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# BUSINESS REGULATORY, INVESTMENT, AND TRADE ENVIRONMENT PROGRAM

FINAL REPORT

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## FINAL REPORT

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### DISCLAIMER

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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# ACRONYMS

AEO	authorized economic operator
AmCham	American Chamber of Commerce
ANSA	National Food Safety Agency
ASYCUDA	Automated System for Customs Data
ATIC	Moldovan Association of ICT Companies
BCP	border crossing point
BMP	Business Media Program
BizCLIR	Business Climate, Legal, and Institutional Reform
BRITE	Business Regulatory, Investment, and Trade Environment
DCFTA	deep and comprehensive free trade area
EU	European Union
FSI	FiscServInform
IFC	International Finance Corporation
IT	information technology
MCS	Moldova Customs Service
NBS	National Bureau of Statistics
NCCC	National Customs Consultative Committee
RIA	Regulatory Impact Assessment
RRS	Regulatory Reform Strategy
SLAR	State Local Acts Registry
STS	State Tax Service
TARIM	Integrated Tariff of Moldova
VAT	value-added tax
WTO	World Trade Organization

# INTRODUCTION

The Moldova Business Regulatory, Investment, and Trade Environment (BRITE) program was funded by USAID/Moldova and implemented by Chemonics International in partnership with United States-based small business European Integration Forum. This final report covers the period of performance from June 2012 through June 2016.

Since its inception, BRITE has been committed to guiding the Moldovan public sector, including the Moldova Customs Service (MCS) and the State Tax Service (STS), to fulfill their most ambitious and strategic aspirations to harmonize their regulations with European Union (EU) and global standards. BRITE's principal task was to demonstrate to Moldovan policymakers that reforms would yield large-scale financial returns in the short and long run, following the theory of change that streamlined regulation naturally catalyzes cross-border and domestic trade, raises tax revenues, and creates prime conditions for attracting investment.

During implementation, Moldova demonstrated its readiness for greater EU alignment, but for most of BRITE's period of performance, the country lacked a government or was stuck in political gridlock as party leaders in the pro-European Union coalition jockeyed for influence. The installment of the fourth government to rule during BRITE's implementation period fortunately brought a degree of predictability and allowed some of BRITE's most effective reforms to succeed.

BRITE's steadfast message of stimulating the economy and opening new doors through reducing the cost of doing business gained increasing traction, as the program seized political windows of opportunity to present packages of amendments and decrees that cumulatively posed an estimated \$246 million in savings to the Moldovan public, 95 percent of which directly benefitted the private sector. BRITE has ushered in a long-term shift to Moldova's modes of governance by eliminating, streamlining, or simplifying 36 regulations and administrative procedures. These and other results were registered in the World Bank "Doing Business" report, wherein Moldova's performance has improved by nearly 30 percent over the life of the program. As of "Doing Business 2016," the program's efforts have led to a 25 percent reduction in the number of days required to import and export, largely thanks to BRITE's introduction of e-customs in 2013 and the Blue Lane in 2014.

Perhaps most important to the Moldovan people, BRITE's bold strategic communications campaigns generated public demand for transparency, predictability, and accountability in government decision-making by effectively showing the cost of not reforming. The program's communications amplified the positive results that resulted from e-services that BRITE introduced across agencies, which not only increased efficiency and eased burdens on traders, but also diminished opportunities for corruption and expanded the reach of Moldovan exporters into new markets. Through its multi-pronged approach, which engaged business leaders and public sector beneficiaries, BRITE brokered harmonious public-private cooperation and substantive reform-oriented dialogue.

A central pillar of BRITE's strategy has been modernization of the public sector by embracing information technology (IT) solutions and increasing automation in the STS and MCS. The program unveiled the Taxpayer Current Account in 2014, which provides a single source of information to taxpayers and regulators on individual accounts. More than 50,000 users have already begun to benefit from this system, and this number is growing. Building on this success, the Single Account, which will centralize tax payments into one account, will save taxpayers large sums in bank fees and innumerable hours required to prepare and file multiple tax documents.

Although the program has ended, the forward momentum it generated continues to propel activities it began. In its final year, BRITE partnered with the USAID/Moldova Competitiveness Program to strengthen the lobbying and advocacy capacity of business associations, fortifying public-private dialogue by demonstrating to the private sector how it can effectively instigate further regulatory reforms. This activity will continue under stewardship of the Competitiveness Program, which will assist beneficiary associations to implement the strategic plans formulated with BRITE's support.

Few of BRITE's successes would have been possible without cooperation from other donors and implementing partners. The American Chamber of Commerce (AmCham), International Finance Corporation (IFC), European Union, International Monetary Fund, Swedish International Development Cooperation Agency, and others worked with BRITE to strategically determine the most effective and sensible allocation of resources to avoid duplication and enable the fulfilment of planned outcomes.

Although political dynamics have been a perennial challenge, much is possible in current circumstances, and some of BRITE's most persistent efforts are just beginning to bear fruit. The institutions set up by BRITE, such as the National Customs Consultative Committee (NCCC) and the Advocacy Platform, will continue to act independent of donor support to optimize public sector systems. And the capacity built by BRITE in beneficiary government agencies, fostering technical proficiency in communications and customs and tax administration, will continue to result in better-quality services provided to Moldovan traders and citizens.

Moreover, the political will generated by the program will help guarantee that leaders can only maintain the reins of power and unify Moldova's political base through responsiveness to needs of economic operators. Moldova is unmistakably on track to fulfilling its association agreement and deep and comprehensive free trade area (DCFTA) commitments, and by applying the lessons learned from BRITE, USAID and other donors can make Moldova a shining success story of business enabling environment reform.

The report that follows details the most effective of BRITE's accomplishments, while contextualizing them within the larger challenges the program faced and the correlating insights and lessons it learned along the way.

## SECTION I

# DETAILED RESULTS AND ACHIEVEMENTS

## COMPONENT I: TAX ADMINISTRATION AND TRADE FACILITATION

### I.1. SUPPORT TO THE STATE TAX SERVICE

From 2007 to 2016, Moldova rose from 119<sup>th</sup> to 78<sup>th</sup> on the World Bank “Doing Business” Paying Taxes indicator, although it fell from 70<sup>th</sup> in 2015. Yet perhaps a more telling indicator of the need for further reform of the State Tax Service is the fact that it collects about one-fourth of the revenue that the Moldova Customs Service does, a ratio that should be more than reversed.

#### INTERMEDIATE RESULT 1.1

Improved tax administration reduces the administrative burden of paying taxes while increasing revenue collection

BRITE’s assistance to the STS initially focused on assistance with implementing the 2011-2015 Development Plan produced with support of the Business Regulatory & Tax Administration Reform project in 2011. Some of the challenges that BRITE encountered with this initial goal were frequent changes in leadership and government, which resulted in shifts in strategic direction that were inconsistent with the original development plan. BRITE’s Tax Administration Specialist David Crawford presented recommendations concerning the operational constitution of the STS, including staff turnover, management, and capacity, providing an overview of STS’ general capacity. BRITE supported the STS to engage the private sector constructively through two forums: the Consultative Council and the Conformity Council. However, these groups met infrequently, and their discussions did not bear fruit. Throughout BRITE’s period of implementation, the STS repeatedly amended its Tax Code, generally without prior consultation with stakeholders. Low salaries contributed to low motivation and resistance to reforms. At times, the Ministry of Finance played an obstructionist role to STS reforms.



In 2013, BRITE was optimistic that the appointment of Ion Prisacaru as head of the STS would signal a period of reform and close cooperation with donor projects, yet by mid-2014, BRITE’s tax administration efforts had lost steam due to limited STS capacity to organize its internal activities and coordinate donor efforts. BRITE shifted its focus at this juncture to prioritize those initiatives where the STS demonstrated a genuine commitment and allocated resources to achieve results. This change in strategy was also spurred by a surge in other donor funding dedicated to STS reforms, including the World Bank’s five-year \$30 million tax administration project starting in 2015, which is effectively overhauling the STS information technology system. Other donors engaged in tax administration activities include the Swedish International Development Cooperation Agency, International Monetary Fund, and European Union.

Through its tax administration activities, BRITE has worked to create a system of voluntary compliance, driven by a fair tax regime, efficient administration, and strong enforcement. The program has assisted the STS to streamline its tax payment and collection systems and provide better customer service to economic operators. By optimizing tax administration procedures, strategic planning, self-regulation, and e-governance, BRITE has reduced compliance costs for the private sector, while increasing revenues for the public sector. Its achievements have mostly consisted of introducing information technology (IT) solutions to improve transparency in interactions between taxpayers and tax inspectors. In the long run, enhanced tax administration will also help to increase government revenues.

One of BRITE's most effective STS-related initiatives was to establish and enhance the taxpayer Current Account, an online system that provides information on the current status of all individual tax payments, available to taxpayers and tax authorities. The STS launched the Current Account with BRITE's support in March 2014. One of its features is an online e-certificate of no debts, which has eliminated paper certificates and is being accessed extensively by tax inspectors and economic agents. Another BRITE achievement is development of the Single Account, which drastically reduces the number and frequency of required tax payments and enables electronic transmittal of payment data across agencies. The launch of the Current Account was a watershed moment that was ceremoniously observed by U.S. Ambassador William Moser, the minister of finance, the head of the Main State Tax Inspectorate, and the administrator of FiscServInform (FSI). In the half year following its launch, the Current Account produced than \$2 million in savings to taxpayers and the STS.



PHOTO: Chemonics International

U.S. Ambassador William Moser, STS Head Ion Prisacaru, and Minister of Finance Anatol Arapu at the launch of the Online Taxpayer Current Account in March 2014.

## CURRENT ACCOUNT

As part of its tax administration reform efforts, BRITE supported development of the online Current Account, whose use is widespread among tax inspectors and economic agents. It constitutes a single source of information for all parties, doing away with discrepancies between the government's and taxpayers' records. Online access to taxpayer accounts promotes transparency, saves taxpayers time and money, makes paper certificates obsolete, and facilitates the flow of tax data across agencies and between taxpayers and the government.

In the rollout of the Current Account, BRITE collaborated with the STS and FSI to develop a comprehensive communications and outreach strategy, including media outreach, fliers and posters, video tutorials, and online support tools. BRITE also improved the interface to make the Current Account more user-friendly and easy to navigate. The program ensured that the STS and FSI trained tax inspectors on the Current Account.

Due to BRITE's assistance, the Current Account's e-certificate feature has been used by the Ministry of Finance, Ministry of Agriculture and Food Industry, and Chisinau town hall. The



SNAPSHOT

# Current Account Saves Money at Tax Time

## Online System Provides Clarity and Transparency for Moldovan Businesses



PHOTO: Chemonics International

*“We now have much better performance as a result of using the Current Account. And because of that, we can offer more time to the taxpayers, and I think that is already a big step forward in changing the relationship between the tax officer and the taxpayer.”*

*– Aureliu Sirbu, tax officer,  
Chisinau Municipal Tax Office*

Paying taxes is mandatory for economic agents in Moldova, but sometimes it takes more time than necessary. One problem taxpayers encountered was knowing the value of their debt/surplus to the tax authority. The STS, with BRITE support, implemented a solution to reduce the burden and make the process easier. Taxpayers and businesses now have online access to information previously available only to tax inspectors. The solution is an IT system — Current Account — that allows them to check tax debts or overpayments from any place, at any time, using any device with Internet access.

Tatiana Lipina is chief accountant of Steaua Reds, an apparel company working in the Moldovan market for more than 50 years. With 180 employees and only two accountants, the company’s paperwork related to fiscal declarations declined with the launch of the Current Account.

“We use Current Account every week to monitor the VAT refund and every end and beginning of the month to track reports and to declare taxes. All reports now are done with information from the Current Account, and we remember... when one of the three people working in accountancy had to visit regularly the territorial STS office to check and compare information from the STS IT system, and sometimes it meant hours for staying in line,” she said.

The system is helpful, especially for companies with subdivisions in different locations, because payments could have been distributed for the wrong subdivisions, resulting in debt for one subdivision and overpayment for another. Although there was no debt at the company level, it still had to pay fines for debts for that subdivision.

The impact of this system was enormous. In the first six months, private sector companies generated 257,000 reports and tax inspectors 711,000. Each report saves at least 15 minutes of taxpayers’ and tax inspectors’ time. Estimated annual savings are \$4 million for the private sector and \$0.5 million for the public sector. Taxpayers have to go less frequently to territorial tax offices, which increases transparency and saves time.

The information flow between state agencies has increased. Now the State Tax Service allows access by other state institutions to its database to check the “no-debts” status of taxpayers. Thus, businesses are not required to solicit a certificate of no debts to the state because their status is being checked automatically.

Public Procurement Agency and other agencies will also gain access when expected secondary legislation amendments take effect.

BRITE has supported these three institutions to carry out trainings for users, provided the Ministry of Justice with access to the Taxpayer Tax Clearance Certificates (e-certificate) feature, and informed public authorities about the access provided to the Taxpayer Tax Clearance Certificates issuance feature. Access to the e-certificates issuance feature will be possible for all institutions through the mConnect interoperability platform, and the e-Government Center has already developed this functionality.

In 2015, BRITE assisted the STS and FSI to enhance the Current Account by establishing a mechanism to track tax transactions by locality, which will eliminate a large volume of errors and make the STS more adaptable to future legislative changes to tax administration processes. Additionally, BRITE's enhancements create an electronic register of debts to the national budget and a tool for generating ad hoc reports according to parameters entered into the system. Finally, BRITE helped elaborate a new report on penalties that brings transparency to the penalties assessed by inspectors.



PHOTO: Chemonics International

STS Department Chief Vitalie Ciumacenco answers a trainee's question during training on the Online Current Account System, February 2013.

These e-solutions have drastically reduced the administrative burden on the tax inspectors, who previously performed these tasks manually. Automation has also made these processes less error-prone and has moved Moldova beyond the era when taxpayers needed to visit the tax office and request paper certificates that were valid for just 15 days.

### **SINGLIE TAXPAYER ACCOUNT**

In 2015, BRITE held meetings with the Ministry of Finance, Treasury, and STS to agree on the best way to consolidate sets of individual tax payments into a single payment based on a consolidated invoice generated by the Current Account. The parties agreed on adapting the e-Government Center's mobile payments mechanism for this purpose.

In January 2016, BRITE selected DAAC Systems Integrator to develop the Single Account, a payment order generation module within the taxpayer's Current Account, which is linked to a Treasury account via commercial banks. BRITE worked persistently with the Ministry of Finance to reach an agreement on a data exchange between the Current Account and the Treasury's Public Financial Management Informational System, by using the government's MConnect platform. BRITE also developed the module for the data exchange and tested it in May 2016. The Single Account module was completed by DAAC and approved by the STS in March. Subsequently, BRITE tested its module for exchanging information between the Main State Tax

Inspectorate and the Ministry of Finance via the mConnect interoperability platform. Starting in June, the Single Account was piloted with a group of taxpayers. The STS plans to have the Single Account fully implemented, operational, and available to all taxpayers in January 2017, per a decision made by the Ministry of Finance.

### **TAX GAP ANALYSIS**

Although strategic tax gap and risk assessments are an indispensable aspect of any modern tax administration's managerial approach, BRITE had discovered signs of a special need for the STS to effectively measure and analyze its tax gap, i.e., uncollected tax. Using statistical analysis to identify sources of revenue leakages enables tax and customs administrations to target problems and reduce administrative burdens for compliant economic operators and taxpayers. Statistical analysis equips the STS leadership to make wise decisions about decreasing the Moldova Customs Service's overall share in collecting value-added tax (VAT) and other taxes at border crossing points (BCPs), and rectifying the STS's diminished role in collecting inland VAT and other vital revenue sources. BRITE's tax gap analysis and STS training sought to meet these needs.

