
REPORT ON THE

TERRITORIAL ADMINISTRATIVE
STRUCTURE OPTIONS FOR THE
REPUBLIC OF MOLDOVA

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Background

The Government of Moldova explicitly acknowledges that decentralization represents an essential item on the reform agenda of the country. The goal is to provide quality services to women and men equitably - including the rights of persons from vulnerable groups - through building autonomous and democratic local governments, able to manage efficiently their responsibilities.

The National Decentralization Strategy approved by the Parliament in 2012, is the main policy document that gives the framework for local government reform and provides direction to the Government of Moldova, with clear goals, objectives and an action plan, where most important measures are to be taken and implemented in the period of 2012-2015 in the following areas: 1) allocation of responsibilities; 2) fiscal decentralization; 3) decentralization of property; 4) local economic development, urban and regional planning; 5) administrative capacity (territorial-administrative organization); 6) institutional capacity; 7) democracy, participation and ethics. Clarification of competences, fiscal decentralization and territorial-administrative consolidation are the determining factors in the reform process. While activities on the clarification of competences and fiscal decentralization have started, the territorial-administrative reorganization issue remains open.

The overall goal of the Decentralization strategy is to build autonomous and democratic local governments, **which provide quality local services equitably** –including the rights of persons from vulnerable groups- by managing efficiently their responsibilities.

These autonomous and democratic local governments will have adequate resources and capacity to provide local services according to the needs and demands of the beneficiaries. They will function effectively, efficiently, equitably – including the rights of persons from vulnerable groups- and following fiscal discipline.

Objective

The purpose of this study is to identify and examine the problems related to territorial administrative fragmentation, to present three options for improving the territorial administrative structure, and to evaluate them. Scenarios for reform are briefly presented in the Conclusions section.

1. Problems - Current circumstances

The National Decentralization Strategy (NDS) identifies the Territorial-Administrative Structure (Administrative capacity) as a crucial aspect of Decentralization.

The main reform objective (as stated in the NDS): The territorial administrative structure will be comprised of units with adequate administrative capacity ensuring local autonomy, efficient provision of services while responding to the demands and needs of the beneficiaries. The elected local authorities leading these units will function democratically and autonomously.

The NDS identifies some key problems and challenges related to the territorial administrative structure.

The primary problem is the excessive fragmentation of the administrative-territorial system in the Republic of Moldova, from which, a series of challenges to adequate functioning of local governments occur.

The first one is that the great majority of rural LPAs do not provide communal public services, being left mainly a representation role, and not one of assuring the proper communal services.

Another consequence is that the fiscal base and the incomes collected on the territory of a town/village are insufficient to maintain an administrative apparatus which could provide the public services. The unfeasibility to achieve economies of scale in local public service provision, because of the reduced number of population per ATU, puts the burden on the second level of government to provide services which are the responsibility of the first level.

The reduced territorial size, the small number of inhabitants, and the inexistent fiscal base make the accomplishment of local economic and social development effective plans impossible.

The optimal size of second-level LPAs depends on the administrative-territorial organization of first-level LPAs. With a consolidated territorial structure, the second-level LPA may comprise bigger territories and a larger number of people, which should facilitate the economic planning and development, encourage economies of scale for a series of services, and provide access to the European development funds.

The following chapter updates the analysis behind the problems highlighted by the NDS.

Level 1 - Primaria

Size - fragmentation

The current administrative-territorial structure of the Republic of Moldova¹ is characterized by an extremely fragmented system: 898 first level administrative-territorial units (towns and villages) and 32 second level districts for a population of 3.4 million inhabitants (2.9 million according to the recent 2014 census). All local governments of a particular level (primaria or raion) are assigned the same types and number of functional, administrative and regulatory responsibilities, irrespective of size, fiscal or administrative capacity, etc.

The average number of population in first level local government is 2958². There are 26.4 municipalities per 100,000 inhabitants, a value which is higher than the most fragmented European countries.

¹ Not counting local authorities in Transnistria

² 2013 data, Ministry of Finance Moldova

Although the Law on Administrative-Territorial Organization³ sets a minimum required number of residents for an administrative territorial unit (1500 people), almost a third of local units have less than 1500 inhabitants, while 86% of them have less than 5000 residents. In addition to insufficient financial resources, the limited size of localities is negatively affecting the administrative and institutional capacity of LPAs to fulfil their functions. This entails reduced managerial capacity (greater difficulties in recruiting knowledgeable and skilled staff) and higher per capita costs (diseconomies of scale: 600-800 MDL per capita in smaller municipalities vs 100-200 MDL in bigger municipalities) in service delivery. Thus, the majority of local governments have merely a representation function, rather than to provide services. This is in stark contrast with the need for essential local services, particularly in rural areas where the most vulnerable groups of population reside. 844 (94%) local governments are rural settlements comprising 65.8% of the total population of RM.

International experience shows that jurisdictions below 3000-5000 inhabitants cannot undertake significant public sector responsibilities and are not able to manage their functions efficiently. In these cases, functional decentralization will be very costly for fragmented local governments. For local governments to ensure democratic performance, effective service delivery and an ability to promote economic development, their optimal size would be around 30,000 people⁴.

Demography – negative demographic trend

The population of RM is continuously decreasing. The results of the 2014 census⁵ show that the population has reached 2.9 million, compared with 3.5 million ten years ago. Of these, 329 108 live abroad, leaving only 2.58 million effective users of services (and contributors to local budgets). In some areas the decrease in population is so acute so that in 8 localities no person was recorded by the census. Of the total population in RM, 1.9 million people (65.8%) live in rural areas, particularly in localities in which local governments do not, and cannot (do not have the capacity and resources), deliver the functions and services entrusted to them.

Given the loss of population, especially in the rural areas, it can be inferred that the current fragmented territorial administrative structure – which does not allow for basic (communal) services to be supplied to citizens and businesses – leads to depopulation.

Effectiveness - Non-delivery of services

Local government and local democracy are meaningful only if local governments can fulfil the functions and responsibilities that were entrusted to them. Eighty percent of local governments in Moldova do not meet the basic (and legal) administrative capacity criteria: they fulfil only a very limited number of functions – typically basic administrative functions (issuance of certificates, etc). This lack of capacity can be seen from the JILD/UNDP evaluation of administrative capacity, as well as the Ministry of Finance data showing the allocation of expenditures and collection of own revenues.

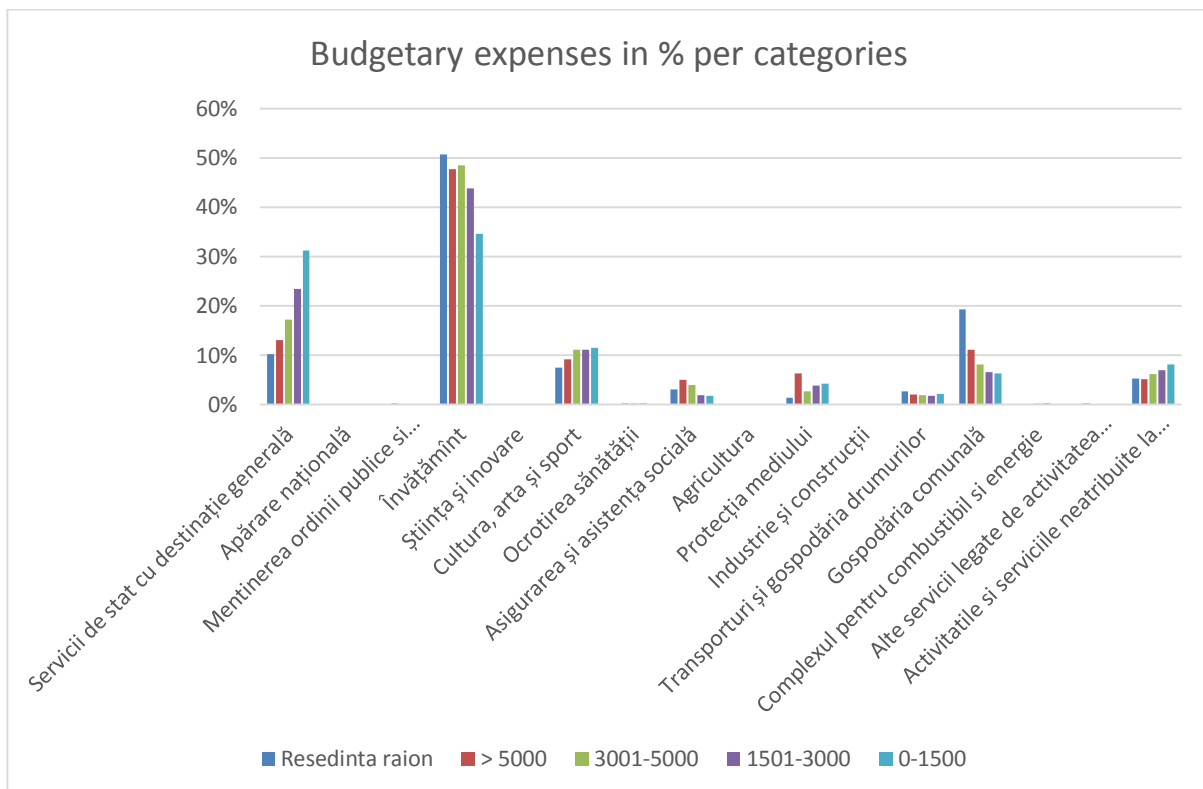
³ Law no. 764-XV from 27.12.2001 on territorial administrative organisation of the Republic of Moldova, article 17 para. 2

⁴ Pawel Swianiewicz LGI/OSI 2010

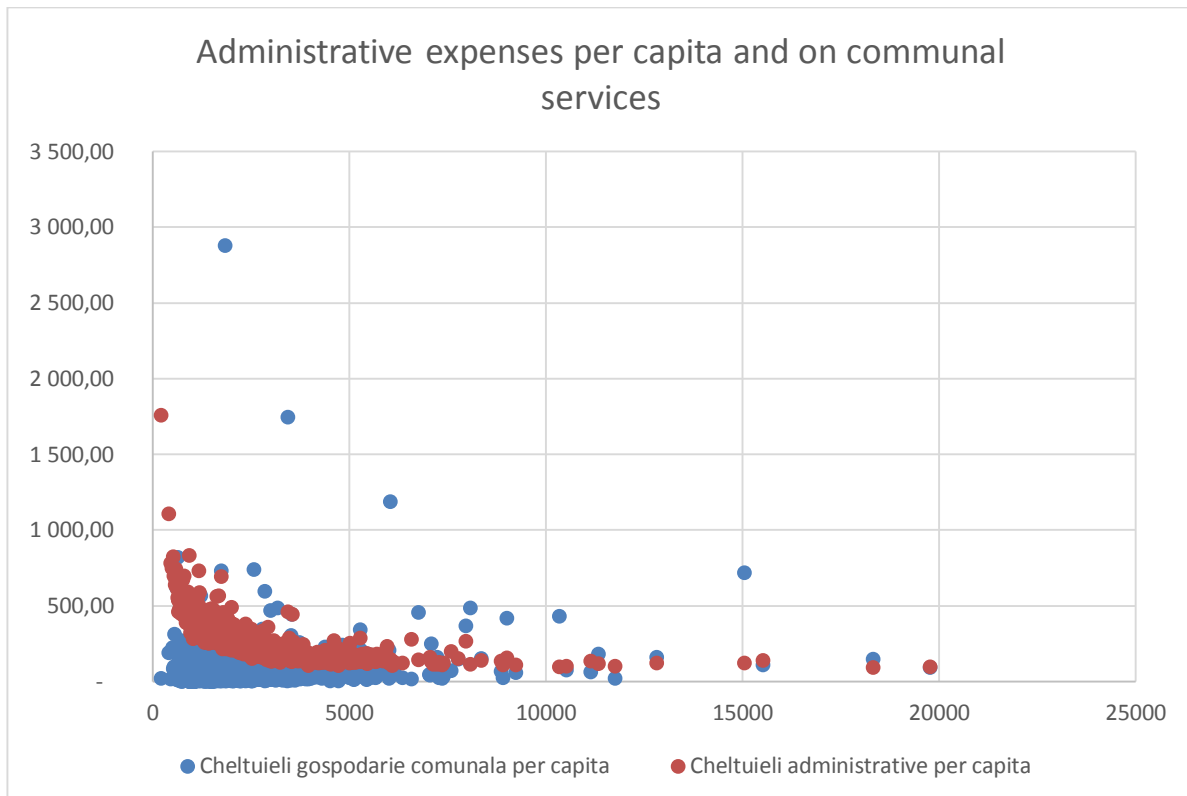
⁵ [Note on the preliminary results of the Populations Census in the Republic of Moldova conducted in 2014](#)

The analysis of expenditures show us that, on average, 30-50% of money is spent for education (a delegated function), while administrative expenses range between 10% of the total for raion-centre towns, up to 31% for units with less than 1500 inhabitants. There are small municipalities which allocate 86% of their expenditures on administration.

Communal services, the most important category of local services, are insignificant, taking up no more than 6-8% of expenditures for the majority of local authorities. Only raion centre towns allocate more substantial amounts for communal services - 19% of their budgets – a sign that this type of services matter and there is institutional capacity for their provision. In Raion center towns administrative expenses represent on average 10% of the budget.



With the exception of 55 local governments (6%) all local authorities spend more per capita for their administration than for all communal services together. For many, the amounts allocated are insignificant: 214 (24%) local governments spend less than 20 MDL (1 EUR) per person per year for all communal services, while 639 (71%) spend less than 100 MDL.

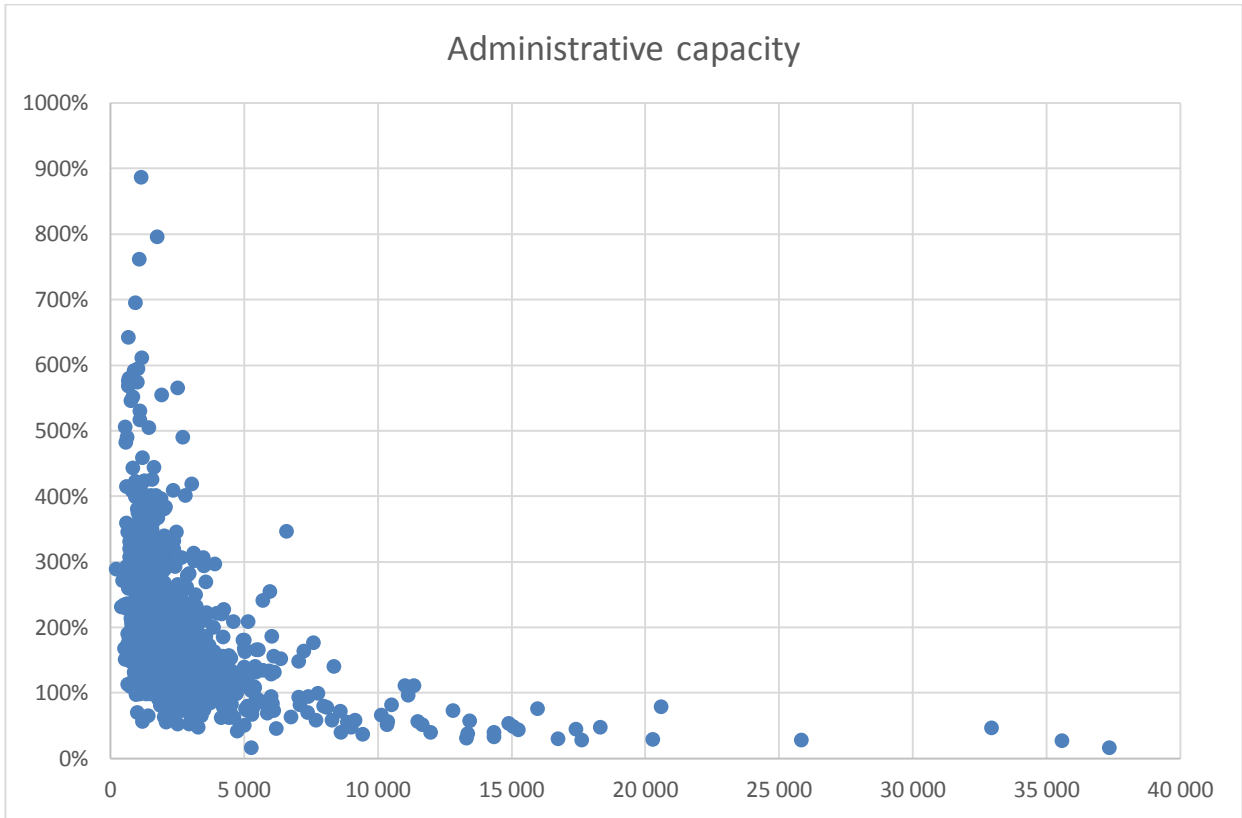


In each of the graphs above we can notice the strong correlation between size (population) and the administrative expenses: the least the number of population in a unit, the larger are the administrative expenses (both as a percentage of the budget as well as in per capita amounts), even if all local governments have to fulfil the same set of responsibilities according to the law.

