

# THEORY AND PRACTICE OF DECENTRALIZATION IN DEVELOPING COUNTRIES: EVIDENCE FROM REPUBLIC OF MOLDOVA

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**Abstract.** *There has been a significant increase in attention to the understanding and evaluation of decentralization reforms in the Republic of Moldova. Under the insistence and guidance of World Bank and European international organizations (e.g. EBRD), the executive and legislative branches of Moldovan Government embarked on the pro-decentralization path. The existing body of knowledge on decentralization reform design and implementation in Republic of Moldova is extensive (e.g. Morozov (2008, 2009, 2010 a&b, 2014), World Bank Country-Profile Report (2005, 2008, 2014). However, it is rather fragmented. The fragmented nature of previous studies stems two separate sources: (1) data availability and (2) Timeframe of the data availability.*

*This exploratory study addresses exactly this gap in the literature on decentralization reform in developing countries using Moldova as an example. It uses the primary sources of data regarding economic activity of general, central, and subnational governments to evaluate the economic dimension of decentralization between 2005 and 2013. The manuscript uses the data assessing the existence and quality of political and public administration systems between 2005 and 2013. These data are then employed for assessment of the evolution of the decentralization level between 2005 and 2013 in Republic of Moldova.*

**Introduction.** The phenomenon of decentralization is being actively studied and pursued throughout the world because of potential benefits associated with it. Although there is no clear consensus among scholars on absolute necessity of a decentralized government for nation's prosperity, there is the argument that a carefully developed and

implemented system for the transfer of public responsibilities along with economic resources to the subnational governments creates conditions that allow for better provision of public services and goods in a country. Proponents of such view argue that long term societal benefits of decentralization outweigh the immediate costs associated with it. Situation of developing countries allows these nations to capitalize on experiences of developed democratic countries for design and development of their own democratic systems.

There has been a significant increase in attention to the understanding and evaluation of decentralization reforms in the Republic of Moldova. Under the insistence and guidance of World Bank and European international organizations (e.g. EBRD), the executive and legislative branches of Moldovan Government embarked on the pro-decentralization path. The existing body of knowledge on decentralization reform design and implementation in Republic of Moldova is extensive (e.g. Morozov (2008, 2009, 2010 a&b, 2014), World Bank Country-Profile Report (2005, 2008, 2014)). However, it is rather fragmented. The fragmented nature of previous studies stems two separate sources: (1) data availability and (2) Timeframe of the data availability. Data availability (or, rather, *unavailability*) at the time of research limited the research methodologies to evaluative qualitative studies. The time frame of the data availability also was limited.

This exploratory study addresses exactly this gap in the literature on decentralization reform in developing countries using Moldova as an example. It uses the primary sources of data regarding economic activity of general, central, and subnational governments to evaluate the economic dimension of decentralization between 2005 and 2013. The manuscript uses the data assessing the existence and quality of political and public administration systems between 2005 and 2013. These data are then employed for assessment of the evolution of the decentralization level between 2005 and 2013 in Republic of Moldova.

**Literature Review.** The concept of decentralization (quite often referred to as Fiscal Decentralization (FD)) has been part of a worldwide „reform” agenda since the last part of the 20th century. The

inclusion of the FD concept in the reform agenda was supported by the World Bank, USAID, the Asian Development Bank, and many others; and it has become an integral part of economic development and governance strategies in developing and transitional economies (e.g. Bahl, 1999; Arzaghi & Henderson, 2005).

Any discussion of decentralization first requires a formal definition. Given the complex nature of the concept, it is appropriate to define fiscal decentralization as *the transfer by the central government to sub-national governments (SNG) (states, regions, municipalities) of specific functions with the administrative authority and revenue to perform those functions.*

This definition captures the multitude and complexity of the concept under discussion through a combination of elements from (1) political science (relationships between different levels of government), (2) public administration (management of public institutions), and (3) economics (public revenues and expenditures management). The review of the literature is not intended to be extensive and exhaustive<sup>10</sup>. The major purpose of the literature review is to identify major descriptors of the decentralization process from points of view of political science, public administration, and economics.

The rest of this section provides an overview of the literature on decentralization. The review starts with the discussion of decentralization through lenses of public administration and political science fields. It then provides a conceptual overview of economic aspect of decentralization. The model of decentralization is then built based on the existing literature.

