Business report 2012, which ranks countries based on 2009 performance, is expected to be published in November 2011 will confirm these estimates. R followed by a number indicates the relevant BIZTAR regulatory reform success indicator in its PMP

Year 4 Activity I.1.3: Improved protections for investors' rights

Background: Moldova is very eager and active in attracting foreign investors. But data presented recently to the Government shows that foreign investors in Moldova prefer taking a majority, or controlling, interest in companies. One reason for this is the very poor protection afforded minority investors under Moldovan law. The World Doing Business 2010 assessment comparing countries' legislative framework protecting investors' rights in 2009 ranked Moldova 109th.

A draft amendment was prepared in March 2010 with the National Commission for Financial Markets to significantly strengthen the legal protections afforded minority investors; it was submitted to Parliament as one of several reforms to the law regulating joint stock holding companies. It is currently awaiting review by the relevant Parliamentary Commission. No other activity was taken in this area this last quarter.

Next quarter:

BIZTAR will be working with the relevant parliamentary Commission to further the review of the draft legislation.

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 status	End-of-quarter status(estimated)	Year 4 Target
Improved Doing Business ranking for Protecting Investors' Rights	109	109	<50

Year 4 Activity I.1.4.: Linkage between State Registration Chamber (SRC) and National Social Security House (CNAS)

Background: Doing Business 2009 identified 9 required procedures for starting a business in Moldova for calendar year 2008 when Moldova ranked 90th. Moldova did poorly on this indicator compared with other regional countries which succeeded in implementing One Stop Shops (OSS) for business registration where, as a result, the process of starting a business comprises only 3-5 visits in better ranked countries. Today, in order to start a business in Moldova each entrepreneur must visit several institutions, including CNAS. In 2009, one procedure in Moldova was eliminated with BIZTAR assistance, i.e., the requirement to visit the National Bureau of Statistics (NBS) to obtain a statistical code for future reports to NBS. However, other countries improved more significantly performance

in calendar year 2009. As a result Moldova's rank decreased to 94th for calendar year 2010 (Doing Business report 2011).

One of remaining 8 procedures is the requirement to register the company at CNAS. With an interface between CNAS and the SRC systems, CNAS will be able to receive all relevant data about newly registered entrepreneurs directly from SRC, eliminating the requirement for a separate visit to CNAS.

BIZTAR in this last quarter connected the CNAS data base with the SRC business registration systems, to allow SRC to register the company via internet with CNAS for the entrepreneur. By eliminating this procedure, BIZTAR will also improve Moldova's Doing Business score on this Indicator. This quarter the software was finalized; it will be launched in the next quarter.

Next quarter:

- 1) Launch and promotion of new system
- 2) Discussions with CNAS on residual registration issues with CNAS

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Number of procedures for starting a business (R4)	8	8	7
Fewest number of days needed for starting a business (R5)	10	10	9

*: R followed by a number indicates the relevant BIZTAR regulatory reform success indicator in its PMP.

[Year 4 Activity 1.1.5: Streamlined import processing procedures enacted at Customs \(new activity\)](#)

Background: Customs has a good risk improvement software system which can apply well defined criteria to computerized tax declarations to select which imports require closer review of documents (yellow channel) and which require physical inspection of import shipments (red channel). However, in practice, customs declarations are often not filed without first "discussing" them with a customs inspector who makes his own determination of the review that will be required, often requiring a physical inspection or an unofficial payment. A work plan was prepared to improve risk management and its implementation at Customs in July 2010, which was approved by the Director General of Customs.

Year 4 Strategy:

BIZTAR's year 4 strategy is focused on three complimentary efforts: 1) implementation of an Authorized Economic Operator program which should mandate green lane treatment for at least 25% of imports (by value), building on the current experience in organizing a trusted partner program, 2) more systematic uses of risk management to substitute ad hoc, unofficial negotiations and physical inspections, and 3) use of corruption susceptibility indicators to allow faster identification of border posts and customs inspectors engaging in additional reviews of imports and exports.

With respect to AEO, Customs' 2011 service activity plan makes no reference to it, and BIZTAR has no indication from Customs that it wants to pursue this in 2011. The working group formed with BIZTAR assistance in mid-2010 has been disbanded. Last quarter the

absence of the Director General who was in part campaigning caused BIZTAR to delay developing and promoting a work plan on AEO implementation.

Next quarter:

- 1) If there is interest in Customs, an 3-4 week technical assistance consultancy to improve risk management (it is not likely BIZTAR will be asked to provide assistance on AEO implementation)

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Average time for processing imports	TBD	TBD	TBD WITH CUSTOMS

Year 4 Activity I.1.6: Simplification of GRM Administrative Controls of Business

Background: The objective of the Guillotine II+ process is to eliminate unnecessary permits and authorizations and where they are still appropriate to streamline requirements; it also seeks to make all requirements “law”, i.e., specified by Parliament to preclude agencies’ ability to enact additional requirements.

This process began in May 2010 and was close to being completed at the end of this quarter. There is now an inventory of some 450 permissive acts and laws; these were identified through a participatory review including internet calls for ideas as well as some 20 meetings with private sector groups around the country as well as meetings with professional associations and representatives of key companies from various industries. In August, BIZTAR began working with the Ministry of Economy (ME) and the National Working Group on Regulatory Reform (NWG) to analyze all permits issued by central public authorities and to suggest elimination or incorporation into law.

The review of all 430 permits issued by central public authorities with the National Working Group was finalized in the last quarter, resulting in a comprehensive proposal for legislative reform.

Next quarter:

1. New laws including all changes will be presented to Parliament in 2011.
2. Drafting of amendments to specific laws will begin.

