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# Applying Fiscal-Budgetary Instruments to Solve Environmental Issues in the Republic of Moldova

Alexandru Fala

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## **The Republic of Moldova Moldova, with limited natural resources, faces escalating environmental challenges**

- Reduced access to water resource (renewable water resources represents less than 700 cubic meters per capita)
- Small forest resources (less than 12% of country surface)
- Small progresses in improving waste management.

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## **Despite the presence of a complex regulatory framework related to environmental taxes and expenditures, there exists a truncated vision**

- The actual Environmental Strategy (2014-2023) does not classify transport and energy taxes as environmental taxes.
- As result, the involvement of public institutions responsible for environmental protection in the "shaping" of environmental taxes is diminished.

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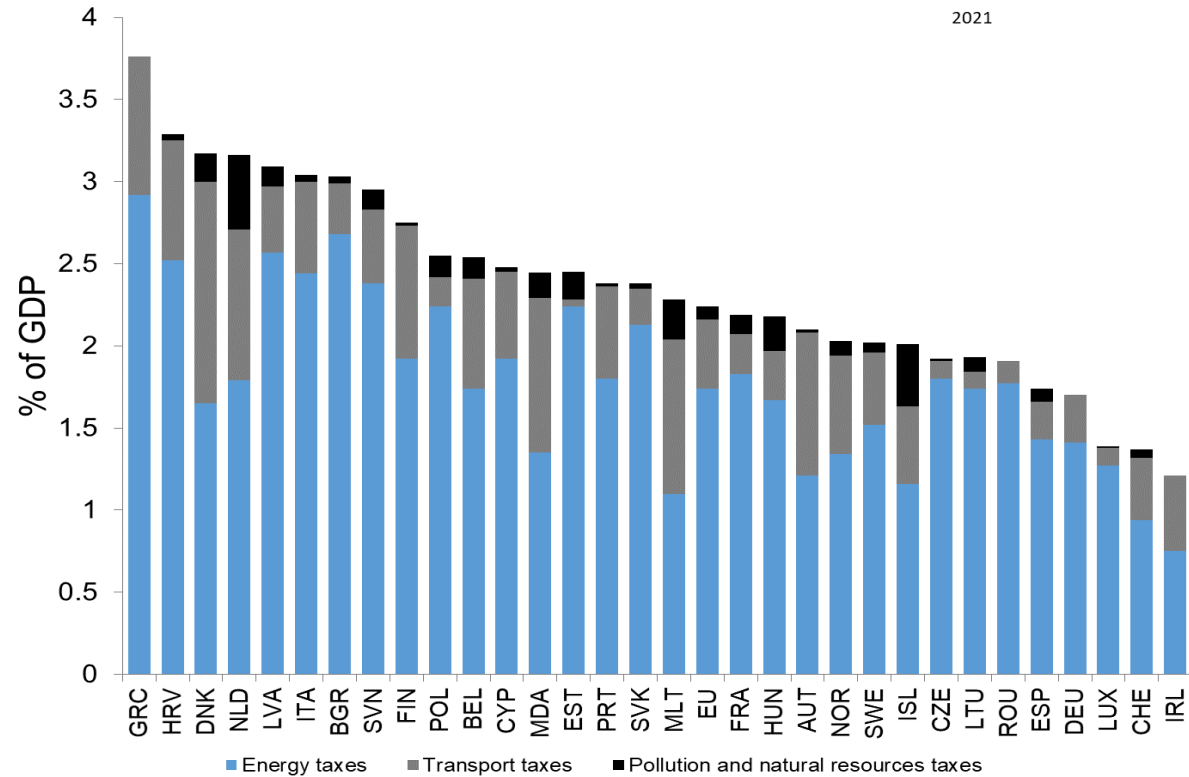


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## In 2020, revenues from environmental taxes totaled more than USD 280 mil, and as % of GDP, they slightly exceeded the EU average



