What comes after voluntary amalgamation: Moldova's fiscal decentralization journey

Moldova's public administration strategy, and local government amalgamation as a component of it, continues at a brisk pace as leaders work to strengthen level 1 (local) and level 2 (regional) governments. At the same time, we hear regular calls from CALM and other local government advocates on the need for increased local powers and fiscal autonomy. While significant donor support and technical assistance will be provided to amalgamating communities over the coming years to strengthen administrative capacity, it's only just one step in a larger journey of strengthening local capacities that Moldova will need to undertake. At the heart of these activities will need to be one important concept: fiscal decentralization.

What is fiscal decentralization and why should we care?

Fiscal decentralization is the idea that fiscal powers related to expenditures, revenue raising, and budget management should sit with the level of government responsible for delivering the relevant services. This follows the **subsidiarity principle**: services should be delivered by the lowest competent level of government closest to citizens.

What constitutes *the lowest competent level of government that can deliver said services sufficiently and efficient* is often an art rather than a science.[1] Defense usually sits nationally, though Switzerland has stronger local traditions; policing is largely local in the U.S. but national in many European countries; and education and healthcare vary widely. Ultimately, assigning responsibilities is a national decision, informed by benchmarking, good practice, and local context.

Once local responsibilities are defined, fiscal decentralization ensures those functions are i) paid for using local expenditures, ii) in a way that is determined locally [with respect for national guidelines on topics such as procurement and minimal service provision levels], and iii) using local revenue raising capabilities to do so. Local governments must be able to raise revenues to pay for the services they are responsible for and have the budgetary authority to determine the appropriate quality and quantity of the service to provide (while respecting minimum service standards set by the central government). Using this information, we derive three insights:

- High reliance on central transfers indicates low fiscal decentralization.
- Mandating local service delivery without local authority to adjust service quality, scope, or spending yields minimal autonomy and suggests minimal fiscal decentralization.
- Fiscal decentralization requires the statutory ability to raise own-source revenues, levy local taxes, and access capital markets.

The World Bank and others publish more complex toolkits and publications, but these three insights are sufficient for our purposes. What becomes clear is that fiscal decentralization can be substituted for another concept: local autonomy (fiscal decentralization increases

[1] There is a large body of academic knowledge known as "fiscal federalism" that attempts to outline where different services and spending should lie amongst the levels of Government. In the 2000s, "Second-Generation Fiscal Federalism" recognizes that political leaders and voters do not act solely as benevolent welfare maximizers. Political bargaining, tax competition, institutional capacity, and historical path dependence heavily influence service assignments – leaving much up to art rather than science.

autonomy). Fiscal decentralization IS NOT the only contributor of local autonomy, but it is a foundational one.

With a common understanding of fiscal decentralization, it makes sense to ask: why should we care about fiscal decentralization? Three reasons stand out:

1) **Service and fiscal allocation efficiency increases:** William E. Oates' Decentralization Theorem argues that central governments often allocate resources inefficiently because local leaders better understand community priorities—such as whether a village needs water treatment or road repairs. While later research has found this isn't always true ("Weak Decentralization Theorem"), many practitioners still lean toward Oates' strong view of decentralization.
2) **Fiscal Accountability & Civic Ownership:** When services are funded primarily by local taxes, citizens are more likely to hold local leaders accountable for performance, strengthening public integrity and tax compliance. Where accountability fails, residents and businesses may respond by relocating (although mobility has been shown to be weak in recent decades).
3) **Operational Innovation:** Fiscal decentralization gives local governments room to test new service models, public-private partnerships, and efficiency tools. In the U.S., states and localities are often described as "laboratories of democracy" because successful local innovations can later be scaled nationally.

With all this in mind, let's look at the "state of play" in Moldova.

The current-state of fiscal decentralization in Moldova

Local governments (level 1 LPAs) in Moldova have numerous responsibilities and, legally, a large degree of autonomy in executing them. Areas of responsibilities include, but are not limited to:

- Water and wastewater services;
- Provision of agricultural markets, commercial spaces, and other land-zoning/urban planning activities to encourage local development;
- Oversight of planning and construction processes within the LPA;
- Trash collection;
- Fire protection services;
- Local roads and streetlights;
- Local public transport;
- Last-mile gas transit networks;
- Green spaces/cultural amenities (parks, cultural houses/civic centers, youth centers);
- Cemetery maintenance;
- Construction, maintenance, and operations of kindergartens;
- Construction and maintenance of schools and clinics (but not necessarily the responsibility for operating them);
- Child protective services;
- School extracurriculars;
- Social housing; and,
- Various other responsibilities.