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status	Year 4 Target
Number of national-level permits and authorizations are eliminated or approved by Parliament	0	>150

Year 4 Activity I.1.7: Licensing Reform

Background: The Licensing Chamber was very much restructured with BIZTAR assistance in terms of systems, including both internal and inter-agency processes in 2008, to make it a customer-friendly One Stop Shop connected via Internet to 4 other agencies, issuing licenses for 37 different types of activities, e.g., travel agencies, customs brokers, casinos, etc. In 2009, BIZTAR recommended the elimination of some 10 licenses; in July 2010 Parliament passed a law eliminating 5 licenses recommended by BIZTAR. In mid-2010, BIZTAR also conducted a review of requirements and agencies involved in the licensing process for the remaining 32 licenses, recommending that in many cases at least one third-party review be eliminated and that all unofficial requirements currently demanded by the Licensing Chamber be eliminated or incorporated into law. Some permits (seven) currently issued by the Ministry of Economy in the future will be issued by the Licensing Chamber.

One improvement consistently requested in by the private sector was the introduction of an on-line processing of license requests. The new (2010) leadership has indicated its interest in doing this in 2011; this is also supported by the Ministry of Economy. The newly created e-Governance Center wants to finance and manage this.

Next quarter:

- 1) Licensing Chamber emits an internal regulation making official other requirements and excluding some unofficial requirements it now requests
- 2) Draft concept for on-line applications for licenses is accepted by the Licensing Chamber

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status	Year 4 Target
Number of licenses with requirements formally changed by Licensing Chamber	0	0	10

Year 4 Activity I.1.8: Legal framework developed for One Stop Shops

Background: USAID, through its BIZPRO Project (2003-2006) established in 15 localities One Stop Shops managed by third parties, generally local branches of the Chamber of Commerce and Industry, to receive and process requests for construction permits and/or trade authorizations with local public authorities (mayoralities). These OSSs operated under an at-will agreement with the respective local authority; importantly, the management by a third-party eliminated all direct interaction between the applicant and the local public authority. By the time BIZTAR began operations, only 6 OSSs continued in operation; the others had been closed because the mayor or Rayon President elected in 2007 opted to reinstate the old systems, generally allowing several offices to require personal visits by the applicant to review and push the request, in effect, permitting unofficial payments. BIZTAR has in the past 3 years improved the service offered by the 6 OSSs, principally improving the software and in some cases providing replacement hardware. However, fees barely cover operating costs so these OSSs continue by grace of the subsidies of the CCI or NGO which operates them.

In mid-2010, the Ministry of Economy requested BIZTAR assistance to propose draft legislation to strengthen the OSS practice at local levels. BIZTAR drafted a concept shortly thereafter which proposes a front-office, a time service standard, clearly posted fee schedule, and an option to use third-parties (NGOs or Chambers of Commerce) to allow businesses to lodge applications. This quarter, BIZTAR presented to the Ministry of Economy a draft law to strengthen the OSS practice at local levels including mechanisms to allow partnerships for OSSs operated by third parties

Next quarter:

- 1) Technical assistance to the Ministry of Economy to submit for parliamentary passage the draft law to strengthen the OSS practice at local levels including mechanisms to allow partnerships for OSSs operated by third parties

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status	Year 4 Target
Draft law on OSS at local level presented to ME with endorsement of CCI	No	Yes

Year 4 Activity I.1.9: Easier process to obtain and renew trade authorizations

Background: In 2009 BIZTAR conducted an assessment of the procedures and requirements to obtain a trade authorization from the Chisinau Municipality. That assessment described a very cumbersome process and suggested establishment of an OSS with simultaneous and coordinated review by all involved public authorities. It was presented to the Mayorality in a meeting with senior representatives from the approximately 6 other agencies involved in reviewing requests for trade authorizations in early 2010. The Mayorality subsequently accepted the recommendations for streamlining the process and requested assistance in reengineering the entire multi-agency system and in providing new hardware. Given that that assistance was beyond BIZTAR's then and current resources, BIZTAR encouraged the World Bank e-governance design team to consider taking this on. This last quarter UNDP began procurement of a software developer for this document and case management system which is likely to begin before the end of 2010 with a delivery date to be negotiated.

Next quarter: No activity is planned.

Year 4 Activity I.1.10: Increased access to government services outside Chisinau

Background: The status of assistance in establishing mechanisms for on-line applications to the Licensing Chamber is discussed above (activity I.1.6). Additionally BIZTAR has presented to the STS, the Ministry of Finance, and *FiscServInform* (FSI) a policy paper which recommended reducing the fee for processing corporate (not personal) tax declarations submitted electronically to increase the number of e-submissions; currently less than 70 firms use the e-declaration option; most are based in Chisinau. That analysis suggested that a reduced cost will also significantly increase income for *FiscServInform*. BIZTAR proposed a no-fee introductory regime for one year. STS and *FiscServInform* rejected that proposal but agreed to review and reduce fees in 2011. STS is expected to include in early 2011 revisions to the Tax Code a requirement that all VAT-registered businesses in Chisinau, Balti, and Cahul starting in September 2011. If accepted, BIZTAR will promote the e-

declaration software which should result in increased use of Dr and/or e-declarations outside Chisinau.

This quarter, BIZTAR provided logistical support to FiscServInform to promote the use of Declaratia Rapida outside Chisinau (21 meetings with 1185 participants).

In this last quarter, the e-Governance Center was created to implement a World Bank loan. BIZTAR met extensively with them to assure that BIZTAR initiatives would figure in its short-term “quick wins” strategy. And BIZTAR participated in reviews of its institutional strategy.

Additionally BIZTAR had expected to help *FiscServInform* promote its e-certificate outside Chisinau; this technology was developed in 2010 with BIZTAR assistance; it allows digital signatures for e-submissions from individuals and corporations. However, *FiscServInform* is now in some doubt about the legality of e-certificate-based submissions and this may not figure significantly in BIZTAR-STS plans in 2011. This issue is now being discussed at higher levels, in particular with the newly created e-governance center and the Ministry of Technical and Communication Technologies. BIZTAR has recommended an exception be allowed in the Tax Code.