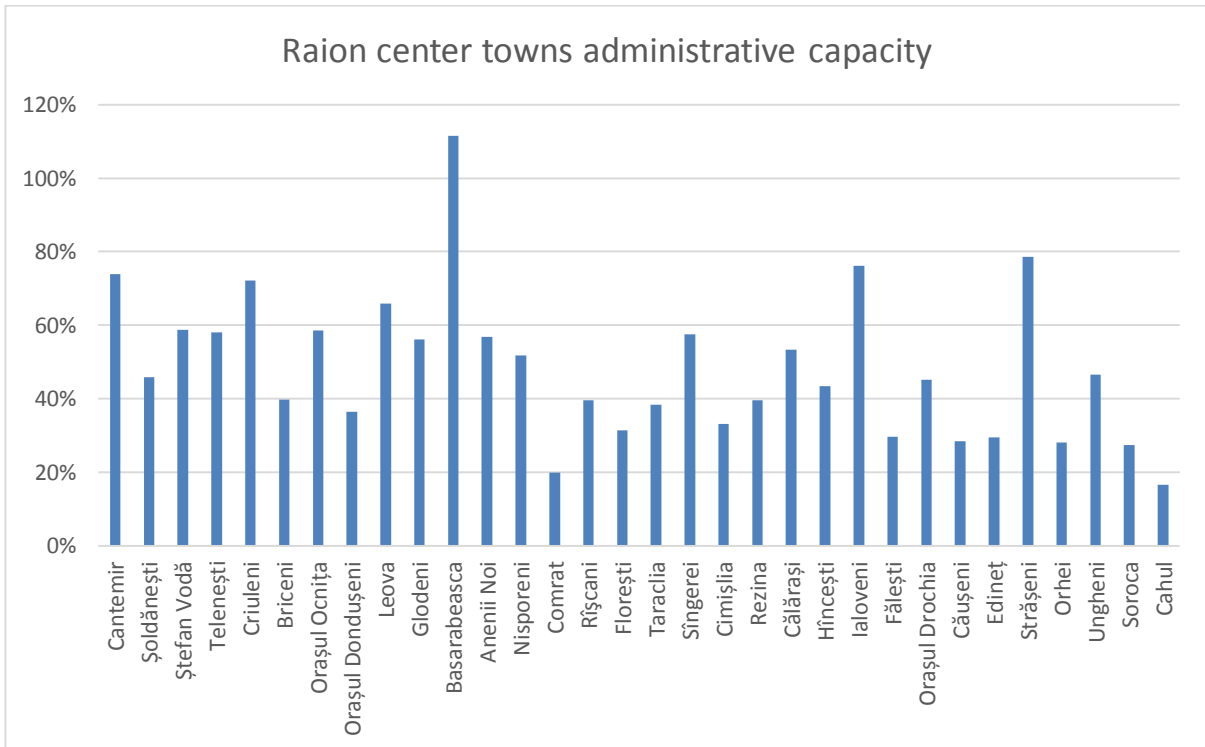
Administrative capacity

There is a legal threshold regarding administrative capacity, measured as general administrative expenditures compared to own revenues. According to the provisions of the Law on administrative decentralization⁶, a local government is considered to be adequate when its administrative expenses do not exceed 30 percent of the total amount of own revenues. Using 2013 budget data, only 10 local authorities meet this criterion, while 888 (99%) fail it. Moreover, only 157 local governments (17%) can cover their administrative expenses with their own revenues. In the figure below we can see the correlation between size of population and the administrative capacity. The large majority of local governments (83%) cover the costs of their administration from transfers provided by the state.

⁶ Law no. 435-XVI from 28.12.2006 on administrative decentralisation



Even at the raion center town level, only 7 of them fulfil the legal requirement regarding the administrative capacity.



Institutional capacity – lack of institutional capacity for service provision

The law gives each local government in RM broad responsibilities and powers which require developed, well-structured and functionally specialized institutions. **769 (85%) of local governments have a maximum of 6 staff (25% less than 4 staff)**, including the mayor, the secretary, tax collector, cadastre engineer, accountant. This staff composition and institutional structure **does not allow management and provision of services, and regulatory functions required by the law**. Responsibilities and services implemented by different people or entire departments in larger local authorities (e.g. Calarasi, Cimislia) are the sole responsibility of the mayor in these local authorities. The financial resources do not allow hiring of more staff. Size is a limitation in development of adequate institutional capacity.

Vertical fiscal Imbalances – inability of local governments to finance expenditure needs from local resources

Vertical fiscal imbalance (VFI) is understood as a mismatch between expenditure responsibility (directly linked to functional responsibility) and own-source revenues at the subnational level. VFI measures the ability of local governments to cover their expenditure needs from locally available revenue sources.

Analysing actual budget data for the period 2005-2013, IMF⁷ has found that several factors influence vertical fiscal imbalances for local governments in RM. Municipality-level income per capita, as well as subnational fiscal capacity (measured by relative revenue effort) have a positive impact on VFIs. Population, and dependency ratio (as measured by the share of people aged less than 15 and over 62 in population) is found to have a worsening effect on VFIs. In other words, the fewer inhabitants in a locality, the less capable is the local authority to collect own revenues to cover the expenditures. Rural local governments, in particular, are very fragmented and have a higher dependency ratio.

These findings have important policy implications requiring a range of well-coordinated complementary reforms, particularly as local governments are given greater fiscal autonomy. Administrative and territorial consolidation is necessary to create economies of scale, enhance revenue collection, and improve the composition of spending, which are currently heavily dependent on central government transfers and skewed towards current expenditures.

Fiscal capacity (limited potential, own revenue collection)

Starting with January 1st 2015, a new local government finance system came in force.

The studies and simulations carried out in 2010-2013, in preparation of the new local government finance system, show that local governments have reached the limits of the financial envelope in terms of shared taxes and state transfers. Further revenue increases at the local level – from shared taxes and state transfers - can only occur gradually, within the limits imposed by the natural economic and employment growth, complemented by marginal improvements in tax collection. According to our calculations (see graph) total local government revenues will increase by 3.16% for the next 4 years.

Moreover, local governments have already under their control the majority of the taxes and fees that are suitable for local authorities. Some new local taxes and fees are currently under consideration. Local

⁷ Serhan Cevik, Fragmentation and Vertical Fiscal Imbalances: Lessons from Moldova – IMF, 2014

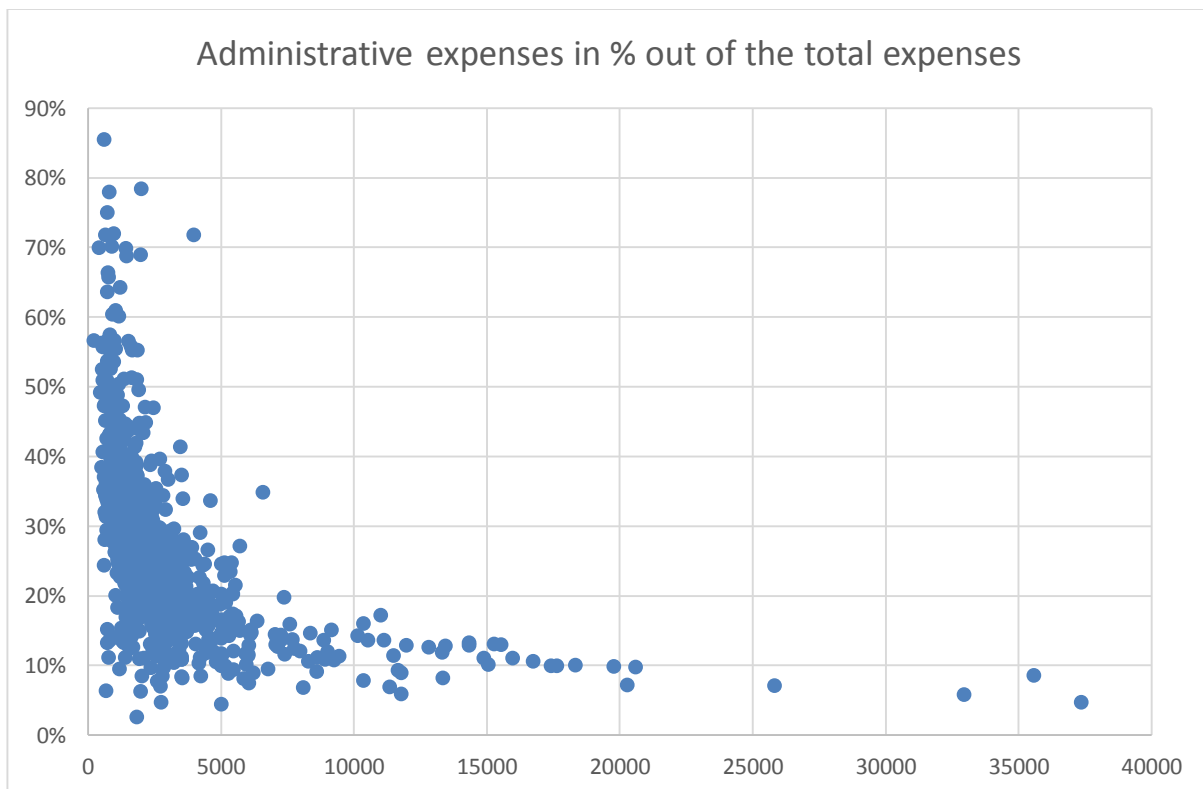
<http://www.imf.org/external/pubs/cat/longres.aspx?sk=42549.0>

taxes and fees – under the autonomous control of local governments – can potentially bring another 0.24% annual increase in local budgets.

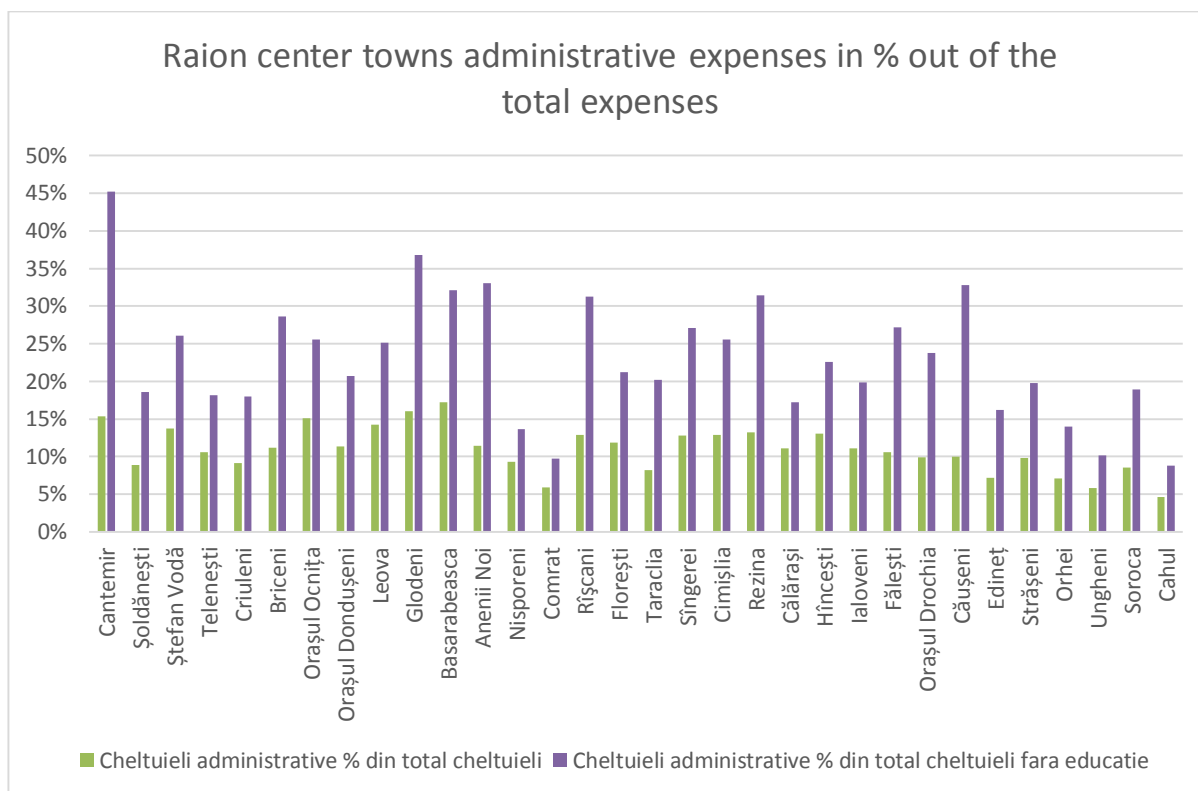
From these figures we can conclude that local budget revenues will not have a spectacular increase, which would make available important supplementary financial resources necessary to build up the infrastructure and institutional capacity for local public service delivery.

Cost efficiency – disproportionately high general administrative expenses

From the graph below we can see that there is a strong correlation between the share of administrative expenditures in the total budget and the number of population. The local authorities with a small number of inhabitants spend disproportionately on general administration, leaving only a small portion of the budget for the actual delivery of services. About 68% of the municipalities have administrative expenses larger than 20%. For comparison, first level administrative expenses in Poland average 12.5%. If we exclude expenditures for education (a delegated function) then the share of administrative expenses is higher than 50% for almost half of the local authorities.



The raion center towns, which have typically a larger population, larger budgets and institutional capacity, have a better (lower) ratio of administrative expenses in the budget.



Level 2 - Raions

The second level of government in RM – the raion, currently 32 of them- is inherited from the soviet state structure, even if it went through a failed reform attempt from 1998-2003 when larger second level entities – the judet – were created. The original purpose of the raions was to exert ideological, political and economic control in a planned economy and single party system.