#### *Political Science Theories on Decentralization*

Political science theories on D focus on „mobilization, organization, articulation, participation, contestation, and aggregation of interests” (Schneider, 2003, p. 35). All public sectors perform these processes. The major differences among these systems are context specific. The

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<sup>10</sup> For extensive review is provided in Lankina (2008); Morozov (2009, 2014); Oates (1972, 1977, 1995); Tanzi et al (2008); Yilmaz et al (2010); World Bank (multiple publications) etc.

unifying characteristics of decentralized political systems are both that these systems include political actors and issues that are significant at the subnational level and that the same actors and issues are at least partially independent of their national level counterparts (Fox & Aranda, 1996). Yilmaz et.al. (2010) define the political dimension of D as an „environment for local elected leaders to act independently and responsively” (p. 264). Thus, there is a consensus among political scientists regarding the essence of decentralization process and regarding the proper measurement instrument of decentralization.

A generally agreed upon measure of the political aspect of D is the presence of democratic elections (Bahl, 1999; Yilmaz et al, 2010). However, the simple presence of elections is a rather limiting choice for evaluation of political aspect of decentralization because it does not address the quality aspect of decentralization. Therefore, it is imperative to address both the presence of democratic arrangements and the quality of these arrangements. This is why the use of quality of governance indicators by Kaufmann et.al. (1999, 2003, 2008, 2013) is justified for accurate evaluation of the political aspect of decentralization. That’s why the authors of this article used indexes of governance quality as (1) „Voice and Accountability” and (2) „Political Stability for assessment of Political Dimension of Decentralization.

It is also important to note that decentralization requires some level of subnational control over own resources for provision of services. This observation implies that SNG must have some level of control of its expenditures. The control over its own revenues refers to the administrative autonomy of SNG from the central government. This aspect is analyzed through lenses of public administration theories on decentralization and is analyzed in the next subsection titled „Public Administration Theories on Decentralization”.

**Public Administration Theories on Decentralization.** The existing literature on public administration theories of D can be broadly summarized as theories that explain how bureaucracies are designed, given citizens’ expectations of them to be efficient (in economic sense), effective, and equitable (Weber, 1968; Yilmaz, et.al. 2010; and many

others). Administrative D (sometimes referred in the literature to as „Regulatory Decentralization”) redistributes authority for planning, financing, and managing public functions among government levels. This type of decentralization is sometimes inaccurately titled „fiscal decentralization” (Tanzi et al, 2008).

The most often cited taxonomy of administrative decentralization is the one in which the process of D is characterized through its degree: (1) devolution, (2) delegation, and (3) de-concentration (Rondinelli, 1990; Tanzi et al, 2008). The major difference among these types of administrative decentralization is the relationship between the central government and the sub-national governments: it is viewed as a continuum of autonomy of sub-national governments from central governments. De-concentration represents a bureaucratic, hierarchical relationship; delegation implies a contractual rapport; and devolution is an arm’s-length connection between levels of government.

The meaning of capacity in the context of the administrative aspect of the decentralization system refers to the description of public authorities as „efficient and effective” (Weber, 1968). Thus, capacity, in this case, refers to „the capacity of the government to effectively formulate and implement sound policies” (Kaufmann, et al 1999, 2003, & 2008). The degree of administrative D was defined by Kaufmann & et.al. as „quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government’s commitment to policies” (p. 3). Thus, the qualitative definition of administrative decentralization can be measured via indicators of „Government Efficiency,” „Rule of Law,” „Regulatory Quality,” and „Control of Corruption” (Kaufmann & et.al., 2014).

Another aspect of administrative decentralization implies the degree of economic autonomy of SNG revenues. Generally, SNG revenues can come from taxes, grants (*aka* transfers), and own business-like activities. The SNG administrative autonomy is generally discussed through the SNG ability to generate revenues. If SNG relies for its revenues on Central authorities, then the degree of autonomy is decreased. Thus,

given the complex nature of D, the administrative dimension of the process can also be measured through the amount of SNG Revenues from *taxes only*. The general logic behind this is that part of these resources remains in the jurisdiction that has generated these revenues. Thus, the appropriate measurement of economic autonomy of decentralization is the „SNG Share of Revenues from Taxes”. This is another indicator we employ to assess the degree of administrative decentralization in Moldova. Note that SNG revenues from taxes involve the economic aspect of decentralization. The economic dimension of decentralization, widely referred to as „Fiscal Decentralization” (FD), measure the degree of SNG involvement into economy of a nation and it will be discussed next.