STS has also asked for assistance to develop a speedier and more accurate system to process VAT refunds, which would allow STS to support an amendment to the Tax Code to reduce the maximum time for processing a VAT refund from the current 35 days. BIZTAR has presented a proposal to modify the case management system to do this and is awaiting a response from STS and *FiscServInform*.

Next quarter:

- I. Determine viable system to accelerate process VAT refund requests and begin development of the system.

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Annual Processing fee for e-tax declarations (businesses)*	2800 MDL	1500 MDL
Number of individuals and companies with e-certificates	<2500	5,000**
Number of companies submitting e-declarations	2000 in July 2010	500

* There is no processing fee for individuals

** It is unlikely that STS will promote greater use of e-certificates

RESULT AREA 1.2 SIMPLIFIED BUSINESS REPORTING PRACTICES

Contract Objectives (and current summary status):

NBS will implement a consolidated reporting form, and use BIZTAR assistance to promote its use (being finalized)

CNAS will use BIZTAR assistance to allow electronic submission of reports (under development)

CNAS will establish a linkage with the STS to facilitate the issuance of the certificate of no-debt at STS and possibly the elimination of a “no-debt” certificate by CNAS (underway)



Last meeting of the Working Group of the State Commission for Business Activity Regulation on Guillotine 2+ Process (Phase 2), - November 04, 2010

[Year 4 Activity 1.2.1: Implementation and dissemination of a new consolidated reporting form at NBS](#)

Background: NBS representatives, with BIZTAR support, visited their sister organization in Romania to study its model for a consolidated form which also uses a sampling framework to collect data. Following that trip NBS has ratified its decision to implement a consolidated, sample-based form, which could reduce the reporting burden at NBS by as much as 30%. This system will be based on the core components developed by the BIZTAR Project for STS to implement *Declaratia Rapida* which will be adjusted for NBS needs; this will establish a common application for businesses reporting which integrates NBS reporting into *Declaratia Rapida*. It is targeted to be implemented in early 2011.

NBS leadership has accepted this proposal.

Last quarter:

- 1) A BIZTAR sampling specialist developed and recommended a sampling framework to determine the optimal structure and size of the sample for 2011. The sample has been selected by NBS.
- 2) BIZTAR prepared the terms of reference for a software application to allow electronic submission of reports to NBS which NBS has approved.
- 3) BIZTAR assisted NBS to organize in December trainings for regional specialists on implementing the new consolidated, sample-based reporting form.
- 4) BIZTAR proposed a promotional campaign to launch the consolidated but NBS opted to keep the transition to a new system low key.

Next quarter:

- 1) Procurement of the software for e-submissions will be completed and software development will likely begin.
- 2) BIZTAR will hire a specialist to develop the software application to process the new consolidated form for NBS review and approval.

3) Limited promotional campaign to launch consolidated form and assist businesses

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Number of businesses presenting consolidated reports in 2011	0, Not applicable	TBD

Note: target will reflect the reduction in the number of business required to send these reports to NBS, by at least 2,000 businesses.

[Year 4 Activity 1.2.2: Development of the electronic submission of business reports for CNAS.](#)

Background: This system will be based on the core components developed by the BIZTAR Project for STS which will be adjusted for NBS and CNAS needs, integrating reporting for CNAS with *Declaratia Rapida*. This will establish a common application for businesses reporting. It is targeted to be implemented in April 2011.

This quarter BIZTAR received formal approval from CNAS on the design of a software application to allow electronic submission of reports to CNAS.

Next quarter:

- 1) Procurement of the software for e-submissions will be completed and software development will likely begin.

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Number of businesses presenting reports via Internet to CNAS	0	1000

[Year 4 Activity 1.2.3: Establish a linkage between CNAS and STS](#)

Background: Currently many Moldova public authorities which regulate business activity are requesting from entrepreneurs a certificate of no debt to the public budget which is issued by the Main State Tax Service. The BIZTAR Project is developing the Taxpayer Current Account and Certification System which will streamline the process of issuing the certificates of no debt to the public budget. However, prior to issuing a certificate of no debt, STS requires a confirmation from CNAS of no debt to the social insurance budget.

This quarter, BIZTAR continued discussions with CNAS and STS on developing a linkage between the systems at STS and CNAS which will eliminate the need for the business to make an additional visit to CNAS to obtain a certificate of no debt to CNAS. The new system will allow STS to confirm this directly. This linkage will be developed after the development of the Taxpayer Current Account and Certification System. These discussions delay development of the current account system.

Next quarter:

- 1) Development of the Taxpayer Current Account and Certification System (launch likely in May 2011).

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Requirement to get a certificate personally from CNAS prior to obtain STS	YES	NO

RESULT AREA 1.3 IMPROVED ACCESS TO GOVERNMENT INFORMATION

Contract Objectives (and current summary status):

Taxpayer account is widely accessible, i.e., it used by at least 5,000 businesses and individuals (in development)

At least 2,000 persons use the On-line access to local laws in Balti and Gagauzia (to be contracted)

In general terms, three BIZTAR-assisted proof-of-concept systems will demonstrate the ease of access of using state-of-the-art technology to provide better access to Government Information; these are: CNAS current account, tax payer current account, and on-line access to laws in Balti & Gagauzia.

Year 4 Activity 1.3.1: Improved and more rapidly accessible taxpayer current account

Background: The taxpayer current account is a statement of current liabilities for all taxes owed for the past 5 years; it will show debts, overpayments, as well as all taxes paid. STS and FiscServInform (FSI) undertook a time-consuming review of requirements and draft terms of reference, lasting most of 2009, to define the needed functionality of a new taxpayer current account software system. The new system will provide a summary statement for all liabilities of a company, for all tax jurisdictions, as well as over payments and underpayments.

An open, fair, and transparent procurement was undertaken in early 2010, and, given prior competitive awards to the same company by BIZTAR, USAID approval to contract the winner was requested and received.