The study quantifies the costs of current inefficiencies and the benefits of consolidation. During the period analyzed, the amount of VAT collected by the MCS rose from 61 percent to 71 percent, with the STS's share dropping proportionally. This should not be the case; inland VAT collections should be several times the value of border collections, because goods subject to VAT are the cheapest at the border. Improved data-sharing among the STS, the MCS, and registration authorities would help the government detect the non-compliance issues that are the cause of this disproportionality. Closing this gap will help to stabilize government finances, provide resources for enhanced governance, increased salaries for civil servants. If the STS's role becomes that of Moldova's primary revenue agency, it will free up the MCS to facilitate trade, which will greatly increase trade volumes and values.

Per the study, BRITE estimates Moldova's tax gap at 20 percent of the country's gross domestic product, primarily consisting of VAT, followed by business taxes, personal income, and excise taxes. When excise tax gaps in tobacco and alcohol products and untaxed black market activity are included, Moldova's tax gap actually approaches 30 percent. The conclusions afforded by the tax gap analysis enable senior management to prudently allocate tax-insurance control resources. BRITE also trained the STS staff on analytical methodology that they will be able to apply to new incoming data. This has assisted the STS to improve its risk management by providing an objective view of probable sources and causes of revenue losses. BRITE recommended to the STS that it prioritize business tax collection, focusing on those companies capable of providing the most tax, to close the tax gap. Additionally, BRITE identified one of the STS's main challenges to be a lack of basic quantitative skills among staff, which could be ameliorated through sustained capacity building training. Closing the gap through effective collection of excise taxes, as well as regulation of the black market, should also be a top priority. Finally, the STS staff should allocate fewer resources toward regulating low-income tax brackets.

## I.2. SUPPORT TO THE MOLDOVAN CUSTOMS SERVICE

### INTERMEDIATE RESULT 1.2

Time and cost of moving goods across borders reduced

In the past decade, Moldova's business environment has improved considerably, rising from 103<sup>rd</sup> to 52<sup>nd</sup> place for ease of doing business, per the World Bank's "Doing Business" report. Between 2015 and 2016, in BRITE's final year, Moldova rose from 152<sup>nd</sup> to 33<sup>rd</sup> in the Trading Across Borders indicator. Moldova's ratification of the EU-Moldova Association Agreement and its deep and comprehensive free trade area in July 2014 formally signaled the country's dedication to attaining a World Trade Organization (WTO)- and European Union-compliant trade regime. Fulfilling these agreements' requirements is certain to result in myriad economic benefits, but it will be several years until Moldova fulfills all of its obligations.

The process of attaining full compliance has faced persistent setbacks, including the border interventions of agencies such as the National Food Safety Agency (ANSA), which place an undue burden on traders and reduce export outputs and domestic production. Overreliance on paper-based customs systems and the Ministry of Finance's unwillingness to embrace a modern customs risk management approach have also held back some of the MCS's BRITE-supported initiatives.

Another fundamental problem has been the Moldovan government's enduring notion that the MCS is a revenue collection rather than a trade facilitation agency. Largely due to the STS' inability to adequately collect revenue, the government has pressured the MCS to make up for shortfalls by collecting "every last lei." As a result of this disproportionality, businesses have suffered from extensive paper document requests that cost time and money and bog down the entire trade process.

Moldova's accelerating integration into EU economic frameworks will naturally reverse this trend, as the STS develops the capacity to serve as the country's primary revenue collector. BRITE has catalyzed this trend, while brokering intensified cooperation between the MCS and the business community to fulfill both parties' vision of attaining the country's full trade potential. By persistently demonstrating how the government, like the private sector, stands to gain monetarily through a modernized and European Union-compliant customs regime, BRITE has mitigated many of Moldovan businesses' most cumbersome trade and operational obstacles.

BRITE's assistance to the MCS has focused on cultivating working relations and building institutional capacity. During the latter two years, BRITE prioritized Moldova's fulfillment of its DCFTA and WTO commitments, following the association agreement and Moldova's adoption of the WTO Trade Facilitation Agreement in December 2013. The association agreement and the trade facilitation agreement, which overlap extensively, promise duty-free access to EU markets if Moldovan products meet EU and international quality standards. Both agreements provide a clear path forward for the Moldovan government to streamline its trade administrative procedures to maximize efficiency and transparency.

To enjoy the benefits offered by the DCFTA, the country will need to adopt EU standards and build the regulatory and enforcement infrastructure and framework necessary to access the

new markets that the DCFTA makes available. Under the trade facilitation agreement, developing and least-developed WTO members, such as Moldova, are required to increase trade efficiency through fulfilling a set of concrete technical measures within a timeframe determined that the country considers realistic.

In the formulation of its initial strategy, BRITE based many of its most central approaches and on the findings of the Business Climate, Legal, and Institutional Reform (BizCLIR) assessment, which BRITE used to shape the Moldovan government's regulatory reform strategy for 2013-2020. In its early implementation phase, BRITE completed a comprehensive mapping of import, export, and inward processing procedures, in collaboration with the MCS, food safety inspectorates, transporters, and traders. BRITE and the MCS used the findings of this mapping to determine several subsequent legislative reforms. BRITE also supported formation of the NCCC as a forum for the MCS to address private sector concerns. BRITE's survey of 250 previously closed companies shed light on the private sector's experience of the time and cost of doing business in Moldova, while highlighting the most urgent legislative reforms.

Although BRITE had formed a cohesive strategy early on, an inhospitable political operating environment precluded the permanent codification of key legislative reforms and added an element of unpredictability to the program's work planning process. In May 2013, months of political stalemate culminated in formation of a new coalition government of Prime Minister Iurie Leanca. Around this time, the MCS signed official orders to implement some key simplification measures recommended by BRITE: eliminating transit declarations for exports, allowing traders to use the most convenient inland crossing points, and more than doubling operating hours of regulatory facilities to boost available time for shipment clearance.

Later in the year, BRITE introduced improved procedures for the customs valuation of goods based on law and international best practice and completed a study on the benefits of deferred payments of duties and taxes at import and the use of customs bonds. BRITE also completed a timing study of the trade process from arrival to final clearance, pinpointing trade barriers to a greater extent than had previously been done. During this period, the Moldovan government implemented its Road Map for Removing Constraints to the Business Environment 2013-2015 and its Regulatory Reform Strategy (RRS).

The completion of BRITE's mapping of six major customs processes and presentation of the recommendations to the MCS general director in 2014 led to renewed internal strategic thinking at the MCS. BRITE and the MCS launched full e-declaration for export of goods, presented the results of its timing study to the MCS, finalized an inventory of all export permits aligned with the Harmonized Commodity Description and Coding System nomenclature and presented preliminary recommendations for streamlining them, and presented a package of legal amendments to eliminate and streamline other permissive documents through the government's Road Map for business environment reform.

Mid-2014 was marked by BRITE's increased support to the MCS to formulate its risk management strategy, including Blue Lane and speed clearance of goods. At this stage, BRITE also catalyzed the completion of Moldova's notification obligations to the WTO under the Bali

Agreement. Parliament approved BRITE-drafted legal amendments to introduce e-import declaration and documentation into the Customs Code. The government also approved BRITE-assisted amendments to expand the application of inward processing for exporters and regulations on implementing EU simplified customs clearance procedures and authorized economic operators (AEOs).

Politically, late 2014 witnessed a slowdown, during the run up to November 2014's Parliament elections, which resulted in a narrow victory for three pro-European parties — the Liberal Democratic Party, Democratic Party, and Liberal Party — over the more pro-Russia Socialist Party. Concurrently, BRITE's MCS study tour to Finland enabled Moldova's adoption of best practices in strategic risk management, an in-depth study of import permits, the finalization of an internal procedures manual for MCS on inward processing relief, and an analysis and report of the 2014 border crossing point timing study. The internal procedures manual was approved by an internal MCS legal document that is currently in force, and it is compulsory for MCS to adhere to it. This manual is useful for customs houses outside of Chisinau. It unifies application practices that were previously non-uniform and serves as good explanatory material for new MCS officers and economic operators. In recent months, other public authorities have asked for similar manuals.

February 2015 was marked by formation and approval of a short-lived, four-month government, while concurrently, BRITE launched nationwide e-Import (March 1), which has effected a gradual increase in the number of e-declarations ever since. BRITE's assessment of the Automated System for Customs Data (ASYCUDA) World system and the adjustments that resulted effectively eliminated the mandatory paper-based bar-code indicator for electronic declarations. BRITE deployed an Integrated Tariff of the European Union expert to guide the reform of trade permits and their consolidation into an EU-compliant integrated tariff.

Mid-2015, a turbulent time politically, also brought to fruition a reduction in the official number of documents required for import and export from 11 to three and Parliament's approval of BRITE-drafted amendments to the Joint Stock Company Law to bolster conflict-of-interest and related party transaction provisions. These bold initiatives, made possible through effective lobbying on behalf of MCS and BRITE senior leadership and experts, resulted in tangible business environment improvements, as measured in Moldova's "Doing Business" survey ranking. In April, BRITE helped establish a high-level risk management group, which serves as a key institutional coordination mechanism that underpins the MCS risk management strategy and process. This group meets regularly to discuss risk management issues and ensure the MCS' formulation and implementation of a cohesive and comprehensive strategic integrated risk management approach. Another crucial milestone was the government's approval of the 2015 tax and budget law, which included a provision that paved the way for the Blue Lane customs channel, which was introduced nationwide in August.

Following the turmoil sparked by former Prime Minister Chiril Gaburici's resignation in mid-June 2015, Parliament's approval of Prime Minister Pavel Filip in January 2016 and his coalition government positively affected BRITE's activities, inter alia by enabling several of the program's packages of amendments to be ratified. Moreover, the new finance minister, Octavian Armasu,

actively engaged the business community and, on BRITE's recommendation, secured the inclusion of delayed customs payments into the draft 2016 Fiscal Policy law, as USAID and the EU Border Assistance Mission to Moldova and Ukraine had long advised. This law is awaiting approval by Parliament. In the month's leading up to BRITE's close, the new minister of economy, Octavian Calmic, and his deputy, Vitalie Iurcu, energetically led Moldova's business environment reform agenda, resulting in approval of BRITE-supported legislation on internal trade permits and local acts and renewed consideration of construction and food safety permit reforms.

#### **E-CUSTOMS: E-IMPORT**

BRITE introduced an electronic import system that targets 25 percent of all import declarations to be submitted electronically by autumn 2015. This was based on an initial pilot program at the Tudora and Sculeni BCPs. Following the pilot phase, all e-Import became possible at all BCPs in March 2015. However, there are impediments to attaining widespread usage of e-import, which BRITE has identified by means of a survey of large traders. Shipments with multiple co-signees, i.e., "groupage" cannot be accommodated by e-import declarations. Additionally, there is a requirement to lodge the single administrative document at least one hour before arrival of the truck at the BCP. Not being able to review all the accompanying documents and needing to have all documents in place creates a risk for a non-authentic declaration, which carries heavy fines. The MCS should address the enforcement mechanism or the verification process to foster greater trust in the system and allay fears of prosecution for inadvertent inaccuracies due to using e-declarations. The application of e-Import is also limited to non-Red Lanes, because the required Red Lane transit declarations cannot be lodged electronically. These are all issues that can be resolved internally within the MCS, with the proper guidance.

BRITE has addressed and ameliorated several of these issues, but has encountered resistance and has been able to make only limited progress. One of the main improvements that was possible was allowing groupage. BRITE prepared and conducted a detailed assessment of e-Customs based on data from its surveys, as well as from MCS data.

As of March 2016, the average percentage of e-importing rose 12 percent from the previous three months. Crucially, in early 2016, the MCS and ANSA came to an agreement for ANSA to cease insisting on original paper documents and switch to e-declarations. This is expected to dramatically increase e-declarations for importing. To support this measure, the MCS has granted ANSA full direct access to ASYCUDA clearance software at the border. BRITE has trained ANSA to use ASYCUDA to verify and approve electronic documents, so with the present agreement in place, e-import declarations are expected to quickly increase.

#### **E-CUSTOMS: E-EXPORT**

BRITE helped facilitate a significant rise in the use of electronic export declarations in late 2014, up to 40 percent, but this rate subsequently declined, then plateaued. One reason for the downturn was small companies' reluctance to use e-exporting due to a lack of awareness of its benefits. A technical impediment to more widespread use of the system, was, as with e-importing, the inability to lodge e-declarations in groupage, i.e., the consolidation of cargo from more than one shipper and/or to more than one consignee. However, the MCS has since



rectified this and allowed groupage e-declarations. Technical problems with the ASYCUDA software is another noted setback, which prompted BRITE to propose an ASYCUDA upgrade.

To stimulate companies' use of e-exporting, BRITE and MCS conducted an extensive outreach campaign in September-October 2015 in nine regions of Moldova, attracting more than 500 companies that attended the events, and a greater number who were reached via media. A follow-up survey and monitoring of e-declarations has confirmed a substantial climb in e-declaration rates in autumn 2015. BRITE's outreach campaign helped to drive a dramatic increase in e-export declarations from October to December 2015, up to nearly 85 percent of all declarations by number and value. The MCS also insisted that customs brokers submit only e-declarations and support documents. During January-March 2016, the absolute number of export declarations rose to about 29,000, and the percentage of e-declarations for export averaged 72 percent.

One other e-solution that BRITE assisted the MCS to adopt is a feature of ASYCUDA that allows declarations to be automatically approved if a customs officer did not intervene within an established period of time, such as 15 minutes. This feature had not been allowed under the existing legislation. Hence, the MCS drafted amendments to the Customs Code to permit this, once Moldova's ASYCUDA system is upgraded. These amendments were included in the draft 2016 Fiscal Policy law that was approved. The law contains a short phrase about the possibility of applying automatic validation for the customs declarations according to the procedure established by the MCS. The MCS will approve the implementing mechanism later. The MCS was inspired to take the initiative for this amendment during BRITE's June 2015 study tour to Geneva, where MCS officials saw this new function of ASYCUDA in action.

These paperless customs procedures, while applicable for importing and exporting, are not applicable for other regimes such as temporary admission, warehousing, inward and outward processing, and free economic zones. Such regimes require additional IT development that could be a part of an ASYCUDA upgrade. BRITE assisted the MCS to develop drafts of the necessary amendments to the secondary legislation, but these will be pending until IT infrastructure adjustments have been made.

### **AEO PROGRAM**

To reduce time goods remain in customs, and comply with the EU DCFTA, which requires simplified procedures and an AEO program, BRITE developed the requisite legal and procedural reforms to implement a Moldovan AEO project, inter alia by introducing the European Union-compliant simplified procedures. BRITE's amendment of the Customs Code was of crucial support to the MCS, as was BRITE's development of a formal framework for implementing the legislation. BRITE also supported implementation of AEO status and simplified procedures by training customs inspectors on the procedures of authorization, control, and audit that are now set forth in Moldova's customs legislation. The MCS and the private sector will continue to benefit through the simplified approach to moving goods through border controls.

AEO programs, in addition to generating increased revenues for states and increasing gross domestic product, provide eligible traders with a variety of benefits that save time and money.



For example, traders can pay fees and duties on a monthly basis, submit consolidated monthly declarations, and conduct clearances at their own premises. AEO programs tend to drastically diminish border congestion by incentivizing compliant, larger operators with faster processing. In most countries, a small number of large traders — usually 10-20 percent of the total — handle most (60-80 percent) of the total cargoes. By speeding up the clearance of AEO participants, customs can devote more resources to clearing the small operators, who usually pose a greater risk. The greater attention and bandwidth available for the small operators speeds up their clearance times as well.