**Economic Aspect of Decentralization: The Theory of Federalism and Fiscal Decentralization.** Traditionally, the economic aspect of decentralization is analyzed through theory of federalism. At this point it is important to distinguish between the concepts of decentralization and federalism. While federalism is a framework for analysis of a nation’s public sector, decentralization is a process of public sector activities’ assignment to different levels of government. Thus, fiscal federalism is the system of reference within which the process of decentralization occurs.

The original framework of federalism can be traced back to Musgrave (1959). His framework is generally accepted for the analysis of federalism because his contribution was one of the first generally feasible explanations of the processes. Musgrave addressed issues of fiscal federalism from a traditional economic perspective<sup>11</sup>. The framework for analysis was based on values of Pareto efficiency and equity, and on three major economic functions of the public sector in an economy: (1) wealth redistribution, (2) macroeconomic stabilization, and (3) resource allocation (Musgrave, 1959, 1961; Oates, 1977). The opportunity for efficiency and effectiveness improvement of

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<sup>11</sup> Detailed description and review of Fiscal Federalism is beyond the purpose of this article.

governmental sector arises from the third function of a government in an economy: resource allocation.

The conceptual implication of the economic aspect of decentralization is that there is a combination of sub-national and central governments' contributions to the economy that addresses issues of adequate assignment of revenues and expenditures. Hypothetically, such assignment of revenues and expenditures would lead to decisions about specific resource mobilization and allocation as a function of available economic base, level of government, and local preferences. A combination of resource mobilization, allocational decisions, and appropriate economic base would define publicly provided services to be efficient (lowest possible cost) and sustainable (fiscally equalizing).

The generally agreed upon measurement instruments of economic aspect of decentralization are defined by the level of SNG involvement into nation's economy. The most widely used measurements of economic decentralization are therefore the shares of subnational revenues and expenditures. Quite often these two measurement indicators are used independently. In this manuscript we are using both of the indicators simultaneously to capture not only the dynamics within either the revenue or the expenditure, but also to capture the relationships between subnational revenues and subnational expenditures. Such simultaneous analysis allows for a better understanding of the decentralization process and the requirements the processes exhibits towards the system of public administration, political apparatus, and public finance systems. Thus, the entire decentralization measurement and evaluation mechanism can be summarized in the following table:

<b>Table 1: Dimensions of Decentralization Process (Model)</b>		
<b>Political Science</b>	<b>Public Administration</b>	<b>Economics</b>
1. A system that allows expression of local preferences	1. Sub-national governments' autonomy from central governments	1. Sources and sizes of sub-national revenues

2. A system that allows <i>representation</i> of citizens' preferences.	2. Accountability of sub-national governments to both central government and citizens	2. Objects of sub-national expenditures
3. A system that allows transformation of local preferences in policy decisions.	3. Efficiency of implementation of public policies	

**Data Sources:** *Developed by the author based on the existing literature.*

The international nature of this manuscript defined the data sources used here. The data sources used in this article have been generated by international organizations such as the World Bank, the International Monetary Fund, and the United Nations Organization. While measuring D is complex, the fiscal flows to, from, and among different levels of government can be used to assess some aspects of economic decentralization. The best source for a cross-country analysis of fiscal flows is the International Monetary Fund's Government Finance Statistics (GFS), which provides data with consistent definitions across countries and years.

The second source employed for this manuscript is „Governance Matter” (GM) Dataset: The dataset covers 209 countries and territories for the years 1996-2007. The indicators are based on several hundred individual variables measuring perceptions of governance and are drawn from 37 separate data sources constructed by 32 different organizations. These individual measures of governance were assigned to categories capturing key dimensions of governance, which were used to evaluate the level of decentralization in Moldova. The GM data sources reflect the perceptions of a very diverse group of respondents. The group of responders includes international organizations and experts, representative of non-profit, public, and private sector. As with GFS dataset, GM dataset exhibits such characteristics as data standardization, coverage, availability, aggregation, and consistency of reporting, that fit the purpose of this article to the necessary detail.



Therefore, we concluded that GFS and GM sets are the best source of comparable and available data at the moment of writing this article for consistent and accurate evaluation of the degree of the decentralization in Republic of Moldova.

