

# RECOVERY OF FLOWS AND IMPACT ON THE BUDGET IN THE REPUBLIC OF MOLDOVA: A DETAILED ANALYSIS

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***Abstract.** The recovery of financial flows and the impact on the budget are crucial aspects for the economic development and stability of the Republic of Moldova. In this article, we will explore this issue in detail, analyzing the key factors that influence financial flows and how they are reflected in the national budget. The connection between financial flows and the national budget is fundamental. Fiscal revenues, fees and taxes collected from these flows are an important source of government funding. It is therefore essential to understand how changes in these flows can affect the government's ability to finance public projects and support essential public spending such as education, health and infrastructure. By exploring the relationships between these flows and the national budget, the research reveals the sources of income generated by the flows and how they shape public spending and government projects. Comprehensive analysis of current trends and short- and long-term projections provides insight into how economic, legislative and political changes may influence financial flows. In addition, government measures and policies adopted to encourage positive financial flows are examined, along with relevant case studies to illustrate successful strategies. In conclusion, the article emphasizes the importance of the efficient management of financial flows for the sustainable growth of the national budget and for the economic development of the Republic of Moldova. With a deep analysis of the factors involved and the policies applied, we can help ensure a more stable and prosperous economic future for this country. It is essential that all stakeholders work together to achieve this goal and build a better future for the Republic of Moldova.*

**Keywords:** *illicit financial flows, national budget, public expenditures, public revenues, government policy, dark economy*

**JEL:** *G28, H26, H61*

**UDC:** *336.14(478)*

**Introduction.** At the beginning of the 21st century, the Republic of Moldova went through periods of significant crisis, affecting both the social, economic and demographic aspects of the country. This turbulent period can be attributed to major political changes, with the transition from a communist system

to a democratic path, but also due to the disruption of logistics chains and lack of investment in key sectors of the economy. Consequently, the social, political and economic situation during the years 2010-2014, the low level of the population's income, the corruption, the systemic deficiencies of the administrative order, the imperfection of the legislation, generated by far the biggest fraud in the modern era of the Republic of Moldova, when from three domestic commercial banks, CB "Banca de economii" JSC, which was a systemic bank, CB "Banca Socială" JSC and CB "Unibank" JSC, approximately 13.5 billion lei were stolen and laundered, a case that later became known under the generic name "billion theft" or "bank fraud". Thus, Law no. 48/2017 regarding the Agency for the Recovery of Criminal Assets came as a response to the urgent need of the state to ensure the recovery of illicit financial flows, maximizing budget revenues from the income generated by illicit activities, "bank fraud" becoming a catalyst for this process.

The Republic of Moldova, a country with a developing economy in Eastern Europe, faces numerous financial and fiscal challenges in an attempt to ensure its economic stability and provide quality public services to its citizens. One of these major challenges is illicit financial flows, which include tax evasion, corruption and money laundering. These illegal activities have a profound impact on the national economy and budget revenues.

**The actuality of the research topic** is conditioned by the need for a scientific-practical approach to the budget revenues generated by the recovery of illicit financial flows, as well as the identification of practical solutions in order to maximize them. In the same vein, it is necessary to identify practical solutions in the field of fiscal policy in order to generate budget revenues from the account of the recovery of illicit financial flows.

In this detailed analysis, we will carefully investigate the phenomenon of illicit financial flows in the Republic of Moldova and examine their impact on the national budget. We will explore the nature and extent of these financial flows and how they affect public finances and the state's ability to provide essential services for citizens.

We will also focus on the efforts and strategies of the Moldovan government to recover these illicit financial flows and ensure a more efficient use of financial resources. We will evaluate the legal and institutional measures adopted to combat these illegal practices and to increase transparency in tax administration.

Through this analysis, we will seek to highlight the importance of recovering illicit financial flows for the consolidation of budget revenues and for the promotion of sustainable economic and social development in the Republic of Moldova. We will also explore the possible benefits of effective strategies to combat illicit financial flows in increasing the well-being of citizens and building a fairer and more transparent society.