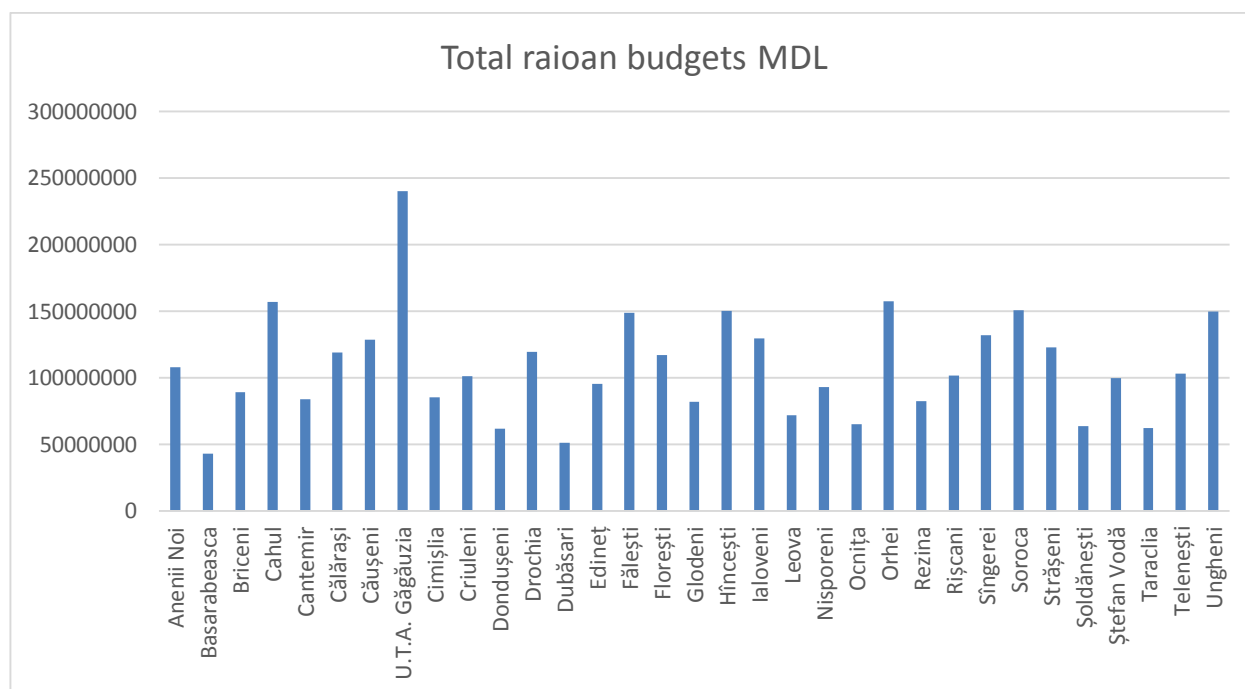
The return to the raion structure was driven by political interests, rather than by the desire to improve the allocation of sub-national functions and provision of services. It is generally agreed that the raions have functional goals which are not particularly important in service provision, their main aim being to allocate resources and transfers from the state to the local governments, intervening in the elaboration and implementation of local policies, and by these means facilitating a degree of political control over local politicians and communities. Even if not granted by legislation, the raions have assumed in practice a (superior) hierarchical role in relation to local authorities of first level. This hierarchic role has been requested and reinforced as well by the Central administration and Ministries, which, after structural reforms, were left with insufficient staff and institutional resources to administer effectively the territory. Raion staff serves as monitoring and coordination agents on behalf of some of the central government ministries. This function and the dual (administrative and elected) subordination of raion administration and staff, runs counter to local autonomy and separation of powers principles.

During the last couple of years the raions were given own functional responsibilities in administering important social services: managing the school network and coordinating some social assistance services. At the same time, the new local government finance system diminishes the importance of the raions, as it takes away the power which the raions had in allocating financial resources, by establishing fixed tax

sharing quotas, clear equalization formulae, and allowing direct allocation of funds from the state to the local authorities of first level.

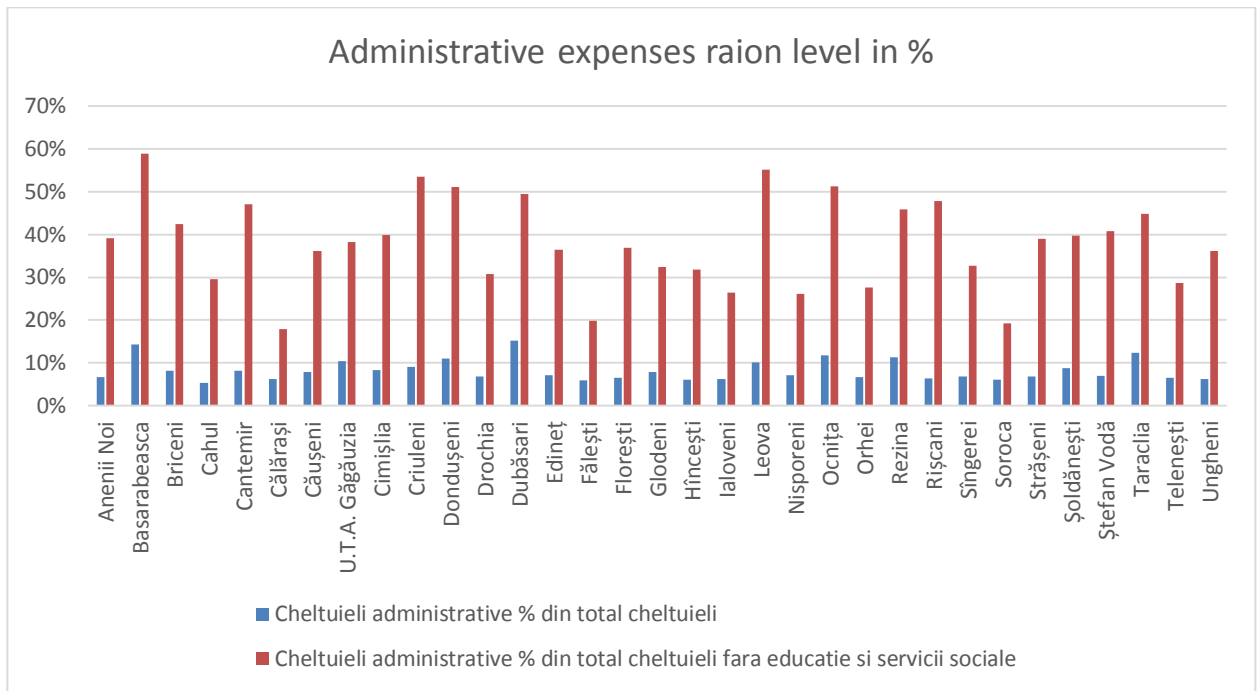
Budgets dominated by expenditures for delegated functions and very high administrative costs

The total budget of the 32 raions and Gagauzia was⁸ 3.569 million MDL out of which **2.572 million MDL represent education and 348,5 million MDL – social assistance, altogether cumulating 82% of the budgets of the raions.**



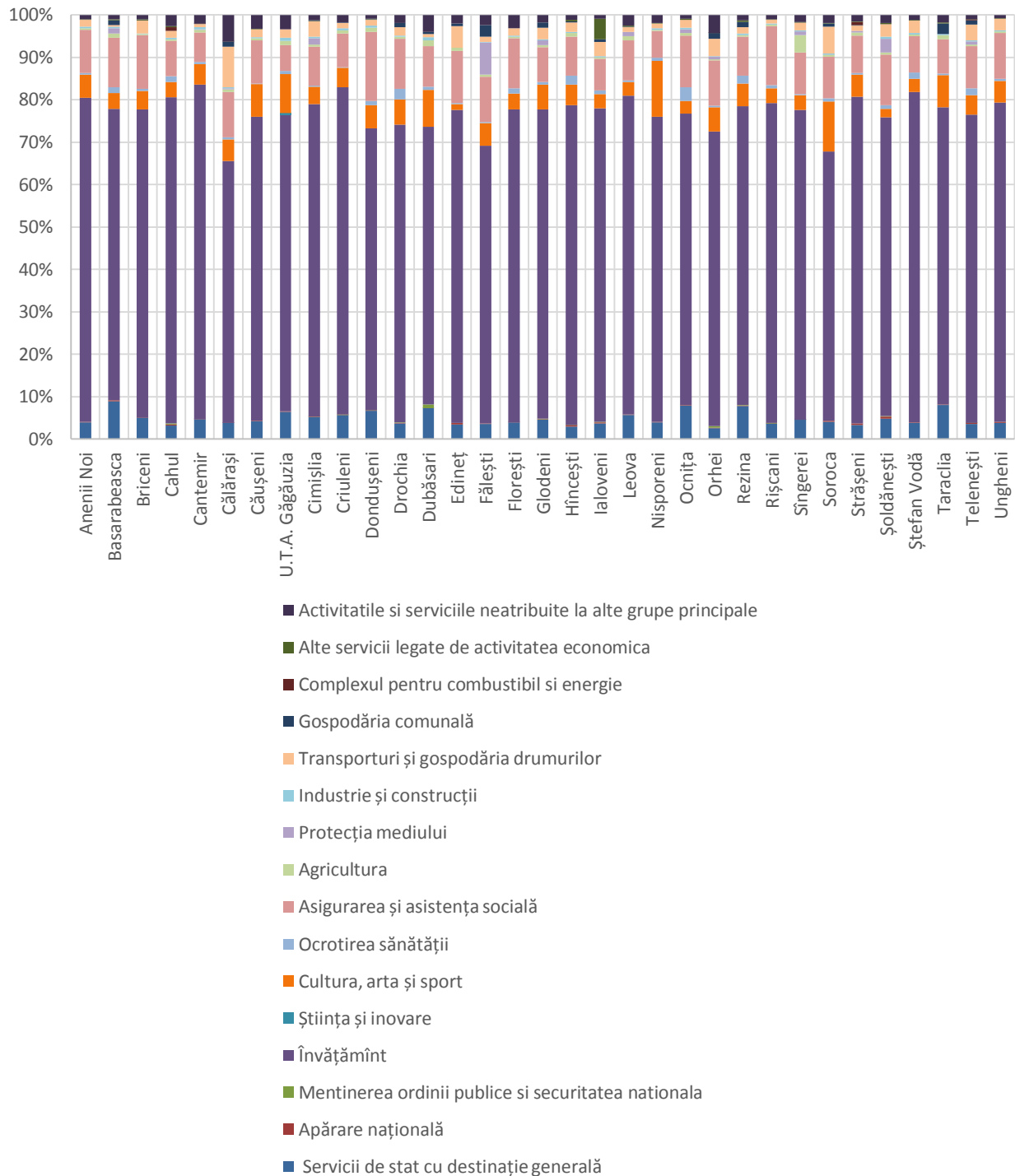
The total administrative costs of the 32 raions and Gagauzia reach **274,9 million MDL**, which is around 8% of the raions' budgets. If we exclude however the education and social assistance expenditures (which are delegated functions) **the administrative expenses represent on average 38% of the budget** (varying from 18% in Calarasi to 59% in Basarabasca).

⁸ Data of the enforced budget 2013, Ministry of Finance



The data show that if we exclude education and social services – new functions, recently delegated – **the raions have a very low efficiency**. As a comparison under the same conditions the Chisinau and Balti municipalities have 7% and 16% respectively.

Structure of raions' budgets



For certain services (for instance agriculture or constructions) the administrative expense are equal to the amount of expenses for the respective service – a sign that these functions represent either control and regulation, or monitoring and supervision.

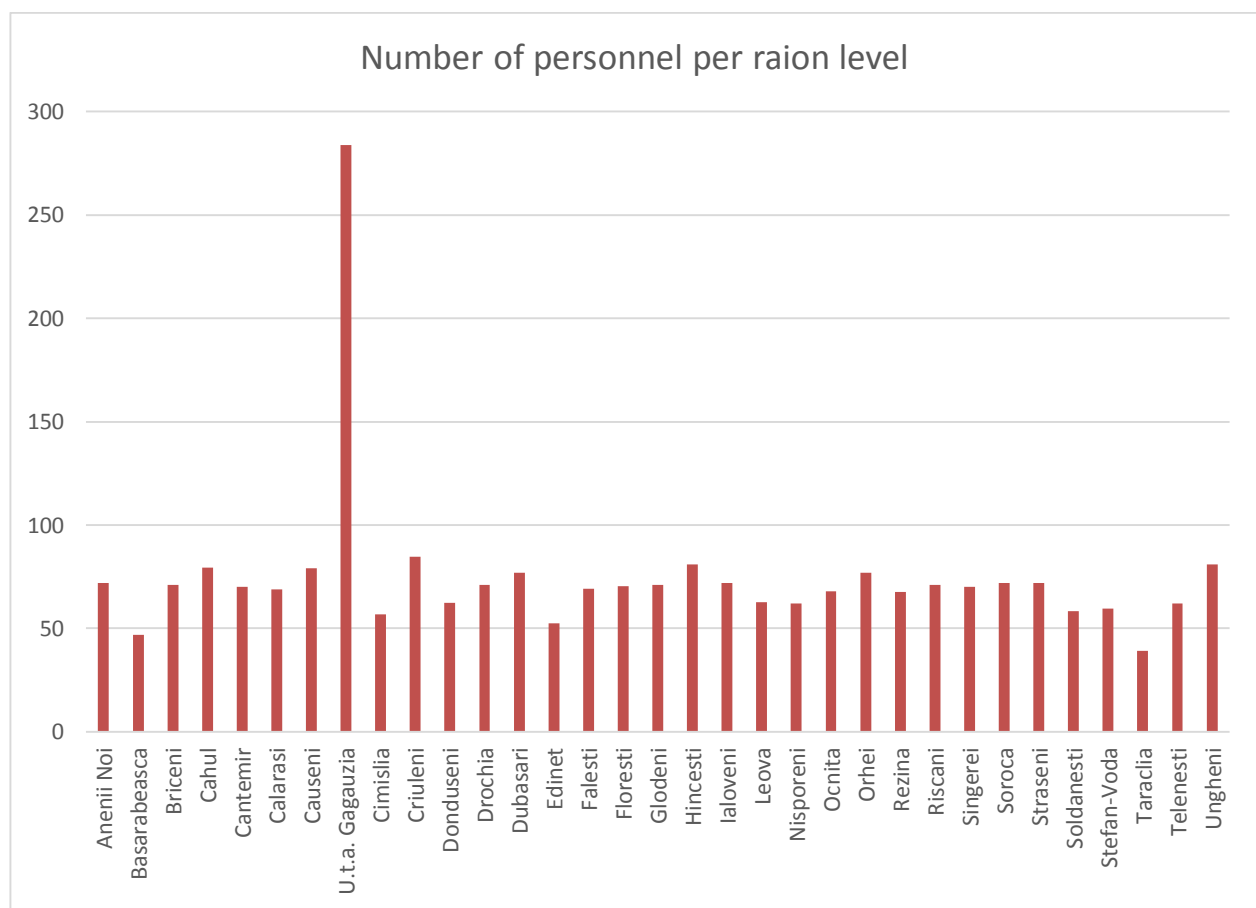
Oversized personnel, with double subordination, which undertakes activities for the ministries

It is necessary to functionally evaluate the personnel structure of the raions to determine the workload and the usefulness of the personnel.

Partially, these high costs (compared to the first level) are a **reflection of the double subordination of the personnel of the raions**, as it fulfils tasks given by certain ministries (Ministry of Finance, Ministry Education, Ministry of Social Protection, Family and Child, Ministry of Education).

The real number of employees for the 32 raions and for Gagauzia reach 2530⁹, with an average of 77 personnel units per local authority of second level, in strong contrast with those **5097 employees of the all the 898 mayoralties** (except Chisinau and Balti), who have only an average of **5.68 personnel units per mayoralty**.

For instance, the number of employees of the administrations of the raion councils is on average 20, of the finance departments 13 (between 9 and 19), whilst of the educational departments – 11.



Taking into account the **large number of responsibilities for services which need to be delivered directly to the population by the mayoralties**, the high contrast between the mayors' offices and the raions raise plausible concerns from the mayors and experts on the role, importance and efficiency of raions. This situation makes even more obvious the need for territorial-administrative reform, both at the 1st and at

⁹ Data on personnel from 1 February 2015, Ministry of Finance

the 2nd levels, to create the necessary institutional capacity to deliver services to citizens (mainly at the 1st level)

The total number of employees in the local public administration authorities (both 1st and 2 level) is **8522**.

The number of locally elected mayors and councilors is around **12.000**.

2. Options

The analysis shows the strong correlation and causality between territorial administrative fragmentation and the main problems: economic inefficiency generated by the low fiscal capacity and high administrative expenses, high vertical fiscal imbalances, lack of basic local service provision, particularly in the rural areas where the majority (65.8%) of the population lives, absence of institutional structures for service provision, inability of local and raional governments to facilitate economic development.

