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# Quarterly Report

July - Sept 2010

Business Regulatory & Tax Administration Reform (BIZTAR) Project  
Moldova

October 2010 – draft for review by USAID

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:*

*International Forum of CIS Chambers of Commerce and Industry, organized with support from USAID|BIZTAR, October 7, 2010*

## List of Acronyms

<b>ANRE</b>	National Energy Regulatory Authority
<b>NBS</b>	National Bureau of Statistics
<b>BIZPRO</b>	Enterprise Development Project
<b>BIZTAR</b>	Business Regulatory & Tax Administration Reform Project
<b>CCI</b>	Chamber of Commerce & Industry
<b>CL</b>	Chamber of Licensing
<b>CM</b>	Chisinau Mayoralty
<b>CODB</b>	<i>Cost of Doing Business</i> survey
<b>COP</b>	Chief of Party
<b>CNAS</b>	Casa Nationala de Asigurari Sociale (National House of Social Insurance)
<b>CNAM</b>	Compania Nationala de Asigurari in Medicina (National Company of Medical Insurance)
<b>CST</b>	Center for Special Telecommunications
<b>DAI</b>	Development Alternatives, Inc.
<b>DCM</b>	US Embassy Deputy Chief of Mission
<b>EMG</b>	Emerging Markets Group
<b>GRM</b>	Government of the Republic of Moldova
<b>IT</b>	Information Technology
<b>M&amp;E</b>	Monitoring & Evaluation
<b>MCRD</b>	Ministry of Construction and Regional Development
<b>ME</b>	Ministry of Economy
<b>MOF</b>	Ministry of Finance
<b>MSTI</b>	Main State Tax Inspectorate
<b>ODC</b>	Other Direct Costs
<b>OSS</b>	One-Stop Shop
<b>PIT</b>	Personal Income Tax
<b>PMP</b>	Performance Monitoring Plan
<b>RIA</b>	Regulatory Impact Assessment
<b>RP</b>	Regional Partner
<b>RR</b>	Regulatory Reform
<b>SOW</b>	Scope of Work
<b>STS</b>	State Tax Service
<b>STTA</b>	Short-term technical assistance
<b>TOR</b>	Terms of Reference
<b>TTI</b>	Territorial Tax Inspectorate
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	United States Agency for International Development
<b>VAT</b>	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 in this last quarter, to allow successes to be consolidated and to permit BIZTAR to take on new challenges, particularly with respect to Customs. This report describes the new activities begun in this quarter and plans to meet those objectives in the next quarter. This report also includes an annual summary report with corresponding annual cumulative results data for key indicators.



USAID|BIZTAR Team presented the new Law in Construction during the celebration of the World Architecture Day in Balti, October 1, 2010.

## Executive Summary

This report covers the period July – September 2010, which is the twelfth quarter of BIZTAR implementation. Principal impacts this quarter included:

### Business Regulatory Reform

- Parliament approved and the Ministry of Construction and Regional Development (MCRD) began to present to local public authorities and the private sector the new law, drafted with considerable assistance from BIZTAR specialists Ermurachi and Chelaru as well as the persuasive leadership of BIZTAR Public-Private Sector Specialist Eugenia Stancu
- CNAS linkage with the Registration Chamber was being finalized
- Legislative amendments streamlining the licensing process were approved by Parliament
- BIZTAR-led inventory of permits and authorizations yielded more than 420 permits and acts
- BIZTAR review of licensing requirements was finalized

### Modernization of Customs

- BIZTAR concluded a follow-up assessment of customs operations in the areas of risk management, integrity, and regulatory problems; Customs approved an action plan to improve risk management but has not considered action plans to strengthen integrity nor to implement an Authorized Economic Operators

### Tax Administration Reform

- Declaratia Rapida - more than 3500 taxpayers had used at least once Declaratia Rapida
- STS and FiscServInform launched a tax payer portal for accessing e-services
- The module to expand Declaratia Rapida functionality to include extraction of data from accounting software was finalized and testing began
- The STS case management system software was extensively reviewed in-house by IT Strategy and Applications manager Sergiu Rabii and Tax Specialist Liliana Agarcova; it should be ready for testing in October.
- STS finalized its new Strategy for the next 5 years with BIZTAR assistance
- BIZTAR sponsored a study tour to Georgia of the Vice Minister of Finance, the STS Director, and the Director of the Tax and Customs Policy Department at the Ministry of Finance. The Director General of Customs was unable to join the group.