**The results of the research.** In a society governed by the law, the public interest and personal safety, the market economy will be based on that "invisible hand" of John Smith, which will ensure the development of society, starting from ensuring the own interests of economic actors proceedings [Smith, A., 1962].

However, in the absence of social responsibility, liberal economic rules were one of the reasons that led to the "Great Depression" of 1929-1933. Thus, Arthur Cecil Pigou (1877-1959), in his book, *The Economics of Welfare*, 2020, defined externality as the indirect effect of a consumption or production activity on third parties, other than those at the origin of that consumption activity or production [Pigou, A., 2017]. Externalities are defined as the economic costs or advantages, recorded at the level of the economic agent, and the social costs or advantages, manifested at the social level. Externalities occur whenever the actions of an economic agent influence the environment in which another economic agent acts without affecting the price system. Externalities can be positive or negative. The positive ones are defined by the action of an economic agent whose effects extend in the form of generating advantages on other economic agents or companies, while the negative externalities represent the action of an economic agent whose effects extend in the form of generating additional expenses for other economic agents or companies.

One means of making a profit in a market economy is to manipulate economic activity in such a way as to externalize as much of the costs to others as possible while internalizing as much of the benefits as possible without compensation. To illustrate the socially counterproductive behaviors that markets induce participants to engage in, Ralph d'Arge and E. K. Hunt called this concept the "invisible leg" (Hahnel, 2007). When sellers (or buyers) of products promote their private interest, externalizing costs to those who are not part of their market exchange, or appropriating benefits to third parties without compensation, their behavior introduces inefficiencies that lead to a misallocation of productive resources and , consequently, to a decrease in the value of goods and services produced in the economy. Dr. Mark Sagoff, philosopher of science and director of George Mason University's Institute for Philosophy and Public Policy, believes that analysis of how prices coordinate markets shows that "in a perfectly functioning market, the economically rational person, over time who intends his own gain will be led by an invisible foot to promote the suffering and unhappiness of others even if this fact is not his real intention." (Sagoff, 1994).

The appearance of externalities corresponds most of the time to an inefficient allocation of resources (Gonczar, 2022). As a result, public involvement through regulation of economic activity is necessary. This is done through direct or indirect public production. Direct state production involves ensuring the entire activity of making a public sector good. Indirect public production is carried out through the public procurement mechanism. In this sense, the state gets involved in the market mechanism in order to determine the type and quality of a public service and the possibilities of increasing revenues to cover the expenses necessary for its provision, which are ensured through the application of taxes and fees.

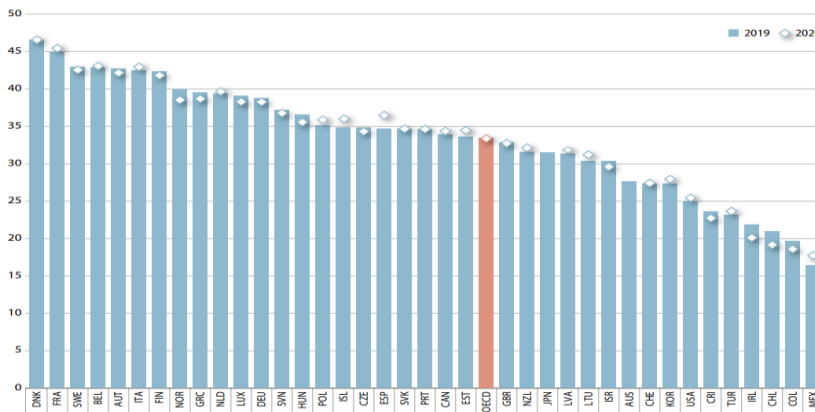
In this vein, illicit financial flows can be seen as a negative externality of Smith's "invisible hand".

