

## SUMMARY

### **of discussions with the project's partner mayoralities at regional meetings on 'Impact of COVID-19 on local public finances: constraints and solutions for managing mayoralities' budgets'**

During May, *'Inform, Empower and Act! Civil society for good budgetary governance in Moldova'* project organised information meetings with the project's beneficiary mayoralities in each project region (North, Central, South and Gagauzia). The purpose of the meetings was to shed light on the problems encountered by Mayoralities in the context of COVID-19 crisis. As a result of these meetings, several areas that pose difficulties or increased risks regarding the proper functioning of public services/utilities were identified:

#### **1. Reduced economic activity**

The economic activities in the partner localities have been or are estimated to be significantly affected by two causes: COVID-19 pandemic and drought. In cities, since the restrictions introduction, local companies have seen drastic reductions in revenue. The participants' estimates regarding the evolution of these companies in the current year are reserved. As to the rural area, the main risk comes from the drought. As a result, the companies and farm households will encounter difficulties and therefore will not be able to pay taxes and duties due to the local budget. Therefore, some local authorities are looking for solutions to help private companies survive. This refers in particular to the reduction or postponement of local taxes and dues payments.

#### **2. General financial situation of the partner LPAs**

Practically all the partner mayoralities, at the time of the discussions, did not have budgetary balance issues and made it clear that they do not have delays related to the transfers from the state budget. The mayoralities additionally received a general-purpose transfer to cover losses caused by decrease in budget revenues from personal income taxes. Thus, the authorities can use these resources as needed regardless of the size of the actual losses from respective source.

At the same time, several issues remain open. First of all, they are related to the losses from the entrepreneurship license fee.

Several questions were also raised regarding the use of resources provided for child nutrition and other resources that were not used during the restrictions of the educational institutions activity.

#### **3. Revenues from local taxes and dues**

The majority of the meetings participants (mayors/deputy mayors) believe that there is a high risk of failing to collect the planned amounts of local taxes. The estimations are that the share of losses is going to be higher for the cities' authorities than the rural ones. At the time of discussions, most mayoralties did not yet have accurate shortfall estimates, but according to the preliminary ones a substantial decrease of this source is expected.

Although in general the revenues from local taxes have a small share in the revenues of these localities, in some cities the losses of these taxes in absolute amounts are substantial.

The worst state of affairs is estimated regarding the entrepreneurship license fee, the market fee and the commercial units fee, but also other taxes (e.g. health resort tax) depending on the specifics of the localities. Some mayoralties estimated a shortfall by over 25%–30% in the collection of these taxes, but the situation may be even worse if the economic crisis worsens.

#### **4. Local utilities situation**

On the whole, there have been encountered difficulties in receiving payments from consumers for the local utilities provided (water, sanitation, lighting). Depending on the locality, the collected payments for utilities accounted for about 40%–80% of the volume provided. Each authority intervened to the extent possible to support the utility operators. Getting back to normal depends on three major factors: how quickly the epidemiological situation will get better, the economic activity returning to its pre-COVID level and the extent to which the population's payment capacity will be affected.

If in most cases the situation with the coverage of operational expenses can be managed locally, then in the case of utilities operators that have to pay the interest rates without interventions at the central level, the situation will be difficult, if not impossible to overcome.

The mayors foresee that the impact of the crisis on utilities operators will be felt more strongly starting this August. This is due to the fact that presently many consumers are submitting requests to recalculate their bills for the services provided, especially for sanitation. Preparing the operators for the cold season of the year may pose an additional challenge.

#### **5. Investment and development projects**

Despite the difficult economic situation, the authorities (especially in cities) are fully committed to finding solutions to prevent the investment projects from external sources (EU, GIZ, EBRD, etc.), as well as the baseline ones from being suspended. However, the situation might be very different among localities. At present, the public procurement in infrastructure and social sectors continues as usually for most of the partner authorities.

#### **6. Recovery of voluntary contributions and reserve fund restoration**

In the conditions of the COVID-19 crisis, certain level-one LPAs contributed (voluntarily) from their own sources to solving the problems in sectors that are within the competence of level-two LPAs (medical equipment, providing sanitary measures, etc.). Because of this, some mayoralties used all of their Reserve Fund. Under these conditions, two issues arise

that need to be solved.