Next quarter (October – December 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, NBS and STS (Declaratia Rapida) will be finalized
- 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
- Legislative amendments streamlining construction inspection and authorization for occupancy process may be finalized with MCRD after the elections

- Legislative amendments to finalize the Guillotine process will be presented to the Ministry of Economy
- Licensing requirements may be made by the Ministry of Economy and/or the Licensing Chamber
- Updated BIZTAR reporting burden assessment will be released
- Updated assessment of business awareness of BIZTAR and a government reform agenda will be released
- The draft concept for a legislative framework OSS for local public authorities will be presented and discussed
- The new form consolidating several older required report, and the use of sampling, may be announced by NBS

#### 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 an initial proposal for a computerized real-time management information system

#### Tax Administration Reform

- Training of STS staff and launch of the case management system
- Development and testing for the Taxpayer current account software system should be concluded
- The Ministry of Finance and the Government will finalize their review of STS' new 5-year strategic plan which should be approved by a Government Decision; BIZTAR will assist in its promotion internally and externally
- 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 a proposal for a taxpayer charter
- BIZTAR will present again to STS some initial proposals to consolidate reports
- BIZTAR will present again to STS a proposal to implement advance rulings
- BIZTAR will present to the Vice Minister of Finance some initial proposals for a computerized real-time management information system

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.

#### Summary of Accomplishments through Year 3

*The following table summarizes BIZTAR's principal results over the previous 3 years. The list is short but of high impact. The impact alone of the law making access to construction permits easier is expected to generate a savings of more than \$5 million annually for customers, fully returning to the Moldovan economy USAID's investment of \$9 million in less than 2 years. In general, results have been hampered by a turnaround of leadership at most partners, most notably 4 Directors at STS in less than 3 years. This has been manifested by a steep learning curve for new executives new to the organizations they must lead as well as a significant time gap between learning the ropes to manage an organization and deciding where to reform.*

**Table 1. Summary of results from BIZTAR Regulatory and Tax Administration Reform Program – through September 30** (in proximate order of expected impact on business enabling environment)

Indicator	2008 baseline	Sept. 30, 2010 status
<b>HIGH IMPACT (should impact more between 5,000 and 20,000 businesses)</b>		
Percentage of businesses that are aware of government reform agenda supported by USAID/BIZTAR <b>(R18)</b>	0%	15%
Number of procedures businesses must complete for obtaining construction permits <b>(R1)</b> (estimated)	30	20
Minimum number of days required to deal with constructions permits <b>(R2)</b>	292	<250
Minimum cost of dealing with constructions permits (as % of GDP) <b>(R3)</b>	120.5	110
Streamlined processes for licensing businesses, including on line guides and the reduction in number of licenses	NO	YES
Software for presentation of tax declarations (users)	0	3553
Moldova ranked as a top ten reformer in annual Doing Business assessment	NO	Yes (2009 calendar year)
STS personnel trained (better understanding of laws, accounting , and financial analysis)	0	150
Recommendations to strengthen Customs operations	NO	Accepted but not implemented
Guillotine II+ process	0	Began
IT systems under development: Taxpayer current account Interface between CNAS and Registration Chamber Enhancements to <i>Declaratia Rapida</i> Tax case management system	NO	YES
<b>MEDIUM IMPACT (should provide significant savings for less than 5,000 businesses)</b>		
Six regional One Stop Shops were revitalized and strengthened		(Telenesti, Orhei, Singerei, Cahul, Soldanesti, Ceadir-Lunga)
Period for submitting appeals to STS extended	7 days	15 days
Number of procedures for starting a business <b>(R4)</b>	10	8 (eliminated visit to NBS)
Fewest number of days needed for starting a business <b>(R5)</b>	12	10
Cumulative number of persons accessing CNAS Current account (different IP addresses)	<2,000 through written application	13,157
1st outreach to private sector by Licensing Chamber, CNAS, NBS, and STS	Some limited activities by STS and CNAS regionally	Licensing Chamber, CNAS, NBS, and STS