Starting from the type of illicit financial flows, the state, through its policies, applies different tools to minimize them and increase budget revenues.

**Table 1. The evolution of the national public budget and the value of fines and penalties in the period 2017-2022, in billion lei**

Period	2017	2018	2019	2020	2021	2022
<b>GDP</b>	176	189,1	206,3	199,1	242,1	274,21
<b>National Public Budget (NPB)</b>	53,4	58	62,9	62,7	77,4	91,5
<b>Value of fines and penalties (VFP)</b>	0,364	0,384	0,371	0,282	0,389	0,387
<b>NPB/GDP (%)</b>	30,34	30,68	30,50	31,49	31,97	33,37
<b>VFP/GDP (%)</b>	0,21	0,20	0,18	0,14	0,16	0,14

**Source:** elaborated by author based on data retrieved from the Agency for the Recovery of Criminal Assets Following the analysis of table 1, we find that in the period 2017-2022, the share of the value of the national public budget in the gross domestic product registered an increase of 9.98%, which represents in absolute terms 3.03%, reaching in 2022 the share of 33.37%.

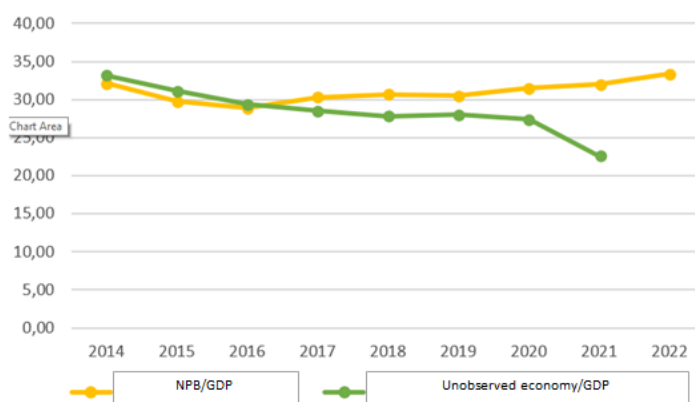


**Figure 2. Share of taxes collected in relation to GDP in OECD countries**

**Source:** elaborated by author based on data retrieved from the Eurostat

Analyzing figure 2, which reflects the share of taxes collected in relation to GDP in the OECD countries, it is found that the average value of the share of taxes in GDP is 33.5%, practically equivalent to the share in the Republic of Moldova. However, it is important to note that the lowest values for the given chapter are recorded by the countries of Central America and Latin America, thus in Mexico the share of taxes collected in GDP is 17.9%, in Colombia – 18.7%. On the other side are Denmark with a share of 46.5%, France – 45.4%, Italy – 42.9 and Sweden with a share of collected taxes in total GDP of 42.6%.

In this order of ideas, at first glance, the state's fiscal policies in the field of recovering illicit financial flows have a positive trend, a fact correlated, on the one hand, with the share of the unobserved economy in the value of the gross domestic product (see figure 3).



**Figure 3. Dynamics of the national public budget and the weight of the unobserved economy for the years 2014-2022, (%)**

**Source:** elaborated by author based on data retrieved from the National Bureau of Statistics of Moldova

On the other hand, if we are to analyze the value of fines and sanctions in the structure of budget revenues, we can find that, in the period 2017-2022, they increased in value by only 6.3%, the reference year being 2017. And if we compare the share of these revenues in the gross domestic product, we find a serious decrease of 33.3%. At the same time, the value of the national public budget increased in the reference period by 71.3%, with the gross domestic product registering an increase of 55.8% in the same period.

At the same time, the statistical data used for the unobserved economy in the Republic of Moldova do not include activities related to illegal markets (drugs, weapons, illegal financial services, etc.), corruption, abuse of office, terrorist financing, exploitative activities, etc.