**Results.** The previous discussion of existing literature on decentralization has outlined three aspects of the process: political decentralization, administrative decentralization, and economic decentralization. Each of these aspects has been analyzed and conceptualized on its own. Therefore, without too much speculation, it is logical to view evaluate the level of decentralization in the Republic of Moldova as a combination of the political, administrative, and economic systems of a nation. Therefore, decentralization should be analyzed as such a combination. The following table identifies the variables of interest for this article.

<b>Table 2: Decentralization Model Specification, Dimensions and Specific Variables of Decentralization</b>		
<b>Dimension</b>	<b>Variable</b>	<b>Source</b>
Political Decentralization	1Political Stability 2Voice and Accountability	Kaufmann et.al. (2008 - 2013)
Administrative Decentralization	1Control of Corruption. 2Government Efficiency 3 Rule of Law 4Regulatory Quality 5 Share of Sub-national Revenues from Taxes (SNG_Taxes)	GFS & Kaufmann et.al. (2008-2013)

Economic Decentralization	1Sub-national Share of Total Revenue (SNG_Rev) 2Sub-national Share of Total Expenditures (SNG_Exp)	Government Financial Statistics (GFS, 2013)
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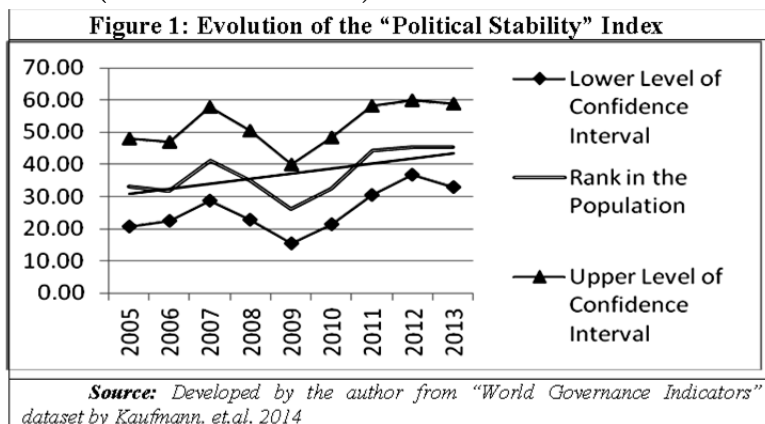
*Data Sources Developed by the Authors.*

**Qualitative Indices of Decentralization: Political and Administrative Dimensions.** The results of this manuscript are congregated according to the type of data. The first part of this subsection provides qualitative results of the research and allow for evaluation of decentralization degree according to political dimension and administrative aspect (with the exception of „Share of Sub-national Revenues from Taxes”). The qualitative data is presented along with the upper and lower levels of 90% confidence. As such, each of the qualitative data graphs contains three time series: Rank of Moldova *per se*, upper, and lower level of the 90% confidence interval. The quantitative indicators assessing the degree of decentralization in Moldova (SNG\_Taxes, SNG\_Rev, and SNG\_Exp) conclude this section.

**Political Dimension of Decentralization.** The literature review summarized decentralization theories from political science as these that „mobilization, organization, articulation, participation, contestation, and aggregation of interests” (Schneider, 2003, p. 35). A generally agreed upon measure is the presence of democratic elections (Bahl, 1999; Yilmaz et al, 2010). However, the simple presence of elections is a rather limiting choice for evaluation of political aspect of decentralization because it does not address the quality aspect of decentralization.

Therefore, it is imperative to address both the presence of democratic arrangements and the quality of these arrangements. This is why the use of quality of governance indicators by Kaufmann et.al.

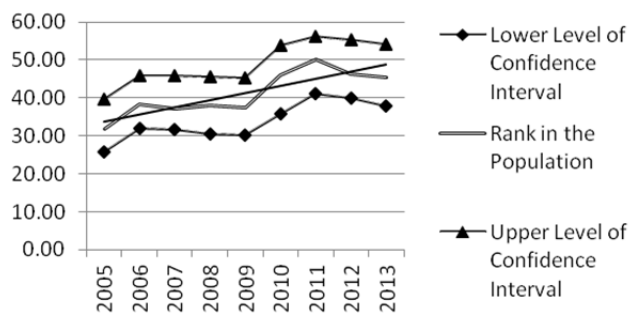
(1999, 2003, 2008, 2013) is justified for accurate evaluation of the political aspect of decentralization. The authors of this article used indexes of governance quality as (1) „Political Stability” and (2) „Voice and Accountability” for assessment of Political Dimension of Decentralization. The following figure identifies the evolution of „Political Stability” (PS) Index of Republic of Moldova between 2005 and 2013 (the latest data available):