To overcome the significant problems induced by the high territorial administrative fragmentation and create the conditions for incremental availability of basic services to all citizens of RM during the next four years, we can consider three alternatives for the first level local territorial administrative units:

1. Amalgamation
2. IMC – Inter-municipal cooperation
3. Asymmetric decentralization

The optimal size of second-level LPAs (raion) depends on the administrative-territorial organization of first-level LPAs. This means that, with a consolidated territorial structure, the second-level LPA may comprise bigger territories and a greater number of people, which facilitates the economic planning and development, encourages economies of scale for a series of services, and with no less importance the access to the European development funds.

For the second level local government the study takes in consideration the opportunity to create a Regional level of (elected) government, to respond both to functional concerns, as well as to development demands and EU accession opportunities.

Level 1 – Primaria

1. Amalgamation

Amalgamation is the only way to achieve important savings by reducing the administrative expenses and reallocating the resources freed in this process for service delivery.

The responsibility to provide local services will belong to local authorities which already have the administrative and institutional capacity to deliver those services, and will be able to strengthen those capacities by attracting skilled and knowledgeable staff. Those local authorities will be able to expand the delivery of already functional communal services (like waste management) to neighbouring rural localities, and implement projects to build the necessary infrastructure for the provision of those services.

The restructuring should not result in diminishing of inclusive democratic representation and participation in local decision making. Elected councils leading the new local governments should have representatives from all participating communities/localities.

Amalgamation will most likely not result in diminishing of the total number of jobs in local government. The nature of jobs will change, resulting in functional specialization according to the various functional responsibilities that the new local governments will now be able to fulfil.

The resulting larger local territorial administrative local and regional¹⁰ units will have sufficient territorial coverage and more resources to be able to plan and facilitate local and regional economic development.

The strongest barrier for amalgamation of first level territorial administrative units stems not from the legal, administrative or functional complexities, but from the apparent political consequences of diminishing the number of local elected officials. The current 898 local councils provide political positions and leading community roles for 12,000 representatives, elected in majority on party bases. A rational amalgamation will result in approximately 3,000¹¹ elected positions – a drastic decrease of political jobs and positions of influence offered to local party elites.

The restructuring of the raions in larger regional government units will, as well, affect the political parties which have their structures organized at raion level. This used to be the case particularly considering the great influence that raions used to have in distributing financial resources.

A. Transitional solutions

The political risks perceived may lead decision makers to attempt transitional amalgamation solutions in the short run, with the aim of carrying out a through territorial administrative restructuring before the next local elections in 2019. Three options are possible: voluntary amalgamation, voluntary amalgamation with a deadline, and mandatory amalgamation of territorial administrative units which do not fulfil the minimum legal viability criteria.

¹⁰ In both full amalgamation options proposed, the raions (in their current form and size) lose their meaning and will need to be restructured.

¹¹ If we use the same proportions of local elected officials per number of population, there will be circa 1500/3500 local elected officials according to the specific full amalgamation option chosen. It is possible that new forms of representation (of each village in the municipal council) to increase the number of elected officials to about 2500/4500.

(i) Voluntary amalgamation

Voluntary amalgamation means giving the opportunity for small territorial administrative units to join with, or be absorbed by, neighbouring units, having as a result a unit complying with the minimal legal provisions regarding viability of local governments (e.g. minimum 1500 inhabitants and administrative capacity criteria). Voluntary amalgamation should be accompanied by financial incentives, e.g. infrastructure development grants, participation in European projects, etc.

The state may impose some additional rules and criteria regarding which local authorities can voluntarily amalgamate, which would ensure that the resulting local units are economically, geographically and functionally viable (e.g. cluster amalgamation vs string amalgamation, existence of roads, etc.) . For example the amalgamation of a string of local authorities spanning 200 km along the national border would not be acceptable, even if it would satisfy the population and administrative capacity criteria.

Criteria and restrictions may include:

- Viability criteria already included in the law (number of population, administrative capacity)
- Residential settlement (administrative center) of the municipality (town or village) to have more than 1500 inhabitants;
- Maximal travel distance from any locality to the residential settlement (administrative center) to be no more than 20 km;
- Own revenues per capita of the administrative center to be more than the country's average;
- Natural obstacles (relief, rivers, etc.);
- Spatial coherence of the proposed units
 - o more or less central position of the residential village/town within the unit;
 - o good road connectivity of the settlements within the unit with residential village/town;
- Economic power of the possible residential villages represented through Index of economic deprivation (extracted from the IDAM database of the Ministry of Economy);
- Ethnic diversity/homogeneity (especially for Gagauzia).

Voluntary amalgamation has been tried in some European countries and has, most of the times, failed in practice (e.g. France 1971), even if substantial incentives were offered. Almost all countries which tried changing their administrative territorial structure through voluntary amalgamation have reorganized several years later through centrally planned mandatory amalgamation (the Baltic countries, Georgia, Greece, Denmark, etc). Voluntary amalgamation has, like IMC, to overcome strong local political ambitions. There is a real risk that localities will amalgamate along party lines, resulting in inefficient entities, unlikely to improve administrative and institutional capacities for service provision.

(ii) Voluntary amalgamation with a set deadline

When small local governments can freely decide with whom they want to establish common political-administrative units during a given period, with a tight deadline, then there might be stronger incentives for mergers. Otherwise the central government will decide which LPAs should join which new center. This temporary solution worked in the recent amalgamation reforms in Denmark.

Similar criteria and restrictions should be put in place, as in the option above.

(iii) **Amalgamation of local governments which do not meet minimal legal criteria for viability** (*with less than 1500 inhabitants, insufficient administrative capacity*)

According to the 2014 Ministry of Finance data, 255 territorial administrative units have less than 1500 inhabitants, this is 28% of the total 898. At the same time, if we extrapolate the national level census information recently published, the population physically present in RM has decreased by 25% (17% population decrease plus 8% living abroad). This means that the number of territorial administrative units with real population of less than 1500 inhabitants is higher – most likely all localities which are now listed with 2000 inhabitants ($75\% \times 2000 = 1500$), namely 427 territorial administrative units. This means that practically half of the total number of units will have to be amalgamated, while the other half will be affected by the amalgamation.

Moreover, a restructuring by amalgamation of the small units will create the conditions for improvement of local public services in a very limited number of localities, precisely because the restructuring is not comprehensive. The risk is that, in 4 years, the population will become unhappy and resistance for another wave of restructuring will build up.

In this case the political costs are already high enough to justify a judicious, nation-wide territorial administrative restructuring, based on the Expert-Grup study. It makes little sense to re-configure the territorial structure by halving the number of units in 2015 and reconfigure it again in 2018/2019.

The law has more criteria for viability of local authorities, not only the number of inhabitants. If we consider the administrative capacity criterion (administrative expenses to be less than 30% of own revenues), then only 10 local governments meet it, while the rest of 888 (99%) don't and will have to be amalgamated. Even if we relax the administrative capacity condition and raise it to 100%, only 157 local governments will pass. Adding other criteria besides population will lead to a full restructuring, as presented in the full amalgamation models below.

Democracy and representation

For new territorial administrative units comprising many localities (particularly if there is an urban – rural mix) there might appear the need to adjust the electoral system so that every settlement within a municipality is represented in the local council.

Functional design

The resulting local governments will keep the allocation of responsibilities which is currently provided by the law.

Local government finances

The current system of local government finances will be applied, adding up in the budget of each new commune, the revenues of the amalgamated local authorities.

B. Full amalgamation

With UNDP's support, Expert Grup – an independent think-tank, elaborated in 2010 an analytical Study on optimal territorial-administrative structure, in preparation for the Decentralization Strategy. The study is the most comprehensive and well justified to date. It is most likely that a new study will not yield better results or change significantly the Expert Grup proposal.

The study proposes 2 models for reorganizing the country's territory through amalgamation:

- **High-efficiency amalgamation**, which requires amalgamation of the small communities into larger municipalities, from 898 in present to 111, with an average population of 23,800 (excluding Chisinau and Balti). This further demands abolishing the current raions and entrusting municipalities with providing a significant amount of public services. A Regional level of government can be introduced. The economic simulations based on the proposed strong amalgamation model shows 70-80% reduction of administrative costs. This model can function with or without a regional level of government, and will require a transition period of maintaining and then transforming some of the local administrative services.
- **Mild amalgamation**: would allow for a milder reduction in the number of municipalities, from 898 to 289, which will render savings of about 50-55% at the first level of public administration. The current raions will be abolished and the Development Regions will become a regional level of elected government. This will reduce the operational costs at the second level, while not having any significant impact on the quality of the services.

(i) High-efficiency amalgamation

Basic elements

The highest concentration of institutional and administrative capacities, economic efficiency (economies of scale), and highest potential for service delivery and local economic development can be achieved by creating 111 territorial administrative units. They will become strong enough to undertake all functions and services, including the ones currently allocated to the raions (management of pre-university education, social assistance and protection, agriculture, industry and constructions, etc).

The high-efficiency amalgamation model can function both in a single tier system, as well as in a system with two levels of government.

These local authorities will have sufficient institutional and economic weight to participate in regional development projects, including with EU funding, borrow for capital investment, etc.

They can be strong counterparts for the Regional Development Agencies, and for the Regional Governments – if this level of governance is introduced.

Description of the model

The process of elaborating the new high-efficiency administrative-territorial division followed a three-step approach:

- At the **first step** threshold criteria were developed:
 - Residential settlement (administrative center) of the municipality (town or village) to have more than 1500 inhabitants;

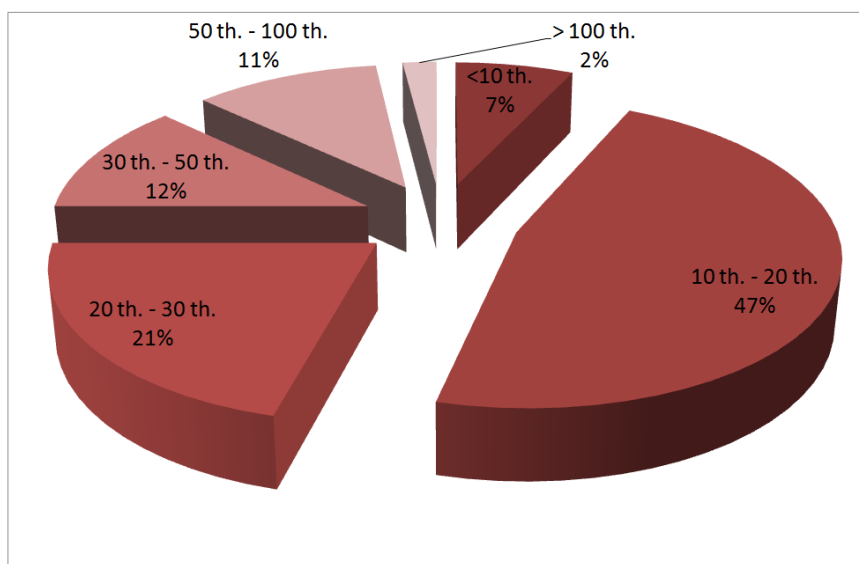
- Maximal travel distance from any locality to the residential settlement (administrative center) to be around 20 km;
- Own revenues per capita of the administrative center to be more than the country's average;
- Using population dynamics for the past 20 years as a proxy for choosing the residential settlement (administrative center);
- This step ends by appointing possible residential settlements (administrative centerz);
- Settlements with different dominant nations should not be unified in one municipality¹²;
- At the **second step** the boundaries were traced taking in consideration:
 - Natural obstacles (relief, rivers, etc.);
 - Spatial coherence of the proposed units
 - more or less central position of the residential village/town within the unit;
 - good road connectivity of the settlements within the unit with residential village/town;
 - Economic power of the possible residential villages represented through Index of economic deprivation (extracted from the IDAM database of the Ministry of Economy);
 - Units coordinated by a developed town (so called "urban municipalities") were made larger than those coordinated by villages ("rural municipalities"). The reason is that a town is much more powerful in the organization of space and has enough capacity to administrate a larger unit with bigger population. At the same time, these larger units have better human potential and can serve as development poles and centers.
- **On the third step** Expert Grup tested, adjusted and provided justification for the new schema of administrative-territorial division.

Tracing the boundaries was made bottom-up by aggregating present administrative-territorial units of the first level. The fact that the newly proposed boundaries coincide with current raions is explained by strong influence of the natural conditions (by vertical fragmentation of relief, by watersheds and rivers) as well as by inertia of the settlement system that follows the paths traced by Soviet administrative-territorial structure.

In result of applying these criteria, the number of municipalities for the high efficiency amalgamation model equalled 111 units. The resulting high efficiency model of the administrative-territorial division of the Republic of Moldova is represented in the Map 1. The relative majority of the new municipalities (47%) will have 10-20 thousand inhabitants, while those of 20-30 thousand will represent 21% (Figure 1). Because of the geographic conditions, an important part of the municipal settlements will have less than 5 thousand people with most of municipalities being composed of 15 to 20 settlements. Some of the new municipalities will cut the borders of the today's development regions, and would result in adjustments to the Law on Regional Development. The proposed model tried to consider the ethnic composition of the population so that the resulting municipalities are as homogeneous as possible.

Figure 1. Distribution of municipalities by demographic size, thousand persons

¹² This criterion was taken in consideration in the southern part of the country in order to keep administrative boundaries of UTA Gagauzia untouched; possible ethnicity-based tensions are shown on the 'ethnic tension' maps.



Source: Expert Grup calculations;

Democracy and representation

In broad terms, for Moldova a high efficiency system would mean a radical decrease in number of municipalities. Basically there will be two types of municipalities: (i) *rural* – with several villages surrounding a larger rural settlement, and, (ii) *townships* – with rural settlements amalgamated in a metropolitan area around a town. They would have elected councils and mayors but electoral system should be changed so that every settlement within a municipality is represented in the local council.

Functional design

The administrative services should be organized such that there is a permanent link between residents of settlements and local public authorities, while services are brought as close as possible to citizens. Generally, the new system should allow that inhabitants do not have to travel to the administrative center locality of the local government more often than they are traveling now: according to the results of the sociological survey carried out by Expert Grup, **about 45% of the population visited in 12 months the primaria, with an average number of visits of 3.3 times**. Several models have been developed during the last years to bring the services closer to the citizens, and they can be easily extended nationally: single service bureaus (BICS), e-governance methods, including use of mobile technology, use of postal services, etc.

There would be a standard set of functions that applies to all local governments (type I, see the list below) and another list of functions that implies provision of services that require larger catchment areas, which would be assigned to larger towns (e.g. above 20,000 population) only (type II).

Own functions for all local governments – type I

- Urban planning and local green spaces management
- Pre-university education (management of school network)
- Building, operation and maintenance of kindergartens, elementary, secondary and vocational schools
- Social protection

- Water supply/sewage
- Waste collection/management
- Local public transport
- Streets, local roads
- Streets lighting
- Development of local heating and gas supply networks
- Agricultural market and commercial spaces maintenance and management
- Local cultural, youth, sport, recreational events and infrastructure
- Cemeteries

IMC (inter-communal cooperation) will be legally encouraged as well as integration and regionalization of infrastructure maintenance units – water supply, waste, gas supply, roads and others.