Local governments in Moldova have broad legal responsibilities and considerable formal autonomy, but service delivery varies in practice. Some services are provided directly by LPAs, others through inter-municipal cooperation (notably fire protection), while areas such as waste

management often suffer from weak economies of scale. Beyond fire services, voluntary LPA associations have produced few sustained successes, and special-purpose districts are largely absent. On paper, local governments have a lot of responsibilities along with authority to execute (administrative decentralization), but *administrative capacity* and *fiscal resources* (fiscal decentralization) are weak.

The administrative capacity is clear: most local LPAs have only 4 to 7 employees (including the elected Mayor, who may or may not work as a full-time), approximately 60% serve less than 1500 residents, and many face skilled workers shortages so they often share positions with the level 2 (raion) government or amongst themselves (i.e. bookkeepers are a common shared position). There are more workers in locally-owned enterprises (like the local water system), but the ability of small local governments to provide adequate oversight of these enterprises is questionable.

The case of limited fiscal decentralization is perhaps not as clear cut:

- **High transfer dependency:** In 2025, 71% of level 1 and level 2 government resources came from state transfers, plus another roughly 1% from state grants. In many LPAs, transfers exceed 80–90% of revenues; Moldova's 2020 vertical fiscal imbalance (VFI) score of .74 also points to strong fiscal centralization. By comparison, EU countries tend to average 45–55%, while US localities are usually in the 30s.
- **Weak own-source revenue:** Property taxes accounted for only 2.5% of local and regional revenues, likely concentrated heavily in Chișinău. Although LPAs can raise local taxes and fees, attract grants, and issue debt, many do not actively pursue own-source revenue because of capacity constraints and concerns about losing central transfers. That said, some localities are creative; for example, Cărpineni provides grants to returning diaspora to open businesses, thereby increasing local revenues.
- **Mismatch between local responsibilities and control:** Education illustrates the problem: post-kindergarten education is not fully within LPA administrative control, yet LPAs serve as financing pass-throughs for education transfers (~76% of transfers are for education in 2026) and remain responsible for school buildings.
- **Limited fiscal flexibility:** Many LPAs spend more than 80–90% of recurring budgets on personnel, while communal services often account for only 6–8% of expenses. Capital spending was high in 2025, at roughly 24%, but this was largely driven by central transfers and grants rather than autonomous local investment capacity. Additionally: overall spend is often determined by Parliamentary budget rectifications (amendments) rather than by local decisions and, in theory, MoF has to sign off on each local budget and balance sheet rather than providing delegated responsibilities.
- **Level 2 black hole:** Approximately 61% of 2026 budgeted transfers from central to local governments are budgeted to go to level 2 which provide nebulous benefits yet also transfer a portion of revenues onwards to LPAs.

In practice, Moldova's local governments have broad responsibilities and formal autonomy, but too few fiscal and administrative resources to deliver them effectively. Although fiscal decentralization looks stronger on paper (given taxing and borrowing powers), most LPAs are too small to generate sufficient own-source revenues and remain dependent on central transfers.

Recent central-government reforms reflect this mismatch:

- In 2023, social assistance services were transferred to the central government after years of uneven (and almost always sub-par) delivery at the regional level (which, in theory, has

more capacity than local governments). The reform has quickly improved the quality of services and serves as a model for other countries considering such improvements.

- This year, the Government launched Restart in Education – public education responsibilities [beyond kindergartens] would move from the current hybrid delivery model to a fully centralized model with 35 regional education departments subordinated to the ministry.
- Other local responsibilities, including landfill facilities and wastewater, also appear to be moving toward regional or central provision.

Policymakers can debate whether this is the right approach, but the current direction is clearly not toward greater local autonomy or fiscal decentralization.