The figure shows a somewhat chaotic evolution of the PS index. The PS index bottoms out in the FY 2009. This corresponds with the ouster of Moldovan Communist Party from the majority power in the executive and legislative branches of Government in April 2009. Political stability relatively improved after this shift and remained relatively stable.

The following figure identifies the evolution of „Voice and Accountability” (VA) Index of Republic of Moldova between 2005 and 2013 (the latest data available):

**Figure 2: Evolution of the “Voice and Accountability” Index**

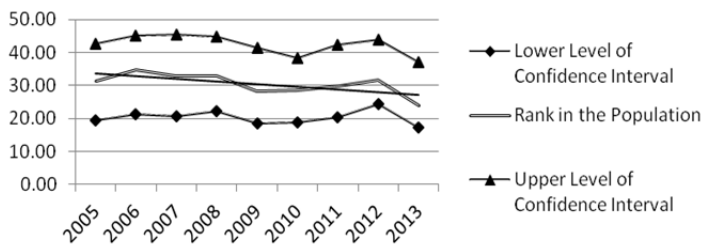


*Source:* Developed by the author from “World Governance Indicators” dataset by Kaufmann, et.al. 2014

The evolution of VA index exhibits 2 distinct periods. As with the PS index, the turning point is April 2009. The subsequent evolution of the VA index exhibits a relative improvement, which suggests that favorable conditions for decentralization reform.

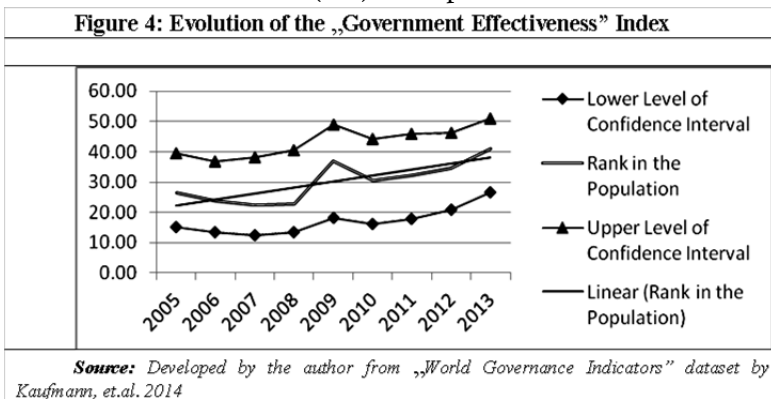
**Evolution of Administrative Aspect of Decentralization.** The authors of the manuscripts have hypothesized that the administrative decentralization is a latent (unobserved) variable that can be measured via observable variables of (1) „Control of Corruption” (CC), (2) „Government Efficiency” (GE), (3) “Rule of Law” (RL), (4) „Regulatory Quality” (RQ), and (5) „Share of Sub-national Revenues from Taxes”(SRT). The evolution of these observed variables is presented next.

**Figure 3: Evolution of the „Control of Corruption” Index**



*Source:* Developed by the author from „World Governance Indicators” dataset by Kaufmann, et.al. 2014

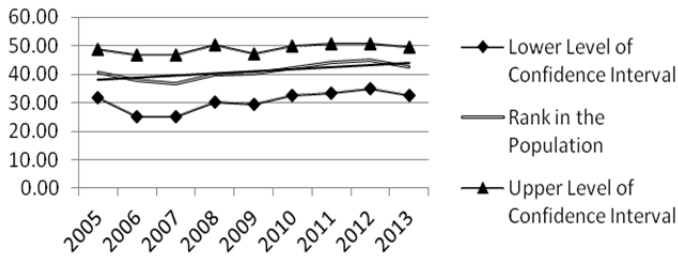
Perhaps the most intriguing evolution is exhibited by the „Control of Corruption” Index. The CC Index show a negative trend, which, in the decentralization context, indicates that a country is getting more centralized. Theoretically, decentralization reform should bring the decision making closer to the populace, adding transparency and accountability to the governance matters. Based on the evidence indicating a decline in control of corruption, we may conclude that the links between political apparatus, public administration organizations, and the citizenry is increasing. This phenomenon is indicative of and conducive for *centralization* (sic!) of the public sector.