Own functions for all local governments – type II

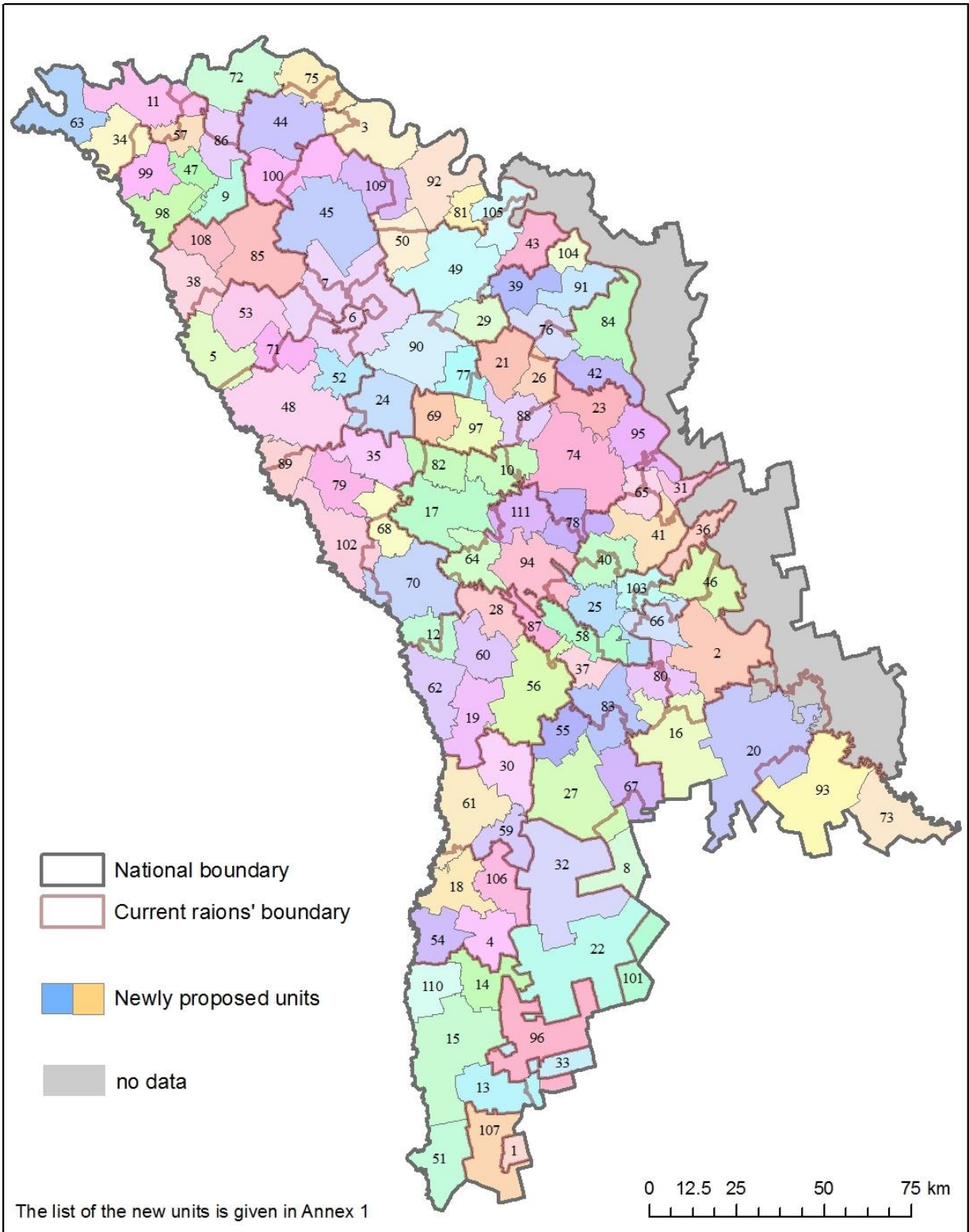
- Regional roads and infrastructure
- Social assistance and social care institutions
- General healthcare institutions
- Emergency services

These functions will be carried out for a cluster of municipalities around a major town by the local government of the *townships* municipalities. The relationship between the *township* and the surrounding municipalities is of cooperation nature, on a contractual basis or based on proportional forms of representation, and does not imply subordination. These functions will be progressively undertaken by rural local governments as they develop and adapt their institutional capacity.

Local government finance

The principles and formulae of the new system of local government finance implemented starting with 2015 will be used as a basis for determining the revenues of the new localities. All criteria used in tax sharing and computation of equalization transfers are based on population, area of the territorial administrative unit, and amount of taxes collected in the respective territories. These criteria are all additive and can simply be applied in the case of amalgamation by adding them up.

The Personal Income Tax (PIT) shares as well as the division of the Equalization Fund will have to be reassessed, according to the decision of maintaining a two-tier system or moving to a single-tier system. The actual allocation of responsibilities will have to be taken in consideration as well in determining the shares.



Source: see 'Sources of information for maps' section;

(ii) Mild amalgamation

Basic elements

The “mild amalgamation” model proposes 289 territorial administrative units, with an average population of 9,130 inhabitants (excluding Chisinau and Balti). Rural units will have an average population of 7300 inhabitants.

The model will create local governments with better institutional and administrative capacities, higher economic efficiency (economies of scale), and good potential for service delivery and local economic development compared to the current system. While local authorities including current urban primarias will be able to discharge all legal responsibilities, not all other local authorities will become strong enough to undertake all functions and services.

This model requires a second tier, regional/raional level of government that has functional responsibilities, not only in terms of territorial planning, regional and economic development, but also infrastructure development, management of public services, etc.

Not all local authorities will have sufficient institutional and economic weight to participate in regional development projects, borrow for capital investment, etc. The second level of government will have to play an important role in these fields.

Description of the model

Criteria used for establishing new boundaries of the administrative-territorial units of the first level for the two-tier model were the following:

- Demographic criteria
 - Minimal size of the municipality – 5000 inhabitants
 - Maximal size of the municipality – 10 000 inhabitants;
 - Minimal size of the municipality’s residence settlement – 1500 inhabitants;
- Distance threshold
 - Maximal distance between residence settlement (administrative center) and the most distant village in the given municipality should not exceed 10 km;
- Ethnic criterion
 - Settlements with different dominant nations should not be unified in one municipality¹³;

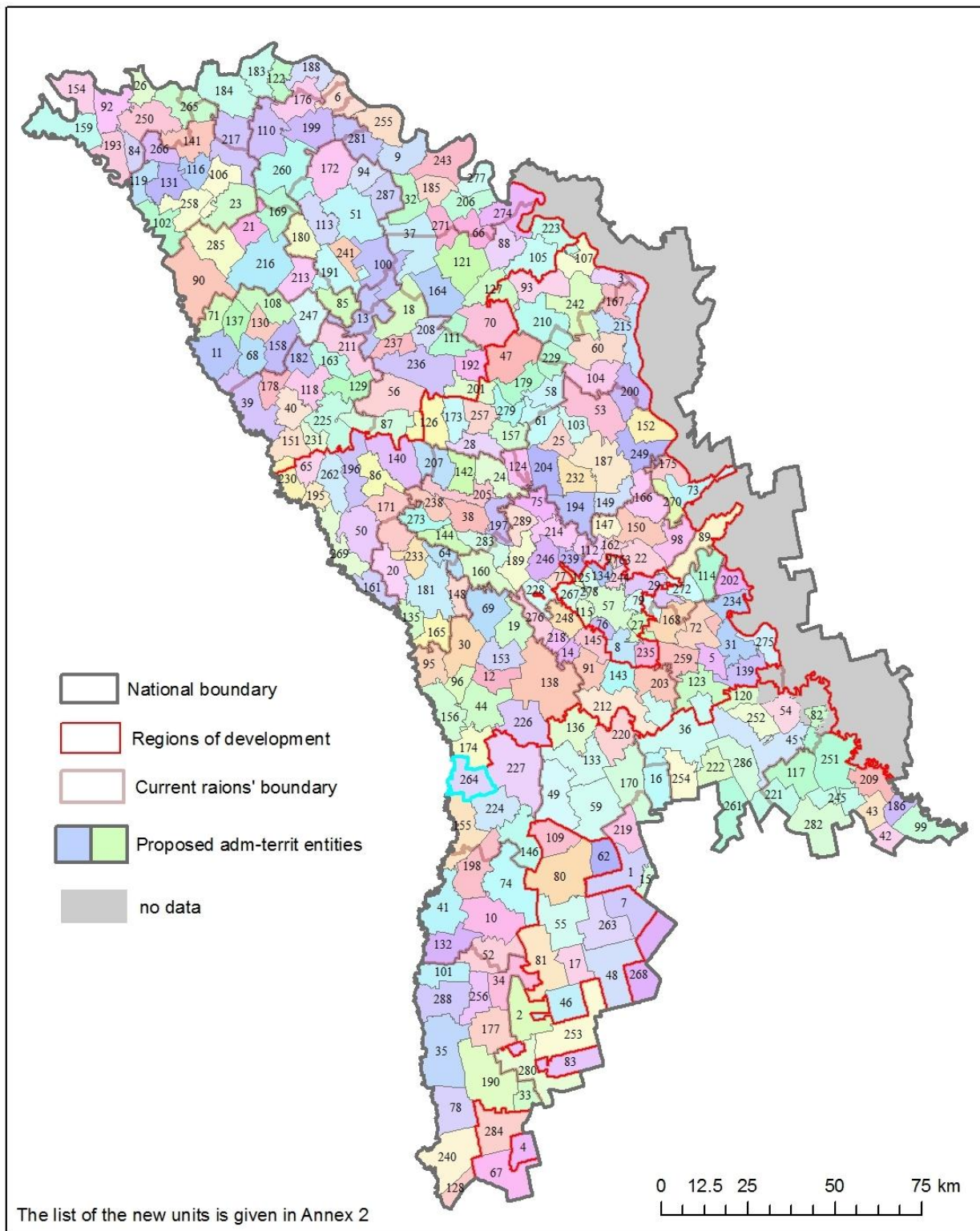
The resulting division of the country under the mild-amalgamation model is presented in the Map 2. A detailed correspondence between the current administrative-territorial units of the first level and the newly created under the proposed model is provided in Annex 2.

For ethnic, geographic and connectivity reasons it was not possible to apply uniformly the demographic criteria, but the share of exceptions was minimized to 11% of the total municipalities. Also, the ethnic criteria were applied only to those cases that are expressly stipulated in the Constitution. They were not applied in those other cases where demographic and economic efficiency criteria did not allow for, such

¹³ This criterion was taken in consideration just in the southern part of the country in order to keep administrative boundaries of UTA Gagauzia untouched; in other parts of the country we suppose negotiations on the case-to-case base. Possible cases of this kind are shown on the ‘ethnic tension’ maps.

as in case of some areas in the Northern region, where Ukrainian and Moldovan villages are compactly intertwined.

Map 2. Proposed two-tier model of the administrative-territorial division of the Republic of Moldova



Source: see 'Sources of information for maps' section;

Democracy and representation

On the institutional design, both levels of local governance would need to have elected local and respectively regional councils as well as executive bodies. In principle, no new arrangements would be needed for new territorial administrative units, since the new units are relatively small and compact. If there are political concerns regarding representation, then the electoral system could be designed in such a way that ensures (direct or indirect) representation of all of all settlements in the local council. This may increase the administrative costs, and reduce the efficiency gains.

Functional design

The key decision to make with respect to this model of local governance is to efficiently allocate responsibilities among the two tiers. It is proposed that the main rule for distribution of functions should be as follows. If a function involves income redistribution, externalities and economies of scale, it should be assigned to the upper tier. If it provides local benefits only – the lower tier should be responsible.¹⁴ According to this principle, the following allocation of own responsibilities and subsequently of expenditure is proposed:

Level 1, Local government level

- Urban planning and local green spaces management
- Building and maintenance of kindergartens, primary and lower-secondary schools (gymnasiums)
- Primary social protection services
- Local public transport
- Streets, local roads, bridges, sidewalks
- Streets lighting
- Development of local heating and gas supply networks
- Agricultural market and commercial spaces maintenance and management
- Local cultural, youth, sport, recreational events and infrastructure
- Cemeteries

Level 2, Regional level

- Regional roads and infrastructure
- Regional public transport
- Upper-secondary education (lyceums, vocational schools, colleges)
- Emergency services
- Water supply/sewage
- Waste collection/disposal
- Regional land use planning
- Regional tourism
- Regional economic development

Since the resulting local authorities will be smaller, and not all of them will have sufficient financial and institutional resources to undertake all functions, there is a need for the second tier of local government. As mentioned above, it is proposed that the development regions (see following chapter on Level 2) are

¹⁴ Slack, 2003.

assigned the responsibilities of the second level and are led by elected councils. Thus, duplication of planning and development efforts as well as waste of additional resources will be avoided. The three regions – Center, North and South may be labelled *raions*, so that the constitutional provisions are observed.

Local government finance

The principles and formulae of the new system of local government finance implemented starting with 2015 will be used as a basis for determining the revenues of the new localities. All criteria used in tax sharing and computation of equalization transfers are based on population, area of the territorial administrative unit, and amount of taxes collected in the respective territories. These criteria are all additive and can simply be applied in the case of amalgamation by adding them up. An impact evaluation will have to be carried out to determine the adequacy of the coefficients, as is already provided by the process adopted by the Ministry of Finance.

Amalgamation results in significant administrative costs saving: 70-80% of total national administrative costs for High-efficiency amalgamation, or 45-55% for Mild amalgamation. This amount is comparable with the total spent nationally on communal services, and could, through reallocation, achieve a visible and important impact on communal service provision. Amalgamation of units with less than 1500 inhabitants achieves only limited savings (14%-25%) and does not provide enough savings for visible improvements.

Table 1 – Total expenditure levels, nationally, 2013, APL 1st level without Chisinau and Balti

Total national LPA I administrative expenses	476,834,304
Total national LPA I communal services expenses	338,345,726
Total national LPA I expenses	2,957,361,050
Total national LPA I education expenses	1,317,411,776
Total national LPA I expenses without education	1,639,949,274

Table 2 – Savings of administrative expenses through amalgamation.

Amalgamation option	No. of TAU	Average TAU population	Average number of staff per local authority	Administrative savings total (MDL)	Administrative savings vs total national expenditures TAU 1 (%)	Savings vs expenditures for communal services (%)	Savings vs total expenditures (%)	Savings vs total expenditure less education (%)	Adjusted administrative savings (88%, 85%, 75%, 80%)	Adjusted administrative savings vs total national expenditures APL1 (%)
High efficiency	111	23,768	40	373,882,196	78%	111%	13%	23%	329,016,333	69%
Mild efficiency	289	9,129	18	266,137,924	56%	79%	9%	16%	226,217,235	47%
Amalgamation for less than 1500	644	4,097	8	91,475,613	19%	27%	3%	6%	68,606,710	14%
Amalgamation for less than 2000	471	5,601	11	170,518,811	36%	50%	6%	10%	136,415,049	29%

Source – Author’s calculation, Ministry of Finance Data 2013.

2. IMC – Inter-municipal cooperation

IMC – Inter-municipal cooperation – is a tool to improve effectiveness and efficiency of service provision through partnership and cooperation of local governments. IMC is not actually a model of administrative-territorial organization, but rather a (short-term) alternative to reorganization.

Basic elements

Local governments can pool together and share expertise, human resources, finances, and real assets etc to deliver services to all citizens of participating municipalities.

IMC can cover

- regulatory functions,
- community services (e.g. education and social services) and their infrastructure,
- public utilities (e.g. water and sewerage) and their infrastructure, or even
- general administrative functions (human resources, local financial management, procurement, etc).

IMC can be achieved by the participating local authorities through contracts and agreements between them, through creation of joint single- or multi-purpose functional enterprises, or (where the law permits) through associative bodies with independent legal “personality” achieving integrated territorial cooperation.

However, there are a number of very serious obstacles to achieve effective IMC: lack of trust and political differences between municipalities; the complexity of IMC legal procedures and forms; the lack of finance and expertise, the lack of national legal frameworks and policies to facilitate and incentivize IMC.

Since 2010, seventeen IMC pilot projects¹⁵ have been started in the Republic of Moldova some of them providing good results. These pilot projects have occurred with the active support and involvement of the international organizations and donors (UNDP, EU, USAID, etc) and cover typically (12 out of 17) the provision of a single service (water and sewerage, waste management, energy efficiency). Multi-functional IMC projects are few (5), and they are as well limited to communal services (water and sewage, waste management, public lighting, public roads maintenance). Each of these projects has received heavy donor support, ranging from 100,000 USD (UNDP) to 2.3 mil EUR (GIZ/EU). It has taken 2-3 years for an average IMC project to become functional and sustainable, while some initiatives are still struggling.