## 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
<b>Ease of Registering a business</b>						
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 October 2010.
<b>Ease of Obtaining a License</b>						
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	Achieved through amendments adopted in July 2010
<b>Ease of Submitting required reports</b>						
e- reporting a NBS	X	X	X	X		NBS has tentatively agreed to e-reporting
Some statistics reports will be produced by accounting software						The Declaratia Rapida accounting software module will now allow this.
Some NBS reports will be consolidated	X	X	X	X		NBS will do this by the end of 2010.
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
<b>Easier access to construction permits and authorizations</b>						
Regulatory framework revised			X	X	X	1 <sup>st</sup> law was approved by Parliament in July, 2010 2 <sup>nd</sup> draft law and other regulatory reforms are being developed; they should be submitted to Parliament in 2011.
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
<b>Access to improved services at STS</b>						
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 in October 2010
e-declarations			X	X		E-submission to be included in Declaratia Rapida by May 2011.
Current account available quickly and accurately	X		X	X	X	Subcontract was signed in June 2010; 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%						2010 STS Fraud chief does not support this objective
<b>Improved Transparency and capacities in Customs Administration</b>						
AEO Program started	X	X	X		X	Training began in June 2010; draft action plan was finalized in early July but has not been approved.
Corruption reduced			X		X	Very much delayed; Draft action plan was finalized in early July but has not been approved by Director General of Customs

Customs code revised			X	X	X	On track, Plan for rewriting customs code is being finalized; new Customs Code may be ready by March 2011.
<b>Other services</b>						
Active outreach by government agencies to the private sector				X	X	Support for meetings will continue after parliamentary elections.
CNAS current account available online	X				X	Was launched in March 2010 with a target of 10,000. Y4 target is 20,000 (15,000 have already accessed it).

There are some important likely threats to achieving projected results that should be recognized by USAID; these are discussed below.



*Presentation of new options on Declaratia Rapida by FiscServInform. September 10, 2010*

## **Accomplishments during the Last Quarter (July – September 2010) & Planned Activities for the next Quarter (October – December 2010)**

### **COMPONENT I. REGULATORY REFORM**

#### **RESULT AREA I.1 IMPROVED BUSINESS PRACTICES**

##### *1.1.1 Improved Doing Business rankings*

###### Contract Objectives:

2 construction laws passed and disseminated

Law increasing protections for investors' rights presented to Parliament (and disseminated if passed)

Streamlined import processing procedures enacted at Customs (5000+ business benefited).

###### 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 103 (for calendar year 2008). 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 161<sup>st</sup> 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.

A law, drafted with private sector participation, was passed in July and promulgated in early Sweptember; 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. That law is likely to generate annual savings of at least \$5 million for the public. A customer orientation guide for consumers was prepared in September, and a first public presentation of the new law took place October 1<sup>st</sup> in Balti. 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 standard as well as maximum fees. Effective implementation will require some orientation of local public authorities.

###### Next Quarter:

1. Consumer guide will be reproduced and distributed through local public authorities, to the accompaniment of a educational campaign and meetings with architects to explain the law
2. Meetings with business groups and local public authorities to explain changes and provide oral and written guidance on new procedures
3. RIA will be finalized

**Year 4 Activity 1.1.2: Construction law on approvals to use a completed construction**

Background: A preliminary draft law was prepared in May 2009 and then reworked in the spring of 2010 that 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 has discussed with the Ministry of Construction and Regional Development (MCRD) next steps, but the intense effort to see a final law passed on the issuance of a construction permit left little time to move forward on this second law.

**Next quarter:**

No activity is contemplated given the focus on parliamentary elections.

**Indicators, End-of-Y3 status and Y4 Targets**

Indicator	Y2 status	Y3 end-of-year status (estimated*)	Year 4 Target
Number of procedures businesses must complete for obtaining construction permits <b>(R1)</b> (estimated)	30	22	15
Minimum number of days required to deal with constructions permits <b>(R2)</b>	292	236	200
Minimum cost of dealing with constructions permits (as % of GDP) <b>(R3)</b>	120.5	TBD	100

\* World Bank Doing Business report 2011, which ranks countries based on 2009 performance, is expected to be published in November 2010. R followed by a number indicates the relevant BIZTAR regulatory reform success indicator in its PMP

**Year 4 Activity 1.1.3: 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 109<sup>th</sup>.

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-Y3 status and Y4 Targets**

Indicator	Y2 status	Y3 end-of-year status (estimated)	Year 4 Target
Improved Doing Business ranking for Protecting Investors' Rights	109	109	<50

\* World Bank Doing Business report 2011, which ranks countries based on 2009 performance, is expected to be published in November 2010.