GE index has a positive trend, indicating an improvement in government efficiency. This phenomenon is indicative of and conducive for *de-centralization* (sic!) of the public sector.

The evolution of RL index shows a relative stagnation. The RL did not change significantly between 2005 and 2013. The Moldova RL ranking stayed at the level of roughly 40%, indicating that Moldova is better than roughly 40% of world countries and territories in terms of „Rule of Law.”

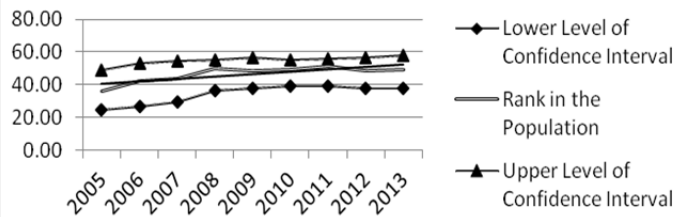
**Figure 5: Evolution of the “Rule of Law” Index**



*Source:* Developed by the author from “World Governance Indicators” dataset by Kaufmann, et.al. 2014

Figure 6 presents the evolution of RQ index. RQ index has a positive trend, indicating an improvement in government efficiency. This phenomenon is indicative of and conducive for *de-centralization* (sic!) of the public sector.

**Figure 6: Evolution of the “Regulatory Quality” Index**



*Source:* Developed by the author from “World Governance Indicators” dataset by Kaufmann, et.al. 2014

**Quantitative Indices of Decentralization: Administrative and Economic Dimensions.** The linking element between administrative and economic dimensions of decentralization is the share of subnational revenues from taxes (SNG\_Tax). An accurate interpretation of the SNG\_Tax requires data on the Share of Subnational Revenues (SNG\_Rev), which is the first indicator of economic aspect of decentralization. Therefore, SNG\_Tax and SNG\_Rev are presented together.

**Structure of Governmental Revenues by Level of Government and Source: 2005 - 2012**

Variable	2005	2006	2007	2008	2009	2010	2011	2012
Share of CG Rev. in GG Rev.	54.66%	55.04%	63.07 %	62.62 %	58.82 %	62.34 %	61.84 %	59.93 %
Share of CG Tax Rev. GG Tax Rev.	79.27%	77.39%	79.62 %	83.59 %	81.86 %	83.57 %	84.05 %	80.31 %
Share of SNG Rev. in GG Rev.	45.34%	44.96%	36.93 %	37.38 %	41.18 %	37.66 %	38.16 %	40.07 %
Share of SNG Tax Rev. in GG Tax Revs.	20.73%	22.61%	20.38 %	16.41 %	18.14 %	16.43 %	15.95 %	19.69 %
GG Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Share of GG Tax Rev. in Total GG Rev.	60.44%	61.95%	61.41 %	60.31 %	55.51 %	56.83 %	59.42 %	61.09 %
GG Rev., % of GDP	38.58 %	39.88 %	41.72 %	40.55 %	38.91 %	38.31 %	36.60 %	38.00 %
GG Tax Rev., % of GDP	23.32%	24.70%	25.62 %	24.46 %	21.60 %	21.77 %	21.75 %	23.22 %
GDP, MDL Billions	74.79	85.55	101.86	126.33	125.33	137.63	158.51	164.78
GDP, USD Billions	5.93	6.51	8.42	12.21	11.20	11.07	13.53	13.58

**Source:** Developed by the author from „Government Finance Statistics“ dataset IMF, (2014) and BundesBank Data

The table provides basis for several important observations. First, the share of General Government (GG) in an economy between 2005 and 2012 remained stable (about 39% of the GDP). This suggests that the only growth of the GG came from the growth of the economy and not from the growth of the GG at the expense of the private sector. This fact allows for an appropriate evaluation of the decentralization degree between 2005 and 2012. The share of GG Revenues from taxes as a share of total GG Revenues during the period of analysis fluctuated

between ~62% in 2006 and 55.5% in 2009 with a standard deviation of about 2.3%. While the standard deviation may not seem significant in percentage terms, it is significant in monetary terms with 1% of GDP equaling to \$0.14 billion.