The development of the software was initiated in 2010, and it is expected to be delivered by May 2011. Public access to the software application may require an e-certificate but could require only a simple username and password.

Next quarter:

- 1) On-going development of the software (launch expected in may 2011)

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status	Year 4 Target

Number of individuals and businesses access their current account	0	0	5,000
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[Year 4 Activity 1.3.2: On-line access to local acts in Balti and Gagauzia as demonstrations of state-of-the-art e-service technology](#)

Background: The USAID/BIZPRO Project (2003-2006) implemented a pilot system to make available on a terminal in a business association in Cahul a registry of local public acts which is now an out-of-date technology. BIZTAR will develop a state-of-the-art e-service application to create an internet searchable registry of local acts; this software will be scalable so that other local public authorities can easily adapt it and implement it. This software application will be initially developed for the municipality of Balti and then for the government of Gagauzia; this may require minimal hardware support from the e-Governance Center.

As this will require cooperation from the State Chancellery which is expected to maintain and expand the system to other localities, BIZTAR began discussions there to assure cooperation and support.

This quarter, the software procurement for the on-line access to laws in Balti was published

Next quarter:

- 1) Role of State Chancellery will be defined given its expected status change from a Ministry to a government agency under the Prime Minister
- 2) The software developer is contracted (system to be delivered in May 2011)

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status	Year 4 Target
Number of individuals and businesses access on-line registries of local acts in Balti and Gagauzia	0	0	2,000

[Year 4 Activity 1.3.3: Increased use of CNAS Current Account](#)

Background: BIZTAR developed in 2009-2010 a software application allowing current and retired employees to obtain detailed information on employer contributions to their pension accounts. CNAS early on appreciated that direct mailing and encouraging large numbers of individuals to separately request passwords would be time consuming and very costly, so it tested, with BIZTAR encouragement and assistance, a mechanism to use employers as intermediaries: employers would submit employee names and social security numbers and then distribute to them passwords. By the end of year 3, more than 15,000 people had reviewed their accounts. However, the target group is more than a million current and retired employees.

This quarter BIZTAR developed with CNAS an outreach and promotional strategy to increase the number of corporate partners and to use simplified forms to help customers request passwords. By the end of the quarter slightly more than 15,000 persons had access to their current accounts. CNAS's 2011 target is 20,000.



Training Course at National Bureau of Statistics on introducing the new consolidated reporting form, UNICA, - December 23, 2010

Next quarter:

- 1) No additional support is projected.

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Number of users accessing Taxpayer Current account	0	0	5,000
Number of users (Internet hits) accessing registry of local laws in Balti or Gagauzia via Internet	0	0	2,000
Cumulative number of persons accessing CNAS Current account (different IP addresses)	0	15,076	20,000
# corporate partners helping CNAS promote its current account	0	5	20

RESULT AREA 1.4 EFFECTIVE MONITORING OF REFORMS AND PUBLIC AWARENESS

Contract Objectives:

At least 30% of businesses are aware of the government reform agenda supported by BIZTAR (about 15% now)

At least 2,000 businesses and individuals participate in regulatory review initiative (1185 in this quarter alone)

Year 4 Activity 1.4.1: Increasing awareness by the business community of the nature of reforms and the reform agenda being undertaken by partner agencies and GRM.

Background: During the past 2-3 years, BIZTAR has supported three continuing complimentary communications efforts; one has been focused on increasing dialogue between the business community and specific government agencies on specific problems or providing a forum for dialogue on agency-specific problems more generally. The Licensing Chamber in 2009 and 2010 used these opportunities to meet often with representatives of businesses and local public authorities in several places in and outside Chisinau. To a lesser extent, CNAS, STS, and very infrequently NBS did as well. Secondly, BIZTAR itself held meetings and focus groups to discuss initiatives BIZTAR was developing to obtain feedback to fine-tune proposals to the government; one such effort was the regulatory guillotine inventory conducted in May-July 2010, designed to identify and understand the permits and authorizations that had been created and enforced by 10 different central government agencies.

In this quarter, as a result of that process, 430 permits and authorization were identified as required by various central government authorities. BIZTAR has also supported special events designed to communicate past reform efforts as part of a continuing reform agenda, partially or entirely supported by USAID/BIZTAR, e.g., the STS 20th anniversary celebration, which featured a handout on reforms for some 700 STS personnel from around the country, stories in specialized publications on the benefits and how to use *Declaratia Rapida*, and similar pieces on the CNAS Current Account system.

BIZTAR continues to support agency and issue-focused discussions with its 8 regional partners, and it supported special communication efforts, including but not limited to launches, to promote specific reforms, such as the expanded use of the CNAS current account. The DNG team was very careful that these events were perceived to be nonpartisan and informative rather than focused on critiques of government programs or laudatory of government initiatives

20 meetings/trainings with businesses groups on new construction law, including 1st public presentation of new law in Balti on Oct. 1

21 meetings/trainings with businesses groups on *Declaratia Rapida* – accounting software linkage (1185 participants)

Next quarter:

BIZTAR will begin a last round of private sector meetings to develop private sector concerns with respect to tax loopholes and possibly customs operations. In the following quarter there will be a presentation to tax authorities and the customs management.

Year 4 Activity 1.4.2: Monitoring of awareness of reforms.

Background: BIZTAR annually and at times more frequently conducts a survey to gauge business awareness of USAID assistance through BIZTAR and private sector awareness of GRM reforms.

The end-of-year assessment of business awareness of USAID assistance through BIZTAR and of GRM reforms was postponed due to the electoral period. A final end-of-project assessment is scheduled for July 2011.

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Percentage of businesses that considered they benefited from BIZTAR's activity (R17)	2	10%
Percentage of businesses that are aware of government reform agenda supported by USAID/BIZTAR (R18)	To be measured in 2010	TBD

* BIZTAR will undertake an end-of-project assessment in July 2011.