[Year 4 Activity 1.1.4.: 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 90<sup>th</sup>. 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. As a result Moldova’s rank increased to 77<sup>th</sup> for calendar year 2009.

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 2010 began work to connect the CNAS data base with the SRC business registration systems, to allow SRC to register the company via internet with CNAS for the entrepreneur. These improvements will be finalized in Year 4. By eliminating this procedure, BIZTAR will also improve Moldova’s Doing Business score on this Indicator.

This quarter the software was finalized and testing was concluded. Modifications to the Law on the National Social Insurance System Nr. 489- XIV which removes the visit to CNAS at the stage of business registration were approved by Parliament in July 2010.

Next quarter:

- 1) Launch and promotion of new system

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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

\* World Bank Doing Business report 2011, which ranks countries based on 2009 performance, is expected to be published in November 2010. 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). 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, 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.

This last quarter BIZTAR began discussions with Customs on these issues. A consultancy led by 2 international customs experts assisted Customs to develop a work plan to improve its implementation of risk management systems and protocols and a second work plan to implement an Authorized Economic Operator program. The first work plan was approved, but implementation is slightly behind schedule as the Risk management Director was on leave for more than 2 months.

Next quarter:

- 1) An initial 3-4 week technical assistance consultancy to improve risk management

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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 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. That process is expected to be concluded by the end of year 2010. A new law including all changes will be presented to Parliament in 2011.

Next quarter:

1. Review of all 430 permits issued by central public authorities with the National Working Group will finalized before the end of 2010, resulting in a comprehensive proposal for legislative reform (Q1).

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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.

BIZTAR previously recommended that some permits (seven) currently issued by the Ministry of Economy in the future be issued by the Licensing Chamber.

The Licensing Chamber leadership in 2009 was the most active and enthusiastic in participating in meetings with different regions with the private sector representatives. One improvement consistently requested in those meetings was the introduction of on-line processing of license requests. The new (2010) leadership has indicated its interest in doing this in 2011.

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
- 3) Continued support to the Ministry of Economy on the transfer of some permits to the Licensing Chamber

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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 (mayoralties or Rayon Councils). 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.

An initial national inventory in 2010 identified several OSSs, operated directly by local public authorities or through third parties was also prepared. However, the third-party-managed OSSs continue to be threatened by the at-will arbitrariness of local public authorities.

This quarter, the Ministry of Economy in mid-2010 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.

Next quarter:

- 1) Present to 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

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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 a OSS with simultaneous and coordinated review by all involved public authorities. It was presented to the Mayoralty in a meeting with senior representatives from the approximately 6 other agencies involved in reviewing requests for trade authorizations in early 2010. The Mayoralty 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 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 rationale for assistance in establishing mechanisms for on-line applications to the Licensing Chamber is discussed above (activity I.1.6). Additionally BIZTAR will present to the STS, the Ministry of Finance, and *FiscServInform* (FSI) a policy paper which will recommend 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 suggests that a reduced cost will also significantly increase income for *FiscServInform*. If accepted, BIZTAR will promote the e-declaration software which should result in increased use of e-declarations outside Chisinau.

Additionally BIZTAR will help *FiscServInform* promote its e-certificate outside Chisinau; this technology was developed in 2010 with BIZTAR assistance; it will allow digital signatures for e-submissions from individuals and corporations. BIZTAR will target with FSI registration of individuals and businesses outside Chisinau.

This quarter, BIZTAR proposed a drastic reduction in the processing fee charged business for using e-Declaratia. STS and *FiscServInform* have decided to reduce to some extent the fee in 2011 and to make either e-Declaratia or Declaratia Rapida required by VAT payers starting at some point in 2011.

Next quarter:

BIZTAR agreed at the beginning of the new quarter to assist STS promote e-services, in particular Declaratia Rapida to allow STS to speed processing of VAT returns (*FiscServInform* requires a month to process all tax returns prepared in writing)

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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

**RESULT AREA 1.2 SIMPLIFIED BUSINESS REPORTING PRACTICES**

Contract Objectives:

NBS will implement a consolidated reporting form, and use BIZTAR assistance to promote its use. CNAS will use BIZTAR assistance to allow electronic submission of reports. 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.