In 2014, BRITE began to pave the way for Moldovan AEOs by developing the requisite legal and procedural reforms needed to effectively implement the program. In early autumn of 2014, Parliament approved AEO as a facilitation mechanism, as a result of which BRITE assisted the MCS to finalize the implementing regulations for conducting pre-audit evaluations, and organized training in EU pre-audit procedures for staff members from the Simplification Division. BRITE monitored and evaluated the fledgling AEO program and regularly proposed improvements. A useful catalyst was presentation of the results of BRITE's 2014 Time Release Study, which drew the MCS's attention to specific barriers at Moldova's BCPs and inland crossing points. The legal basis for AEO was further enshrined in legislation with adoption of a BRITE-supported, European Union-compliant Tax and Customs Policy Law of May 2015 that mandated simplified customs procedures and an AEO program.

The AEO, as a trusted trader program, is an essential facet of MCS's overall BRITE-supported risk management strategy. Although the AEO program has made great strides and its benefits are manifest, it has faced some significant challenges that BRITE has been able to mitigate to varying extents. One area of difficulty has been the process of identifying AEOs, evaluating their compliance, and delivering meaningful trade facilitation benefits to compliant traders. BRITE assisted the MCS with these processes through its training on conducting audits of AEO candidate companies. In turn, BRITE trained companies to evaluate their own readiness to be approved as AEOs.

BRITE's short-term expert Jeremy Wellens conducted an AEO pre-audit training and an AEO awareness training in October 2014, which was aimed at staff responsible for AEO authorization activities, including the Simplification Division, and ensuring that they were equipped with the skills to carry out the approval processes using a customs-trader partnership approach. Within the framework of the two-week training program, BRITE developed pre-authorization audit training modules, materials, and handouts to prepare the MCS for undertaking AEO pre-authorization audits and complete the necessary procedural documents. BRITE's AEO awareness training boosted the MCS's capacity to work with economic operators. BRITE also developed a public guide to explain and promote the AEO and simplification procedures.

One of the MCS's missteps early in its implementation of the program was to automatically grant AEO status to a sizeable group of companies that were designated as known traders. This pool of AEOs had not been properly evaluated or assessed on the basis of trade and revenues, and their number was debatably beyond the MCS's capacity to manage. Making matters worse,

many of the companies had such low trade volumes that they were of minimal benefit to the MCS in terms of generating high rates of voluntary compliance. For both the MCS and AEOs to obtain the intended benefits of AEO designation, AEOs should be the largest traders.

The capacity building assistance that BRITE provided in 2015 redressed this error by persuading the MCS to halt new AEO designations until procedures were in place and further training was prepared to properly induct new, larger AEOs. BRITE prepared an updated AEO self-assessment questionnaire based on EU guidelines, as well as an internal procedure guide for MCS auditors that included steps for approving and monitoring AEOs. The criteria produced by BRITE will ensure that AEOs have had no serious recent infringements of customs rules and that they display satisfactory commercial and transport records, demonstrate financial solvency, and meet a set of conditions related to building security, access controls, cargo security, export and import license handling procedures, business partner security, and personal security.

## SNAPSHOT

# Simplified Procedures Help Moldovan Traders

*“Simplified customs procedures have had a great impact on our business. We have cut costs, reduced time and the number of documents we have to present for customs clearance, and avoided the bureaucratic burden that customs procedures entailed previously. Local clearance is one of the most significant simplifications we are currently enjoying as an economic operator.”*

– Lilia Botezat, broker at Orbico Ltd.

By using the local clearance procedure, a large distributor of logistics and sales, Orbico, is not required to file a separate declaration or present the goods to Customs immediately. It notifies the Customs Office about the arrival of the goods on its premises, and Customs decides whether to conduct an inspection or not later on. There are also other examples of how customs procedures have been reformed and adapted to meet the needs of traders as a means to reward them for having a history of voluntary compliance with customs regulations: the reduction of documents needed for customs clearance, approved exporter, introduction of the Blue Lane, and the status of authorized economic operator.

Orbico is one of more than 90 companies in Moldova that are authorized economic operators. This status allows them, among many other benefits, to provide minimum information at customs clearance of goods, to declare the goods without the need to go to Customs, but electronically, using the digital signature, or to reduce time and costs of customs clearance. Despite using simplified procedures on a daily basis, these companies still face a lack of information on how they can take the utmost of the status they have been granted. To deepen the understanding of companies that are already using simplified procedures, as well as to encourage other companies to start benefiting from the existing improvements of customs procedures, the Customs Service, in partnership with BRITE, organized a series of regional conferences in seven Customs houses across the country.

The program identified key challenges and problems afflicting the incipient AEO program and proposed solutions. For instance, it advised the MCS to perform follow-up audits of selected AEOs to ensure their ongoing compliance and outlined a further training regime for MCS staff.

BRITE trained the MCS simplifications team on AEO compliance and introduced the AEO Compliance, Partnership, Customs and Trade Model. The program developed sample compliance verification control plans and plans for beginning actual verification controls. On BRITE’s advice, the MCS started a monitoring exercise to establish the compliance level of the

60 AEOs that were registered at the outset of the Moldovan AEO program by routing a number of their customs declarations to the Blue Lane for verification. BRITE and the MCS used the results of this exercise to shape subsequent monitoring programs for these economic operators over the next two years.

A major obstacle to effective implementation of the AEO program has been the Ministry of Finance's insistence that all traders, including AEOs, fully pay import duties and taxes upfront, before their goods can be released. This contradicts EU simplified procedures, which authorize clearances for AEOs' shipments on the basis of incomplete declarations. In effect, short of payment benefits, one of the few benefits offered to AEO participants in Moldova at this early stage of the program is local clearance.

BRITE sought to rectify the ministry's resistance to deferred payments of duties and taxes by conducting a survey in January 2015 of 100 importers, to better understand the costs associated with pre-payment of trade revenues and determine the best scheme for Moldova.

Some of the key findings were that 60 percent of respondents said they would use a duty deferment scheme if given a chance (this rate was 70 percent among AEOs). 51 percent of respondents said they experience delays in release of goods when paying customs revenues, and 61 percent reported being fined at least once in the last three years because of delayed or incorrect payments of customs revenues. Moreover, the initial shortfall if 70 percent of payments were deferred would be less than 0.2 percent of the state budget; in other words, deferred payments would have a minimal detrimental impact on state revenues.



PHOTO: Chemonics International

AEO expert Jerry Wellens delivers pre-audit AEO training.

Based on these data, BRITE and the EU Border Assistance Mission to Moldova and Ukraine drafted a joint letter, signed by USAID Country Director Kent Larson and the head of the mission, to the ministers of economy and finance requesting implementation of deferred payments, initially for AEOs, to meet DCFTA obligations. The issue was also raised at the Prime Minister's Economic Council, which tasked the Ministry of Finance with developing a solution. The MCS inserted deferred payment in the draft Tax and Customs Policy Law for 2016. Unfortunately, the Ministry of Finance removed the provisions in late 2015, due to concern over state revenues in the aftermath of the budget crisis. However, in early 2016, BRITE, with support from AmCham, convinced the new minister of finance, Corneliu Armasu, that deferred payments would not pose a risk to the budget and should be included in the draft 2016 Fiscal Policy Law. The amendments were included in the draft, which the government

approved, and which is with Parliament. BRITE cooperated with the MCS to develop secondary legislation implementing provisions. Some minor adjustments will need to be made to the Customs IT systems following the government's approval, to implement the deferred payments.

The duties payment schemes offered under the current program are not adequately attractive to AEOs, because they are still required to pay on-the-spot rather than on a monthly basis for consolidated declarations. To make the program more attractive to traders, an array of credit and deferred payment schemes, including customs bonds, should be offered. Additionally, in its expansion of its AEO program, the MCS needs to consider to what extent a past instance of non-compliance should bar potential large-scale traders from participation, contingent on the severity of the infraction and a determination of the level of actual risk posed.



PHOTO: Chemonics International

An employee of BRITE beneficiary Prometeu-T, a major walnut producer and exporter, displays the company's AEO certificate.

### **RE-ESTABLISHING A CONSULTATIVE COMMITTEE**

BRITE re-activated the National Customs Consultative Committee and transformed it into an efficient public-private dialogue platform, which has resulted in several MCS approvals of decisions it proposed. The NCCC consists of 17 members representing Moldova's major private sectors. Throughout its life of program, BRITE has served as Secretariat of the NCCC, facilitating discussion and analysis of more than 52 topics.

In 2014, the NCCC obtained approval of the MCS to set *de minimis* limits on samples so they can be moved in and out without paying or guaranteeing customs duties and taxes and expanding the number of Customs posts that can clear express mail shipments. Both of these decisions have been beneficial to traders. In July 2015, the MCS approved a methodology for classification of IT parts, computers, and periphery equipment that had been requested by the Moldovan Association of ICT Companies (ATIC) in an NCCC meeting in 2013. ATIC had complained that MCS officers were classifying imported ICT equipment incorrectly and inconsistently, leading to uncertainty and higher costs for their members. BRITE, ATIC, and MCS had since been working together to develop a mutually beneficial solution. This was finally agreed to, and now the customs classification of the above mentioned goods is more transparent and uniformly applied.

BRITE has consulted with the MCS and AmCham to ensure the smooth transfer of the Secretariat function to AmCham.

## **STREAMLINING SELECT CUSTOMS PROCESSES AND DEVELOPING INTERNAL AND EXTERNAL GUIDANCE**

BRITE has developed guides for traders on inward and outward processing, origin of goods, temporary admission, and advance rulings. These guides were presented at regional events for economic operators in autumn 2015 and spring 2016. The guide on outward processing has been adopted by the MCS, and the guide on customs warehouses is under review by the MCS.

## **REDUCING THE TIME AND COSTS OF TRADE**

BRITE pursued miscellaneous measures to reduce the time and cost of border crossings, including strengthening and liberalizing the role played by border posts in the regions, extending the operating hours of the biggest customs posts, designating a maximum time for Customs inspectors to clear goods (20 minutes for Green and Blue Lane declarations, and 1 hour for Yellow Lane), and slashing the number of required single administrative document support documents to three types.

Aside from low capacity and motivation to reform in state agencies, one of BRITE's most persistent challenges has been to persuade the MCS to embrace simplified documentation. The program achieved a significant breakthrough in this area when the MCS accepted BRITE's recommendation to require just a commercial invoice, bill of transport, and customs declaration from shippers. However, this principle is not followed when risk management marks cargo for inspection, i.e., diverts shipments to the Yellow Lane, in which case, MCS permits its inspectors to request extra documents: nine for export and 11 for import. In effect, this forces shippers to always carry all the documents with them and to devote substantial time and resources to obtain these documents in the first place.

## **IMPLEMENTING UPDATES TO THE INTEGRATED TARIFF OF MOLDOVA (TARIM)**

One of the main challenges faced by traders in Moldova is a dearth of available information on how to comply with existing regulations. One vital source is an integrated tariff, which constitutes a single source for all information required to import and export to a particular country, including tariff rates, explanation of all measures and procedures. In effect, it serves as a point of entry into relevant legislation for traders, Customs officials, and other interested parties.

In March 2015, BRITE short-term expert Vida Mickienė, who is head of the Tariff Division of the Lithuanian Customs Department, assisted the MCS to streamline its import/export and trade regulatory requirements by modifying the TARIM to accord with the Harmonized System commodity classification system. This effort also supported the EU Twinning Project's single Window initiative, for which the integrated tariff is a pre-requisite, inasmuch as the single window must be able to handle all documents and data to expedite the release and clearance of goods. Ms. Mickienė reviewed the Twinning Project's inception report on single window in Moldova, identifying gaps and recommending approaches and actions to ensure full implementation of a trade facilitation tool consistent with the Integrated Tariff of the European Union. The association agreement requires Moldova to approximate its legislation in key areas, including trade and customs, with the Community Acquis, i.e., EU law. Ms. Mickienė developed and delivered two workshops on the Integrated Tariff of the European Union for MCS officials.

The Moldovan government has administered the TARIM since 2010. However, it does not integrate compliance requirements such as licenses, certificates, or other authorizations needed for customs clearance, and it does not provide economic operators or foreign investors with a clear view of all measures to be undertaken when importing into or exporting from Moldova.

BRITE has highlighted several deficiencies in BRITE's TARIM. The tariff rates are current, but most of the rest of the information is out of date. Moreover, the tariff is non-binding, so traders cannot count on the information it contains. Also, non-tariff measures such as import and export licenses, technical barriers to trade, and sanitary phytosanitary (food safety) certifications, are not consistently classified according to the Harmonized System nomenclature that is universally used to classify goods. This constitutes a breach of the European Union's requirements, and the inconsistent classification scheme poses a difficult obstacle to future implementation of a national single window. Moreover, at present, the MCS acts as the guardian of Moldova's integrated tariff, though it lacks the political authority to require other, peer agencies to participate in updating the TARIM and ensure the accuracy and comprehensiveness of its information.

Fortunately, the prime minister established an inter-agency working group to address some these issues, among other things, by assigning Harmonized System codes to all measures. Additionally, the government passed legislation that establishes the TARIM database, through its 2016 amendment to Law 172/2015 on Harmonized System nomenclature codes. The TARIM database will be maintained and updated by the MCS and will have binding status for Customs officers and traders. Crucially, the amendment contains a provision that establishes an interdepartmental commission to manage the TARIM. BRITE drafted the government decision necessary to establish the commission's activity and sent it to the MCS and AmCham.

However, the MCS has a different approach on the issue of adopting and updating the TARIM database. The MCS thinks that letters from state authorities expressing agreement to include the Harmonized System nomenclature code list in the TARIM are sufficient. However, BRITE disagrees with this approach, because it excludes private sector involvement and does not correspond to transparency principles. The MCS promised to send the state authorities' letters to the government as a basis for TARIM implementation. BRITE suggested involving the Prime Minister's Economic Council, AmCham, European Business Association, and other interested associations and donors to survey the progress of TARIM implementation.



PHOTO: Chemonics International

EU tariff expert Vida Mickienė at the MCS headquarters, discussing implementing the EU Integrated Tariff in Moldova.



## SNAPSHOT

# New Customs Regime Helps Business Expand

Launched in 2007, Steinel Moldova is part of the Swiss-German Steinel Group. The company manufactures lighting controls and motion and occupancy sensors for the EU market, using mostly raw materials imported under a loan arrangement through its subsidiary in Romania.

Seeking to expand its supplier base and its production capacity, the company asked the Moldova Customs Service to allow it to use a common type of customs regime called “inward processing relief” for purchased goods, under which raw materials or similar imported goods may enter the country and be used, stored, and processed without paying customs duties, taxes, or excise. In this way, the manufacturer does not tie up working capital during the manufacturing and export processes.

The MSC, however, refused the request, interpreting it as unallowable, even though the same arrangement had been granted to other companies in Moldova in the past. This forced it to continue to supply its operations from Romania under a loan arrangement. As a result, the company was becoming less competitive and had suspended a plan to invest an additional €250,000 in an expanded facility and €400,000 in capital improvements.

“We felt like we hit a ceiling that didn’t allow us to develop further – and believe me, the development capabilities are immense,” said Dumitru Bacalim, a manager at Steinel Moldova.

To address this issue, BRITE, working with the Prime Minister’s Office, Ernst and Young Moldova, and the MSC, drafted a legal framework that allowed inward processing authorization to be issued irrespective of ownership of the imported goods. These changes were approved on July 2, 2014. As a result, Steinel, and any qualifying manufacturer in Moldova, is free to supply its raw materials in the most convenient and economically advantageous way. The import-export arrangement and ownership of the goods are no longer subject to interpretation, which removes the uncertainty facing local manufacturers wishing to take advantage of inward processing relief. The reforms will reduce materials costs by up to 10 percent and increase turnover at least 15 percent over last year. The company also has initiated expansion of its manufacturing operations, Mr. Bacalim said.