For IMC to have a broad impact and ensure effective service provision at the national level, we should assume the creation of between 250 to 1000¹⁶ functional IMC partnerships during the next 4 years.

Given the practical experience with pilot IMC in RM, their complexity, as well as assessing the speed of development and implementation of policies regarding local governments, we can conclude that IMC cannot yield significant, nation-wide, positive results during the next 4 years.

¹⁵ GIZ Project “Modernization of Local Public Services” (7 projects), and UNDP - Joint Integrated Local Development Programme (10 projects, covering 40 communities and 120,000 people).

¹⁶ We assume at least 80% of the local governments have 1 to 10 local functions that need to be addressed through IMC, through cooperation between 2-10 local authorities (an average of 4)

Democracy and representation

No new arrangements for the local councils would be needed, as there are no new territorial administrative units created. On the other hand, the more complex lines of accountability generated by the IMC (to partner municipalities, to supervisory government authorities, and to service users) will have to be considered when creating the decision making mechanisms in the (corporate) governance body of the IMC unit. These mechanisms have to be reflected in the IMC arrangements, contract or statute, as well as in the management arrangements.

Functional design

Any of the typical local government functions can be carried out through IMC. However, each function has its own objectives and carries its own benefits and risks. The objective of the IMC shapes the legal, administrative and financial arrangements. Below is a list of possible IMC objectives for typical municipal functions, if they are to be carried out through IMC¹⁷.

Education	Build, manage, and maintain shared school facilities to offer higher level of education in rural areas and prevent closure of classes for lack of pupils.
Health care	Ensure availability of basic health care services (general medicine, health education, dental care...) to all citizens within a larger area, avoiding duplication of efforts and enhancing their quality (better professional skills and technologies).
Social services	Develop jointly welfare services with a limited number of beneficiaries and related infrastructure (e.g. housing, elderly care); harmonise social policy in a territory where many families cross municipal borders, providing visible and effective support for vulnerable people.
Environment	Harmonise environmental policy in areas of common interest by achieving political coordination and consensus on goals and measures to reach them.
Waste management	Find adequate locations for landfills and share their use; acquire trucks; build central waste disposal / treatment plant; develop joint policies for solid waste management and recycling to achieve better environment protection.
Water and sewerage	Share equipment (water tower, purification station); join in outsourcing procedures to strengthen negotiating capacity; join in project development to attract capital investment.
Economic and territorial development	Harmonise strategic planning and perform joint studies on local development for a larger area. Improve territorial marketing to tap tourism potential. Support development of business incubators and markets.
Agricultural irrigation	Rationalise water management and the use of available water sources, to extend water distribution and improve settlement of water disputes.
Culture	Harmonise cultural development policy. Share management of key sports and cultural facilities to optimise their use. Organise festivals and cultural events to gain better press coverage and attract more visitors from other municipalities.
Urban and territorial planning	Develop single urban plans for larger area to rationalise other policies (housing, enterprise zones, roads...) and deal effectively with issues that cross municipal boundaries (eg social housing, transport...). Unify planning procedures to ensure criteria for development does not favour one municipality unfairly.
Management of EU projects and funds	Develop the capacity to design and manage joint projects to gain access to EU structural funds.
Construction and	Share policy goals and priorities in the development of roads network, and

¹⁷ Robert Hertzog ed. - IMC – Inter-municipal Cooperation, Tool-kit Manual – COE, LGI/OSI, UNDP 2010

maintenance of roads	harmonise / coordinate road construction and maintenance works.
Public transportation	Establish rational and cost effective public transport system for larger area.
Traffic regulation	Harmonise traffic regulation and unify traffic equipment to improve traffic management; achieve better deployment of traffic police.
Fire and rescue services	Maintain modern, well-equipped service able to manage in difficult conditions.
Tax collection	Rationalise tax collection processes, develop better links with register offices and with State tax administration to improve control procedures, increase staff specialisation, fight tax evasion; raise higher levels of local revenues.
Public procurement	Develop purchasing power for smaller municipalities. Develop professional legal and economic experience.
Human resources management	Provide jointly professional HR to raise performance standards and levels of HR expertise
Administration	Manage more effectively electoral roll, civil-status register, property register, payrolls, accountancy
Technical services	Maintain and use machines and equipment
Information technology and services	Secure access to modern ICT equipment and services

Local government finances

The existing system of local government finance will be maintained as it is.

If the IMC is created around a municipality which provides services to others by contract, it may be compensated by¹⁸:

- a direct charge to consumers;
- an inter-governmental transfer specifically funding that service according to its usage;
- an inter-governmental transfer recognising the regional services it provides;
- a contribution from the budgets of the other municipalities served.

Otherwise, IMC entities may be funded by:

- charges and fees paid by its service consumers;
- a specific inter-governmental transfer for the service provided;
- a tax levied on the population served;
- contributions from the budgets of the partner municipalities.

IMC will not increase savings in local government sector significantly, and will not free a significant amount of resources to expand service provision to the most in need (rural communities). Absent substantial external donor funding, IMC can only achieve pooling of scarce resources among poor communities, possibly resulting in improved institutional capacities for service provision, and expansion of existing functional services in urban areas towards the neighbouring, rural communities. Experience has shown that IMC needs substantial external (state or donor) funding as incentives for joint service

¹⁸ Robert Hertzog ed. - IMC – Inter-municipal Cooperation, Tool-kit Manual – COE, LGI/OSI, UNDP 2010

provision. Also, in condition of high fragmentation IMC has to be accompanied (like in the case of France) by the existence of large (privatised) network services and administrative-political culture of cooperation to allow large public utility companies to serve many small municipalities. Unfortunately, neither the networks, nor the strong utility companies currently exist in RM.

Inter-municipal cooperation can, and should, become an intrinsic feature of both Amalgamation and Asymmetric decentralization. At the same time, the inter-municipal cooperation can be applied as a separate option, if the Government considers that no political conditions are met for a significant administrative-territorial reorganization of the country. It could be a temporary solution, which leads to administrative amalgamation. It might become a long term solution, only if certain basic criteria for local government structures are met (service efficiency, political representation, fiscal capacity) through amalgamation.

However, it should be clear that, given the current economic and fiscal conditions, and even if it brings some economic and financial benefits, the inter-municipal cooperation is not a substitute for the amalgamation, which remains an economic and functional imperative.

3. Asymmetric decentralization

When economic, demographic, or social conditions of local governments - measured by characteristics such as size, wealth, and the degree of local integration- are very different, it is sometimes better to differentiate between them and give them different sets of responsibilities, resources and instruments, so that they can respond to the citizen's needs and fulfil adequately their responsibilities. This is called asymmetric decentralization.

Law no. 436-XVI from 28.12.2006 allocates the same set responsibilities to all first level local governments irrespective of their size, institutional, administrative or fiscal capacity. At the same time, although RM is a unitary state and its legislation calls for uniform treatment of all local government units, there is already a "special autonomy" in TAU Gagauzia, which distinguishes Gagauzia among other local governments. However, this asymmetric decentralization is manifested only at the second level of local government (raion type).

The administrative capacity assessment methodology, developed and implemented by the State Chancellery, has already concluded that a large number of local authorities have insufficient administrative capacity to deliver adequately the responsibilities entrusted to them by the law.

Basic elements

A straightforward solution may seem to adopt asymmetric decentralization principles and entrust local governments with lower administrative capacities only a limited set of responsibilities, compared to a full set (as currently defined by law) for the stronger local authorities.

Several questions would need to be answered:

Functional Design

- a) How to determine which local authorities will have limited responsibilities, and how can a local governments "graduate" to "full set of responsibilities"

The State Chancellery has already developed a methodology¹⁹ to assess the capacity of local governments. The Government will approve the methodology and the threshold for administrative capacity above which a local authority is entrusted a full set of responsibilities. The State Chancellery, possibly in cooperation with CALM, will carry out the assessment and establish the list of local government with full responsibilities. The assessment will be carried out every four years. Communes (resulted through voluntary amalgamation) with more than 5000 inhabitants, who develop their administrative capacity and pass over the threshold, could get all (or certain) functions transferred by law (or by contract)²⁰. IMC with general competences and more than 5000 inhabitants get also these extended functions. These provisions may incentivise voluntary amalgamation and IMC.

- b) What is the "limited/minimum set of responsibilities/competencies"

The simple solution would be to acknowledge the status quo, namely identify the functions which local governments have been carrying out: primarily administrative and representative functions, and possibly

¹⁹ The Capacity assessment methodology covers a comprehensive set of criteria: organizational and strategic planning capacity, functional capacity for service provision, financial management capacity, human resources capacity, project management capacity, transparency and communication, and legal compliance.

²⁰ K. Davey, R. Hertzog, S. Ionita, P.B. Spahn – Report on Local Democracy in Moldova, Council of Europe 2013

some planning and regulatory functions – and define those as the minimum/limited set of responsibilities.

Those functions would be:

- To ensure General representation of the interests of the community at the raion level (this is not a functional responsibility but rather a political issue, pertaining to “Democracy and Representation”)
- To Issue civil status certificates (birth, marriage, death) with subsequent transfer of data at the raion level
- To provide basic support functions for welfare and social services (e.g. identification of beneficiaries)
- To broker resolution of local issues between the citizens and the raion level public entities and public services
- To Manage green spaces inside the settlement (planting, cleaning, deforestation of green spaces (not forests)²¹
- To Approve rules of organisation of cleaning activities (not communal services of waste management) with the members of the settlement²²
- To Approve the instalment of apiaries in the settlement (only on private property)²³
- To Organize local community evaluation of environmental changes in the community
- To Organize the local order teams from within the community (garda populara)

The set of limited functions would not include any competence to manage public property located within the settlement and may not involve any decisions on setting up local public services or employ personnel, as well as any budget spending decision.

Other competences such as urban planning and cadastre management are, under this scenario, to be transferred to the upper level LPA (raion level) and managed by the respective entities until the settlement with limited competences is again viable.

To continue ensuring access of citizens to certain services, keeping at least the current standards, the limited administrative body (the mayor and his deputy/ies) may serve as an interface for administrative services on behalf of the local authority performing that service (e.g. gather the applications from citizens and redirect them, including with the use of ICTs, to the appropriate public body).

The structure of the first level LPAs will also have to be amended. The competences mentioned above shall be exercised by the mayor, which is to be elected by the local community. Members of the local council will serve pro bono, and the administrative apparatus will be limited to the mayor and the secretary. Alternatively, these local authorities will not have a local council or administrative structure.

This set of functions would however contradict to a certain extent the provision of the Article 1 of the European Charter of LSG – which provides for local authorities to “regulate and manage a substantial share of public affairs”. Similarly, this set of functions would be breaking with the European practice (for

²¹ Article 14 paragraph 2) letter f¹) of the Law no. 436-XVI from 28.12.2006

²² Article 14 paragraph 2), partially letter h) of the Law no. 436-XVI from 28.12.2006 (the one that relates to the rules of organizing cleaning activities in the community)

²³ Article 14 paragraph 2) partially letter i¹) of the Law no. 436-XVI from 28.12.2006

example Spain local governments with less than 5000 inhabitants) according to which²⁴ mandatory local government responsibilities cover:

- Public lighting
- Cemeteries
- Waste collection
- Street cleaning
- Drinking water supply
- Sewage
- Street paving

c) Who is in charge with the remaining responsibilities/competencies for the local governments with the “limited/minimum set”

(i) Raion

The raions will then be entrusted to fulfil the remaining responsibilities. The competences of the raions should be adjusted in order to give them “municipal competences” in all areas where local authorities have a limited set of responsibilities. This alternative requires an intensive program to build and strengthen service provision at the raional level. This will pose some serious challenges, as the raions have little or no practical experience in delivering local government services, particularly communal services, which are mostly lacking among small/rural communities.

(ii) Metropolitan area (municipiu)

A further alternative discussed in professional circles, would be to create “metropolitan areas” (municipii), consisting of a central town/local authority entrusted with responsibility to provide the most important functions for the small local governments included in the (municipium) “metropolitan area”. Grouping of local authorities can be done following one of the two models of amalgamation presented above. This model has three important drawbacks: 1. A mechanism to allow democratic representation of citizens of all localities in the decision making process of the “metropolitan area” will have to be instituted, which will lead to the creation of a new level of local government, i.e. an elected metropolitan “general” council; 2. There will be little or no additional financial resources to provide the services – the cost savings are minimal, as all the local governments will have to maintain their administrative apparatus, while creating additional bureaucracy for the municipium; 3. Not all newly created municipiums will have the institutional capacity to undertake the provision of services – practically only the raion center towns have this capacity.

(iii) Deconcentrated organs of state administration

A theoretical alternative would be for the state to assume responsibility for the remaining functions, possibly through the de-concentrated offices of the State Chancellery. This alternative has practically

²⁴ COE 2014 – Peer Review exercise on Decentralization Reform in Moldova

little or no hope for success, as these offices have only a monitoring role (legal compliance, etc) and absolutely no capacity or practice for service provision. In addition, the majority of local level services in the rural areas will become a central government responsibility – an arrangement contrary to the provisions of the Charter of Local Self-government of CoE.

Local government finance

- d) How will the local government finance system (and law) be modified to respond to the new arrangement and ensure adequate funding of the two sets of responsibilities

The local government finance system will have to be adapted or redesigned to respond to the new realities. This means re-assessing both PIT sharing percentages and equalization formulae coefficients, considering the two types of local governments, the increased responsibilities of the raions, as well as the impact of the possible “graduation” of various numbers of local authorities from one category to another. This process would mean sophisticated simulations and the modification of a new and widely accepted system which has just been introduced nationally in 2015.

Democracy and representation

As stated above, the structure of the first level LPAs will also have to be amended, with the mayor, elected by local community, performing himself some basic administrative functions. Members of the local council will serve pro bono, and the administrative apparatus will be limited to the mayor and the secretary. Alternatively, these local authorities will not have a local council or administrative structure.

If municipiums are to be created, then this will require the creation of a new level of local government – the General Council – similarly to Chisinau, and which is basically a mechanism to allow democratic representation of citizens of all localities in the decision making process of the “metropolitan area”.

Asymmetric decentralization may seem a simple and elegant solution in theory, as it seems to preserve the current number of local authorities and pose little political problems. Unfortunately there are a number of serious obstacles to overcome: possible resistance of local authorities to be assessed and classified in a “lower category”; lack of service provision capacity at the raion level and the difficulty to build this capacity and develop the necessary infrastructure; insignificant economies of scale and therefore inadequate financial resources to provide services in the rural areas; difficulty in adjusting the local government finance system to a more complex assignment of responsibilities and the necessity to adjust this system to random “graduations” of groups of local authorities from one category to the other. In addition, as the preliminary results of the capacity assessment have shown²⁵, 80-90% of all local authorities do not meet the minimum capacity criteria. Only very few local authorities (the raion center towns and some of the larger communities) would have full competencies, which would practically require the raions to take over the responsibility to provide the majority of services in the territory.

Asymmetric decentralization does not respond to the main principles laid out in the national decentralization strategy, and will require radical changes in the local government finance system

²⁵ Raport de evaluare a capacitatilor administrative a autoritatilor administratiei publice locale – Cancelaria de Stat, JILPD/UNDP 2013.

recently introduced. It risks consecrating the large majority of local authorities to a limited set of simple responsibilities and requires strengthening of the raions.

Level 2

If full amalgamation of first level local governments occurs, the new, larger municipalities will be able to take over significant responsibilities, making the raions, in their current form, obsolete. This opens the opportunity to create a regional level of government which can plan, coordinate and manage regional development.

If the current level of territorial fragmentation is maintained (with partial amalgamation, asymmetric decentralization or IMC), the current raions remain the only administrative structures capable of taking over coordination or management of services (as is currently the case of pre-university education and certain social services). The prefectures (or the deconcentrated offices of state administration), even if there are 10 of them, do not have the institutional capacity to take over provision of local public services.

The main challenge for RM remains to ensure a sustainable social and economic development and reduce regional disparities.