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.

Next quarter:

- 1) A BIZTAR sampling specialist will test and recommend a sampling framework to determine the optimal structure and size of the sample for 2011
- 2) BIZTAR will prepare the terms of reference for a software application to allow electronic submission of reports to NBS or NBS review and approval; procurement may begin and a software development firm may be selected
- 3) BIZTAR will prepare the terms of reference for a software application to process the new consolidated form for NBS review and approval; procurement may begin and a software development firm may be selected
- 4) Promotional campaign to launch consolidated form and assist businesses is designed and launched

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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 CNAS very excitedly accepted this proposal as part of the BIZTAR-CNAS joint Year 4 work plan.

Next quarter:

- 1) BIZTAR receives formal approval from CNAS on the design of a software application to allow electronic submission of reports to CNAS; procurement may begin and a software development firm may be selected

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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 discussed with CNAS and STS 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; STS will be able to confirm this directly. This linkage will be developed after the development of the Taxpayer Current Account and Certification System.

Next quarter:

- I) Development and launch of the Taxpayer Current Account and Certification System

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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:

Taxpayer account is widely accessible, i.e., it used by at least 5,000 businesses and individuals  
 At least 2,000 persons use the On-line access to local laws in Balti and Gagauzia.

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 may 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 July 2010, and it is expected to be delivered by December 2010. Access to the software may require an e-certificate but could require only a simple username and password.

Next quarter:

- I) Testing will include private sector participation and review (Q1)

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year status	Year 4 Target
Number of individuals and businesses access their current account	0	0	5,000

[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. Subsequently BIZTAR will hold a conference to promote the application and offer Chisinau-based assistance to adapt it for other localities.

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.

Next quarter:

- 1) Role of State Chancellery will be defined
- 2) The software term of reference for the on-line access to laws in Balti is published and a software dealer is contracted

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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.

Next quarter:

- 1) Develop and begin to implement an outreach and promotional strategy to increase the number of corporate partners

**Indicators, End-of-Y3 status and Y4 Targets**

<b>Indicator</b>	<b>Y2 Status</b>	<b>Y3 end-of-year status (estimated)</b>	<b>Year 4 Target</b>
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  
 At least 2,000 businesses and individuals participate in regulatory review initiative.

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 20<sup>th</sup> 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.

Next quarter:

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

- 1) At least 4-5 meetings/trainings with businesses groups on new construction law, including 1<sup>st</sup> public presentation of new law in Balti on Oct. 1
- 2) At least 5-10 meetings/trainings with businesses groups on *Declaratia Rapida* – accounting software linkage

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.

Next quarter:

1. End-of-year assessment of business awareness of USAID assistance through BIZTAR and of GRM reforms

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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-year 3 assessment in October 2010.

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

Contract Objectives:

Integrity systems strengthened at Customs

Draft Customs code is rewritten to be harmonious with Kyoto Convention and EU Standards, and disseminated if passed by Parliament

Ministry of Finance is functionally able to supervise Customs Service

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 also presented to the Vice Minister of Finance an initial proposal to strengthen Human resource management and integrity at Customs.

Nevertheless, the Customs Director General has invited BIZTAR to assist it to strengthen integrity. He is willing, he says, to support initiatives even if the government is unable to address the salary issue, a presumed root cause of corruption. Customs has already begun working on a service charter and will need BIZTAR assistance to finalize and promote it. Customs integrity head has not found time to meet with BIZTAR to discuss a Year 4 work plan.

Next quarter (activities to be proposed to Customs):

- 1) Joint Customs – BIZTAR working group formed
- 2) Draft a code of conduct and table of offences
- 3) draft guide for travelers and importers on rights at Customs and other informational tools to increase understanding of Moldovan and EU regulations
- 4) Customs integrity self-assessment
- 5) Formulate with the risk management unit indicators to identify officers likely to be engaged in corruption – possibly to be included in ASYCUDA report generator
- 6) Work plan for Internal Security Unit reviewed and strengthened

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year 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

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.

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

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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 special report, on activities undertaken in the previous 12 months to address corruption and strengthen risk management was presented to the Vice Minister in July 2010; it noted virtually no effective actions have been initiated.