## CUSTOMS VALUATION PROCEDURES REFORM

Many of the hindrances faced by traders directly pertain to customs valuation procedures. When risk criteria are not adjusted and applied properly, more shipments can be directed to the Yellow Lane for “valuation” checks, triggering requests for more information and exacerbating delayed clearances of goods. To address these risks and mitigate delays, BRITE has



expanded its focus to ensure that the Valuations Department uses a compliance risk approach. Among BRITE's activities in this area are assistance to the MCS to finalize a draft Government Decision on Valuation based on WTO/EU practices and training to valuation staff, customs brokers and other traders to implement the government decision, which is under consideration. BRITE also finalized and presented a guide on customs valuation to the MCS.

BRITE's short-term expert, Lithuanian Chief Inspector of the Customs Valuation Division Darius Valunta worked with the valuation staff in MCS to review their valuation practices, introduce EU practices, help draft amendments to valuation legislation, and recommend best practices. Mr. Valunta's expertise and guidance helped the MCS to partner more effectively with business associations and trade groups to agree on valuation of goods imported into Moldova. This is a standard practice in developed countries. The legislative amendments were accepted by the MCS. At present, a draft government decision is with the Moldovan government. Having passed through the adoption procedure, it has been sent to all ministries for their approval or feedback.

Customs valuation, in Moldova as elsewhere, poses administrative challenges inasmuch as accurate classification and valuation of goods is directly linked to the core Customs function of revenue collection. Inaccurate classification and valuation almost always results in lower customs duties and can thus cause a major loss of revenue. In general, unfocused and arbitrary valuation customs controls can be a major impediment to trade facilitation. Given Moldova's membership in the WTO and the association agreement, it is essential that the MCS valuation system be consistent with the General Agreement on Tariffs and Trade valuation rules.

BRITE also supported the MCS valuation department by developing and making publicly available a comprehensive guide on valuation, reviewing valuation profile criteria and success rates, and proposing revised/improved profiles to enhance effectiveness. Finally, BRITE benchmarked the valuation approach against the European Commission Customs Blueprints when they were officially released and developed an action plan to address any identified needs.

In May 2016, BRITE organized a study tour to Italy for MCS officials to assist with aligning working practices with the European Union and WTO and adopting modern procedures for dealing with valuation issues. This knowledge will help inform the future development of the MCS's valuation function and will lead to a reduction in customs control checks of legitimate cross-border trade, to more closely align with European averages. The Italian officials demonstrated and explained how a low level of valuation customs control checks at the point of clearance (statistical sampling) does not actually undermine the effectiveness of the Customs control approach, which is important because import VAT, duties, and excise make up a significant element of the Moldovan budget.

#### **INTRODUCE AND IMPLEMENT THE BLUE LANE CUSTOMS CLEARANCE CHANNEL**

One of the areas of BRITE's greatest cross-border trade impact was development of automated risk management clearance systems. BRITE established a Blue Lane clearance channel that creates an alternate routing for shipments that require document checks but are not risky enough to hold the entire shipment pending the review. Per standard international practice,

cargoes are assigned to one of four colored clearance channels based on programmed risk criteria. Green Lane shipments are cleared without inspection. The Blue Lane designates Green Lane treatment at the border, with subsequent document review (i.e., post-clearance audit). Yellow Lane cargoes require document inspection prior to clearance, and Red Lane cargoes undergo physical inspection as well as occasional document review.

Blue Lanes speed up import and export processes by allowing certain types of shipments to be made immediately. In Moldova's case, the Blue Lane is a preliminary measure that will build Customs officers' confidence in EU-style risk management systems, increase their level of trust in traders, and boost their capacity in using automated systems. After a period of adaptation to the Blue Lane, the MCS will transition to implementing full post-clearance control, involving greater degrees of voluntary compliance among traders. BRITE's technical assistance to the MCS's risk management system development has improved the agency's risk selection criteria by applying tailored inspection instructions for each type of triggered risk. This system is known to increase the percentage of non-compliant cargoes, i.e., those incurring fees, thereby bolstering the MCS's confidence that embracing EU-compliant risk management will bolster, not diminish, customs revenues.

BRITE ensured the continuation of the Blue Lane past BRITE's period of implementation by codifying it in the Customs Code. The Blue Lane provision was included in the 2015 Tax and Customs Policy Law that passed in May 2015, along with AEO and simplified procedures provisions (further information below). In addition to changing the code, BRITE assisted the MCS to develop the legal amendments required to effectively implement the new provision. BRITE fostered the long-term success of the MCS's strategic risk management approach through training on strategic planning methodology, as well as institutional capacity building support taking into consideration such matters as risk management profiles, and staffing plans that allocate sufficient resources away from clearance points and toward desk audits.

The nationwide introduction of the Blue Lane, which was launched in August 2015, was a critical milestone that signaled the MCS' managed transition from an over-emphasis on point-of-clearance controls, in favor of enhanced post-clearance audit capacity, techniques, and procedures. BRITE helped to maximize the initial impact and reach of the initiative through training and an extensive communications campaign. In September 2015, Blue Lane declarations constituted about 7.2 percent of total imports. The MCS's perennial challenge is to route potentially riskier economic operators to the Blue Lane rather than the Yellow Lane and ensure that companies found to be compliant during the Blue Lane desk audits are removed from the selectivity program.

## COMPONENT 2: HIGH-IMPACT REGULATORY REFORMS

### 2.1 REGULATORY FRAMEWORK IMPROVED

The original contract created a unique structure for BRITE. Although Components 1 and 3 were well defined, Component 2 was to be defined after the program had assessed the business environment and identified specific reform initiatives with strong political support, high potential impact, and a likelihood of successful implementation. These activities would then be included in a second task order. BRITE's first major activity in this regard was to conduct a comprehensive assessment of the business regulatory environment using USAID's BizCLIR methodology. This was the first time a BizCLIR assessment was carried out as part of an ongoing technical assistance project.

The assessment was conducted in August and September 2012 with a local subcontractor, Business Research Company, and a team of four international consultants working with the BRITE team. As requested by USAID, the assessment focused on five subject areas of the annual World Bank "Doing Business" survey: Protecting Investors, Trading Across Borders, Paying Taxes, Dealing with Construction Permits, and Starting a Business. The assessment included interviews with more than 100 stakeholders in the government, business, and civil society communities and concluded with a one-day roundtable that attracted more than 90 participants to discuss and finalize the major findings and recommendations. The final report was completed in December 2012, approved by USAID and distributed to key stakeholders and donors in hopes of stimulating demand for reform. At the time, the report estimated that if all the BizCLIR recommendations were implemented, Moldova's overall Ease of Doing Business ranking would improve from 83 to 44, and easily make the country a Top 10 Reformer.

As it turned out, the final report came at the right time, because the government was in the process of finalizing its 2013-2020 Regulatory Reform Strategy. The RRS eventually incorporated many of the BizCLIR recommendations. BRITE then worked directly with the Ministry of Economy, other affected ministries and agencies, and other donors to define specific reform initiatives that could be included in the accompanying 2013-2015 Regulatory Reform Action Plan and that could form the basis of a Component 2 work plan. During this assessment period, we were also guided our stakeholder mapping survey (see Component 3), also conducted in late 2012, and the Moldova Cost of Doing Business Survey conducted by the IFC/World Bank each year.

### INTERMEDIATE RESULT 2.1

Regulatory framework improved



PHOTO: Chemonics International

Then-Deputy Minister of Economy Octavian Calmic, USAID/Moldova Deputy Director Jeff Bryan, USAID/Washington Senior Commercial Advisor Nick Klissas, and BRITE's international BizCLIR experts lead the opening session of the BizCLIR roundtable on September 24, 2012.

By that time, however, there were already signs of the political instability that was to plague Component 2 for the remainder of the program. The coalition government's division of ministries among its three member parties led to a highly politicized working environment, even among lower-level civil servants. The minister of economy, who also served as deputy prime minister, and who was responsible for improving the business and investment climate, represented the Democratic Party. But the Ministry of Finance, whose subordinate Customs and Tax Services are key to the government's reform agenda, was held by the Liberal Democratic Party, as was the Prime Minister's Office. Conflicting agendas and political division between the Ministry of Economy on the one hand and the Prime Minister's Office and the Ministry of Finance on the other impeded inter-ministerial cooperation, collaboration, and even communication. The same was true in the Ministry of Economy's interactions with other key ministries and agencies, for example, construction, food safety, and the social fund.

From mid-2013 until the end of the program, there would be four successive governments, each with a different prime minister and, in some cases, new ministers. Despite BRITE's attempts to be an honest broker and facilitate participation and dialogue among government authorities regardless of political affiliation, the lack of cooperation, in many cases, was too difficult to overcome and create the political will needed to implement critical reforms. Arguably, the main accomplishment of the government and parliament in this period was the ratification of the EU-Moldova Association Agreement, mainly because it offered immediate visa-free travel for Moldovans to the European Union. But the actual implementation of the agreement, with few exceptions, has been disappointingly slow.

BRITE's work in Component 2 would thus evolve to reflect these political realities. Certain high-level legal and regulatory reforms that were tied directly to "Doing Business" indicators or had the support, and thus some leverage, of other donors like the World Bank and IFC continued throughout the life of the program, with limited success. Others were delayed or undertaken only when a local champion emerged that would drive through the needed legislative changes. More often, the program later favored activities that were largely immune to frequent changes in government personnel and priorities. These included efforts to increase awareness of earlier reforms and ensure their full implementation and sustainability.

### **JOINT STOCK COMPANY LAW**

Moldova's ranking in the World Bank "Doing Business" Protecting Investors area has improved significantly as a result of BRITE's legislative reform assistance. In 2013, changes in the Law on Capital Markets introduced several new provisions and concepts, among them the protection of the rights of minority shareholders in joint stock companies. Implementation of these changes required similar provisions and further requirements in the Law on Joint Stock Companies, which BRITE drafted. In June 2014, the government approved these amendments, which enhance transparency through their provisions on concluding transactions with related parties, public disclosure of information about large transactions, access to internal documentation, liability of managers and major stakeholders, and the role of external auditors.

### **CONSTRUCTION PERMITS**

One key finding of BRITE's 2012 BizCLIR report was that corruption is especially pervasive in the construction sector. As a consequence, illegal construction proliferates. Yet, having a well-regulated, efficient construction sector is critical for building an adequate infrastructure base. Moreover, it can help attract foreign and domestic investment and foster increased employment and wage rates.

In 2014, construction contributed 3.3 percent to the gross domestic product, compared to the Organisation for Economic Co-operation and Development average of 7.9 percent the same year. Moldova's rate should be higher than the Organisation for Economic Co-operation and Development's average, because it is a transitional economy with an urgent need for infrastructural development. BRITE has estimated that the inadequacies of Moldova's construction regulation regime cost the country about \$365 million in 2014 alone. The long delays entailed by the regulatory procedures severely disadvantage construction sector businesses, because they must commit funds in advance and do not see a profit until the program is complete. Regulation of construction takes about 100 days more than the Organisation for Economic Co-operation and Development average, and applicants for construction permits often need to interact with as many as 19 institutions and service providers to obtain the necessary construction permits.

To address these issues, BRITE developed a concept paper recommending more limited involvement of different government institutions in this process. BRITE promoted these reforms with the minister of economy and secured the support of the Ministry of Construction and the city of Chisinau, where BRITE envisions establishment of a pilot one-stop shop for construction permits. The government approved the concept of the unified one-stop shop for all business permits, developed with support of the World Bank. Accordingly, BRITE updated the draft regulation on one-stop shops for the issuance of permits for construction work. This draft regulation is awaiting approval by the government. The Ministry of Economy submitted it to the State Chancellery, which will include it in the government's agenda. It is expected that this regulation will be approved in July.

## **TRADE AUTHORIZATIONS**

Internal trade authorizations are permits issued by local authorities that grant businesses the right to begin operating at a particular location in a city. The authorizations, which must be renewed annually, are required for virtually each type of business. This system also requires other public authorities to pre-approve the business and space before a final authorization is issued. The inefficiencies of this system were identified as a major hurdle in the BizCLIR assessment and are a common cause for complaint among businesses. To solve this problem, BRITE has advocated an approach of "notification" rather than "authorization" that will be less burdensome to the private sector.

BRITE introduced this approach and mitigated other inefficiencies through developing a set of amendments to the Law on Internal Trade. These amendments eliminate the role of public authorities in pre-authorizing a business. They have the potential to reduce the time required for obtaining a trade authorization from 72 days to seven days and drastically slash opportunities for corruption. The amendments also establish a single electronic one-stop shop

at the municipal level. BRITE met with government agencies, local authorities, and business representatives to gain traction for its solution. As a result of BRITE's collaboration with Parliamentary committees and deputies, Parliament approved the draft amendments in its first review on April 14, 2016, pending minor changes. Soon after BRITE's conclusion, Parliament provided its conclusive approval for the internal trade amendments.

To assist with implementation of the law, BRITE drafted guidelines for local public authorities and businesses, a template of trade rules for local public authorities, sanitary and hygienic guidelines for food businesses that are required to notify local authorities, and guidelines for labor relations for small and medium enterprises that conduct domestic trade.

BRITE cooperated with the State Chancellery, the Ministry of Economy, the State Tax Service, and local authorities to organize and conduct three regional events aimed at helping local businesses to understand and benefit from the outcomes of the amendments on internal trade notification.

The local trade authorization process was covered by BRITE's Update Moldova campaign and was the subject of a press conference organized by the Ministry of Economy. BRITE has coordinated with the IFC, which has agreed to consider funding the IT portion of the reform, namely, development of an electronic one-stop shop for administering notification of other public authorities.

#### **ANSA PERMITS**

Food industry businesses in Moldova are inhibited by a lack of information on regulations and compliance requirements. Fortunately, this problem was addressed by a draft law on internal trade permits that mandates ANSA and the National Health Center to inform enterprises upfront about these requirements. BRITE has helped prepare these agencies to comply with this law, by contracting a local company to investigate the requirements and develop practical instructions for business on complying with them. BRITE also assisted local businesses and the National Association of Hotels and Restaurants of the Republic of Moldova to review and comment on early drafts. If approved by Parliament, BRITE's amendments will eliminate overlaps between the powers and responsibilities of ANSA and National Center of Public Health for internal trade activities.

In Year 3, based on the findings of its initial mapping and timing of the customs clearance process, BRITE completed a package of recommendations to reform the issuance and verification processes of phytosanitary and veterinary-sanitary permits for imports and exports. BRITE presented a full report on the differences between Moldovan and EU practices, a detailed report on ANSA's business processes for trade permits that would need to be streamlined, and a set of legal amendments to bring Moldova in line with the European Union. The vice director of ANSA and the minister of agriculture agreed to implement the changes.

Subsequently, BRITE engaged two Romanian food safety experts, Lucian Boncea and Monica Porca, to ensure the alignment of Moldovan food safety practices with EU standards and international practice. BRITE's experts reviewed procedures and legal requirements for the



import, export, and transit of commodities covered by sanitary-veterinary and phytosanitary legislation, and produced a high-level report that describes the role and powers of the food safety agency at all stages of producing and trading in commodities covered by food safety legislation. The report describes the import and export of foodstuffs and live animals in the European Union, and compares EU and Moldovan regulations.

Additionally, Ms. Porca and Mr. Boncea drafted a bill of amendments to seven food safety laws, significantly streamlining the ANSA permitting process and eliminating unnecessary permits and procedures for cross-border trade in products subject to food safety regulations. BRITE brought together the Ministry of Economy and the Ministry of Agriculture and Food Industry to organize an event launching public consultations on the draft amendments. BRITE further refined the amendments and provided detailed answers to questions from the Ministry of Agriculture and ANSA.