If we are to analyze only the seizures applied in criminal cases for the period of 2018-2022 by the Agency for the Recovery of Criminal Assets, which is responsible for tracking and disposing of criminal assets in order to guarantee the criminal fine, the recovery of the damage caused by the crime, as well as the confiscation special assets used or intended for the commission of a crime, derived from crimes, as well as any income from the capitalization of these assets, given to determine the commission of a crime or to reward the criminal, held contrary to legal provisions, converted or transformed, partially or fully, from the assets resulting from crimes and from the income from these assets, which constitute the object of money laundering or terrorist financing crimes, but also for the extended confiscation of assets acquired by convicted persons in the last five years before the commission of the crime, the value which exceed the lawfully obtained income.

**Table 2. Seizures applied by the Criminal Assets Recovery Agency (ARBI) and their share in GDP for the years 2018-2022, in billion lei**

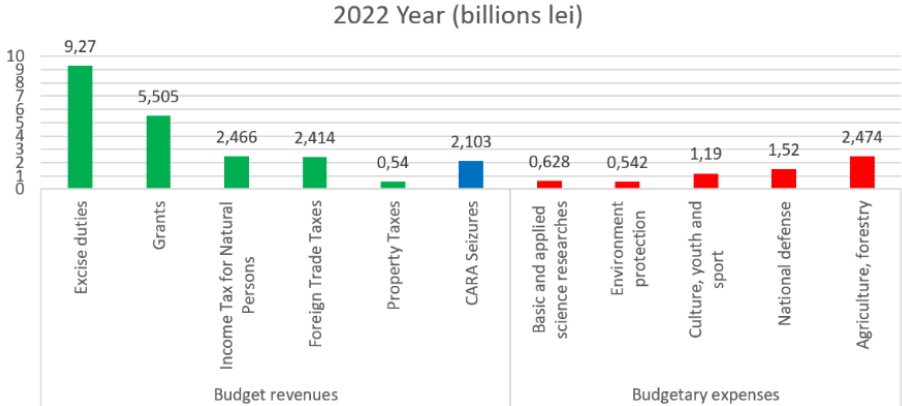
Period	2018	2019	2020	2021	2022
<b>GDP</b>	189,1	206,3	199,1	242,1	274,21
<b>National Public Budget (NPB)</b>	58	62,9	62,7	77,4	91,5
<b>Value of fines and penalties (VFP)</b>	0,384	0,371	0,282	0,389	0,387
<b>ARBI seizures</b>	0,182	2, 615	1,898	0,736	2,103
<b>ARBI seizures /GDP (%)</b>	0,10	1,27	0,95	0,30	0,77
<b>Value of goods actually recovered (VGAR)</b>	0,00814	0,00634	0,00277	0,00393	0,03453
<b>VGAR/VFP (%)</b>	2,12	1,71	0,98	1,01	8,92

**Source:** elaborated by author based on data retrieved from the National Bureau of Statistics of Moldova

The table 2 shows the amount of fines and penalties collected from the national public budget over the course of a year, this indicator integrates, among many others, the amount actually recovered in criminal proceedings.

Thus, in accordance with the Methodological Norms regarding the application of the Economic Classification of budget revenues, approved by the order of the Ministry of Finance no. 208 of 24.12.2015, which was developed in accordance with the standards of the Government Finance Statistics (GFS) 2001, formulated by the International Monetary Fund, revenues from fines and penalties are included in the compartment "Other revenues", the chapter "Fines and sanctions", including a series of classifications for different types of misdemeanors and crimes, the relevant ones for the recovery process being "Fines applied by courts in contravention and criminal cases" - 143420, which, however, does not make a delimitation between the criminal and the contravention procedure, "Proceeds from the sale of property, confiscated currency and the recovery of other financial means" - 142230, "Recovery of criminal assets seized by final court decision, collected in the state budget" - 142234, this item will reflect the proceeds from the recovery of seized criminal assets by final court decision established by the Agency for the Recovery of Criminal Assets, but, in fact, this classification overlaps with the previously mentioned one, "Funds collected from the state budget as damages, according to executive documents, including from succession" - 142235, to this element, being reflected the amounts of taxpayers' debts, established by executive acts, other than those issued by the State Fiscal Service, at the same time, the succession procedure does not involve a recovery of fraudulently obtained assets, "Funds received in the state budget by to the definitive confiscation of the goods, or the collection of their counter values, administered by the customs authorities" - 142236, but which do not make a difference between criminal or administrative procedures.