Next quarter:

- 1) Proposal for customs management information dashboard presented to Vice Minister
- 2) 2011 Work plan for Tax and Customs Policy Unit will include at least one customs policy issue

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y3 end-of-year status	Year 4 Target
Customs MIS proposal reviewed by Vice Minister	NO	YES
Customs policy analyses	0	1

## COMPONENT 2. TAX ADMINISTRATION REFORM

To encourage more consistent support for tax administration reform and to stimulate thinking about broader reforms, BIZTAR, with USAID approval, sponsored a 3-day study visit to the Republic of Georgia for the Vice Minister of Finance, Victor Barbaneagra, STS Director Nicolae Platon, and MoF Head of the Policy Analysis Unit Anastasia Certan. They were accompanied by USAID/Moldova's COTR Corneliu Rusnac and BIZTAR COP Beto Brunn. The Customs Director general was unfortunately unable to attend. They visit current and former senior government executives in the areas of finance, tax and customs administration as well as representatives of the private sector. The private sector representatives spoke of the depth of the problems previously in taxation plagued by high rates and corruption as well as customs practices routinely plagued by corruption. Now neither tax nor customs administration is considered problems of broad importance, rates are much lower and compliance is high. While there, the visitors spoke with the Minister of Finance and the head of the revenue service, which combines both tax and customs administration; these officials as well as others spoke with pride of their commitment and success for the success in raising revenues despite drastic reductions in tax rates and feeing imports of most customs duties. They reiterated their continuing commitment to focusing on the problems of business, a concern shared and voiced by middle-level management as well, demonstrating the institutionalizing is the change of focus of those institutions. Of particular importance for BIZTAR was the praise from government and private sector representatives of Georgia's implementation of a system of advance tax rulings. This had been proposed by BIZTAR in 2009 and early 2010, but was rejected due to little understanding of its importance and implications. BIZTAR will re-present its proposals next quarter. BIZTAR is expecting STS to be more open to a broader dialogue with the private sector, a more aggressive program to tackle corruption at customs, and perhaps a proposal to be introduced by BIZTAR to consolidate payroll taxes.

### RESULT AREA 2.1 SIMPLIFIED TAX REPORTING REQUIREMENTS

#### Contract Objectives:

Consolidated local tax forms will reduce time and costs for all businesses in Moldova  
Combined payroll tax concept, if accepted, could generate savings for more than 10,000 businesses  
Reduced frequency of some tax declarations could benefit more than 5,000 businesses

#### 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, and now has approximately 3,000 users. 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 has 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 virtually completed. STS also agreed to discuss BIZTAR's proposal to consolidate local taxes in the next quarter.

Next quarter:

- 1) Discussion of Y3 proposal presented to STS to consolidate local taxes (QI),
- 2) Release of an enhancement to allow businesses to export data from accounting software to DR
- 3) Promotion and training program for enhanced DR led by FiscServInform

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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:

Taxpayer current account is accessible via Internet for STS, other government agencies, and taxpayers  
 Taxpayer current account is accessed (viewed) by at least 5,000 businesses

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.

One STS policy working against increased use of taxpayer services is the establishment of an annual processing fee of MDL 2800. STS intends to make the submission of tax declarations mandatory for companies in 2011, with the same fee. This quarter BIZTAR proposed a sharp reduction in fees, which was not accepted.

Additionally, this quarter the taxpayer current account system is being developed; it is likely to be finalized, including testing, by December 2010. STS also prepared a special bulletin describing its past reforms and its planned reforms as part of its 20<sup>th</sup> anniversary celebration in July 2010. BIZTAR has suggested to STS the use of a taxpayer charter to promote wider awareness of taxpayer rights; this has not been enthusiastically welcomed but new STS management in 2010 has indicated a willingness to review a proposal. The taxpayer current account software is being finalized and should be in use before the end of 2010.

Next quarter:

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

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year status (estimated)	Year 4 Target
STS meetings with private sector	2	2	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.

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, possibly encompassing a new TTI each month starting in January 2011.

Next quarter:

- 1) Review of proposal to implement an advanced ruling system
- 2) Launch of the Case Management System
- 3) Training of staff and collection of feedback to refine and enhance the Case management System.

Indicators, End-of-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year status (estimated)	Year 4 Target
Computerized Case Management System (CMS) for appeals in use	NA	NO	YES
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  
 Reduced evasion in payment of excise taxes

### 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.

### Milestones by 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-Y3 status and Y4 Targets

Indicator	Y2 Status	Y3 end-of-year 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 was rejection in 2008 and 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.

