

# Modernization of local public services in the Republic of Moldova

- Intervention area 1: Local services -



**Institutional models for the creation of WSS joint operator by  
Cahul city, as well as Crihana, Manta and Rosu villages**

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## Acronyms and abbreviations

ANRE	National Agency for Energy Regulation
APC/ CPA	Central public administration
APL/LPA	Local public administration
ATU	Administrative territorial units
BEI/EIB	European Investment Bank
BERD/EBRD	European Bank for Reconstruction and Development
EU	European Union
FRN/NWC	Net working capital
GIZ	German International Cooperation Agency
HG/GD	Government Decision
IDA	Inter-municipal development associations
IFI	International Financial Institutions
IM/ME	Municipal enterprise
LLC	Limited liability company
MDL	National currency – Lei
MU	Measurement units
NIF	Neighborhood investment facility
RM	Republic of Moldova
ROC	Regionally operating company
SA/ JSC	Joint Stock Company
SAPC	Service Association Provisional Council
WPS	Water pumping stations

## 1 Introduction

The purpose of this report is to present possible institutional models, according to the legislation of the Republic of Moldova, for the establishment of a joint operator in Cahul rayon and its neighboring localities, Crihana Veche, Manta and Rosu, for the purpose of water supply and sewerage services' regionalization.

“Regionalization” represents a key point of the water supply and sewerage services' sector development policy. The regionalization process consists in concentrating services provided towards the population of an administrative territorial units' group covering a geographic area defined by a drainage basin and or administrative boundaries (municipalities, rayon).

In Moldova, this process is still at an early stage while this policy is aimed at improving sector performance through better management and through professionalism, so that people could benefit from water supply and sanitation services provided according to the highest standards.

Currently, generally speaking, in the Republic of Moldova, the water supply and sewerage services are provided by municipal operators (most often with low technical and financial capacities), this resulting into an inefficient operation from the technical and economic point of view. The status and the performances of the water supply and sanitation infrastructure are relatively poor. The major problems include:

- Infrastructure operation and maintenance inadequate services, which leads to its accelerated degradation and high repair costs;
- Water and sewerage infrastructure consumption/depreciation;
- Large volume of unbilled water caused by leaks in the network (non-revenue water) and a low level of bill collection (collection efficiency) from the consumers;
- Lack of sufficient investments for the rehabilitation/extension of water/sewerage infrastructure;
- Lack of experienced staff able to promote, manage and implement large-scale investments;
- Inefficient management of the operation, maintenance and staff-related costs;
- Unclear roles and responsibilities of the institutions/authorities involved into the public utilities' management process;
- Inadequate institutional framework, including the lack of a regulatory institution in the field, mainly in terms of setting the tariffs applied by the operators;
- Low capacity of the population in terms of paying the set tariffs.

With a view to eliminating these drawbacks, from 2011 onwards, in Cahul rayon, the Local Public Authorities, the South Regional Development Agency (RDA) with the support of the GIZ “Modernization of local public services in the Republic of Moldova” have started a series of activities directed towards creating a proper, from a technical, institutional, legal and financial point of view, framework for servicing the inhabitants of this area in the best possible conditions, the ultimate goal being the creation of a regional operator which would provide joint services in the localities included in the cluster „0”.

The main idea of the whole exercise is (1) increasing the number of people benefiting from water supply and sewerage centralized services, (2) improving the quality of services rendered to the population in this area, (3) ensuring access to quality water from

Prut River surface source, (4), taking advantage of the scale economy effects (5), making the area more attractive for donors and investors, and in this regard, the existence of a water and sewerage infrastructure represents an essential prerequisite.

The strategic framework (a separate chapter in the rayon socio-economic strategy), the opportunity study and the feasibility study were finalized so far.

Likewise, some local authorities from the rayon's "0" group have developed and signed a cooperation agreement. The Cooperation Agreement is a very important document and represents a step forward in building confidence by demonstrating commitment among local actors, but because of the incomplete and outdated legal framework, not all elements of the cooperation agreements can be applied at this moment. With a view to implementing the given agreement, from the institutionalization point of view, the efforts will be focused on the reorganization / creation of a regional operator. The founders/participants in the reorganization of the new operator process will be the Cahul surrounding mayoralties (cluster "0"), which have already started receiving water from the Municipal Enterprise "Apa-Canal Cahul".