Analyzing the values of assets seized in the period 2018-2022 by the Recovery Agency, we find an average annual value of about 1.5 billion lei, which represents assets seized on various criminal grounds including corruption, money laundering, drug trafficking, smuggling, trafficking of human beings, organized crime, with the exception of tax evasion, being clearly higher than the average annual values of revenues from fines and sanctions collected from the state budget. Thus, about 7.5 billion lei seized in the period 2018-2022 represent an important source of income for the national public budget of the Republic of Moldova. Eloquent is the year 2019 when the value of assets seized by ARBI represented about 4.15% of the value of the national public budget.



**Figure 4. Graphic representation of the value of seizures applied by ARBI in 2022 compared to some sources of income and expenditure of the state budget for the same year**

**Source:** elaborated by author based on data retrieved from the National Bureau of Statistics of Moldova

Analyzing Figure 4, which graphically represents the value of seizures applied by the Agency for the Recovery of Criminal Assets, as well as some sources of income and expenses of the state budget for the year 2022, we conclude that the value of the seized assets is not at all negligible, being comparable with the amount of income tax collected from individuals or taxes administered from foreign trade. At the same time, the value of the goods seized by the Agency during the reference period is more than 3 times higher than the financial resources provided in the state budget for fundamental scientific research, scientific research applied in the field of public order and national security, scientific research applied in the field of economy, applied scientific research in the field of environmental protection, applied scientific research in the field of health protection.

At the same time, if we analyze the weight of the value of the assets actually recovered to the value of fines and penalties, then we find that they vary from 2.12% in 2018 to 8.92% for 2022, small values compared to the increased social resonance of criminal cases that generate these revenues to the budget. In

this context, it is worth mentioning the conviction of a person in the criminal case with the generic name "bank fraud" in May 2023, the court ordering the confiscation of about 5.3 billion lei.

However, the value of the assets actually recovered remains insignificant in relation to the total value of the seizures applied by ARBI and, more recently, the court decisions ordering the collection of money for the benefit of the state in the form of material damage.

Thus, if we are to talk about the recovery of illicit financial flows within the criminal processes of increased social resonance, in which the most serious violations are documented, the state fails to effectively recover these flows for several reasons, among them: the lack of separate records of the money actually recovered, the causal link between the person's conviction and the confiscation of this person's assets, the long term of criminal prosecution and the trial of criminal cases in courts of law, the lack of confiscation decisions, the low level of the execution rate of court decisions, the lack of centralized records of titles executors, issued in favor of the state, etc.

Thus, as a result of the analysis of the impact of the recovery of illicit financial flows on the revenues to the state budget, an insignificant share of the value of the assets recovered to the state budget is found. It should be noted that, currently, the Economic Classification of Budgetary Revenues does not offer a finesse of the data on recovered goods, which makes it difficult to analyze them and adopt a coherent budgetary policy in the field. The value of seizures applied by the Recovery Agency is clearly higher than the values actually recovered in the state budget, this fact is due to functional, procedural and administrative gaps, not least at the stage of confiscation of assets and their forced execution. In this vein, the following solutions are proposed to improve the situation: the adjustment of the Economic Classification of budget revenues, which meets the needs of the recovery process, the development of a new tool for tracking illicit financial flows and their recovery to the state budget through the civil confiscation of goods whose origin cannot be proven, as well as the development of the social reuse mechanism of the recovered goods, in this way the direct support of the socially vulnerable layers from the sources generated by the recovered illicit financial flows will be ensured.