PHOTO: Chemonics International

ANSA Director Gheorge Gaberi and Deputy Minister of Economy Vitalie Iurcu participate in a roundtable on food safety permits in March 2016.

BRITE's reforms condense the permit process from four stages into one, eliminate two licenses issued by the Licensing Chamber and 10 permits issued by ANSA, and ensure compliance of import/export requirements for agro-food products with EU regulations. The minister of agriculture formed a working group to incorporate BRITE's amendments into a larger bill. The government approved this bill of amendments in its Resolution 578 of May 6, 2016, and submitted it to Parliament for adoption.

## **VOLUNTARY LIQUIDATION**

The BizCLIR assessment established that it was considerably more difficult and costly to voluntarily liquidate a company than it was to register a company. In Year 1, BRITE supported the Ministry of Economy to reform the liquidation process by working with a variety of stakeholders to map the entire process and the legal requirements. BRITE developed a questionnaire and surveyed 250 companies that had been liquidated during the summer and fall of 2012 to gather detailed information and produce recommendations.

BRITE shared a summary of its findings with the Ministry of Economy, in addition to a set of proposals to streamline the tax and fiscal requirements of closing a business. All of these recommendations were presented at a BRITE-sponsored roundtable in April 2013 that included 40 participants from the public and private sectors. Based on the discussion, BRITE finalized a package of legal amendments to the Tax Code and other laws and regulations that were presented to the STS and Ministry of Finance for consideration. BRITE succeeded in having its voluntary liquidation plan in the government's 100-day Action Plan. As a result, the government asked BRITE to provide clear and effective proposals to streamline the voluntary liquidation.

The Ministry of Economy has committed itself to supporting the law throughout its preliminary lifecycle, which includes consultations, legal and anti-corruption assessments, approval by the government, and adoption by Parliament. BRITE recommends that AmCham oversee and push forward the process.

BRITE's proposed secondary framework, drafted by expert consultant Iuri Cicibaba, amends the Tax Code and Civil Code by setting forth explicit stages, procedures, and requirements for voluntary liquidation. These regulations establish a clear division of labor among the government agencies, as well as deadlines regarding voluntary liquidation. To comply with the regulations, government agencies will conduct their liquidation process functions in tandem with each other, as opposed to consecutively, as was previously the case. Moreover, only two agencies, the STS and the State Registration, will conduct the liquidation and de-registration processes, rather than six agencies, as had previously been the case.

## **PUBLIC PROCUREMENT**

Public procurement is an often overlooked market opportunity for small and medium enterprises, which account for the vast majority of firms in Moldova. This part of the economy has been steadily growing in recent years, reaching about 9.7 percent of gross domestic product in 2014. The EU-Moldova Association Agreement requires Moldova to transition to open competition for public procurements among all signatories. Moldova's Parliament enacted a new Law on Public Procurements that was drafted with EU assistance, and this law entered into force in June 2016. If properly implemented, it will provide a fair, transparent, and competitive public procurement process that delivers high-quality goods and services to government agencies. BRITE agreed to assist the Public Procurement Agency by carrying out an assessment of the existing public procurement framework and identifying further needs in this area.

Based on its assessment, BRITE developed a concept paper describing its strategic approach in developing a new public procurement secondary framework that will cover areas of regulation. The concept paper identified a top-priority list of regulations and technical documents that must be developed as a condition to enforce the new law.

To complete the task of developing this framework, BRITE recruited two Romanian public procurement experts with experience transposing EU regulations and a local lawyer to coordinate with the Public Procurement Agency and ensure the draft's compliance with Moldovan legislation. The consultants drafted and delivered nine regulations to the Public Procurement Agency and Ministry of Finance. These regulations will take the place of 12 existing regulations. The new regulations are the following:

- Regulation on the framework agreement as a special way of awarding public procurement agreement
- Regulation on public procurement using negotiated procedure (approved - <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=365132>)
- Regulation on public procurement of works contracts (approved - <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=365133>)
- Regulation on purchasing of goods and services by requesting price bids



- Regulation on the working group for purchases
- Regulation on the compilation and filing of the list of prohibited economic operators
- Regulation on preparing, updating, and tracking the list of qualified economic operators
- Regulation on planning public procurement contracts
- Regulation on low value public procurements (approved - <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=365128>)

The Ministry of Finance launched the consultations process for these regulations in April 2016. Most of the consultation stages have been completed, and it is expected that they will be approved by the government by the end of July.

As a follow-on to their initial assignments, the experts assisted the ministry by drafting six technical documents for the most-used types of public procurement agreements, in compliance with EU directives and regulations and in accordance with the new law. These documents set up procedural rules and provide templates of documents for various types of operations. The technical documents include:

- Standard documentation for procurement of goods and services
- Standard documentation for public works agreements
- Standard documentation for procurement of goods and services by competitive dialogue procedure
- Standard documentation for procurement of goods and services by negotiation
- Standard documentation for procurement of goods, services, and public works contracts by standard agreements
- Standard documentation for consulting agreements

These documents will not require a long review process, and they will be approved directly by the Ministry of Finance. Overall, the public procurement regulations and technical documentation developed by BRITE consist of more than 500 pages.

## **E-REPORTING**

As of early Year 3, this activity was led by the Secretariat of the Economic Council of the Prime Minister, with assistance from the IFC. In June 2015, however, IFC's support ended, and a report of findings and recommendations was submitted to the Secretariat. At that point, BRITE intervened and agreed to lead and expand the effort by directly supporting the National Bureau of Statistics (NBS) in assessing and consolidating its statistical reports. In their meetings with BRITE, the bureau's managers expressed their interest in improving their internal processes and upgrading their IT systems with BRITE support. As a result of having effectively built on the results of IFC's work, BRITE developed the following key approaches to streamline the reporting process:

- Introduction of Personnel Service, a single online application that will allow economic agents to report all data on their employees and payments (salaries, income tax, social and medical payments, etc.) directly to the NBS, STSFSIC, CNAS, National Social Insurance House, and National Health Insurance Company, eliminating the need for individual reports.

- Introduction of a unified form for taxes, salaries, and contributions (currently reported separately via IRV14, MED09, BASS, and REV5 forms).
- Elimination of NBS requirements to collect data on labor and payments from economic agents. The NBS will have sufficient data from the Personnel Service and the unified form.
- Online placement of the remaining 21 key reports required by The NBS, allowing all businesses to submit in electronic form.

These initiatives effectively consolidate data submissions and encourage greater data exchange among public authorities through the MConnect platform. This is an improvement over the previous system of requiring that companies provide data separately to relevant agencies. In Year 4, BRITE signed a memorandum of understanding with the NBS and contracted with DAAC Systems Integrator for the online placement of the remaining 21 reports required by the NBS. The solution will also enable the NBS to analyze data from these reports and equip the NBS with an electronic solution for dealing with paper submissions, which will taper off over time. DAAC has completed the technical task, as well as testing on the NBS platform.

BRITE also engaged a local short-term expert, Iuri Cicibaba, to develop a consolidated form 16, which BRITE presented to the working group established by the Secretariat. BRITE also assisted with identifying an institution to be in charge of administering the form. Additionally, BRITE drafted legal amendments for the implementation of the consolidated form 16 report. The program submitted the package to the Ministry of Economy, which will coordinate review of the amendments by the responsible institutions and submit to the government and Parliament for approval. The STS and other relevant institutions will provide additional guidelines and put the package forward for approval via Government Decision. BRITE involved the Economic Council to help promote these amendments. The Ministry of Economy has committed to pass through all the law-making stages, including consultations, legal and anti-corruption assessments, approval by the government, and adoption by Parliament. BRITE recommends that AmCham oversee and push forward the process.

#### **INTRODUCE MANDATORY ONLINE STATE LOCAL ACTS REGISTRY (SLAR)**

In Year 2, BRITE agreed to assist the State Chancellery with creation of a State Local Acts Registry as an official source of all decisions approved by local public authorities. In fulfillment of this request, BRITE drafted amendments that mandated creation and usage of a SLAR. As a result of BRITE's support to Parliamentary committees, Parliament approved the amendments in the first reading on April 21, 2016. Subsequently, BRITE incorporated feedback of deputies and committees.

The proposed reforms require local public authorities to present draft normative acts to the State Chancellery in electronic form for review, comment, and approval. Upon creation of the portal, all municipalities will be obligated to register their acts via the portal. This approach eliminates the need for paper documents and streamlines the State Chancellery's work. Moreover, it increases transparency and provides a clearer picture of the regulations that apply in a given municipality.

In March 2016, BRITE selected a local company, TRIMARAN, to develop the SLAR. In cooperation with experts from the State Chancellery, TRIMARAN developed the technical framework of the registry, passed preliminary tests, and obtained all necessary approvals. In conjunction with TRIMARAN, BRITE's experts have developed a tutorial to instruct municipal authorities on the SLAR's functions and how to use it.

BRITE has developed a government regulation on SLAR that describes the concrete functions of the SLAR. This has since been updated to reflect amendments that were approved by Parliament in the first reading. Soon after BRITE's conclusion, Parliament provided a conclusive approval for the Registry of Local Acts.

### **SUPPORT TO REGULATORY IMPACT ASSESSMENT (RIA) SECRETARIAT**

During Year 2, BRITE supported RIA Secretariat consultants to review draft normative acts and RIAs, in advance of their submission to the Ministry of Economy. Due to BRITE's support, institutions including the National Bank, Parliament, and the MCS have begun to observe the legal requirement of presenting RIAs to the working group, as stipulated by the RIA methodology.

### **RIA METHODOLOGY REFORM**

In December 2013, the government approved the Regulatory Reform Strategy for 2013-2020 and the corresponding action plan. The top priorities in the RRS include enhancement of the RIA methodology and improvement of the capabilities of legal drafters to prepare RIAs. BRITE agreed to support the Ministry of Economy in its fulfillment of the RSS by providing assistance in these areas.

In Year 3, BRITE developed a set of amendments to further enhance the RIA methodology. As a result of BRITE's amendments, the RIA process is now a mandatory step in the rulemaking process for all new regulatory initiatives that affect the business community. The amendments also effectively simplify the RIA report for certain categories and reduce the number of required RIA reports for a single regulatory initiative from two to one. The registration process for new regulations is also streamlined. As a result, the Ministry of Justice should not register a new regulation without an accompanying RIA report, and the government should not review and approve new regulations affecting business activity without an RIA report. Moreover, an RIA report is now required for all laws approved by the government and sent to Parliament. The RIA working group should review and approve any initiative that introduces new permissive acts, and the group should provide Parliament with annual reports on business regulation, describing challenges and setting forth proposals for improvements. The government approved BRITE's amendments in April 2016.

BRITE has subcontracted an IT web developer to finalize the RIA portal for the Ministry of Economy. The portal will significantly increase the transparency of new regulatory initiatives affecting businesses. The RIA portal provides information on the evaluated impact of new regulatory initiatives on the private sector and affords business associations and other stakeholders with the opportunity to directly participate in the law-making process.

In tandem with establishment of the new methodology, BRITE developed an RIA manual and started to prepare a training program for public authorities, which BRITE will pass on to the Academy of Public Administration.

#### **SUPPORT FOR PUBLIC-PRIVATE DIALOGUE: DEVELOPMENT OF BUSINESS GUIDES**

BRITE developed a handbook for business protection that serves as a tool for businesses to protect their rights and interests when interfacing with state control agencies, particularly during inspections. The handbook also contains a significant number of templates that can be used by businesses to lodge formal complaints and make appeals in court, among other things. Within the framework of the Update Moldova campaign (see the Component 3 section for further details), BRITE launched the portal [www.controale.md](http://www.controale.md), with unrestricted access to the handbook and template documentation. BRITE also developed a specialized guide for understanding labor legislation and dealing with the Labor Inspectorate.

In the interest of fostering effective juridical regulation of business activities, BRITE organized two training sessions for Moldovan judges and inspectors of the Court of Accounts to help them better understand provisions of laws oriented to protect the private sector. BRITE also held two roundtables with business associations and their members to promote [www.controale.md](http://www.controale.md) and urge businesses to apply the handbook's recommendations when interacting with public authorities. Finally, the handbook was presented to businesses from regions during three public events organized by BRITE.

Additionally, BRITE developed a deregulation law as a package of amendments designed to minimize public agencies' interference in business activity.

#### **SUPPORT FOR PUBLIC-PRIVATE DIALOGUE: ADVOCACY STRENGTHENING PROGRAM**

BRITE partnered with the USAID/Moldova Competitiveness Program to launch the Advocacy Strengthening Program to increase the capacity of industry associations to actively and effectively participate in the policymaking process. Historically, the business regulatory policies have tended to disadvantage the business community. This has largely been due to insufficient and non-transparent dialogue between the private and public sectors.

BRITE has addressed this issue by working with industry associations to develop a common reform agenda and to unite and represent themselves to the government as a unified body with a clear, well-reasoned set of objectives. The program has assisted the associations to identify and communicate the interests they share with the government and effectively lobby for business regulatory reforms that result in a more optimal business environment.

The program conducted a rapid assessment of the organizations to identify their strengths and weaknesses, as well as capacity building opportunities. The assessment evaluated the associations' expertise and experience regarding policy-oriented research, engagement of relevant experts, capability to strategically circulate policy recommendations, cultivate positive working relations with the government, build coalitions around identified priorities, assess citizens' engagement, and effectively communicate policy positions. The assessment set a baseline that can be used for measuring progress and the impact of program efforts to support

civil society organization advocacy initiatives. Following the assessment, the program assisted the associations to develop specific advocacy campaigns, write evidence-based position papers, write communications plans for specific initiatives, and conduct fundraising to support advocacy efforts.

### **IMPROVING IT PARKS LEGISLATION**

In recognition of the need to consider IT as a crosscutting enabler of sustainable growth, competitiveness, and improved governance, BRITE worked with the government and the private sector to improve legislation regulating IT parks. Moldovan IT parks present a unique enabling environment with favorable regulatory conditions tailored to stimulate development of an export-oriented IT industry. With this aim in mind, Moldova's Ministry of Information Technology and Communication drafted the Law on Information Technology Parks, which was approved by Parliament in its first reading on July 31, 2015. Parliament adopted the law in its final reading on April 26, 2016.

In December 2015, BRITE supported implementation of this law and proposed amendments for ratification in the final reading, by contracting Pricewaterhouse Coopers to work with the ministry and other stakeholders on streamlining the regulatory framework associated with the law. The law's framework is designed to catalyze the development of the IT sector through favorable tax treatment of companies that meet the investment criteria established by the ministry.

One aspect of this is establishment of common tax for residents of IT parks. The single tax owed by IT park employees is determined on the basis of revenue from sales or the number of employees. One of BRITE's proposed amendments to the law introduces a minimum amount of tax applicable to employers who receive little or no revenue. This will establish a minimum guaranteed amount of social and health insurance payments that IT park employees will receive. BRITE's amendments and regulations also optimize customs duties and VAT exemptions in cases where qualifying types of goods are imported. The amendments also regulate distribution of the amounts received as a common tax to all budgetary destinations and their quotas.

BRITE prepared and delivered a concept paper describing solutions and providing recommendations to ensure the functioning of the single tax/customs facilities. BRITE discussed these solutions in a series of meetings with Ministry of Information Technology and Communication representatives, as well as authorities from the STS, National Social Insurance House, National Health Insurance Company, MCS, and business representatives from ATIC. Additionally, BRITE engaged in extensive public consultation throughout the process, drafted amendments to the laws in force, and drafted new government decrees and regulations to regulate IT parks. These amendments are a top priority area for consideration by the government, following Parliament's approval of the law in April 2016.