### Next quarter:

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

### Indicators and Year 4 Targets

Indicator	Y2 Status	Y3 end-of-year 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:

Increase revenues  
Improved risk management systems  
Improved control to reduce corruption

### 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. BIZTAR is currently developing a work plan for BIZTAR assistance.

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.

### Milestones by quarter:

- 1) Development and approval by Customs DG of a 3-6 month integrity strengthening action plan
- 2) Drafting a code of conduct and a table of offenses
- 3) Formulation of a Customs corruption vulnerability self-assessment

### Indicators and Year 4 Targets

Indicator	Y2 Status	Y3 end-of-year 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:

Policy discussion are backed by grounded and widely circulated analyses improving transparency and credibility of government decisions

### 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.

### Next quarter:

- 1) Training plan, including on-the-job activities, developed with Fiscal and Customs Policy Analysis Unit of the Ministry of Finance
- 2) At least one BIZTAR-support policy analysis completed

### Indicators and Year 4 Targets

Indicator	Y2 Status	Y3 end-of-year status (estimated)	Year 4 Target
# BIZTAR-support policy analyses	NA	0	3
# policy roundtables with the private sector	NA	0	3



*Advanced training for fiscal employees conducted under the support of USAID|BIZTAR*

## 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 wavering of attention once parliamentary elections are announced; this will most importantly affect the availability of the Minister of Economy and the willingness of the Ministry of Finance to consider changes in the Tax Code.

Secondly, many of BIZTAR's biggest projected impacts require legislative action, a process that is often unplanned and cumbersome, with much back door negotiations, as seen in the tortured progress of the law improving investors' rights. Further, now that Parliament has been dissolved, it is not expected to take up law-making for at least 3-5 months, and then our partners, both public and private sector, will need to work to establish the priority for review of pending legislation, like the law to improve investors' rights, and to move forward expected new legislation like

amending to the tax Code, the customs law, and the construction legal framework.

Third, it can easily be projected that whatever the outcome of the elections, key leaders will change virtually obligating a review, but not immediately of on-going reforms, which can lead to some reforms being dropped, despite previous USAID investments. And the need to generate income has led to a perverse pricing decision by FiscServInform which has established a very high processing fee for users of *e-declaratia* resulting in less than 100 users after 2 years of use; FSI has rejected the basic principle economic principles of reducing prices to increases users and revenues, as well as the broadly successful principle of promotional pricing, preferring to gain more users at its current exorbitant fee, and then graciously reduce the fee.

Finally, the real commitment to customs reform by the Customs Director General is itself in doubt.



USAID|BIZTAR provided support to FiscServInform in launching new options on the web portal of electronic fiscal services [www.servicii.fisc.md](http://www.servicii.fisc.md).