**Conclusions.** The role of the Criminal Assets Recovery Agency in increasing budget revenues has an upward trend. These efforts were supported, indirectly, through the development, approval and implementation of the National Program for the Recovery of Criminal Assets for the years 2023–2027 and the related Action Plan. At the same time, systemic changes are required at the policy level, but also at the administrative level, so that the share of revenues to the state budget generated both by the recovery of illicit financial flows and the administration of seized assets has a positive evolution.

Although the value of seizures applied by the Agency in the period 2018–2022 exceeds the value of about 7.5 billion lei, the value actually recovered in the same period is of the order of millions or tens of millions. At the same time, there is a complete lack of an efficient mechanism for direct distribution of the recovered funds to the final beneficiaries.



Also, following the analysis of financial flows generated by money remittance services, a directly proportional link is found between their value and the value of exports, in this way it is found that the total value of remittances "actually" includes illicit financial flows generated from the invoicing of exports, a fact that provides financial resources to the unnoticed economy and reduces budget revenues.

As a positive evolution of the system for the recovery of illicit financial flows, it represents the adoption of the National Program for the Recovery of Criminal Assets for the years 2023-2027 and the related Action Plan, the implementation of which will contribute to the maximization of budget revenues from the recovery of illicit financial flows, with all however, the document does not contain a budgetary-fiscal dimension of this process, a fact that significantly reduces its efficiency.

In this order of ideas, the following solutions are proposed to improve the situation:

**1. The development of the social reuse mechanism of the recovered goods,** in this way the direct support of the socially vulnerable strata from the sources generated by the recovered illicit financial flows will be ensured.

Developing a mechanism for the social reuse of recovered assets can bring multiple benefits, including reducing the impact of illicit financial flows on society and supporting those most affected by these illicit activities. With proper implementation and a focus on transparency and accountability, this mechanism can significantly contribute to improving the quality of life in communities.

Confiscated assets, such as real estate, vehicles, money or other assets, can be socially repurposed and put to good use. For example, real estate can be converted into social housing or community facilities, and the income generated from the rental or sale of these assets can be used to fund social projects.

Funds obtained from the recovery of recovered goods can be directed to social projects aimed at supporting vulnerable social strata. These projects may include social assistance, education, health and community development programs.

It is essential that there is transparency in the management of confiscated assets and the use of the revenue generated. A well-defined and overseen mechanism can ensure that resources go where they are most needed and are used responsibly. Authorities and organizations involved in this process should provide legal and technical assistance to facilitate asset recovery and efficient resource management.

Also, the use of recovered goods in sustainable community development projects can contribute to improving the quality of life in communities and reducing social inequality.

***For the successful implementation of a mechanism for the social reuse of recovered goods, it may be necessary to create a dedicated structure or a specialized department.*** This entity would have the role of coordinating, implementing and overseeing all aspects related to the civil confiscation of assets, their transformation into useful resources for the community and the use of the revenue generated for social purposes.

## **2. Adjustment of policies in the field of preventing and combating money laundering and budgetary-fiscal.**

Thus, it is necessary to apply increased precautionary measures regarding transactions carried out through money remittance systems, so that the beneficiaries of remittances register the income in classic bank accounts, a fact that would provide greater traceability of the money received through the remittance systems of money, the introduction of the obligation as the orderer of remittances in the form of donation to be relatives of the beneficiaries, also changes are required in the fiscal policy that would additionally tax companies that export agricultural products at reduced prices.

## **3. Adjusting the National Criminal Assets Recovery Program by introducing budgetary-fiscal approaches to the recovery process.**

Thus, this strategic vision document will ensure the necessary connection between the legal-criminal component of the recovery process with the budgetary-fiscal forecasting of the revenues generated by the illicit financial flows recovered from the national public budget.

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