RESULT AREA 1.5 INCREASED TRANSPARENCY AT CUSTOMS (NEW ACTIVITY AREA)

Contract Objectives (and current summary status):

Integrity systems strengthened at Customs (no progress)

Draft Customs code is rewritten to be harmonious with Kyoto Convention and EU Standards, and disseminated if passed by Parliament (on track, almost finalized)

Ministry of Finance is functionally able to supervise Customs Service (underway)

Year 4 Activity 1.5.1: Strengthening integrity at customs

This quarter: To follow-up on an early 2009 assessment, in June-July 2010 a team of 2 international customs experts assisted Customs in reviewing its integrity systems. That review included, at the specific request of the Vice Minister of Finance, an update on progress since the early 2009 BIZTAR assessment; that review showed virtually no actions taken to reduce corruption or strengthen integrity; the new head of the Internal Security Unit was just acquiring an understanding of the situation and seems to have underestimated the active role of customs personnel in soliciting bribes. The specialists reviewed the 2008 EUBAM estimate of the negative impact of corruption on government revenues, estimated at \$130 million on the Ukrainian border alone, and felt it continued to be reasonable. The specialists requested that Customs form a working group to develop an action plan to address corruption but this was not done. The experts then provided a seven point 6-month draft action plan to strengthen integrity at Customs, but the Director General was unable to meet with them to discuss it.

BIZTAR provided supplementary information to the Vice Minister of Finance on our proposal to strengthen human resource management and integrity at Customs.

Customs showed virtually no interest in pursuing integrity issues. Integrity and fighting corruption are not mentioned explicitly in the 2011 customs service activity plan.

A draft guide for travelers and importers on rights at Customs and other informational tools to increase understanding of Moldovan and EU regulations has been prepared.

Next quarter (activities to be proposed to Customs):

- 1) Guide for travelers and importers on rights at Customs and other informational tools to increase understanding of Moldovan and EU regulations will be distributed
- 2) BIZTAR will propose that a Joint Customs – BIZTAR working group be formed
- 3) BIZTAR will propose that the working group draft a code of conduct and table of offences

- 4) BIZTAR will propose that the working group draft broaden the initial EUBAM Customs integrity self-assessment
- 5) BIZTAR will work with the risk management unit to support the formulation of indicators identify officers likely to be engaged in corruption – possibly to be included in ASYCUDA report generator
- 6) BIZTAR will propose that the working group review and strengthen the work plan for Internal Security Unit

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status(estimated)	Year 4 Target
Code of conduct implemented	NO	YES
Table of offences implemented	NO	YES
Customs integrity self-assessment completed	NO	YES
Corruption susceptibility indicators formulated	NO	YES
# trusted partners	0	30 (currently about 15)

[Year 4 Activity 1.5.2: Customs code is rewritten to be harmonious with Kyoto Convention and EU Standards, and disseminated if passed by Parliament](#)

Background: A BIZTAR Customs/Kyoto specialist began in May 2010 a review of the customs code with a working group in customs identifying areas to be revised in 70% of the customs code. It is expected that the custom code will be completely rewritten rather than amended extensively. EUBAM has indicated that its specialists will review proposals but they are unable to participate in writing proposals. BIZTAR has proposed that a private sector representative be included in the working group, which seems to be acceptable to the Working group.

This quarter, a BIZTAR customs specialist continued work on a draft table of correspondence (gap analysis) comparing Moldova’s Customs Code and Customs regulations to provisions of Revised Kyoto Convention.

Next quarter:

- 1) Draft table of correspondence (gap analysis) comparing Moldova’s Customs Code and Customs regulations to provisions of Revised Kyoto Convention is finalized (Customs is expected to indicate that it will undertake the redrafting itself)

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Draft of new Customs code completed	NA	Process barely started	YES
New customs code approved by Parliament	NA	NO	YES

Year 4 Activity 1.5.3: Strengthen capacity of Ministry of Finance to supervise Customs

Background: Prior to 2010, the Customs Director General reported to the Prime Minister and the President of Moldova. Starting in 2010, direct supervision was transferred to the Ministry of Finance, and in particular, Customs is now being supervised by Vice Minister Barbaneagra who also supervises STS. From the unofficial perspective of some in Customs, the Ministry of Finance has provided very little support to customs; for example, the policy assessment unit is seen as inexperienced in customs issues. BIZTAR will assist the Ministry of Finance strengthen its supervisory capacity in at least 4 ways. First, it will help the Tax and Customs Policy Unit examine policy options to strengthen revenues. Secondly it will undertake special assessments for the Vice Minister to provide independent perspective on the situation at customs to allow him to take more informed strategy decisions. Third, while the Vice Minister has access to a report generator providing multiple types of reports from ASYCUDA, he appears not to have used it at all. BIZTAR will recommend a simple customs dashboard for his desk top which will provide information on key indicators as well as updates on joint Customs-BIZTAR action plans in risk management, integrity and AEO program implementation. This will include the corruption vulnerability indicators discussed above (1.5.1). Finally, BIZTAR will encourage and facilitate meetings with the private sector to provide an independent perspective on the efficiency or problems in customs operations.

This last quarter, a proposal for customs management information dashboard presented to Vice Minister. The tax policy unit wants to focus BIZTAR assistance on VAT and excise issues and not customs issues.