A roadmap for strengthening local governments and fiscal decentralization

Per Moldova' s Public Administration Strategy 2023-2030, there were significant reforms in Moldova in 2015 to allow local governments to raise more of their own revenues:

First level local public administration	**Second level local public administration**
Own income	
1.1. Tax revenues: real estate tax (property taxes); privatization taxes (one-time fee on a public asset that is privatized); local tax (largely the taxes listed below): the tax for spatial planning; the fee for organizing auctions and lotteries; Advertising fees and taxes; the fee for the application of local symbolism; local business taxes; local market taxes; accommodation fee (hotel taxes); the spa tax; Taxes on transport services; parking fees; Dog owner fees; sanitation tax; the fee for the entrepreneur's patent; Income tax for self-employed individuals in the field of retail trade *1.1.1. Non-tax revenues:* rental income; revenues from the concession; income from fines; interest income; Income from donations	*1.2. Tax revenues:* the tax for natural resources, except for the tax for the extraction of useful minerals (the tax base and the exact level of the tax established by the Fiscal Code); privatization taxes (one-time fee on a public asset that is privatized); *1.2.1. Non-tax revenues:* rental income; revenues from the concession; income from fines; interest income; Income from donations

Source: Moldova' s Public Administration Strategy 2023-2030

Unfortunately, even with the ability to collect own revenues from these various revenue streams, Moldova's fragmented local government landscape of mostly small localities does not have sufficient economies of scale to deliver the litany of service responsibilities. Land values are low in small villages, economic activity is minimal, and local tax administration personnel remains is largely non-existent outside of raion center cities or cities with scale.

There are two pathways forward:

- A) Acknowledge fiscal decentralization as a tool for creating stronger communities; or,
- B) Continue down the pathway of centralizing key essential services to improve access for all while leaving local governments with a pared down list of responsibilities.

Based on public trust in local leaders over central government and the above stated benefits of decentralization, partnering increased fiscal decentralization with Moldova's revamped local government map post-amalgamation provides a strong platform to support local communities.

What does a potential roadmap look like for increasing fiscal decentralization in Moldova?

At a strategic level: Government should set three targets through 2030:

1. Reduce Transfer Dependency: Reduce central transfer reliance for LPAs from 80%+ down to <55% by 2030.
2. Increase Own-Source Revenue (OSR): Expand local tax and fee share of total budgets from <10% to 25%+ (with a long-term target of 40-60%).
3. Increase Capital Investment Share: Shift local expenditure composition so capital outlay exceeds 20% of total municipal spending without routine central-government grants.

Some of this will occur naturally following Restart in Education and amalgamation, but additional tools will likely be needed.

At a communication level: Central Government should clarify the long-term direction of travel on sub-national policy. The Public Administration Reform Strategy emphasizes stronger local governments and subsidiary, while programs like Restart and Restart in Education emphasize the opposite. The Government should clarify the narrative as a deliberate dual-track policy:

- **Specialized Human Services** (curriculum standards, specialized social care) benefit from national centralization, while
- **Economic & Infrastructure Services** (local roads, utilities, spatial planning, business development) are decentralized to the newly strengthened local governments.
- **Regional economic planning** support is provided by the streamlined regional governments, while other regional responsibilities are shifted downwards to local governments or upwards to central government.

For execution, there are 9 priority action areas the Central Government should act on support this strategic direction:

1. **Q4 2026:** Finalizing Moldova's level 1 local government amalgamation is a key first step. On 2 September 2026, the Chancellery announced it anticipated only 294 level 1 LPAs existing post amalgamation – down from the current count of ~892. This consolidation – driven heavily by voluntary mergers – represents a significant opportunity to pool resources, increase tax collection efficiency, lower administrative duplication, and increase local capabilities.