## COMPONENT 3: STRATEGIC COMMUNICATIONS

### 3.1 INCREASE AWARENESS OF REFORMS

BRITE was one of the first, if not the first, business enabling environment project to have significant resources dedicated to strategic communications to support the advancement and sustainability of reform efforts. This emphasis on strategic communications reflects the fact that although policies can be changed, success ultimately rests on human behavior. Reformed processes or practices often require people to change the way they do their jobs in the public and private sectors. For example, civil servants may fear they will have to take on additional work or accountants may fear that electronic systems threaten their jobs. For this reason, BRITE was challenged to think differently about the role of communications and to move beyond information dissemination or awareness-raising to behavior-changing communications.

Addressing stakeholder concerns through strategic communications was one way that BRITE addressed the gap between reform enactment and its successful implementation. The program took a multi-pronged approach to help Moldovans accept, embrace, and ultimately advocate for reforms, including:

- Building the capacity of government communications teams to improve their internal and external communications activities
- Developing and implementing communications strategies in support of discrete reform initiatives
- Increasing media capacity to cover economic issues through the Business Media Program
- Launching a comprehensive multimedia campaign, called Update Moldova, to promote specific reforms and underscore the costs of not reforming to the private sector

In these ways, the program used communications to help bridge the gap between policy change and its on-the-ground implementation. Together, these activities increased the quantity and quality of dialogue on reform issues in Moldova.

#### BUILDING CAPACITY OF GOVERNMENT COUNTERPARTS

Given the centrality of ministries, departments, and agencies to BRITE's efforts under Components 1 and 2, the program's

#### USING RESEARCH TO DRIVE RESULTS

In its first year, BRITE conducted a large stakeholder mapping exercise with quantitative and qualitative research elements designed to gain insights into knowledge, attitudes, and practices of stakeholders in the private sector, as well as the public. The findings were used to help guide program implementation, in particular, the strategic communications component.

Key findings of the analysis included the relatively low level of knowledge of reforms in Moldova generally, with only 21 percent of respondents able to name any of the government's reform achievements over the last three years. Importantly, more than twice that amount (51 percent) could identify what they viewed as a government failure in the area of economic reforms in the last three years. These data signaled the disconnect between reforms and the citizens affected by them, and helped shape BRITE's agenda for increasing transparency. The survey provided valuable information on the private sector's perception of government agencies and their communications tools that helped to inform development of institutional communications strategies for the program's primary counterparts. Finally, the results indicated the underwhelming engagement of the private sector in advancing the reform agenda through providing feedback on draft laws or regulators or consolidating shared interests within a viable industry association. In fact, the survey showed that less than 10 percent of all businesses participated in an association, underscoring the importance of improving government communications (the primary source of information for many businesses) and increasing the quantity and quality of media coverage on reform-related issues.

strategic communications team also began its efforts with BRITE's government counterparts. The program forged immediate ties with communications specialists in the program's three primary government partners: the Ministry of Economy, Moldovan Customs Service, and State Tax Service.

At the beginning of the program, none of the program's primary government counterparts had an updated communications strategy and implementation plan. Although some outdated strategies existed, they were general documents that provided few specifics in terms of communications objectives, target audiences, or steps for implementation. Many government agencies relied only on press releases and infrequently updated websites as their communications tools.

To strengthen government press offices' communications capacity and to help them to dedicate their limited resources to activities that would have the greatest impact, in Year 1 the program worked with the Ministry of Economy, the STS, and the MCS to develop institutional communications strategies using a hands-on process that combined training with strategy development. To ensure that the strategies were used and continued to guide the communications activities of BRITE's government counterparts in the program's out-years, the program developed detailed, three-year implementation plans with each counterpart that included specific activities that BRITE would support.

The program's efforts were tailored to the needs of each counterpart. For example, the Ministry of Economy's communication team decided that the BRITE program's support would be most helpful in developing a strategy to implement the communications component of government's 2013-2015 Regulatory Reform Strategy. The strategy was completed in September 2013 and approved by government decision in December 2013. A training program for all communications staff from government agencies with a role in the RRS was held in February 2014 to kick off implementation of the communications program. However, the government's lack of progress in implementing the RRS itself quickly led to a standstill of this effort. Without actual progress on the reform agenda, implementing a large, RRS-related communications program would have led to confusion and frustration among the Moldovan public. For this reason, in Years 2-4, the program's support to the Ministry of Economy's communications activities was primarily on ad hoc activities such as Central European Free Trade Agreement conferences and organizing regional outreach sessions.

Much more success was achieved with the STS and the MCS. The appointment of Ion Prisacaru as chief of the STS in May 2013 brought a renewed emphasis on outreach to taxpayers and a desire to re-position the STS more as a service-providing institution than one focused on controls and extracting as many punitive damages from taxpayers as possible. Work on the STS communication strategy began in July 2013 and was completed in September 2013. The strategy was designed to improve the quality of communications and outreach to taxpayers, help tax inspectors improve their communications and customer-service skills, and facilitate compliance with tax regulations by making information clearer, more consistent, and more user-friendly.



Following completion of the communications strategy at the end of Year 1, BRITE supported the STS to implement discrete elements of the action plan in the program's out-years, in addition to reform-specific communications activities described below. In Year 2, BRITE helped the STS to develop a new and unique brand for the service, to help differentiate the STS from FSI and, in particular, the Monitorul Fiscal magazine. BRITE hired a local design firm to work with the STS and the State Heraldic Committee to design and approve a new logo and develop a brand book. In Year 3, BRITE developed a training program on customer service and orientation for tax inspectors and communicators and media training for upper management. The training program reached 130 STS employees from all regions of the country and included a train-the-trainers element for the communications team so that it could be replicated for all STS personnel. The training was so well-received that it was repeated for staff at the MCS.

Also in Year 3, BRITE supported the STS to develop a large-scale communications campaign on the shift in the deadline for tax filing from March 31 to March 25. To inform taxpayers about the change, so they could plan accordingly and thus avoid fines, BRITE agreed to support the STS to develop and implement an information campaign. Through its assistance to the STS to develop the campaign and inform taxpayers, BRITE also continued its efforts to build the capacity of the STS communications team and that of other STS personnel involved in the planning efforts. Working together, BRITE, the STS, and a local public relations firm produced video spots and audio spots that were broadcast on local TV channels, radio stations, and in commercial centers (including the central market), and public transportation. More than 4,000 posters were placed in public places, such as post offices, and 25 street banners placed across the country. The campaign design was also adapted into images for social media and web banners for local websites. At BRITE's urging, the STS also spread the message through TV appearances by STS leaders such as Ion Prisacaru and Veronica Vragaleva, via regular social media posts, and a press club for journalists.

Similar to its work with the STS, BRITE also began its strategic communications support to the MCS with development of a communications strategy and action plan in Year 1. The strategy was developed in collaboration with the EU Border Assistance Mission to Moldova and Ukraine, which also had a mandate to improve communications capacity at the MCS. Given the fast pace of reforms at the MCS, in the program's out-years, most of BRITE's communications support to





the MCS focused on implementing communications plans to promote and facilitate adoption of reforms. (See below.) In addition to these activities, which were used to continue to build the MCS communications team's capacity, BRITE supported elements of the communications action plan. For example, the program provided significant input to development of MCS' new website, which launched in April 2015. This included guidance on the site's architecture and an extensive review of the beta version of the site to improve its user-friendliness. The program also translated key information of interest to international traders into English for the site.

In addition, BRITE supported development of an internal communications strategy for the MCS. The need to improve internal communications within the service had long been recognized. To identify particular strengths and weaknesses, in Year 4, the program developed an online survey designed to measure employee knowledge, engagement, and information-seeking behaviors. The survey was sent to all MCS personnel; nearly 500 responses were received. To help validate the survey findings, BRITE held three focus groups with headquarters directors or deputy directors, as well as with the heads of regional customs houses. Key findings of the survey included a lack of understanding of the rationale behind decision-making and a desire for greater interpersonal interaction among Customs colleagues at various levels in the MCS hierarchy. BRITE also performed three half-day sessions with an MCS working group, dedicated to discussions of real-world examples of how internal communications contributed to the success or failure of new Customs initiatives. Based on these activities, the program drafted an internal communication strategy for Customs' review. Unfortunately, the program closed before implementation could begin in earnest, but the strategy was passed to the IFC, which agreed to continue to support to this activity.

### **COMMUNICATIONS STRATEGIES IN SUPPORT OF REFORM INITIATIVES**

The intensive support to government counterparts to build their communications capacity was designed to facilitate implementation of communications strategies to promote BRITE-supported reforms. In collaboration with its government counterparts, the program developed a robust communications program to promote and facilitate acceptance of major reforms implemented with BRITE's support. These ranged from short-term activities, such as organizing regional outreach events, to multi-faceted communications programs.

## CURRENT ACCOUNT

To support the launch of the Current Account, BRITE's communications team developed a communications strategy and formed a communications working group made up of the STS press service, FSI's marketing department, and BRITE. Because communications responsibilities on tax issues are split among different institutions, the working group provided an opportunity for the STS and FSI's communications personnel to get to know one another and to collaborate — the first time they had worked together to develop and implement a communications plan. In addition to planning a communications program to promote the Current Account and its benefits, BRITE's communications team also helped improve the usability of the Current Account System, including making the web interface more attractive and easier to understand and navigate. Finally, the communications team developed a module on communications that was integrated into the training program for more than 100 tax inspectors and call center employees. The module was designed to help tax inspectors communicate about the system and included key messages and an overview of how BRITE, the STS, and FiscServInform would be providing communications support to launch the service.

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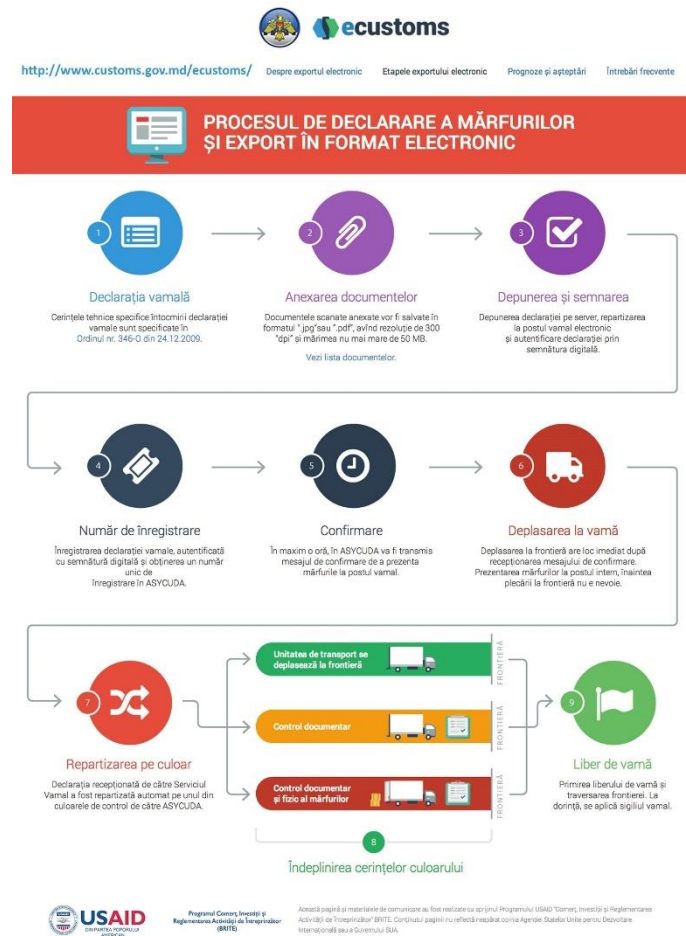
Leading up to the launch of the Current Account in March 2014, BRITE develop video tutorials on the new system that were posted to the STS web site and YouTube channel. Altogether, the six videos developed by the program were viewed nearly 29,000 times. In addition, the program helped to develop a notification letter that was sent to all taxpayers on the launch date, as well as promotional posters and flyers that were distributed through state tax inspectorates and business associations. Finally, the program helped the STS organize post-launch presentations for business associations and their members, as well as press clubs for media.

## E-CUSTOMS

The first major communications campaign implemented jointly with the Moldovan Customs Service was for the e-Customs service. To prepare for this, BRITE and the MCS press office jointly developed a plan to inform exporters about the new system, describe its benefits, explain how to use it, and engage exporters in the process to maximize its use. The program supported development of a visual identify for e-Customs and a corresponding brand book. This approach ensured that the MCS would have a single brand for all electronic features it developed and implemented in the future, including e-export and e-import, which was then still under development.

In addition, BRITE developed a web page — [customs.gov.md/ecustoms/](http://customs.gov.md/ecustoms/) — that was integrated into the MCS website, as well as a video animation explaining steps required to access the service. BRITE subcontracted two specialized companies in web design and video production to complete the work. To expand coverage and ensure information flow to the right target audience, BRITE also prepared several web banners and posted them on the websites of 20 media outlets and seven business associations that have high exposure to exporters.

In March 2014, e-Export was officially launched at all customs posts in Moldova, accompanied by a major communications and outreach effort. The first feature of this was an e-Export roundtable at which the MCS presented the service and its features, requirements, and advantages. Large exporters, business associations, and members of the NCCC attended that meeting, as did mass media, which provided extensive coverage of the event. Throughout the remainder of the year, the MCS continued to promote e-Export and other reforms, such as simplified procedures and AEO, at all events that included the private sector, such as the Exporters Forum, Day of Customs, and DCFTA awareness events. In Year 3, BRITE and the MCS also held a series of promotional and educational events around e-Customs in several regions. BRITE also developed flyers to promote e-Customs that were mailed to exporters and distributed at events, and continued to support updates to the e-Customs website as new services, such as the Blue Lane, became available.



## **AUTHORIZED ECONOMIC OPERATOR (AEO) LOGO AND COMMUNICATIONS MATERIALS**

The introduction of an authorized economic operator program in Moldova was part of the MCS' efforts to implement risk-based controls, facilitate legitimate trade, and meet its DCFTA commitments. Via the program, companies with a record of compliance and reliable internal compliance systems can be granted AEO



status and, as a result, obtain the benefits of simplified clearance procedures. One feature of these programs worldwide is a unique brand/logo that distinguishes authorized AEOs and that can be used not only by Customs, but also by the AEOs themselves. BRITE hired a local firm to produce a logo and supported the MCS to develop AEO promotional materials. A trifold leaflet was designed, printed, and distributed at Customs posts, and informational panels were created for use at BRITE-sponsored regional conferences with economic operators. BRITE also developed an info-graphic for use on the MCS web page and for other online media.

In addition to these activities, BRITE supported promotion of numerous other reforms or new tools and processes for businesses. This included the Blue Lane, the National Social Insurance House Social Insurance Personal Number code web app, the Single Account, and several guides for government employees and the private sector.

### **BUSINESS MEDIA PROGRAM**

The Moldovan media landscape is broad, but not deep, with many topics covered superficially and with little specialization or niche reporting. Most reporters cover numerous subjects, which limits their ability to gain the in-depth understanding needed to write competently on complex subjects, let alone have the time to engage in intensive reporting, fact-checking, and story development. Reporters who are not well informed are not able to ask the questions necessary to develop the story beyond the press release; for this reason, much economic news merely restates press releases verbatim. There is currently little room in the Moldovan mass media environment dedicated to business and economic news. Although there are some reporters who specialize in BRITE's focus areas of tax administration, trade facilitation, and regulatory reform, they tend to publish in specialized magazines that don't have a large audience.