Next quarter:

- 1) Review proposal for customs management information dashboard previously presented to Vice Minister

Indicators, End-of-quarter status and Y4 Targets

Indicator	End-of-quarter status	Year 4 Target
Customs MIS proposal reviewed by Vice Minister	NO	YES
Customs policy analyses	0	1*

* This now appears unlikely

COMPONENT 2. TAX ADMINISTRATION REFORM

RESULT AREA 2.1 SIMPLIFIED TAX REPORTING REQUIREMENTS

Contract Objectives (and current summary status):

Consolidated local tax forms will reduce time and costs for all businesses in Moldova (in review, unlikely before September 2011)

Combined payroll tax concept, if accepted, could generate savings for more than 10,000 businesses (no interest from Ministry of Finance)

Reduced frequency of some tax declarations could benefit more than 5,000 businesses (in review)

Background:

BIZTAR is working in 3 complementary areas to simplify tax reporting requirements: 1) the implementation of a free, downloadable software to prepare and submit tax declarations called *Declaratia Rapida (DR)*, 2) formulation and promotion of a proposal to consolidate local taxes, and 3) formulation and promotion of a proposal to combine payroll taxes. The DR software was released at the beginning of 2010. It provides three important benefits for business users: error checking, an ability to remember basic business data, and an ability to save and revise past declarations. BIZTAR early on determined from focus group discussions and surveys that many businesses not yet using DR require (1) an easy way to export data from accounting software to the DR software, and 2) capability to submit declarations via the Internet.

This quarter the enhancement to allow businesses to export data from accounting software to DR was completed and testing was completed and promoted. As a result, there were 7852 users in November after an aggressive promotional campaign by STS and FiscServInform with logistical support from BIZTAR.

STS also referred BIZTAR's proposal to consolidate local taxes to the Ministry of Finance, which continue to review the proposal; this is unlikely to be introduced into the fiscal code until late 2011 given the formation of a new parliament in early 2011.

BIZTAR resubmitted to STS its proposal for the implementation of an advance ruling system, which STS referred to the Ministry of Finance. Given the few months remaining, BIZTAR will not be able to assist the STS implement this even if the Ministry of Finance decides to go ahead in mid-2011.

Next quarter:

- 1) Continued discussion of Y3 proposal presented to STS to consolidate local taxes with Ministry of Finance but this is unlikely to be adopted until the end-of-2011 adjustments in fiscal policy
- 2) Beginning discussion with Ministry of Finance to determine interest and importance of a proposal to implement a consolidated payroll tax



Presentation of the STS Strategic Plan for 2011-2015 to donor community, - December 09, 2010

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
GRM changes tax code to allow consolidation of tax declarations at local level	NO	NO	YES
MoF reviews BIZTAR proposal to combine payroll taxes	NA	NA	YES
DR enhancement 1 launched (ability to interface with accounting software)	NO	Under development	YES
DR enhancement 2 launched (ability to submit tax declarations electronically)	NO	NO	YES

RESULT AREA 2.2 IMPROVED TAXPAYER SERVICES

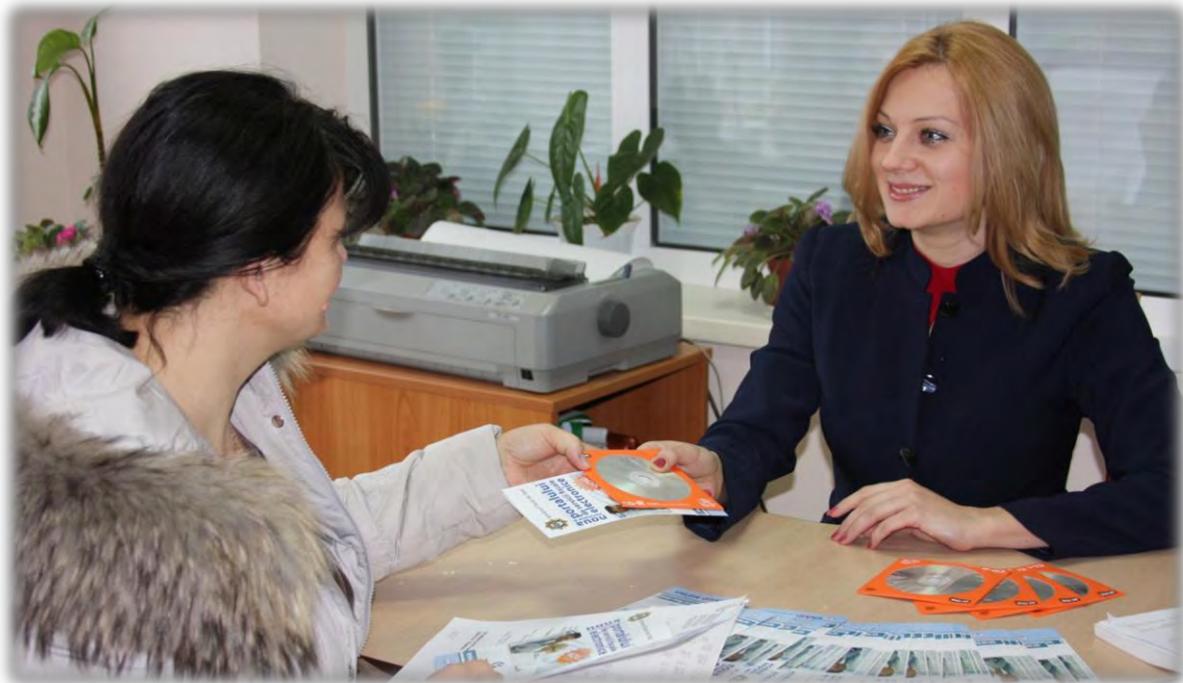
Contract Objectives (and current summary status):

Taxpayer current account is accessible via Internet for STS, other government agencies, and taxpayers (underdevelopment)

Taxpayer current account is accessed (viewed) by at least 5,000 businesses (likely)

Background:

BIZTAR is assisting STS to introduce 7 new services: 1) *Declaratia Rapida* (discussed above), 2) an e-certificate service based on a new taxpayer portal enabling electronic submission of tax declarations with an e-signature requiring a card reader, 3) a taxpayer current account, 4) a taxpayer charter, 5) meetings to discuss issues with private sector representatives, 6) preliminary statement of income tax liability (if resources allow), and possibly 7) the creation of a tax advisory committee. The first (e-certificates) was implemented in March 2010; now some 2000 persons and a few businesses have an e-certificate which they used to present their annual (2009) income tax declarations in early 2010.