Currently, the company providing WSS services in Cahul city is a municipal enterprise subordinated to the Cahul City Council. The company has its own status and is financially autonomous. The relations between the owner the fixed assets, the city council and the enterprise are not governed by a water supply and sewerage services' management agreement. There is a management agreement between the Municipality and the Director of the company.

Following the selection of the reorganization model considered as the best suited for the cluster "0", from the 3 alternatives proposed throughout this report, the municipal enterprise will undergo a series of important institutional changes in order to switch from providing local services to providing regional services and become an efficient entity both from the technical as well as financial point of view. The operator's transformation steps depend largely on the local authorities' support, as well as on the public acceptance as regards the need for changes in the water resources' management and the drinking water and wastewater treatment.

## **2 Legal provisions and national public policy aspects regarding the organization and management of the WSS public services at inter-municipal level**

- The Water Supply and Sanitation Strategy (2014-2028), in terms of inter-municipal cooperation, provides the following:

The local public administration authorities shall associate with each other and form some inter-municipal structures in order to jointly develop water supply and sanitation services. Such agreements shall include long-term planning documents, investment programs, services' performance indicators, registers of assets and liabilities.

The water utilities shall be reorganized and shall extend their area of water and sanitation services' provision towards other administrative territorial units, thus becoming economically viable business models. The process will be facilitated and accelerated through a clear policy that will clearly determine the operators' access to financing from domestic and international sources by: a) achieving some minimal management standards (annual business plan and performance verification) and operational performance (quality of services and positive profit and loss statement), so as to be eligible for the issuance of the operating license by the regulatory body; b) willingness to merge with other water operators.

- Water Supply and Sanitation Regional Sectoral Programme for the South Development Region:

The aggregation process should be initiated by the local authorities admitting the fact that only through cooperation will be able to improve and increase the WSS services' coverage area in their localities. The inter-municipal voluntary cooperation is regarded among all public authorities involved in the project as the key element for the project successful implementation.

- Law No. 1402 dated 24 October 2002 on public utility services

The selection of the public utility services' management form is made by the local public administration authorities' decision, depending on the provided/rendered service kind, current and future interests of the population and of the administrative-territorial units as well as on the public utility systems' size and complexity (article 14, paragraph (2))

The public utility services are supplied/provided by specialized operators (municipal and individual enterprises, joint stock companies, limited partnerships, limited liability companies, companies with other legal forms of organization), which may be:

- Specialized departments of the local public administration authorities;
- Economic entities, irrespective of their legal form of organization;
- Individuals and/or their associations.

In the case of inter-municipal cooperation, the LPA specialized departments are not applicable, just like the WSS service delivery to individuals or to their associations. Consequently, the optimal form of service provision organization at inter-municipal level is the economic agent (publicly funded, through direct delegation, or privately owned – through concession on a competitive basis).

- Law on public water supply and sewerage service No. 303 dated September 14, 2014

The delegated management is performed by some operators that may be:

- Commercial/ trading companies, municipal and state enterprises providing water supply and sanitation public services, established by the local public administration authorities or by the specialized central body, as the case may be, owned by the administrative-territorial units or by the state;
- Trading companies providing public water supply and sanitation services with private or joint share capital (article 13, paragraph (4)).

In the case of the water supply and sanitation public service providing operators, where the state holds a majority stake, the service management can be delegated directly to them under agreement.

### 3 Institutional organization options for the single operator

The design of the institutional options for the management of the Cahul future water supply and sewerage regional system should take into account the current situation and make the utmost use of the existing institutional capacities. The international experience shows that for the establishment of a water supply and sanitation efficient inter-municipal is highly important to have and to use the capabilities of one or several existing operators, usually, from the second level administrative territorial unit residence locality or region.

Considering the above mentioned and the number of scenarios which may be analyzed for the potential institutional framework of the inter-municipal cooperation of the municipalities from the Cahul rayon, in the organization and delivery of WSS services, the following organizational and legal forms of joint operator may be analyzed:

- Joint Stock Company:

**Regulation:** art. 156-170 Civil Code, Law No.1134-XIII On Joint Stock Companies adopted on April 2, 1997.

**Definition:** The Joint Stock Company (JSC) is a commercial company whose share capital is divided into shares and whose obligations are secured by the company's assets.