The first is about the recovery of resources used by level-one LPAs for tasks that are within the competencies of level-two LPAs. It is therefore necessary for the district authorities to discuss with the mayoralities that have voluntarily contributed to solving certain needs related to COVID-19 in order to find a formula for full or partial reimbursement of expenses incurred.

The second issue is about at least partial recovery of level-one LPAs' Reserve Funds. The situation remains highly volatile with multiple risks. The lack of resources in Reserve Funds would make it difficult for level-one LPAs to respond to possible crisis situations. The experience with COVID-19 pandemic has shown that level-one LPAs are the ones who have to respond almost immediately to challenges. Therefore, the lack of a Reserve Fund would make more difficult for level I LPAs to properly respond to risk situations.

## **7. Collaboration/communication between authorities at all levels**

Some mayoralities mentioned difficulties in communicating and collaborating with district and central authorities. Existing communication/cooperation issues often have political roots and unfortunately are not always overcome by existing bureaucratic mechanisms. Some mayors mentioned difficulties in coordinating the support and assistance to hospitals or other institutions with the district authorities and with the central ones too. Without collaboration, maximum effectiveness of additional funds allocated/collected to cover urgent needs (e.g. medical system) cannot be achieved. A lack of transparency in the distribution of funds (in the context of

COVID-19) from donations received at the central level was also mentioned. There were and are issues in ensuring the protection of healthcare employees and social workers, precinct policemen, level-one LPAs having to get fully involved in order to reduce the dangers. The COVID-19 crisis has once again revealed the problems associated with the decentralization, so that the mayors, who are directly responsible for the state of affairs in localities, do not have all the necessary tools to deal with the crisis.

## **CONCLUSIONS AND RECOMMENDATIONS**

**As a result of the discussions, the following conclusions can be drawn and the following recommendations made:**

1. In order to ensure stability of the local services and utilities provided, the central authorities (Ministry of Finance and State Chancellery) have to develop a program for emergency lending to utilities operators in order to help with temporary cash flow related issues. Also, in the case of operators with investment loans, paying the interest rates is a problem that needs to be solved urgently. Taking into account that these are public enterprises, it will be easier to find a quick solution.
2. In order to deal with COVID-19 pandemic, level-one LPAs allocated resources to cover the urgent needs of the authorities from other levels – matters which fall within the remit of the latter. In such cases, it is necessary for level-two authorities together with the central ones to initiate a process of compensation payments for the mayoralities concerned. In this regard, the State Chancellery (or the Ministry of

Finance) could create an electronic database to keep a record of these voluntary aids offered by mayoralities, especially to hospitals (but also to other institutions and population) and later, together with level-two LPAs to find a reasonable solution in order to cover these expenses.

3. Due to COVID-19, some mayoralities spent the Reserve Fund entirely or substantially. Taking into account the epidemiological situation and the existence of other risks, it is important that the LPAs restore their Reserve Funds. One way would be to have their expenses reimbursed by level-II and central authorities.
4. All mayoralities have become aware of the importance of developing the e-Governance in all aspects, especially in terms of capacities that allow making various payments and paying fees via online systems. In this regard, it would be good for the Ministry of Finance and the e-Governance together with LPAs to develop the needed programs to promote the existing online payment solutions, as well as develop them if necessary.
5. The revenues of local utilities operators would have benefited if they had online payments systems up and running. Thus, in order to increase the revenues for the services provided (water, sewerage, waste disposal), LPAs will encourage utilities operators to wider implement online billing and payment systems.
6. A broader and more to the point discussions are needed on each local service in the matters that fall within the remit of higher level authorities (level II, decentralized) in order to formulate the lessons learned as a result of the COVID-19 crisis. All this is extremely important for improving the functioning of public services, including through better cooperation among authorities, but also need to be taken into account in the decentralization process.
7. Several partner mayoralities mentioned the insufficient transparency regarding the criteria, volume and the way in which the aid is provided to health care institutions and other institutions from international donations received by central authorities. In order to foster trust and solidarity between authorities of different levels, as well as between the population and authorities, it would be appropriate that the relevant central authorities (with the involvement of the State Chancellery) publish comprehensive information on the aid received, its distribution and allocation criteria.

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