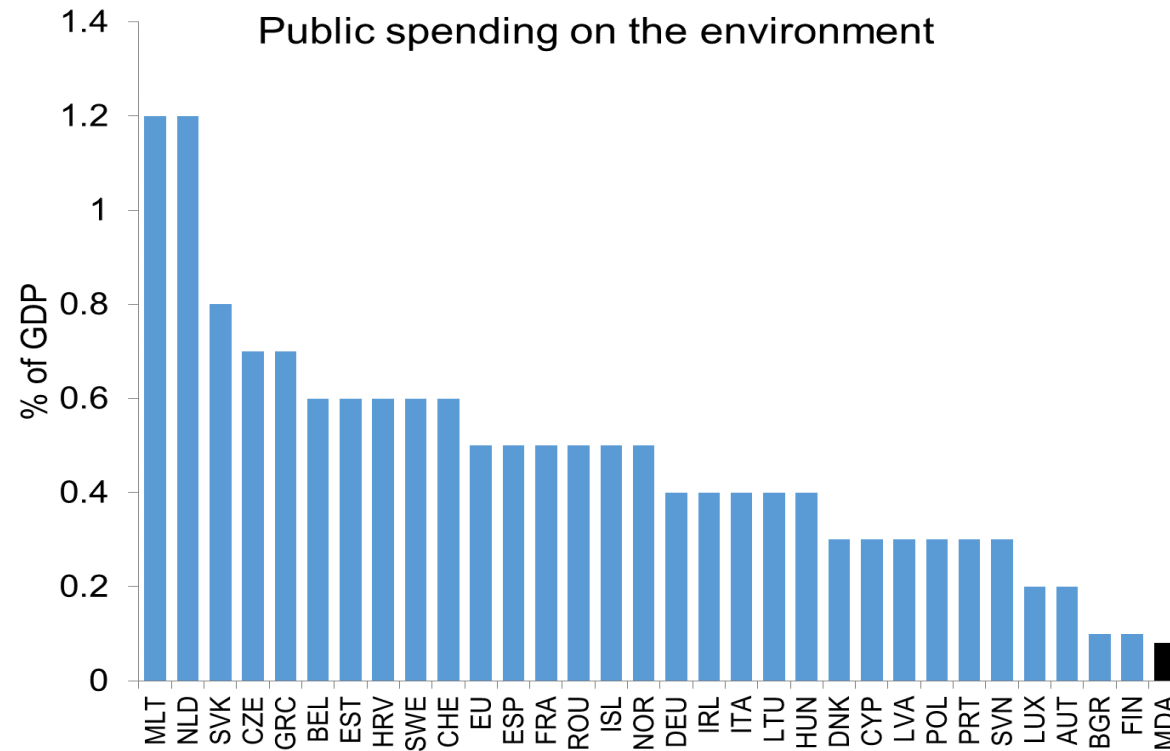
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## Public financing for the environment, totaling less than 20 million USD in 2020, was the lowest as a % of GDP in Europe



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## In the Republic of Moldova, the fiscal-budgetary instruments related to environmental policies have a low efficiency

- The conclusions was driven from running Data Envelopment Analysis
- To increase efficiency is necessary to:
  - ✓ *Increase budgetary expenditures for the environment significantly, aiming for it to reach approximately 1% of GDP*
  - ✓ *Optimize environmental taxes, particularly pollution taxation*

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## There several important issues related to environmental tax

- The absence of strong relation between taxation and quantity of pollutants
- There is no "indexing" mechanism for pollution taxes
- Regionally differentiated taxes exist for emissions from stationary sources and discharges
- Inconsistencies in pollution taxes regulations

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## **The deficiencies related to the under-financing is amplified by inefficient distribution of the budgetary resources for environment**

- The former National Ecological Fund was exposed to political influence
- Most of the Fund's resources were allocated for the expansion of the water supply infrastructure, with only a small amount directed toward environmental protection
- The deficiencies related to budgetary resources for environment were compensated by the financial effort of foreign donors

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## **The Ministry of Environment is actively reforming fiscal-budgetary instruments to increase efficiency**

- The National Ecological Fund was reformed into the National Environmental Fund. The new fund is now less politically influenced and will distribute resources more evenly across various environmental issues
- It was extended the taxation of packaging
- Thanks to the support of the OECD and the EU, a new law on pollution taxation was drafted. The new law offer solutions for the issues mentioned above.

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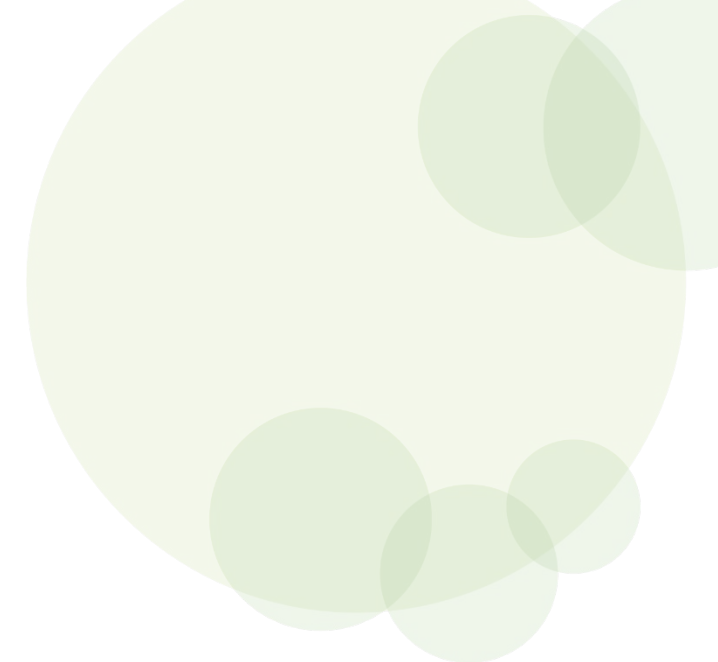


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