The Share of Subnational Government Revenues (SNG\_Rev) as a percentage of the CG Revenues decreased between 2005 and 2012 from 45% to 40% respectively. This is an objective indication of country's *centralization*.

The Share of Subnational Government Revenues from Taxes (SNG\_Tax) as a percentage of the GG Tax Revenues ranged from 22.61% in 2006 to 15.95% in 2011. The negative trend in SNG\_Tax suggests that subnational governments are losing their autonomy to the central government in terms of revenue generation. This is a strong indication of the *centralization*.

The last variable required for assessment of the decentralization degree of a nation is the share of subnational government expenditures. It is important to note that the general government budget structure directly affects this variable. An explanation of this situation is quite simple: various nations have different types of governmental budgetary systems and processes. The distinguishing feature of the Moldovan National budget (MNB) is the fact that it is organized in four different funds. The MNB consists of (1) Central Government Budget, (2) State Social Insurance Budget/Fund, (3) Mandatory Health Insurance Fund, and (4) Sub-national Government Budgets. The primary purpose of this manuscript is the analysis between central and subnational levels of Government. Therefore, we have aggregated the „State Social Insurance Budget/Fund” and „Mandatory Health Insurance Fund” into one category of expenditures and analyzed the governmental spending *per se*.

<b>Structure of Governmental Expenditures by Level of Government and Source: 2009 - 2013</b>					
	2009	2010	2011	2012	2013
Share of CG Expenditures in GG Expenditures	37.17%	33.32%	34.71%	36.14%	37.43%



Share of SNG Expenditures in GG Expenditures	23.89%	25.94%	25.49%	25.34%	24.66%
Other Public Expenditures (State Social Insurance Fund & Mandatory Health Insurance Fund)	38.95%	40.73%	39.79%	38.51%	37.91%
GG Expenditures (National Expenditures by All Governmental Organizations)	100.00%	100.00%	100.00%	100.00%	100.00%
Share of SNG Expenditures in CG Expenditures	64.27%	77.85%	73.44%	70.12%	65.88%
GDP, MDL Billions	126.67	125.33	137.63	158.52	164.78
GDP, USD Billions	12.21	11.20	11.07	13.53	13.58
<b>Source:</b> Developed by the author based on Moldovan Budget Laws, GFS Data					

The Share of Subnational Government Expenditures from Taxes (SNG\_Exp) as a percentage of the GG Expenditures ranged from 25.94% in 2010 to 24.66% in 2013. The negative trend in SNG\_EXP suggests that subnational governments are losing their autonomy to the central government in terms of expenditure autonomy. This is a strong indication of the *centralization*.

**Conclusions.** The late 2000s and early 2010s in Moldova could be described as a period of continuous pressure on public sector to reduce taxation while increasing social expenditures. The functional areas for potential improvement during that period were the public sector wages and employment, the administrative-territorial structure of the country, retirement and health care systems, as well as the public revenue system. These issues have been tackled with some level of success as evidenced by the decreasing share of governmental revenues and expenditures as a percentage of country's GDP.

Again, the practical implication and the lesson learned from this experience is that it is important to address the existing issues. At the same time, ignoring the need for long term structural governmental changes would be disastrous. Another practical conclusion stemming from this period is the fact that consequences of structural reforms in

one sector of public administration system could have influence on other sectors as well. For example, the Law on Local Public Administration (2003) effectively reversed the amalgamation of subnational governments into larger units. This affected the public sector employment, and, subsequently, the expenditures for social and health funds.

At the same time, the existing research on public administration decentralization reform suggests that dimensions of the process are orthogonal. Such orthogonality implies that decentralization issues can be categorized in distinct categories and respectively analyzed. As such, this means that reforms of such large magnitude and importance as these addressing public sector can be divided into smaller and more manageable goals with achievable and practically feasible objectives, systems, and processes for achievement of these goals.

The decentralization process' evidence from Moldova support the previous conclusion. While most of the qualitative indices suggest that RM is on the right track, the issue of corruption became more prominent. The evidence suggests that this increase in corruption was accompanied by the *centralization* of economic variables of decentralization. Such correlation identifies the incidence of the problem areas. This fact alone suggests that areas for improvement are the judicial and executive governmental branches.

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