Recognizing the important role the media can play in informing Moldovans on the most pressing economic issues of the day, holding the government accountable for delivering on its promised reforms, analyzing and presenting the advantages and disadvantages of particular policies, and increasing demand for a better and more business-friendly policy environment, in Year 2, BRITE launched the first phase of its Business Media Program (BMP). Through this activity, the program sought to support development of well-reported, researched, informed, and timely media products. The goal was to provide the type of informed analysis normally found in specialized publications, repackaged for the program's target audience; to track the government of Moldova's success or failure in delivering on promised reforms; and to present useful information for business owners and managers, among others.

During the first phase of the program, BRITE entered into a subcontract with a local public relations firm, BDR Associates, which worked with the American Chamber Commerce in Moldova to implement the program. The first BMP was structured as a contest; journalists were provided information, analysis, and access to experts in key business environment reforms through a series of workshops organized by BDR and AmCham. The journalists were then tasked with developing analytical stories over a period of six months, and their work was evaluated by an independent jury of experts. Ten journalists from eight media outlets participated in the BMP, which resulted in more than 40 separate media products on business environment issues. In January 2015, an independent jury appointed by AmCham Moldova and BDR voted for the best media products developed under the program in each of the main categories: editorials, articles, TV shows and infographics.

“What’s unique about this activity is that BRITE drew our attention to topics and issues we otherwise wouldn’t have covered — and now we have drawn others’ attention to them as well.”

— EUGENIU RIBCA, MOLD STREET

Although the BMP resulted in publication of a significant number of pieces on tax, trade, and regulatory reform issues, the fast pace of the program (and journalists’ other responsibilities) meant there was not adequate time for the type of in-depth reporting required to promote government accountability and to move the reform agenda. For this reason, BRITE designed the second phase of the BMP with a narrower focus to facilitate sustained coverage of a few key issues by selected Moldovan media. During the second phase of the BMP, three companies were selected, representing a mix of online and print publications: Mold-Street (online, Romanian); ECONomic Magazin (print and online, Romanian); and Logos-Press, the longest-standing and most reputable business publication in Moldova, (print, Russian). Under the second phase of the BMP, which ran from June to September 2015, although the quality of pieces produced was high, the quantity was less than desired. For this reason, BRITE expanded the BMP in late 2015, adding Agora (an online business news portal) and Ziarul de Garda (a small, but growing, newspaper that specializes in investigative journalism). Altogether, during the second phase of the BMP, 70 media pieces — including news reports, op-eds, videos, and infographics — were developed.

## UPDATE MOLDOVA

Due to the lack of momentum on the reform agenda in 2014 and 2015 — largely caused by political instability and repeated collapses of Moldova’s government — BRITE decided to advocate publicly for change through a large-scale multi-media campaign. Called “Update Moldova,” the campaign was designed to increase pressure on decision-makers to enact reforms to improve the business environment. In addition to policymakers, the Update Moldova campaign targeted the business community (in particular small and medium business owners), the public, and Moldovan civil society (business associations) to inform them of their rights and responsibilities under current law and how changes could save them time and money.

The launch of the Update Moldova campaign in December 2015 came after several months of planning and preparation, including development of a concept, selection of reforms to be

highlighted in the campaign, procurement of creative services and media placement providers, and development of campaign materials. The campaign focused on six reforms, selected based on their potential economic impact, achievability, ease of communication, overlap with topics covered in the BMP, and representativeness of BRITE's overall sphere of activities. Based on these criteria, the reforms selected to be highlighted through the campaign were deferred payment of customs duties, Single Account, TARIM, internal trade authorizations, streamlined reporting, and protecting your business.

Given the potential sensitivities of being seen as criticizing the government, BRITE selected reforms that had a high potential for success during the lifespan of the program (so as to have the opportunity to congratulate the government on their successful adoption) and reforms that already were supported in at least one government agency (such as deferred payments of Customs duties, which MCS strongly supported, but whose enactment was blocked at the Ministry of Finance). Another challenge of the Update Moldova campaign was to create a sense of urgency about reforms when the word "reform" itself has relatively little currency. The Moldovan public has heard about "reforms" for nearly 25 years, and many think reforms have brought little positive change. For this reason, the campaign worked to convey extremely complex subjects in a clear and concise manner that illustrated precisely how much inefficient and outdated systems cost the private sector each year, showed the standard practice/state of the art in more developed economies, and clearly demonstrated how businesses would benefit once the government took action. For this reason, materials developed under the campaign never raised a problem without also showing the solution to it.

The communications campaign was multi-phased and focused on various themes, including predictability and transparency in government decision-making, relinquishing more government responsibility to the private sector, moving from paper-based systems to e-services to reduce costs and eliminate corruption, and increasing conformity with EU standards. For each reform issue highlighted under the campaign, the program developed the following materials:

- A 20-second TV ad, developed in Romanian and Russian, briefly described the problem and solution of each reform and was designed to generate increased interest.
- A 60-second web spot, also developed in Romanian and Russian, provided more detail, including real-life examples of problems that inefficient and outdated procedures cause businesses and illustrated how the reformed process would make the same activity easier.
- An infographic, consisting of two parts: the "before reform" column and the "after reform" column explaining the solution proposed by the reforms.
- Billboards, both static and LED, in Chisinau and regional centers.
- Static and animated ads placed on local websites.

The program also developed media partnerships with six broadcast, print, and online media outlets. Prior to the rollout of campaign materials for each reform, the program held press briefings to help ensure that reporters understood each reform and to provide an opportunity to interview program staff on their importance and potential impact. Media training of BRITE personnel also helped them speak with confidence in front of the camera. In addition to TV spots and billboards, the program's primary means of distributing Update Moldova materials



was via its Facebook and YouTube pages and its website. To build and keep an audience, the program placed new content on its Facebook page on a daily basis, including links to relevant news stories.

The reception to the Update Moldova campaign exceeded all expectations. The click-through rate on web ads was quadruple what would normally be considered a “good” result. The program’s Facebook page had more than 200 likes within 24 hours of going live and had more than 3,200 likes by the end of the campaign. The campaign’s average reach through its Facebook page was 28,000 people per week. On TV, out of a target audience of 2.1 million people, about one-half saw the spot on each reform at least once, and about one-third saw the same spot three times of more. This is important because message recall increases proportionately to the number of times an ad is viewed.

More significantly, the campaign’s target audience — economic agents and entrepreneurs — have reached out to the program team for more information about the campaign and the reforms described in it. The program and its implementing partners have fielded numerous calls from economic agents about the reforms. Many volunteered to support the campaign by sitting for media interviews.

The program concluded the Update Moldova campaign by releasing a two-minute live action spot. In the spot, a Moldovan businessman describes his desires for a better life for himself, his family, and his country, and for reforms that will make the state help business and that will eliminate corruption. In a twist, the businessman himself pays bribes because he thinks that’s the only way to survive in the system. “Let reforms begin with someone else,” he says. With this in mind, the tagline for the spot was “You decide when reform begins ... reform begins with you.” The spot was released on Facebook and almost immediately went viral. In less than two days, the spot had been shared 2,000 times. The video has been watched more than 300,000 times on the program’s Facebook and YouTube pages. More than 500,000 people saw the spot on TV. Comments on the Update Moldova Facebook page were almost universally positive and reiterated the message that everyone is responsible for helping to create the future they wish to see for their country.



**The final video developed for the Update Moldova campaign quickly went viral when it was released in late May 2016. Developed by BRITE in collaboration with a local filmmaker, the video struck a chord with many Moldovans and was shared more than 2,000 times on Facebook within two days of its release. The spot’s views continued to climb after the program’s close.**



# Multimedia Campaign Advocates for Reforms

## Communications Program Speaks on Behalf of Private Sector to Seek Improvements to Moldova's Business Climate



PHOTO: Chemonics International

On December 7, 2015, BRITE launched a unique communications campaign that promoted changes necessary for Moldova's economic growth. Called Update Moldova, the campaign was designed to highlight solutions to reduce the costs and risks of doing business in Moldova.

The campaign highlighted six reforms identified by the private sector as priorities for improving Moldova's business climate. The name of the campaign reflects that many of Moldova's systems for regulating private sector activities are antiquated, and updates are needed to conform with standards in the European Union and other advanced economies, as well as to facilitate economic growth.

The campaign centered on several key themes: unnecessary costs incurred in the current system, the need for transparency and predictability in government decision-making, the balance between state and private sector responsibility, conformity with EU standards, and adoption of electronic systems to reduce costs and opportunities for corruption. The campaign targeted the private sector and government stakeholders and encouraged working in partnership. In this way, the campaign was a call to action for the public and private sectors to communicate directly and work together to identify mutually beneficial solutions to increase economic growth in the country.

"Many of the Moldovan government's instruments, standard systems, and practices are badly out of date. The Update Moldova campaign is designed to show how a lack of reforms costs businesses time and money every day, compared to international best practices. The solutions have already been identified; their adoption by government would have an almost immediate, positive effect on the private sector," said Kelly Seibold, BRITE director.

The communications campaign provided an opportunity for economic agents, state institution representatives, and civil society to contribute to the reform process, through participation in public debates and presentations and in social media forums. A website, [www.updatemoldova.md](http://www.updatemoldova.md), provides more information about each reform and its status of implementation.

# PERFORMANCE EVALUATION: FINDINGS, LESSONS LEARNED, AND RECOMMENDATIONS

*Political instability.* The last four years in Moldova have largely been marked by political turmoil and economic stagnation. The government fell four times during BRITE. Combined with 2014 elections and post-election politicking to form a government, this contributed to a highly unstable operating environment, with long stretches with no government in place. It also meant that several reforms that were close to government approval had to be subjected to the vetting process once again (four times, in the case of internal trade authorizations). Although BRITE was able to achieve some important successes despite this instability, gaining and maintaining momentum was almost impossible due to government instability.

When a government was in place, inter-coalition bickering and jockeying for position also presented a great challenge. The level of politicization — even at the working levels of government — was high, and often, personnel from one ministry would refuse to participate in meetings during which personnel from a ministry in another party's portfolio would be present. With such a zero-sum attitude, it was difficult to convince stakeholders that the solutions offered were win-win and to generate the political will to move forward. For this reason, BRITE continually sought to give the government credit for program-supported achievements, in the hope that making the government look good would provide further stimulus for reform. In addition, teaming with other donors that could offer larger penalties for non-reform (such as implementing conditions for funding) would help generate greater political will for reform.

*Limited capacity.* Regulatory capacity in Moldova, as in emerging economies everywhere, is limited across almost every dimension: legal and regulatory framework, infrastructure and IT, and particularly, personnel. The average salary of public servants is reported to be about \$250 a month. This is not sufficient to provide a qualified professional and family with a decent life. Two obvious consequences are that many regulators are not qualified professionals, and regulators have a strong incentive to supplement their income with bribes. The lack of capacity will be exacerbated as Moldova moves to harmonize with EU systems and approximate EU regulations. There is a lot of work to be done, but Moldova's ministries, with few exceptions, are not up to the task.

The only long-term solution to the limited capacity of government agencies is meaningful civil service reform. Too many people perform too many unnecessary tasks for too little salary; this has real costs to the public and private sectors. For example, the private sector often is required to file the same report — in hard copy and in person — to several government agencies, where low-paid civil servants type the information into a database. Although this problem could be remedied with an IT solution, government agencies resist because it would eliminate jobs and opportunities for petty corruption. Low salaries are also demotivating for civil servants who want to do a job, which leads to high turnover. Future USAID programs should work with older donor programs to help the government establish a rational program to eliminate unnecessary positions and raise salaries to the level necessary to attract and retain competent professionals.

*Revenue.* The government is desperate for revenue and relies disproportionately on VAT and customs duties for revenue. This makes it hesitant to make any changes that could affect revenue and leads to inefficient, time-consuming, and onerous processes for the private sector to comply with.

Successful reforms require a change in the nature of regulation, from a focus on attempts to control and coerce businesses to processes that facilitate the regulated activity, reducing costs and burdens. Regulators accustomed to the former fail to understand that facilitation inevitably increases compliance. This is true for two primary reasons. First, the controlling approach increases the time and expense required for compliance, making avoidance and evasion more attractive. Second, the types of measures required for facilitation actually increase regulatory capacity to detect avoidance and evasion. Agencies like the Moldova Customs Service and State Tax Service are responsible for producing revenues for the state. Fear that eliminating customs documents or reducing tax inspections will result in lower revenues causes them to increase their own enforcement powers. For example, the MCS should not be checking 100 percent of shipments into the country; this presents an unnecessary and costly burden to the public and private sectors, frustrates 100 percent of trade, and generates a small return in terms of actual number of cases on non-compliance uncovered.

USAID and other donors should work together to help the government take a holistic view of revenue generation so it is not as dependent on customs and VAT payments. Diversification of revenue generation would ease the burden on customs and VAT and help Moldova create a more fiscally sustainable system of governance. In addition, emphasizing the revenue-positive aspects of reform, including the increased tax receipts that will be generated under a growing economy, should be a centerpiece of business enabling environment projects in the future.

*Investments in information technology.* Information technology is often seen as an attractive solution in corruption-prone economies, but IT is not a panacea. For example, if all of Moldova's reporting requirements could be fulfilled by the private sector electronically, that would not mean the reporting problem would be solved. There would still be too many reports that are not needed in the first place. Rather, IT solutions should be seen as the carrot that entices government agencies to do the hard work of eliminating unnecessary regulations, reports, or permits. In addition, getting multiple agencies to cooperate and collaborate on

development of a common solution is difficult; each wants to maintain its purview over separate systems. Although the e-Government Center should be an excellent resource in working to overcome this challenge, the center is much too easily side-stepped, and many government agencies have state-owned enterprises that control the center's informational assets and have no incentive to cooperate. Finally, IT solutions always take longer to implement than expected.

A thorough and systematic approach to IT is needed, one that is grounded in gaining consensus to do all the work necessary and that avoids creating or solidifying monopolies (whether by a state-owned enterprise or a private sector firm). Determining which IT solutions are needed should be an early priority of future projects, with significant support from international and regional experts. This will ensure that the time and funds necessary to achieve IT-related objectives are available.

*Decentralization of efforts.* Unlike previous USAID business enabling environment programs, BRITE did not work extensively at the local level. However, if decentralization moves forward, the overlap between the central and local levels will increase. The local level cannot be ignored. It is necessary to find champions and to bring local governments into the process early on, rather than present new requirements retroactively. Municipalities also can be used as locales for implementation of pilot projects before making large-scale investments.