As RM seeks to accomplish its European choice, it can benefit from bringing in line its development policies with the European Regional Development policies. *Regional development* is an important policy focus of the European Union. The European Union is concerned with regional development in order to prevent increasing regional disparities induced by a single market in which there are no protectionist barriers. Disparities may bring political, social and even economic instability. EU makes available cohesion funds to diminish those disparities, measured primarily through differences in GDP per capita. The programs funded aim to increase people's incomes, in regions where they are below average, through various means, mainly related to growing employment.²⁶ More than a third of the EU budget is devoted to this policy.

Decentralization and Regional Development are interrelated and mutually dependent. Regional development policies and their implementation will benefit if decentralization is successful and local authorities can participate in regional planning, project definition, co-funding, project management and efficient and accountable use of funds. At the same time local governments and their citizens will benefit if regional policies reflect local priorities and lead to improved infrastructure for service provision and increased income of inhabitants (which results in increased local government revenues).

MRDC has commissioned a study to determine the best territorial administrative alternatives for Moldova, at regional level, which, correlated with the NUTS EU rules and national specificity, would set the ground for sustained development, will ensure service provision and maximize eligibility for EU funding.

The study takes into account a number of criteria for assessment of the options, which include:

- regional integration;
- operational feasibility;
- EU funding and economic benefits;
- administrative costs;
- regional service provision,

²⁶ Ken Davey, ed. – Investing in Regional Development: Policies and Practices in EU Candidate Countries, LGI/OSI, 2003

- compliance with EC criteria for NUTS regions, and
- balanced urban development.

The table, below, shows the criteria and the weights used to determine the scores for each option under consideration.

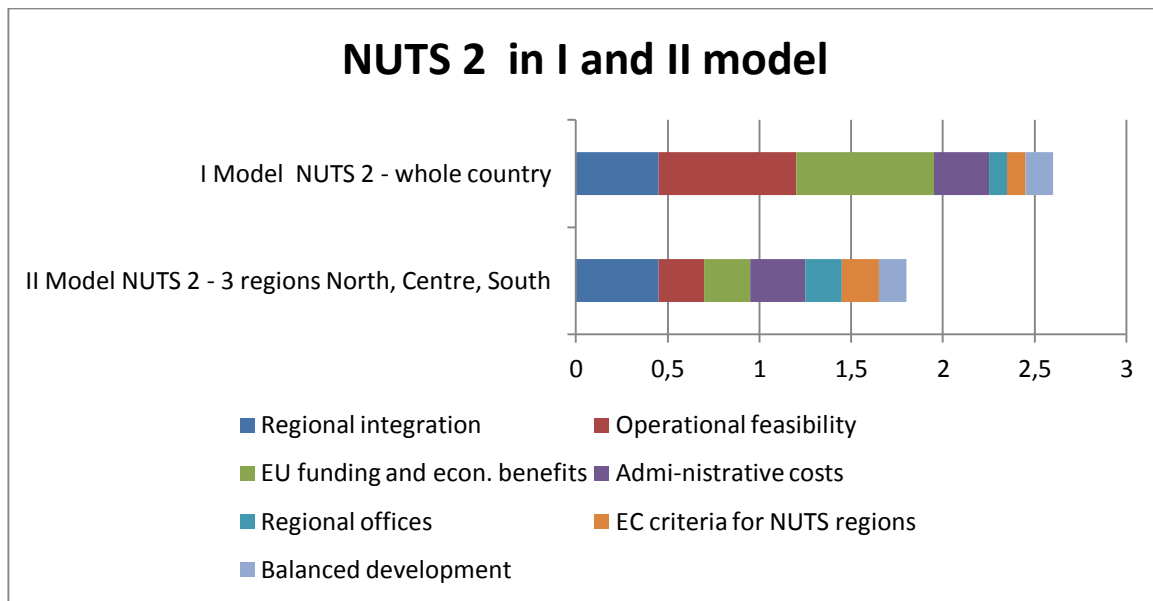
Table 3: The weights of scores offered in evaluating proposed options

#	Options for proposed regions for NUTS 2 and 3 levels		Evaluation criteria							
			Operational feasibility	Regional integration	Economic benefits and EU funding	Administrative costs	Regional services	CE Criteria for NUTS regions	Sustain. Urban development	Total value of the indicator
		Weight	0,25	0,15	0,25	0,1	0,1	0,1	0,05	
Regions at the NUTS 2 level										
1	Model I, NUTS 2 – the entire country	Score	3	3	3	3	1	1	3	
		Value	0,45	0,75	0,75	0,3	0,1	0,1	0,15	2,6
2	Model II, NUTS 2 with 3 regions - North, Centre, South	Score	3	1	1	3	2	2	3	
		Value	0,45	0,25	0,25	0,3	0,2	0,2	0,15	1,8
Regions at the NUTS 3 level										
1	Model I, option a) 5 regions – North, Centre, South, Găgăuzia, Transnistria	Score	1	3	2	2	2	1	1	
		Value	0,15	0,75	0,5	0,2	0,2	0,1	0,05	1,95
2	Model I, option b) 6 regions – North, Centre, South, Chişinău, Găgăuzia, Transnistria	Score	1	3	1	1	2	2	1	
		Value	0,15	0,75	0,25	0,1	0,2	0,2	0,05	1,7
3	Model I, option c) 4 regions – North, Centre, South, Transnistria	Score	2	2	2	3	2	1	1	
		Value	0,3	0,5	0,5	0,3	0,2	0,1	0,05	1,95
4	Model I, option d) 5 regions – North, Centre, South, Găgăuzia, Chişinău	Score	2	1	1	2	2	1	1	
		Value	0,3	0,25	0,25	0,2	0,2	0,1	0,05	1,35
5	Model I, option e) 3 regions – North, Centre, South	Score	3	1	3	3	2	1	3	
		Value	0,45	0,25	0,75	0,3	0,2	0,1	0,15	2,2
6	Model I, option f) 4 regions – North, Centre, South, Chişinău.	Score	3	1	1	3	2	1	1	
		Value	0,45	0,25	0,25	0,3	0,2	0,1	0,05	1,6
7	Model I, option g) 11 regions (9 ex-judeţe)	Score	1	3	1	1	1	2	1	
		Value	0,15	0,75	0,25	0,1	0,1	0,2	0,05	1,6
1	Model II, option a) 7 regions – North, Bălţi, Centre, Chişinău, Sud, Găgăuzia, Transnistria	Score	1	3	1	1	1	2	1	
		Value	0,15	0,75	0,25	0,1	0,1	0,2	0,05	1,6
2	Model II, option b) 6 regions – North, Bălţi, Centre, Chişinău, South, Găgăuzia	Score	2	1	1	2	1	1	1	
		Value	0,3	0,25	0,25	0,2	0,1	0,1	0,05	1,25

The best alternative for NUTS 2 level aggregation is to consider the entire country's territory as a NUTS 2 level, which reaches a total score of 2.6. The graph below shows the large advantages for regional integration, operational feasibility, and EU funding and economic benefits. The graph is a graphic depiction of the grades assigned in table 3 (on the horizontal axis, in colour).

Allocating NUTS 1 and NUTS 2 aggregation level to the entire country, and then NUTS 3 for the Regions, opens the opportunity of EU financing of EUR 7.1 Bill/7 years for EU NUTS 2 related policies and EUR 168 Mil./7 years for NUTS 3.

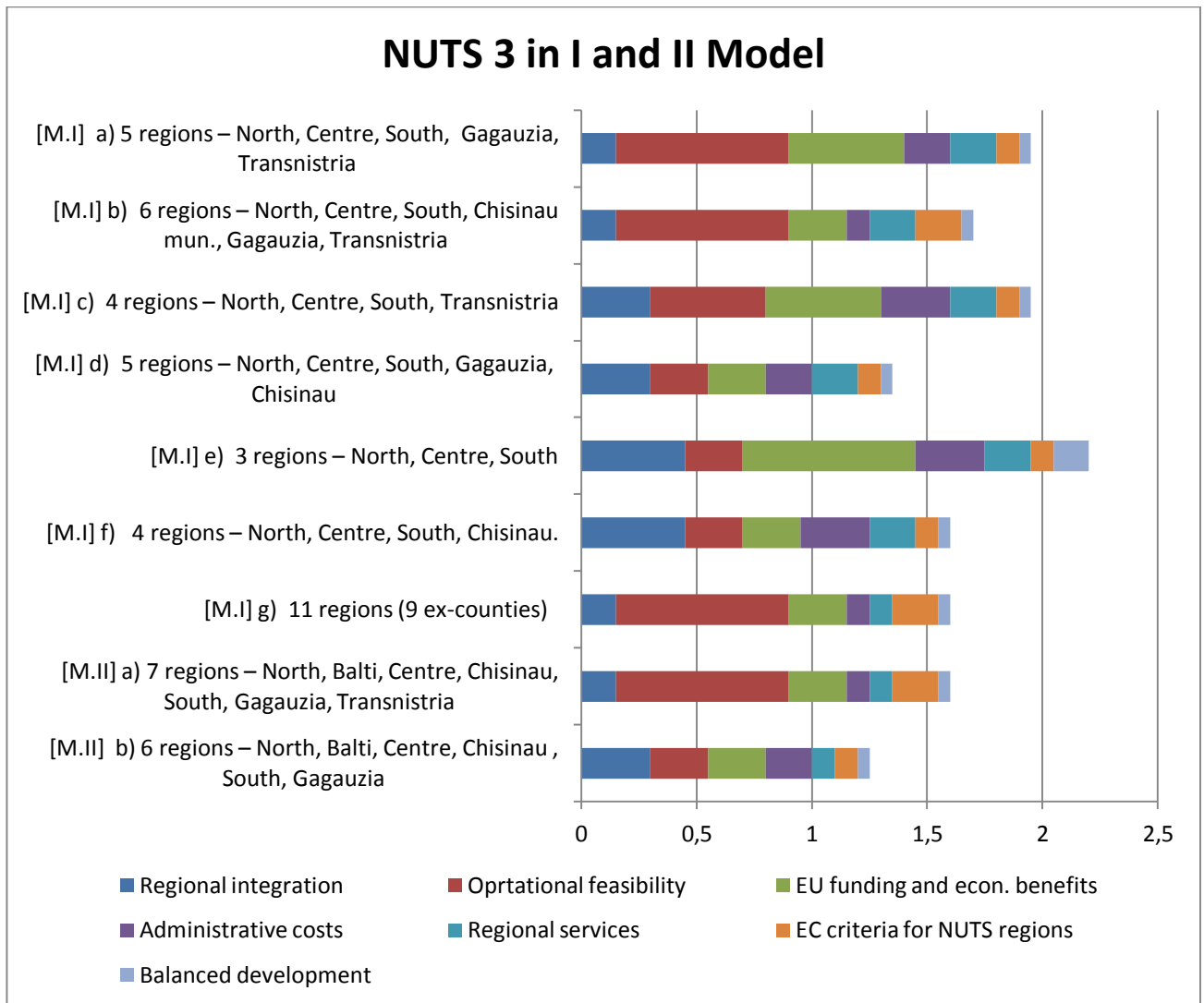
Figure 8. NUTS 2 in Models I and II



For NUTS 3 level, as presented by the chart below, the best alternatives are e) with a score of 2.2; then a) and c) with cores of 1.95 each:

- e. 3 regions – North, Centre, South;
- a. 5 regions – North, Centre, South, Găgăuzia, Transnistria;
- c. 4 regions – North, Centre, South, Transnistria;

Figure 9. NUTS 3 in Models I and II



Source: estimations of the authors

Centre Region would incorporate Chisinau and Transnistria, while South Region would incorporate UTA Gagauzia. Table 4 presents the number of various territorial administrative units for each region.

Table 4. Number of raions, municipalities, cities, villages and settlements in the Republic of Moldova as of 1 January 2013

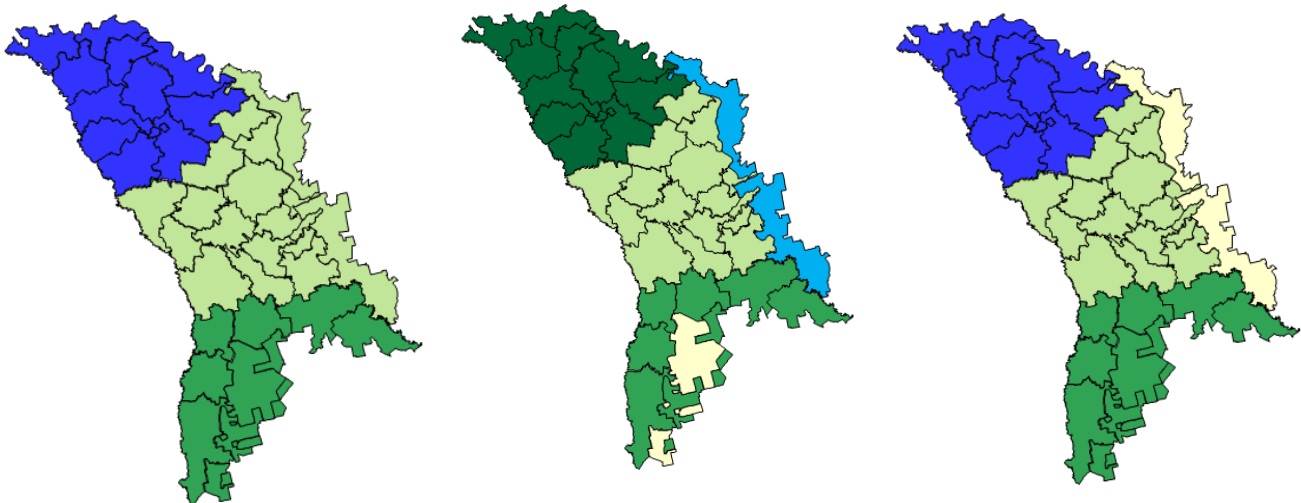
Development regions (DR) and territorial-administrative units	Municipalities	Cities	Settlements within cities (municipalities)	Villages	Settlements within villages	Total settlements	Number of local public administrations (municipalities + cities + villages)
A	1	2	3	4	5	6	7=1+2+4
Republic Moldova total	5	60	40	917	659	1681	982
RD Nord	1	19	13	295	244	572	315
Bălți municipality	1			2		3	3
Briceni		2		26	11	39	28
Dondușeni		1		21	8	30	22
Drochia		1		27	12	40	28
Edineț		2	4	30	13	49	32
Fălești		1	1	32	42	76	33
Florești		3		37	34	74	40
Glodeni		1	1	18	15	35	19
Ocnia		3		18	12	33	21
Râșcani		2	6	26	21	55	28
Sângerei		2	1	24	43	70	26
Soroca		1		34	33	68	35
DR Centre	0	14	16	340	229	599	354
Chișinău municipality	1	6	2	12	14	35	19
Anenii Noi		1	5	25	14	45	26
Călărași		1	1	27	15	44	28
Criuleni		1	2	24	16	43	25
Dubăsari				11	4	15	11
Hâncești		1		38	24	63	39
Ialoveni		1		24	9	34	25
Nisporeni		1		22	16	39	23
Orhei		1		37	37	75	38
Rezina		1	3	24	13	41	25
Strășeni		2	2	25	10	39	27
Șoldănești		1		22	10	33	23
Telenești		1	2	30	21	54	31
Ungheni		2	1	31	40	74	33

(DR) Transnistria	1	9	2	69	66	147	79
Bender municipality	1			1		2	2
DR South	0	10	6	177	101	294	187
Basarabeasca		1		6	3	10	7
Cahul		1	1	36	17	55	37
Cantemir		1		26	24	51	27
Căușeni		2	1	28	17	48	30
Cimișlia		1	3	22	13	39	23
Leova		2	1	23	13	39	25
Ștefan Vodă		1		22	3	26	23
Taraclia		1		14	11	26	15
Găgăuzia	1	2	1	23	5	32	26

Source: National Bureau of Statistics

And the maps e) 3 regions; c) 5 regions; a) 4 regions, considering the current raions.