**Founders:** Individuals, legal entities, administrative territorial units, state and municipal enterprises. The number of the joint stock company founders is not limited.

**Share capital:** The share capital of the JSC may not be lower than 20 thousand MDL. The share capital consists of the contributions received in payment for the shares and shall be equal to the nominal (set) value of the placed shares, if it has been determined. The share capital size is indicated in the charter, balance sheet, and register of shareholders and on the company's letterhead.

#### **Characteristics:**

The JSC operating time is unlimited, if not otherwise specified by the charter.

The JSC may, on its behalf, to acquire and exercise property rights and personal non-property rights, have obligations.

The Company is entitled to carry out any activities not prohibited by law.

The JSC assets are formed following the placement of shares, its economic and financial activity and other grounds provided by law. The JSC shall be entitled to give and attract loans. The JSC shall not be held liable for the liabilities of its shareholders. The Company is not entitled to provide loans, as well as to offer guarantees for the purpose of purchasing its own securities.

**Operation:** The corporate administration is performed through internal organs whose jurisdiction is strictly delimited.

An issue that should be discussed is the exact mode of shares' distribution among the founders. The size and the participation of the existing founder (Cahul) through fixed assets are clearly superior to the ones of the other participants. It is possible that the future decisions within the JSC will be taken under a monopoly regime. In order to keep the balance of all participants' interests' representation, the following approach, which has been used at Soldanesti solid waste operator foundation as well, is recommended:

- The quotas will be distributed in the statutory capital by the monetary contributions;
- The Cahul Rayon Council shall be invited to become a founder, with a higher financial contribution compared to the other participants, but with a quota equal to those owned by the other participants;
- The contribution shall be made exclusively or predominantly in cash, and the WSS service related infrastructure assets shall be the subject of the delegation agreement.

- Limited Liability Company:

**Regulation:** art.145-155 Civil Code, Law No.135-XVI as of June 14, 2007 On Limited Liability Companies.

**Definition:** The Limited Liability Company is a commercial company with legal personality whose share capital is divided into shares, according to the Articles of Association and whose obligations are secured by the company's assets.

**Founders:** Individuals and/or legal entities, including the state and the territorial administrative units.

**Characteristics:**

- The Associates are not liable for the LLC liabilities, but bear the risk of its activity proportional to the amount of their participation to the share capital; the Associate who did not pay up the subscribed contribution on time shall be responsible for the LLC liabilities to the extent of the unpaid portion;
- The number of the Associates can not be greater than 50. The company with more than 50 Associates is obliged, within a period of 6 months, to reorganize itself, to wind up or reduce its number of Associates.

- Municipal enterprise:

**Regulation:** Art. 179 from the Civil Code; art. 20 of the Law on Entrepreneurship and Enterprises, regarding the approval of the Municipal Enterprise Model-Regulations.

**Definition:** The Municipal Enterprise is an economic agent with legal personality, constituted by one or more administrative territorial units (hereinafter - founder/founders), equipped exclusively with goods belonging to the founding unit/administrative-territorial units, that, through their judicious use, produces certain kinds of commodities (production), performs work or provides services, necessary to satisfy the requirements of the founder/founders (of the founding unit / administrative-territorial units).

**Some peculiarities:** The ME is liable for its obligations with all its patrimony. The founder bears no responsibility for the ME liabilities, and the ME is not liable for the founder's liabilities. The municipal assets transmitted to the ME by the founder, belong to the ME within their economic management limits.

Along with the changes introduced on July 09, 2014 into the Government Decision for the approval of the Municipal Enterprise Model-Regulations, the given form of organization is suitable for the inter-municipal cooperation, because founding of a municipal enterprise by more than one LPA is possible.