## List of Reports / Deliverables

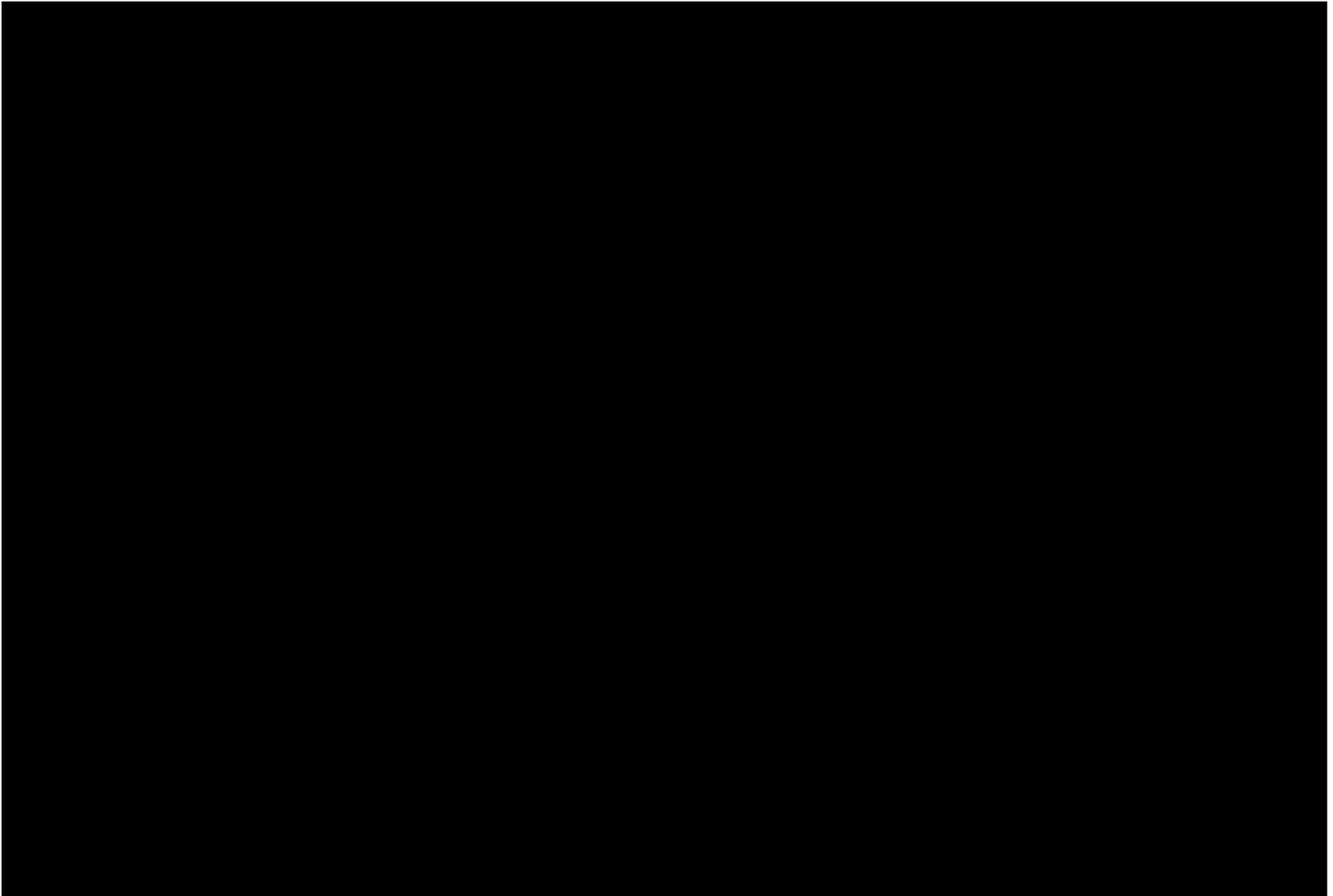
The following technical reports were completed by BIZTAR during the last quarter.

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
Legea privind autorizarea executării lucrărilor de construcție (nr. 163 din 09.07.2010)	Victor Ermurachi, Oleg Chelaur and working group at MCRD	July 2010	Law in Romanian, approved by Parliament
Revizuirea cerințelor pentru licențierea genurilor de activitate în Moldova (Review of licensing requirements in the Republic of Moldova)	Oleg Utica	Revised September 2010	Revised report in Romanian – being reviewed by Licensing Chamber
STS Strategic Development Plan 2011-2015	STS Working group and Aija Mckensie-Frazier	July 2010	Draft Plan – review us being finalized at MoF
Enhancing Integrity At Customs Through Improved Integration With MoF	Linda Wilcox-Daugherty & Robert Holler	July 2010	Confidential report
Action Plan on the implementation of AEO Program in the Republic of Moldova	Linda Wilcox-Daugherty & Robert Holler with Customs ad-hoc working group	July 2010	Draft report – review has not been finalized at Customs
Action Plan to strengthen integrity and Human resource management systems at Customs	Linda Wilcox-Daugherty & Robert Holler	July 2010	Draft report – review has not been finalized at Customs
Report on the analysis and review of tax reports under the terms of simplification, unification and their improvement	Lilia Tapu	July 2010	Draft report – review has not been finalized at STS
Soluții pentru utilizarea în masă a SIA „Declarația Electronică”	Mihai Bologan	Sept. 2010	Report Completed in Romanian, presented to STS

R = Report      D = Deliverable

## List of Reports submitted to DEC (July - October 2010)

No reports were submitted to DEC during the last quarter.



*Eugenia Stancu, BIZTAR's Private Sector Development Specialist, describing Moldova's many approaches to public-private partnerships with BIZTAR's assistance at the International Forum of CIS Chambers of Commerce and Industry, organized with support from USAID|BIZTAR, October 7, 2010*