NO.	INDICATOR	UNIT	BASELINE	RESULTS					TARGET	COMMENTS
				FY13	FY14	FY15	FY16	LOP	Life of project	
<b>BRITE Program Objective: Identify and Implement Business Environment Reforms Through Increased Public Private Dialogue and Improved Institutional Capacity</b>										
1	Percent improvement in raw values of the indicators underlying BRITE-related areas of the World Bank Doing Business rankings	%	0	4.4	13.5	8.6	N/A	<b>28.7</b>	20	As Doing Business methodology changed in 2015, the sub-indicators related to the time and cost for importing and exporting were removed, since the improvement would have been huge and non-representative. The new methodology does not include several procedures that were previously considered. During the LOP, the selected raw indicators from the WB Doing Business Report for Moldova for Tax Administration, Trading Across Borders, Starting a Business and Protecting Minority Investors have improved by 28.7%, which means that we exceeded our target by 144%. The most significant improvements were due to removing the paid-in minimum capital for starting a business, reducing the time needed to register a business, and reducing the number of required tax payments. BRITE's contribution was the consolidation of local tax reporting. There was an improvement in time to import and time to export, due to reforms implemented with BRITE's support.
2	Monetized benefit of BRITE-sponsored reforms to the private sector	ml. USD	0	4.7	48.5	146.4	92.0	<b>291.5</b>	100	The LOP target was exceeded. The most important reforms resulting in savings for the private sector include: implementation of the exemption from paying customs duties and VAT on imported equipment that is designated as material assets of companies (\$41.6 m); implementing e-export procedures (\$17.2 m); canceling transit export declarations (\$14.7 m); expanding customs clearance to include 11 terminals (\$9.7 m); eliminating certificate of origin for import of animal goods (\$9.3 m); and accelerating green lane processing (\$8.3 m).
3	Monetized benefit of BRITE-sponsored reforms to the public sector	ml. USD	0	0.8	3.6	4.5	2.8	<b>11.8</b>	100	The benefits provided to the private sector by far outweigh the sum of the targets of benefits for both private and public sectors. As shown during the implementation of the project, the initial target of 100 million USD savings for the public sector is unrealistic, since the successful implementation of BRITE's activities depended on creating benefits for the private sector. Also, the target was unrealistic given the small size of the Moldova's State Budget. However, due to the reforms implemented with

NO.	INDICATOR	UNIT	BASELINE	RESULTS					TARGET	COMMENTS
				FY13	FY14	FY15	FY16	LOP	Life of project	
										BRITE's support, public institutions have become more efficient and capable of using their resources more wisely.
4	Number of activities and initiatives, supported by BRITE, and involving the participation of businesses in PPD	area	0	12	19	13	21	<b>65</b>	55	The LOP target was exceeded. 1,817 participants have attended 65 events involving PPD with BRITE support, including workshops, validation sessions/meetings, trainings, seminars, round tables, regional sessions, public discussions, and forums.
5	Percent of private sector representatives that consider having benefited from reforms implemented with BRITE assistance	%	0	47.4	62.5	19.5	72	<b>72</b>	70	The LOP target was exceeded. According to BRITE's last private sector survey, 72% of the interviewed companies have benefited at least from one reform implemented by BRITE and considered it useful.
6	Number of regulations and administrative procedures eliminated, streamlined or simplified with BRITE support	#	0	13	17	11	35	<b>76</b>	55	The LOP target was exceeded.
7	Person hours of training provided by USG	#	0	1,538	1,276	3533	933	<b>6,188</b>	5,536	The LOP target was exceeded.
8	Proportion of female participants in BRITE-assisted activities, initiatives and events	%	37.4	55.8	48.8	46.6	45.08	<b>49.0</b>	45	The LOP target was exceeded.

NO.	INDICATOR	UNIT	BASELINE	RESULTS					TARGET	COMMENTS
				FY13	FY14	FY15	FY16	LOP	Life of project	
<b>Component I – Taxes and Trade</b>										
<b>IR 1.1 – Improved tax administration reduces the administrative burden of paying taxes while increasing revenue collection</b>										
9	Number of hours required to pay taxes each year	#	220	181	185	186	n/a	<b>185</b>	165	The current WB Doing Business Report does not show significant improvements in this area. However, the private sector surveys made by BRITE suggest that the time to pay taxes is continuously decreasing.
10	Number of tax payments businesses must pay each year	#	48	31	21	21	n/a	<b>21</b>	10	There have not been changes since the previous year, but the result is very close to the target. We expect major improvements to this indicator after implementing the single account at STS.
11	Private Sector perception index score for paying taxes	1 (very difficult) - 5 (very easy)	n/a	3.97	3.79	3.3	n/a	<b>3.3</b>	4.3	This is a context indicator and relies on the perception of the taxpayers. Generally, there is higher-than-average perception. We expect that the single-account implementation will enable businesses to perceive paying taxes even easier.
12a	Time to export	Days	32	32	23	10	6.4	<b>6.4</b>	18	The Doing Business methodology changed in 2015.
12b	Time to import	Days	35	35	27	10	0.6	<b>0.6</b>	20	The Doing Business methodology changed in 2015.
13a	Number of documents required to export goods across borders	#	7	7	9	6	7	<b>7</b>	5	According to Doing Business 2016 report, there are 7 export documents. However, the actual number of mandatory documents was reduced to three.
13b	Number of documents required to import goods across borders	#	7	8	11	7	6	<b>6</b>	5	According to Doing Business 2016 report, there are 6 import documents, however only three are mandatory now.
14	Moldovan Exports and Trade diversification index	1 (very low) - 5 (very high level)	3.14	3.07	3.02	2.45	2.44	<b>2.44</b>	3.4	This is a context indicator which reflects the dynamics of the Moldovan exports. The total USD value of exports decreased significantly, while the volume of exports remained almost the same. Currently, the value is below the targeted average, mainly because of external factors, such as the Russian embargo, the war in Ukraine, current economic problems in Moldova and the political situation.



NO.	INDICATOR	UNIT	BASELINE	RESULTS					TARGET	COMMENTS
				FY13	FY14	FY15	FY16	LOP	Life of project	
<b>Component 2 – Other High Impact Reforms</b>										
<b>IR 2.3. Institutionalize good regulatory practice through capacity building and improved public-private dialogue (PPD).</b>										
15	Percent of RIAs approved by the National Working Group from the first reading	%	22 (Y1)	22	29	29	35	35	50	The RIA consultants were not subcontracted by BRITE in FY16, thus they didn't offer information in the format we previously required.
<b>Component 3 – Strategic Communications</b>										
<b>IR 3.1. Increased awareness and understanding of business climate reform, progress achieved to date, and new reform initiatives.</b>										
16	Percent of private sector representatives that are aware of reforms implemented with BRITE assistance	%	0	0.4	11	23	68	68	40	The LOP target was exceeded. Greater impact achieved due to the Update Moldova media campaign implemented by BRITE during FY2016.
17	Number of articles in print media, as well as TV and radio segments, devoted to specific reforms and project initiatives to improve the business enabling environment	#	0	31	83	43	215	372	200	The LOP target was exceeded. The greater media impact was achieved due to the Update Moldova media campaign implemented by BRITE during FY2016.

NO.	INDICATOR	UNIT	BASELINE	RESULTS					TARGET	COMMENTS
				FY13	FY14	FY15	FY16	LOP	Life of project	
18	Percent of private sector representatives that respond positively regarding the speed and transparency in the activity of public institutions receiving BRITE assistance	%	0	30.2	53.3	39.15	ANSA: 60.6% transparency, 48.5% time; MCS: 31.5% transparency, 30.4% time; STS 32.6% transparency, 25.9% time	60	This is a context indicator and relies on the perception of the businesses. Generally, more businesses have a positive perception than those which have a negative one regarding speed and utility of response and the transparency of three institutions: STS, MCS and ANSA.	

# LIST OF DELIVERABLES

## LEGISLATION/REGULATIONS

REFORM/DOCUMENT	STATUS
Amendments to the Law on Internal Trade and other 13 related laws (regarding internal trade authorization)	Adopted by the Parliament and entered into force – Law no.153 dated 7 July 2016
Amendments to the Law on Local Public Authorities and Law on the Decisions of Central and Local Authorities (regarding the Register of Local Acts)	Adopted by the Parliament on 8 July 2016
Government Decision on the Register of Local Acts	Pending implementation
Streamlining Import/Export Permits issued by ANSA	Adopted by the Parliament on 22 July 2016
Government Decision on the One Stop Shop for Permits in Construction Works	Pending implementation
Amendments to the Government Decision on RIA Methodology	Approved by the Government – Resolution no. 775 dated 20 June 2016
Amendments of Fiscal Code, Law on accounting and other laws (regulating voluntary liquidation)	Pending implementation
Law 138/2016 on amending and completing some legislative acts, Art IV (Fiscal and budget policy 2016) Amending the Fiscal Code on excluding the necessity of paper procedure for export proving.	Implemented
Law 138/2016 on amending and completing some legislative acts, Art. XXVII amending the law nr. 172/2014 on HN – TARIM implementation	Implemented
Reforming the existing mechanism of customs valuation procedures	Approved on June 29, 2016
Gov Dec No. 279/2015 for requesting supporting documents prior to release – three documents attached to a SAD (customs declaration)	Implemented
MCS internal order on three docs submitted to a SAD (customs declaration)- awaiting publication	Pending implementation
Adjusting the legal frame of the public procurements	Approved partially by the Government / Ministry of Finance
Developing practical tools that will allow businesses to protect their rights when interacting with public authorities	Duly implemented
Streamline sanitary regulations affecting business activity and eliminate overlaps with food-safety regulation	Adopted by the Parliament and entered into force – Law no.153 dated 7 July 2016
Streamline the regulatory framework for protecting minority investors and improve the Doing Business Index for Moldova	Adopted by the Parliament and entered into force – Law no.106 dated 28 May 2015
Simplify the business reporting by unifying 5 existing reports into one report	Bill of amendments approved by the Government on July 20, 2016
Develop the amendments to Laws and secondary regulations regarding the IT parks. Internal regulation.	Pending implementation
Amendments to Customs Code for deferred payment of customs duties (included in Tax and Customs policy law 2016)	Pending implementation
Streamlining the procedures of the Free Economic Zone (FEZ)	Approved the government in April 2016, awaiting publication and enforcement
Preliminary verification of goods	Implemented
Elimination of transit declaration for exported goods	Implemented
Deferred approval of customs value	Implemented
Deferment of customs duties and VAT for 180-day period for import of raw material by processing companies	Government Decision approved on 2/26/2014. Published on February 28 (entered into force). Since then, 15 companies have applied to the State Commission to obtain the status of beneficiaries of the described mechanism
Implementation of exemption of customs duties and VAT for equipment and tools imported in Moldova and designated to serve as material assets of companies	Government Decision approved on 2/26/2014 and entered into force on 2/28/2014. It is now available for any importer
Electronic Export Procedure	Implemented
Electronic Import Procedure	Implemented
Streamlining of inward procedure (issuing the authorization for IP based on sales contract, more options to establish rate or yield on IP and new possibilities to transfer or assign IP goods). Amendments were approved by Government Decision no. 516 of 2/7/2014	Implemented

REFORM/DOCUMENT	STATUS
Certificate of origin for import of animal goods eliminated in Law no. 110, approved by Parliament on 6/19/2014	Implemented
Streamlining the procedure for VAT reimbursement for exported goods and elimination of supporting documents – entered into force on 7/1/2016	Implemented
Deferred payment of customs duties (for AEO) – entered into force on 7/1/2016	Implemented
Revision of MCS normative acts for establishing legal mechanism to forbid non-transparent approval of new normative acts	Implemented
Amendments to various laws to merge five existing reports into one: consolidation of reports at STS, CNAS, and CNAM	Awaiting approval

## REGULATIONS

Regulation on the framework agreement as a special way of awarding public procurement agreement	Pending implementation
Regulation on public procurement using negotiated procedure	Approved by the Government – Resolution no. 668 dated 27 May 2016
Regulation on public procurement of works contracts	Approved by the Government – Resolution no. 669 dated 27 May 2016
Regulation on purchasing of goods and services by requesting price bids	Pending implementation
Regulation on the working group for purchases	Pending implementation
Regulation on the compilation and filing the list of prohibited economic operators	Pending implementation
Regulation on preparing, updating and tracking the List of qualified economic operators	Pending implementation
Regulation on planning public procurement contracts	Pending implementation
Regulation on low value public procurements	Approved by the Government – Resolution no. 665 dated 27 May 2016
Payment of duties and taxes by brokers on behalf of clients (modification to the Regulation regarding payments of natural persons (Order of CS no. 56-0/2008) was approved on 6/19/2013 (Order no. 284-O)	Implemented
Regulation on the framework agreement as a special way of awarding public procurement agreement	Pending implementation

## TEMPLATES

REFORM/DOCUMENT	STATUS
Standard documentation for procurement of goods and services	Approved
Standard documentation for public works agreements	Approved
Standard documentation for procurement of goods and services by competitive dialogue procedure	Approved
Standard documentation for procurement of goods and services by negotiation	Approved
Standard documentation for procurement of goods, services and public works contracts by standard agreements	Pending implementation
Standard documentation for consulting agreements	Pending implementation

## IT SOLUTIONS

IT SOLUTION	BENEFICIARY
RIA Portal	Ministry of Economy
Enhancements to ASYCUDA	Moldova Customs Service (MCS)
Data exchange module for MConnect	Ministry of Finance
Registry of Local Acts	State Chancellery
Enhancements to eReporting	National Bureau of Statistics (NBS)
Developing module for Single Account	Main State Tax Inspectorate of the Ministry of Finance (MSTI)

Developing critical enhancements (bridge to use the new economic classifications) to the Taxpayer Current Account

Main State Tax Inspectorate of the Ministry of Finance (MSTI)

## REPORTS/ASSESSMENTS

2016 TRS final report

Observed Crossing Times at Border Posts in Moldova in 2014

Trading Across Borders in Moldova: 2013 Time Release Study Results

Tax Gap Analysis

Moldova Business Environment Gap Assessment

Internal procedures (guidance) for MCS Simplification Department staff administering the AEO program

Evaluation of Moldova's AEO program

AEO self-assessment questionnaire

Report on MCS 2016 Strategic Risk Management Planning

Report on Blue Lane activities, including results and recommendations

Assessment report of the MCS Blue Lane trial

2015 Strategic Risk Management Plan

Evaluation of AEO training

AEO and Simplified Procedures Awareness training course modules, materials and handouts

Blue Lane Methodology Guide

WTO Trade Facilitation Agreement: Moldova Self-Assessment of Needs and Priorities

Recommendations for Blue Lane implementation

RRS communications training report

Trade Facilitation in Moldova: A Case for Customs Bonds and Deferred Payment

Assessment of Moldova's Trade Procedures and Requirements

Process maps (narrative and flowcharts) of Moldova's import, export, and inward processing processes

Choosing Prosperity: The Case for Business Climate Reform in Moldova (BIZCLIR Assessment)

Customs Valuation Report

TARIC / TARIM report and presentations

Customs Regional Events Final Report

Taxpayer Single Account Analysis and Recommendations

Improving E-customs and AEO programs in Moldova: results of surveys of businesses in October 2015

Import and export of agri-products (Romanian)

Import and Export of Plants, Plant Products and Other Objects Subject to Phytosanitary Control in the EU (Romanian, English)

Import and Export of Foodstuffs and Live Animals in the EU (Romanian, English)

Regulatory Impact Assessment on amendments oriented to streamline the regulatory framework for protecting minority investors

Regulatory Impact Assessment on amendments to the Law on Internal Trade and 13 other related laws (regarding internal trade authorization)

Development of secondary legislation for new Public Procurement Law of Moldova

Survey of the Largest Importers and Exporters in Moldova

CEFTA conference final report

BRC RIA deliverables 2, 4, 6, 7: Narrative report evaluating existing RIA mechanisms, Narrative report on RIA training, RIA Portal Concept, Training of Trainers Materials

Quantitative Research on Perceptions of Economic Reforms

The Mechanisms of Tax and Customs Facilitates for the Residents of IT Parks (Romanian)

Private Sector Levels of Satisfaction with the STS

Memorandum on trade authorization by local authorities

## COMMUNICATIONS

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AEO logo and manual

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E-customs banners, infographics, logo and manual, video

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Internal communications strategy training for the MCS (powerpoint)

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STS Brandbook

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STS Communications Training Final Report

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Video Spots - Information Campaign (STS)

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Customs Communications Strategy

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STS Communications Strategy

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Logos Press - Business Media Articles

---

Ecomagazin- Business Media Articles

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BDR Associates - Business Media Articles

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Photo monitoring of media placement

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Internet and TV reports

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Business Media Final report

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## GUIDES

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Notification of internal trade activity: guide for the local public authorities and businesses

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The application of labor legislation: Guide for Entrepreneurs (Romanian)

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Protect your business guide

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Catering and food trade - Guide for food industry businesses

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