#### 4 SWOT analysis for the operator institutional organization options

- Joint Stock Company

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Unlimited number of associates;</li> <li>• Capital attraction possibility (issuance of shares, liabilities);</li> <li>• limited liability of the shareholders;</li> <li>• Is a widespread form of organization in the European countries, which enjoys a high degree of reliability and efficiency in this sector;</li> <li>• High transparency of the activity and of the management.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• High ceiling of the share capital;</li> <li>• Complicated procedures, multiple registration formalities;</li> <li>• Little-known form of organization in the water and sanitation sector;</li> <li>• Transformation costs.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Form of organization considered appropriate for direct obtaining of European funds or other grants from International Financial Institutions;</li> <li>• Creation of a successful institutional model that could be subsequently used for restructuring and reorganizing the entire water supply and sanitation sector from the Republic of Moldova;</li> <li>• Business opportunities for the subsequent establishment of public-private partnerships.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Is regarded as a form used rather in the private sector, which seeks solely to obtain profit;</li> <li>• Insufficient financial resources to sustain this form of organization;</li> <li>• Ineffectiveness of the existing mechanisms enabling an efficient operation of the infrastructure from the technical and financial point of view.</li> </ul>

- Limited Liability Company

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• A minimum amount of the share capital is not imposed;</li> <li>• Establishment, registration and operation simpler procedures;</li> <li>• Limited liability of shareholders.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Limited number of associates - only up to 50;</li> <li>• More limited loans' access opportunities.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• It is a rather acceptable form for the privately owned WSS operators.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Reduced credibility.</li> </ul>

- Municipal Enterprise

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• It is a form known to the LPAs; they are accustomed to work with it;</li> <li>• It is believed that the ME is less expensive in terms of expenses required for establishment and operation;</li> <li>• Full or partial qualified personnel;</li> <li>• Since the ME is usually formed on the basis of services, divisions and subdivisions of the LPA, there is an experience in carrying out the concerned works or services;</li> <li>• More lenient attitude from the control bodies as respects the requirement to establish a royalty for the infrastructure received into management.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• The ME is an organizational-legal rather weak and lightly regulated. The ME is regulated by a Government Decision (along with one article in the Civil Code and one in the Law on Entrepreneurship and Enterprises), proposing only one MODEL Regulations, which basically, is not compulsory for the LPA (because the LPA Law states that the LPA are not subordinated to the Government);</li> <li>• The additions to the model Regulations still do not solve all the existing problems, because making the ME joint establishment</li> </ul>
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	<p>by several LPAs possible implies adjustment of other provisions as well, such as those regarding the ME administration (for example, taking decisions within the Management Board), patrimonial relations, etc. Many aspects are not reflected into the model Regulations; the responsibility for their inclusion into the ME Charter lies with the founders;</p> <ul style="list-style-type: none"> <li>• Have a very low degree of independence as compared to the LPA. Basically, they are controlled directly by the LPA;</li> <li>• Usually, all MEs are quite inefficient and generate losses. It may not necessarily be related to the legal and organization form, but it is a reality;</li> <li>• High probability of budgetary dependence and political influence on the tariffs' level;</li> <li>• Probability of an inefficient ME management because of the ME leadership moral dependence on the founder.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• The recent amendment of the Framework Regulations on the municipal enterprises makes the ME joint establishment by several LPAs possible;</li> <li>• UNDP-Moldova pilots the ME in 10 clusters throughout the Republic of Moldova.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Negative opinion of the Ministry of Justice regarding the respective form of organization;</li> <li>• May disappear as a legal and organizational form in the future (recommendation of the Ministry of Justice).</li> </ul>

## 5 Comparative analysis of the institutional organization options

	Institutional Option	Description
Legal Organization	Joint Stock Company	Definition: The Joint Stock Company (JSC) is a commercial company whose share capital is divided into shares and whose obligations are secured by the company's assets.
	Limited Liability Company	The Limited Liability Company is a commercial company with legal personality whose share capital is divided into shares, according to the Articles of Association and whose obligations are secured by the company's assets.
	Municipal Enterprise	The Municipal Enterprise is an economic agent with legal personality, constituted by one or more administrative territorial units (hereinafter - founder/founders), equipped exclusively with goods belonging to the founding unit/administrative-territorial units, that, through their judicious use, produces certain kinds of commodities (production), performs work or provides services, necessary to satisfy the requirements of the founder/founders (of the founding unit / administrative-territorial units).

	Institutional Option	Description
Share capital	Joint Stock Company	Minimum value - 20 thousand MDL. The JSC has ownership right over the goods and funds paid up as contribution to the authorized capital, unless otherwise stated (in respect of the contribution in kind).
	Limited Liability Company	Minimum value – is missing (amendment from April 03, 2014). The LLC has ownership right over the goods and funds paid up as contribution to the authorized capital, unless otherwise stated (in respect of the contribution in kind).
	Municipal Enterprise	Minimum value – is missing. The ME has only management right over the assets transferred by the founders.