2. **Q4 2026:** Finalizing Moldova's level 2 regional government amalgamation is also important. Regional governments eat up a substantial portion of local and regional resources without providing much in the way of services. Reducing the number of regional governments – currently at 35 – to a more reasonable amount that matches the service delivery requirements is key.
3. **Q4 2026:** Moldova's proposed Fiscal Reform is another key enabler of fiscal decentralization. The reform would increase the local property tax rate on residential property from 0.05% to 0.1% while also provide local governments the ability to levy additional property taxes to meet local service objectives.
4. **H1 2027:** Clarification (and clean-up) of the services that local and regional governments are responsible for is key in the long term and should happen in parallel to amalgamation.
    a. Regional governments should be focused on regional economic development planning; regional development agencies (subordinated to the Ministry of Infrastructure and Regional Development) – which largely function as project managers for regional infrastructure such as regional roads and aqueducts – should be dissolved and see their functions folded into regional governments.
    b. Local governments should have a refreshed and clear set of responsibilities that match the principle of subsidiary while also taking into the domain specific Restart programs that have centralized service provision away from LPAs.
5. **H2 2027 and H1 2028:** Using the refreshed responsibilities list, additional fiscal resources should be made available to local government. For example:
    a. LPAs are responsible for parking, but enforcement/fines sit with the national police. Transferring this to LPAs would increase accountability, reduce duplication, and lower costs while providing LPAs a revenue stream.
    b. Because LPAs remain responsible for local economic activity, consolidating local business fees and taxes into a single business tax or annual fee could streamline administration, improve compliance, and raise revenue.
    c. Parliament should review LPA powers over nuisance and dangerous properties. Recent reforms allowing LPAs to charge up to 300% of property taxes are a useful start, but stronger enforcement tools may be needed, including clearer rules on expropriation when owners do not comply or pay taxes.
6. **H1 2027 (for inclusion in the Fiscal Policy Document and 2028 budget):** Moldova's fiscal equalization system creates a severe moral hazard: when an LPA increases local tax collection or population, its central equalization grant can fall in later cycles. Now that amalgamation is advancing, this should be fixed. LPAs that grow their tax base or population should retain a significant share of those gains before transfers are reduced.
7. **2027 - 2028:** Fiscal decentralization is not only about revenues; it also requires stronger local expenditure management, accountability, and transparency.
    a. Moldova already has useful transparency tools, including the State Registry for Local Acts and the Public Consultation Portal, but local budget visibility remains weak. With fewer LPAs, government should introduce a standard local budget format and require budgets to be published consistently, either on LPA websites or through the Ministry of Finance.
    b. Stronger fund management rules should be introduced. One reform should be implementing a minimum fund balance requirement for local governments (typically 5-10% of expenditures) to provide coverage for emergencies and to reinforce cash management discipline. Mandating this provides an additional

benefit to local governments: it creates interest income while also creating a quick pool of funding in states of emergency.

c. There are 720+ local government companies (Întreprindere municipal, I.M.s) – perhaps more that aren't registered as such. Parliament should mandate strong governance requirements on these entities (getting rid of the censor's committee; requiring the administrator, audit committee, and external auditor to the report to the board; putting a floor on the number of external board members; and, ensuring the audit committee is made up of mostly external board members). These entities should also be required to submit their annual reports to a central repository so citizens can understand what they do and how money is spent.
d. Water and sewage enterprises, often the largest and most valuable local companies, should be required to register with ANRE after amalgamation. Only systems serving more than 10,000 residents are registered today. Requiring registration increases the safety of systems while also increasing economic rationalization around tariff (fee) setting.

8. **2028:** Local governments will see an increase in property tax revenues from the revised cadastral (property) values conducted in 2025 for all land types. The Fiscal Code requires property to be revalued every 3 years at minimum; Government should ensure a plan and resources are in place in 2028 to do so given the poor compliance record to-date.
9. **2029-2030:** Reforms to the Central to LPA transfers should be implemented:
    a. Local grant programs like Satul European aren't grants – project approval, invoice checking, and invoice paying sits with central government, creating additional delays, overhead, and complexity. Instead, once a local project is approved through the program and contracted by local governments, funds should be released in tranches to the local government to manage. This increases accountability rather than being able to blame the central government for delays (which tends to be the case due to paperwork needing to pass from the local government to ONDRL for review, then to MIDR for funds verification, then to MOF for funds allocation, and then back to MIDR for payment processing). Empowering LPAs to implement and carrying out ex-post verification is more likely to result in faster capex execution – especially with the newly reformed LPAs having more capacity to do so.
    b. The general transfer should be chopped up into programmatic block grants with clear service delivery targets in place. These ideally would need to be set for multi-year periods to allow local governments flexibility in hitting the minimum delivery requirements in place. Failure to meet targets could result in plenties or worse (Parliament voting to liquidate or amalgamate consistent underperforming LPAs).

From Amalgamation to Empowerment

Redrawing administrative borders is a necessary foundation, but local government amalgamation alone will not transform local government. Its real value is that it creates the scale needed to make fiscal decentralization viable. With a right-sized local government map, administrations can better manage tax policy, retain own-source revenues, and recruit professional staff. What's needed is a framework on how to approach fiscal decentralization.

The dual-track vision above offers a clear direction: centralize specialized human services where national standards are essential, while giving LPAs real fiscal autonomy over local economic

development, municipal services, and capital investment. As Parliament prepares the amalgamation package, the Central Government should clarify the pathway forward on fiscal decentralization and local autonomy. Amalgamation sets the stage, but fiscal decentralization provides the resources Moldova's communities need to thrive within the European Union. The above roadmap is one just way forward – hopefully it can serve as a conversation starter on the next steps in Moldova's fiscal decentralization journey.