STS providing additional information and consultation to a new user of “Declaratia rapida”.

This quarter the development of the taxpayer current account system was slowed due to internal difference in STS on the look and feel of the system being developed; it is now likely to be finalized, including testing, by May 2011. BIZTAR presented to STS a draft taxpayer charter to promote wider awareness of taxpayer rights.

STS accepted the need and usefulness of meetings with the private sector, and it has indicated that it prefers to organize its own meetings with the private sector. Indeed STS held some 10 meetings in this last quarter with the private sector. STS feels that it is reaching out better and more systematically to its clients, which is one of its strategic objectives.

As noted above, BIZTAR had expected to help *FiscServInform* promote its e-certificate outside Chisinau; this technology allows digital signatures for e-submissions from individuals and corporations. However, *FiscServInform* is now in some doubt about the legality of e-certificate-based submissions and this may not figure significantly in BIZTAR-STS plans in 2011. This issue is now being discussed at higher levels, in particular with the newly created e-governance center and the Ministry of Technology, Information and Communications.

Next quarter:

- 1) Taxpayer current account: testing finished and possibly launched
- 2) Taxpayer charter discussed and possibly launched

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
STS meetings with private sector (cumulative)	2	10	10

Private sector meetings on tax issues (may not include STS officials)	0	2	16
Taxpayer charter released	NA	Being drafted	YES
Cumulative number of e-certificates issued	0	About 2,500	5,000
Preliminary statement of individual income tax liability	NA	NO	YES

RESULT AREA 2.3 IMPROVED TAX APPEALS

Contract Objectives:

Case management system will become the basis for STS supervision of all inspections and appeals

Background:

BIZTAR is proposing 6 basic reforms to the tax appeals systems: 1) expanded time to prepare a tax appeal, 2) separation of tax appeals from tax fraud organizationally within STS; 3) delegation of authority to negotiate low-value tax appeals, 4) implementation of a tax mediation system; 5) implementation of an advanced ruling system, and 6) a computerized case management system to facilitate document control and access as well as appeals case management. Reforms #1 and #2 were proposed in 2008. Reform #1 was included in a revised tax Code adopted by Parliament in early 2009. Reform #2 was implemented by STS in mid 2010. Reforms #3, #4, and #5, requested by STS 2009 leadership, were rejected by STS in early 2010, but there may be a willingness to reconsider the proposal to implement "Advanced Decisions" in late 2010.

As noted above, BIZTAR resubmitted to STS its proposal for the implementation of an advance ruling system, which STS referred to the Ministry of Finance. However, given the low priority given to the review and the few months remaining for BIZTAR implementation, BIZTAR will not be able to assist the STS implement this even if the Ministry of Finance decides to go ahead in mid-2011.

BIZTAR submitted to STS a proposed amendment to the Tax code to enable a delay in presentation of a tax appeal in case of taxpayer illness; STS also referred this to the Ministry of Finance. It is likely to be included in the end-of-2011 adjustments to fiscal policy.

In this quarter, the Case Management System underwent considerable development and refinement; it is expected to be implemented in the next quarter, in a staggered fashion.

Next quarter:

- 1) Launch of the Case Management System
- 2) Training of staff and collection of feedback to refine and enhance the Case management System.

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Computerized Case Management System	NA	NO	YES

(CMS) for appeals in use			
Changes in Tax Code on appeals process	1	1	2

RESULT AREA 2.4 IMPROVED TAX AUDIT (INSPECTIONS) PROCEDURES

Contract Objectives:

Improved tax inspections processes (underway with implementation of Case Management System)

Reduced evasion in payment of excise taxes (in review)

Background:

BIZTAR is currently preparing a proposal to reduce the evasion of excise taxes. BIZTAR will also work with a new unit at STS to improve compliance of personal income tax by higher income individuals. And it will integrate the computerized case management system with the taxpayer current account system. Due to the electoral period, BIZTAR did not work with STS on these issues during the last quarter.

Next quarter:

- 1) Presentation of a proposal to reduce the evasion of excise taxes
- 2) Begin development with STS' new unit on proposals to improve compliance of personal income tax by higher income individuals

Indicators, End-of-quarter status and Y4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
# Territorial Tax Inspectorates using CMS	NA	0	7

RESULT AREA 2.5 TAX FRAUD PREVENTED

Contract Objectives:

Draft law revising criminal and civil penalties and evidence requirements is presented to CCECC (and STS and Customs)

Background:

BIZTAR is preparing a proposal to reduce the evasion of excise taxes as discussed above. BIZTAR expects to make 3 major recommendations to STS: 1) refocus investigative work to build criminal cases, leading to further case development and eventual prosecution by the General prosecutor's office, 2) separation of tax fraud from tax appeals organizationally, 3) a stronger law in terms of sanctions and evidence required to criminalize tax fraud (to be presented to CCECC as well), and 4) other recommendations to close tax loopholes. A list of "tax loopholes" will be developed in late 2010 and in 2011, as will the proposed reforms to the law on sanctions and evidence. The recommendations to strengthen tax fraud investigations were rejected in 2008, again in 2009 and again in 2010. In 2010 STS opted to work exclusively with Dutch technical assistance on tax fraud. The recommendation to

separate tax fraud organizationally from tax appeals was accepted and implemented in early 2010.

Due to the Parliamentary election campaign period and the likely delay in forming a new government and in naming government executives, no activity was undertaken in this area in the last quarter.

Next quarter:

BIZTATR will support roundtables with the private sector to examine major tax loopholes. Given the reorganization and possible dismantling of the CCECC BIZTAR will review with USAID the value of drafting a law on sanctions for economic crimes.