	Institutional Option	Description
Governing bodies / decision-making manner	Joint Stock Company	<ul style="list-style-type: none"> <li>• General Assembly/Meeting;</li> <li>• Board of Directors;</li> <li>• President;</li> <li>• Executive Director;</li> <li>• Board of Auditors.</li> <li>•</li> </ul>
	Limited Liability Company	<ul style="list-style-type: none"> <li>• General Assembly/Meeting;</li> <li>• Company's Council/Board;</li> <li>• Director of the Company;</li> <li>• Auditor.</li> </ul>
	Municipal Enterprise	<ul style="list-style-type: none"> <li>• Founder/Founders;</li> <li>• Board of Directors;</li> <li>• Head (Manager).</li> </ul>

	<b>Institutional Option</b>	<b>Description</b>
The capacity of attracting investments /grants	Joint Stock Company	Meets the EU and other International Financial Institutions' requirements
	Limited Liability Company	Does not meet the requirements
	Municipal Enterprise	Does not meet the requirements

	<b>Institutional Option</b>	<b>Description</b>
Registration and operation costs	Joint Stock Company	Additional costs for the registration of the National Commission of Financial Market shares. In the case of in-kind contribution, property/assets' assessment by a specialized company is required, which implies considerable costs. Payment of the state tax – registration fee -901 MDL Is registered with the State Registration Chamber regional office
	Limited Liability Company	Payment of the state tax – registration fee - 703 MDL Is registered with the State Registration Chamber regional office
	Municipal Enterprise	Payment of the state tax – registration fee - 703 MDL Is registered with the State Registration Chamber regional office

	<b>Institutional Option</b>	<b>Description</b>
Liability limits	Joint Stock Company	In the limit of the contribution made to share capital (minimum 20 thousand MDL).
	Limited Liability Company	In the limit of the contribution made to share capital (no minimum size required)
	Municipal Enterprise	Is liable for its obligations with all its patrimony, excluding the liability of the administrative-territorial unit for its obligations and vice versa.

	<b>Institutional Option</b>	<b>Description</b>
Perception and reliability	Joint Stock Company	High degree of reliability, due also to the higher minimum amount of authorized capital
	Limited Liability Company	Lower
	Municipal Enterprise	Low

## 6 Creation of a new operator vs. reorganization of the existing operator

NEW OPERATOR	REORGANIZED OPERATOR
<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Faster founding and registration process;</li> <li>• Lack of debts;</li> <li>• Greater possibility of producing real changes into the operator's management;</li> <li>• Opening towards a new management.</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Lack of experience;</li> <li>• Some difficulties while transferring some assets from the existing operator to the new operator.</li> </ul> <p>The problem of current operator's existing debts, responsible for which shall become the Cahul City Hall.</p>	<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Inheritance of institutional experience;</li> <li>• Availability of qualified personnel.</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• More complex reorganization procedures (when switching from ME to JSC);</li> <li>• Longer founding period;</li> <li>• Possible historical debts;</li> <li>• Inaction in the implementation of procedures and new management concepts.</li> </ul>

## 7 Institutional model with or without „IDA” alongside the regional operator?

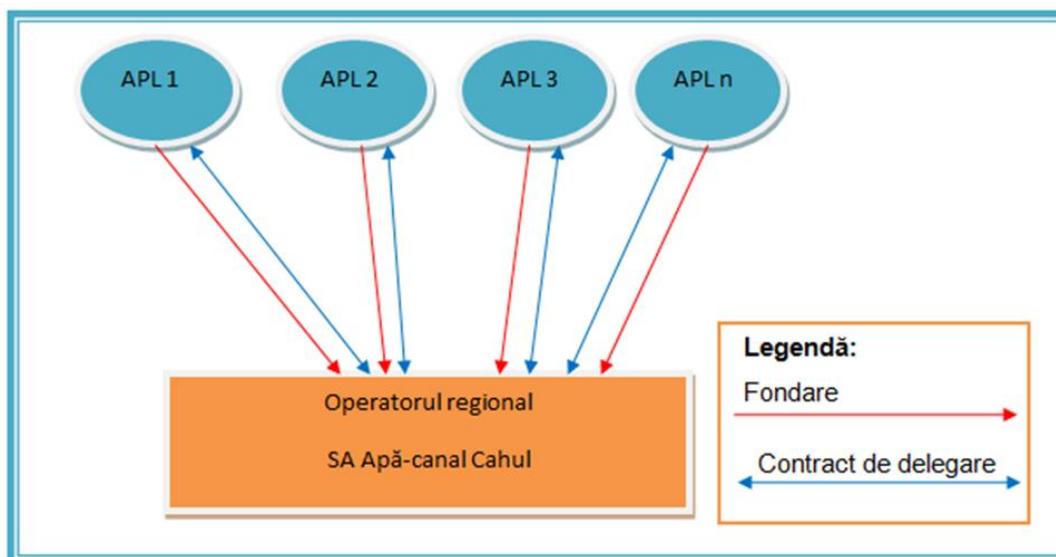
### Scenario 1 A

Regional operator, without creating a formal LPA association (cooperation based on cooperation agreement, without creating a legal entity for LPA cooperation).

According to this scenario, all the localities involved into the cooperation process shall become founders of the regional operator. The rayon administration may also become a shareholder, by contributing to the operator’s share capital. For this, it is necessary either to increase the operator’s share capital (issue additional shares) or the current shareholder needs to alienate a part of its shares. The contribution to the operator’s share capital may be carried out in cash and in kind.

Then, each of the localities founding the joint regional operator will conclude with the latter an agreement assigning the service management. In this respect, Article 13, paragraph 12 of the Law 303 of 2014 on the public water supply and sanitation service provides that, in case of operators with public majority stake that were founded by the local public authorities or by the central relevant authority (if applicable), such operators may be assigned the service by means of the agreement.

Below is an outlined example of such possible institutional model for the inter-municipal cooperation of localities:



LPA 1      LPA 2      LPA 3      LPA 4

Regional operator

JSC Apa-Canal Cahul

### Caption:

Foundation

Delegation Agreement

It is important to mention the fact that the management and provision of the public water supply and sanitation service comprise several types of duties and competences: some of them are related to the actual service providing, and they may be assigned/transferred to the operator. Another category of duties and competences is related to the service management and regulation, and these cannot be transferred to the operator. The competencies related to the tariff policy (approving tariffs), performance management, applying penalties etc. are examples of duties that cannot be assigned to the operator, but shall be carried out by the LPA. Due to the fact that the service is provided within an inter-municipal environment, we wonder if a separate cooperation structure is needed for exercising the competences that cannot be transferred to the operator. Even if there are LPA representatives within the operator's management structure, according to the principle of segregation of duties, they won't be able to take decision related to certain duties specific to the LPA in their capacity of client, not provider.

According to the scenario 1A, we suggest an informal cooperation (without registering an association as a legal person) in case of LPA's competences that cannot be transferred to the operator. Thus, the decisions agreed upon during meeting and work groups shall be validated by the decisions of the local councils of each member.