Indicators and Year 4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
Proposal for a stronger law in terms of sanctions and evidence required to criminalize tax fraud	NA	NO	YES
Presentation of recommendations to close tax loopholes	NA	NO	YES

RESULT AREA 2.6 MORE EFFECTIVE COLLECTION OF DUTIES AND VAT AT CUSTOMS (NEW ACTIVITY AREA)

Contract Objectives (and current summary status):

- Increase revenues (some impact is likely but no significant increases are projected)
- Improved risk management systems (likely)
- Improved control to reduce corruption (little progress is likely)

Background:

In June-July 2010, two international customs specialist worked with Customs personnel on risk management, implementation of an AEO Program, and on a plan to strengthen integrity and reduce corruption. A 12-month plan to strengthen risk management was developed by the risk management unit with input from the BIZTAR specialists. Its 5 principal milestones are: 1) Method of electronically monitoring waiting time for goods, 2) Support for Anti-Fraud, 3) Improved Normative Framework for selectivity, 4) Corruption Monitoring Indicators are established and used, and 5) Legal Framework for Post Clearance Audit, in accordance with WCO and EU standards. The last point will be undertaken with support from EUBAM. The plan was adopted by the Director General.

The work plan for strengthening integrity was not developed by Customs. Rather the BIZTAR specialists proposed a draft action plan which included these 7 main milestones are: a) adoption of a code of conduct; adoption of a table of offenses, 3) improved systems to identify conflict of interest, 4) greater use of mandated risk management systems, 5) external and internal communication plan to promote greater integrity in operations and discourage corrupt practices, 6) improved efforts to identify corruption offices as part of an amnesty program for past violations, and 7) measurement system to gauge success finalized

and communicated. BIZTAR representatives were not able to meet with the Internal Affairs staff last quarter.

Indeed, as mentioned above (1.5.1), Customs showed virtually no interest in pursuing integrity issues. Integrity and fighting corruption are not mentioned explicitly in the 2011 customs service activity plan.

Following the parliamentary elections, and the expectation of ratification of the Director General of Customs in his position, given the Alliance's commitment to continuity in government, BIZTAR is re-engaging relevant senior managers in customs to determine an assistance strategy and work plan for 2011.

Next quarter (activities to be proposed to Customs):

- 1) BIZTAR will propose that a Joint Customs – BIZTAR working group be formed
- 2) BIZTAR will propose that the working group draft a code of conduct and table of offences
- 3) BIZTAR will propose that the working group draft broaden the initial EUBAM Customs integrity self-assessment
- 4) BIZTAR will work with the risk management unit to support the formulation of indicators identify officers likely to be engaged in corruption – possibly to be included in ASYCUDA report generator
- 5) BIZTAR will propose that the working group review and strengthen the work plan for Internal Security Unit

Indicators and Year 4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
a code of conduct and a table of offenses drafted	NO	NO	YES
Corruption self-assessment finalized	NO	NO	YES

RESULT AREA 2.7 IMPROVED FISCAL POLICY (NEW ACTIVITY AREA)

Contract Objectives (and current summary status):

Policy discussions are backed by grounded and widely circulated analyses improving transparency and credibility of government decisions (Ministry of Economy requires extensive and medium-term training; BIZTAR will focus on test VAT and excise issues)

Background:

The Fiscal and Customs Policy Analysis Unit of the Ministry of Finance is routinely tasked with policy analyses, but has lacked the models and skills to develop and present analyses. Also previous analyses, perhaps best described as preliminary indications, have rarely been presented for discussion and feedback with the public or more particularly the business community.



Awarding of certificates after training on tax analyses and forecasting, - December 10, 2010

This quarter BIZTAR assigned an international consultant to begin strengthening the capacity of the Fiscal Policy Unit. 3 methodological guides were developed and training was conducted on VAT and excised tax issues. The head of the unit was reluctant to look at private sector issues, specifically the AmCham proposal for a Home Computing Initiative despite its endorsement by the Ministry of Technology, Information, and Communication.

Next quarter:

- 1) A technical assistance plan for the second and last visit of the consultant will be finalized
- 2) Methodological guides will be finalized in 3 area
- 3) A last TA visit will be undertaken

Indicators and Year 4 Targets

Indicator	Y2 Status	End-of-quarter status(estimated)	Year 4 Target
# BIZTAR-support policy analyses	NA	0	3
# policy roundtables with the private sector	NA	0	3

Problems and Implementation Issues

There are some important likely threats to achieving projected results that should be recognized by USAID. The first is the likely delay in establishing priorities once the Parliament is constituted; this will most importantly affect the prospects of the Guillotine 2+ and the reforms to strengthen minority investors' rights as well as changes in the Tax Code.

Secondly, and most importantly, the real commitment to customs reform by the Customs Director General is itself in doubt.

Third, limited availability of senior staff at FiscServInform in reviewing technical documents is delaying the procurement of software which will require some 4-5 months to develop; senior staff at STS have been made aware of the problem and are setting deadlines for review of documentation.

A positive factor is the likely designation of a very senior government to act as reform champion and facilitator for e-governance initiatives. Last quarter the Deputy Minister of ITC effectively acted as the reform champion.



Presentation of the new Law in Construction in Chisinau, - November 3, 2010

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*
Regulatory Impact Assessment (RIA) on the law on Authorization of Construction Works	Roman Ladus	November 2010	R
Draft legislation to require establishment of a OSS by local public authorities	Nicolae Botan	November 2010	D
Draft Guillotine 2+ legislative amendments	Alexandru Savva and Oleg Utica	December 2010	D

R = Report D = Deliverable

List of Reports submitted to DEC (October – December 2010)

The following reports were submitted to DEC during the last quarter:

- Collecting and Paying Taxes in Moldova (2008)
- Opinion: TO the Draft law on the Tax Code Amendment (tax mediation) (2008)
- Assessment of business statistics at the National Bureau of Statistics and assistance options (2008)
- Comments and suggestions on the draft law on Modification and Amendment of some legal acts (2008)
- Evaluation of Investors' protections in Moldova (2009)