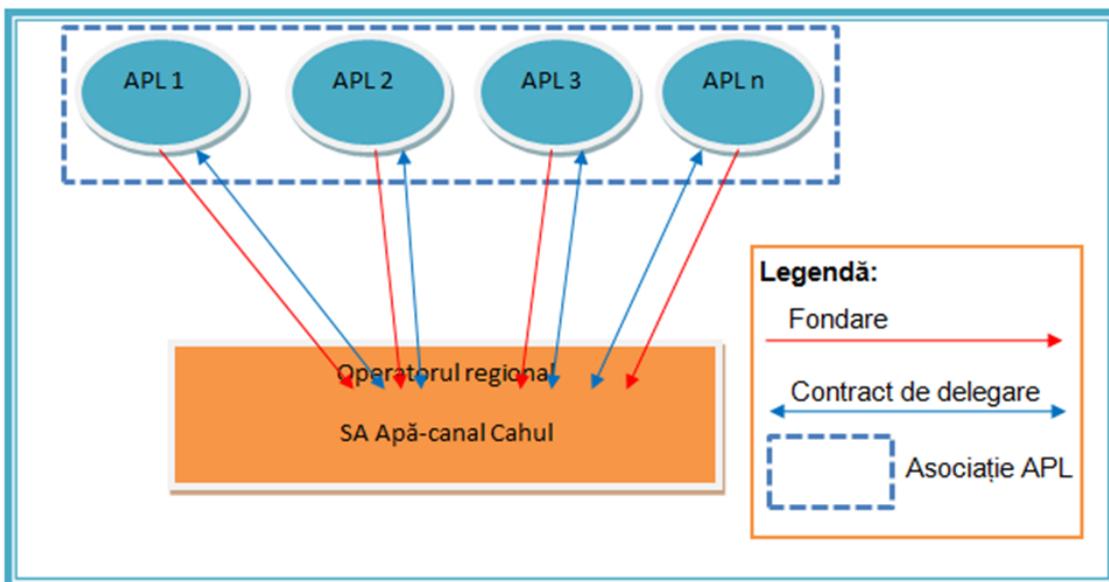
The disadvantage of this model is that, unlike an association holding its own administrative capacities (staff, office, specialists) due to the contribution of the member, the informal cooperation will be based solely on the members' capacities and resources. For example, one of the members (LPA) could provide an office for the meetings, draft the minutes of the meeting and make the invitations.

**Scenario 1B**

Joint regional operator and LPA association (IDA)

The difference from scenario 1A consists not only in the organization of the LPA regarding the exercising or coordinating duties that cannot be transferred to the operator. In this case, we suggest creating an LPA association (besides the regional operator) that will have a role different from the operator's. This model is similar to the one existing in Romania (Regional Operator and Intercommunity development association IDA).

Below is the graphical representation of scenario 1B:



LPA 1      LPA 2      LPA 3      LPA 4  
Regional operator  
JSC Apa-Canal Cahul

**Caption:**

Foundation

Delegation agreement

LPA Association

However, it is important to mention that according to the current legislation that does not regulate the Intercommunity development associations, their role is currently resumed to duties related to coordinating positions, aggregating decisions that are to be validated by the local councils of each member anyway. The association could also be responsible for attracting grants and investments. Therefore, due to the legislative vacuum, there is almost no difference between an informal cooperation of the LPA and the cooperation based on the creation of an Association. The disadvantage of an LPA Association is that the administration costs might be significant, while the decision-making process might sometime last longer, even too long.

## 8 Conclusions and recommendations

The Joint Stock Company is one of the most complex legal and organizational forms. It may be founded by several territorial administrative units that may participate into the share capital formation process and hold a certain number of shares. Complex decision-making mechanism that can meet the inter-municipal needs: in general meeting the decisions are taken according to the held share (one voting share – one vote), while within the board on the contrary – one member – one vote. In Romania, for example, absolutely all regional operators founded by LPA take the joint stock company organizational and legal form. The only "downside" is that the reorganization of the existing municipal enterprises and joint participation of the LPA in the new joint stock company increase requires a strong will and a high degree of confidence, the parties being forced to evaluate and negotiate the participation of each territorial administrative unit into the share capital formation process. The rayon, also, may participate into the share capital formation process and hold shares in the new regional operator.

The LLC would be recommended only for small operators, with a relatively small share capital and with a small number of participants (founders). The maximum number of shareholders provided by law is 50.

The Municipal Enterprise: Although it is a fairly simple organizational form and a form that is well known/favored by the majority of the local public authorities, it seems that the municipal enterprise is not exactly the most appropriate organizational form for a truly regional operator. This conclusion is based on the following arguments:

- It is rather vaguely regulated at the legislative level (except for a model Regulations approved through Government Decision);
- It is a legal and organizational form that is „generally disapproved” by some international donors, being regarded as inefficient and outdated. Many donors insist on reorganizing the ME into other forms (for example, in JSC) before providing financial or technical assistance.

Considering the above mentioned and taking into account that the regional operator organization mode should ensure a long-term operation, it is considered that the creation of a Joint Stock Company represents the best option. Besides the fact that this institutional model provides the most suitable technical, legal and financial framework for conducting an efficient activity, it prepares the operator for the implementation of future large-scale investments financed either from the European funds or other grant sources which shall become available in Moldova in the next period, within the context of the Association Agreement signed with the European Union.