Figure 10: The maps of the Development Regions with the greatest potential



Model e) has the highest total grades across all criteria and for, practical purposes, is identical with model a) as long as Transnistria is not reunited with the country.

Democracy and representation

The current system of election of representatives in rational councils may be kept, limiting the maximum number of councillors to 43.

Functional design

Efficient allocation of responsibilities between the two levels must follow the main rule of distribution of functions even if a function implies the redistribution of funds, externalities and economies of scale, it must be attributed to the regions. If it offers only local benefits – the main level must take responsibility.²⁷ Based on this rule the Region shall have as main functions:

- Planning and implementation of regional development
- Regional infrastructure
- Regional transport
- Regional tourism
- Emergency services
- Regional networks and respective services (protection of the environment)

Additionally, depending on the solution taken for the first level, this level may also receive

- Pre-university education (management of the school network)
- Social services (high specialisation level)
- Construction and upkeep of the highly specialised hospitals and emergency units

Local finances

The shares and the factors of division and allocation of finances in the new system of local public finances will need to be reanalysed and possibly amended based on the exact allocation of responsibilities. The creation of regions shall not change the principles and the structure of the new local public finances system.

²⁷ Slack, 2003.

3. Methodology of the impact analysis of available options of territorial-administrative reform

When discussing the impact evaluation of possible reforms there are two major issues that have to be taken into account. First of all, it is the timeframe of the reform to be implemented. If the reform is planned to have a short term implementation process than many of the steps have to be taken in a mandatory fashion. In the case of transitional reforms, sort of incremental approach has to be taken with possible system of incentives that adjusts the intergovernmental system towards the most efficient model. Second issue is the fact that reform of regional and local government level in Moldova is somewhat specific. Even though, these two tiers of government cannot be evaluated separately, there are different considerations which have to be addressed when analysing potential reform steps. More precisely, regional level (territorial-administrative regions and raions) have to be considered through the rules based on EU NUTS2 and NUTS3 classification. For country like Moldova, where EU accession is one of the fundamental goals in medium and long term, it is of vital interest to incorporate territorial reforms into the appropriate EU regional classification framework. On the other hand, LPAs have to be large enough to secure a sufficient level of technical, financial and administrative capacity to absorb increasing EU grants and project management demands.

As it was mentioned, this study proposes amalgamation of raions to regions parallel with amalgamation of local governments at the first tier level. Even though there were attempts to overcome fragmentation by delegating more functions to the rayons it is clear that the reassignment of functional expenditure responsibilities from local governments to rayons is not a substitute for administrative-territorial reforms. This is particularly due to capacity shortfalls at the raional level as well²⁸. There are several important reasons which support amalgamation of rayons to real regions: adjustment of administrative-organisational structure to the EU NUTS classification framework which has vital importance for the future EU fund absorption; the importance of raions decreased after introduction of the new formula-based regime which eliminates fiscal subordination of municipalities to the rayon-level governments; substantial inefficiencies of raional level that stem from high share of administration costs in total spending. Therefore, issues of regional amalgamation will be dealt separately from the local government consolidation. The title of “rayon” doesn’t need to be changed, not to raise the issue of constitutionality of the administrative reform. The development regions may take over the name of rayons, but also take over the competences of real development regions, instead of current rayon competence of redistributing central budget allocations for local governments.

Therefore, the methodological framework of the impact evaluation has to respect a number of different criteria. However, even though the territorial-administrative organisation affects the intergovernmental system in many ways – it defines the distribution of resources, economies of scale, administrative

²⁸ World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014, p.19

capacity, demographic and social tendencies and many others, the main objective of the reform is to determine the optimal administrative-territorial model of the country in terms of economic effectiveness. Having such effectiveness as the objective, by reforming the administrative-territorial division, all other factors should change in similar dynamics as well. More specifically, providing a more effective system, higher availability of resources and decreasing costs of public services delivery should have positive effects on overall standard of living of local government communities.

We can define several most important issues that have a fundamental effect on impact of administrative-territorial reform:

- Economies of scale
- Reduction in administrative costs
- Increase in local government own revenues
- Change in expenditure structure
- Borrowing capacity
- Institutional capacity
- Project management capacity
- Participation in EU regional development projects

Unfortunately, in assessing the impact of different reform scenarios we had many limitations. First of all, the most of the above stated issues are difficult to quantify because their evolution depends on many factors that are not possible to cover and relate to the issue of interest. Second major obstacle is related to the lack of data. We were able to use data of Ministry of Finance only for the year 2013. In this regard we were not able to observe dynamics of important factors in time. This makes estimation of revenue and expenditure projections very difficult. Particularly hard is to project future structure of budgets. In addition, substantial changes in system of financing that were implemented in 2014 make these estimations even harder. In ideal case, we would need at least 10 years of data in order to be able to give some inference about time related causalities. Nevertheless, based on rational assumptions we tried to project possible growth of own revenues. Since the structure of budget is subjected to political decisions, as well, any kind of projections would be quite unreliable. Estimations based on one year can give enough of data only for evaluation of administrative cost reduction where the number of LPA's inhabitants is the most important factor of budget structure.

Therefore, when considering the quantitative analysis, estimation of administrative cost savings and increase of own and shared revenues of local government shall constitute the key criteria. Even though the proposed reform alternatives have significant impact on institutional capacity, public investment management and EU fund absorption, it is not possible to determine the quantitative effects on these factors. This is due to the fact that it is not possible to determine the relation between the administrative capacity and the public investment management with revenue increase based on the available data. Regarding the EU fund absorption, it is also not possible to consider the number of factors that might be key for successful absorption. Some of those factors belong to institutional framework that does not relate to territorial-administrative system (for example, mechanism that supports co-financing, central management system features etc.). Currently, there is no regulation on co-financing EU funded projects which are available for Moldova, i.e. the cross-border cooperation programmes. The applicants, including

LPAs are, thus, exposed to the cofinancing requirement when applying for projects within the framework of the cross-border cooperation programmes, which in itself is not a matter of territorial-administrative organisation, but a matter of Government support and partial or integral coverage of the 10% co-financing requirement coming from the EU.

Based on before mentioned reasons, in terms of reform impact analysis the impact analysis will mostly base on qualitative evaluation. In terms of quantitative evaluation, based on the empirical evidence presented, it is possible to evaluate the effects of cost savings and revenue increase. However, due to the fact that all these factors are correlated with the size of the government, it is clear that the effects in case of asymmetric decentralisation and transitional solutions (intermunicipal cooperation) will be negligible. Thus, we can present empirical analysis only for the cases of high efficiency and mild efficiency amalgamation. The approach to the evaluation is exactly the same for both models.

The impact evaluation of high efficiency and mild efficiency amalgamation is based on the following assumptions:

- Impact results are projected for five years;
- cost savings and increase of revenues follow the empirical functions given by figures 11, 14 and 16 given in annexes;
- cost savings have immediate effect, and revenue increase follow the empirical function by annual rate²⁹;
- in case of high efficiency amalgamation we use Expert group solution which amalgamated local governments to 111 local government units;
- in case of mild amalgamation we use Expert group solution which amalgamated local governments to local government 289 units;

The procedure of impact evaluation is based on the dynamics of share of administrative costs (own or shared revenue increase) and local government size. After amalgamation to 111 (289) local governments, the number of inhabitants in amalgamated local governments substantially increases. The increase of local government size reduces the share of administrative costs in total government expenditure per capita by formula given by the empirical function presented at figure 11. This is the way how reduction of administrative costs was derived. In a way, mentioned empirical function presents a sort of cost efficiency benchmark.

In order to be able to compare monetary effects of amalgamation, in table 7 and 8, monetary impact of cost savings and revenue increase was expressed relative to the level of total local government expenditures. For example, total savings of administrative costs attained by mild efficiency amalgamation are at the level of 66% of total administrative costs. Since share of administrative expenditures in total expenditures of local government level rounds 18%, it follows that the share of administrative cost savings in total local government expenditures equals 12.1%.

Own revenue increase were calculated by applying the empirical function in figure 14 and increase of shared revenues by applying the function in figure 16. From these functions we can obtain the average increase of own and shared revenues by increasing the local government size in comparison with the

²⁹ This is due to the fact that cost savings in case of consolidation of local government have immediate effect and revenue increase will converge to the boundary which is related to the relation of revenue to local government size in time by certain rate of growth.

present state. Since we cannot expect that revenues immediately come to the level suggested by the empirical function we have divided estimated total growth of revenues (which equals average increase of revenues when increasing the LPA size) in projected period and obtain annual rate of growth both for own and shared revenues.

4. The impact analysis of available options of territorial-administrative reform

In this part we will present qualitative and quantitative assessment of the most important categories affected by reform alternatives such as economies of scale, reduction in administrative costs, Increase in local government own revenues, expenditure structure (more money spent on communal services), borrowing capacity, institutional capacity, project management capacity, participation in EU regional development projects.

4.1 Economies of scale

The Expert group³⁰ study does not consider Moldova to be the case of extreme territorial fragmentation on the basis of comparison of the ratio of population to number of LPAs with other European countries. However, it states an important issue that 27% of the local governments have a population less than 1500 which is less than minimum number set by the law on administrative-territorial structure.³¹ Two thirds (66%) of the municipalities have less than 3000 inhabitants and 74% less than 5000. On the other hand, the World Bank Study³² clearly addresses that „the extreme fragmentation of Moldova's administrative territorial organization creates large inefficiencies in public expenditures at the local level“. Moreover, it is considered that rationalizing this structure can yield savings which could be directed towards improvements in public services provision. There is an explicit recognition of large diseconomies of scale in provision of their functions due to sub-optimal size.

There are two very important facts in regards to the considerations of economies of scale. Firstly, many of the municipalities with less than 1500 inhabitants are geographically close or adjacent. Secondly, Moldova's municipalities are very small in terms of land area. The median land area is of about 3km² (when comparing with middle-income countries in Europe and Central Asia where the average land area is 190km² and an average population per LPA of 19,000 inhabitants). Such data provide very important evidence of inefficiency of providing communal services separately and, at the same time, presents a strong argument in favour of amalgamation or intermunicipal cooperation under the same territorial regime³³.

Economies of scale can be observed by the structure of the budget expenditures accross both raional and local government level. Unfortunately, there is no data on the quality of local government service in order to determine efficiency related to the economies of scale. However, as figures 11, 12 and 13 show

³⁰ Expert Group (2010): Analytical Study on Optimal Administrative-territorial Structure for Republic of Moldova, Chisinau

³¹ Article 17 paragraph 2 of the Law no. 764-XV from 27.12.2001 on territorial-administrative reform

³² World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014

³³ World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014

there are clear relations between size of the government and structure of expenditures where small governments have larger fixed costs of administration and less remaining revenues to finance communal services.

4.2 Reduction in administrative costs

Figure 11 presents the relation of the share of administrative costs with local government size which shows that most of the local governments below 5000 inhabitants have much larger share of administrative costs. The regression line which represents the average share of costs of administration per local government can be used for evaluating the effects of amalgamation on cost savings. According to the equation by increasing local government size above 5000 inhabitants it is possible to reduce the average share of administrative costs per local government below 20% of total budget. About 68% of the municipalities have administrative expenses larger than 20%. For comparison, first level administrative expenses in Poland average 12.5%. If we exclude expenditures for education (a delegated function), then the share of administrative expenses is higher than 50% for almost half of the local authorities.

The procedure of impact evaluation on administrative cost reduction is based on the dynamics of share of administrative costs (own or shared revenue increase) and local government size. In cases of mild amalgamation, after amalgamation to 289 local governments, the number of inhabitants in amalgamated local governments substantially increases. The increase of local government size reduces the share of administrative costs in total government expenditure per capita. This is the way how reduction of administrative costs were derived (the empirical function presented at figure 11 was used).

Figure 18 presents the function of share of administrative costs depending on the local government size after the process of amalgamation. It can be observed that there is still possibility to reduce costs by further amalgamation. Figure 19 presents visual comparison of share of administrative costs per capita of present state and mild amalgamation scenario. The comparison is based on application of previous level of administrative costs and level after the amalgamation on new local governments derived from the Expert group (2010) study.

In order to be able to compare monetary effects of amalgamation, in table 7, monetary impact of cost savings and revenue increase was expressed relative to the level of total local government expenditures. Total savings of administrative costs attained by amalgamation are at the level of 66% of total administrative costs. Since share of administrative expenditures in total expenditures of local government level rounds 18%, it follows that the share of administrative cost savings in total local government expenditures equals 12,1%.

Figure 20 presents the relationship of share of administrative costs in total expenditure and local government size for the scenario of high efficiency amalgamation. It is important to note that the high efficiency amalgamation is based on the same methodology of impact evaluation as the scenario of mild amalgamation. If we compare figures 18 and 20 it is obvious that we can expect significantly higher cost savings. All local government (except one) fall below threshold of 15% of share of administrative costs in total expenditure.

Figure 21 visually presents cost savings in the case of high efficiency amalgamation. In this case, a large number of local government increases up to the level of more than 20000 inhabitants which has

substantial effect on the share of administrative costs in total expenditures. It is also important to note that some municipalities in present state are featured with large share of administrative costs even though they have relatively large number of inhabitants. Such state shows additional issue of differences in cost efficiency among local governments in Moldova which has significant possibility of improvement even in the present state of administrative-territorial division.

Table 8 which is constructed identically as table 7 presents the projection of cost savings and revenue increase in the case of high efficiency amalgamation. In this case, according to calculations, besides administrative costs savings which are almost 3 percentage points higher, there are significantly higher projections of shared revenue increase. All these impacts in five years produce amount of resources equal to 88,10% of total budget expenditures for the year 2016. In other words, savings from administrative-territorial reform in five years are at the level of almost one year total budget.

4.3 Increase in local government own revenues

As it was already mentioned, one of the problems related to over-fragmentation of local governments is the lack of administrative capacity to collect and enforce taxes at the local level. At the moment all local taxes in Moldova are administered and collected by the central tax administration agency which doesn't assure incentives for tax enforcement. Higher administrative capacity would allow for the transfer of collection of taxes to the local government level. This is just one of the reasons for difficulties of smaller governments in attaining high fiscal autonomy. Figure 14 presents the relationship between the share of own revenues in total revenues of local governments where we can observe a very mild positive tendency. However, if we look closer the figure it seems that there is no significant pattern up to 5000 inhabitants but there is a much clearer trend above that threshold. Previously mentioned case is better depicted by figure 15.

For a difference from share of own revenues in total revenue of local governments, personal income tax revenues which are centrally collected and shared across the levels of the government on the basis of where they are collected. Figure 16 provides a clear evidence of higher fiscal capacity of larger local governments.

Finally, figure 17 shows the relation between the local government size and the equalisation transfers from the central local government. We can see that most of the local governments below 5000 inhabitants are heavily dependent on central government transfers.

Own revenue increase were calculated by applying the empirical function in figure 14 and increase of shared revenues by applying the function in figure 16. The average increase of own revenues by increasing the local government size in comparison with the present state equals 2.51% and for shared revenues 13,03%. Since we cannot expect that revenues immediately come to the level suggested by the empirical function we have divided this total growth of revenues in projected period (by five) and obtain annual rate of growth for own revenues 0.50% and 2.61%. Since the share of own revenues in total revenues (expenditures) equals 17.35% this results with 0.09% of annual increase of own revenues expressed as share of total annual budget of whole local government sector. Similarly, since the share of shared revenues in total revenues equals 27.83% we obtain 0.45% of average annual increase of total local government shared revenues after amalgamation. The total effect amounts to 12.64% of total government expenditures which in five years lead to 63.20% of total annual budget of whole local government sector (without raions).

Table 8 which is constructed identically as table 7 presents the projection of cost savings and revenue increase in the case of high efficiency amalgamation. In this case, according to calculations, besides administrative costs savings which are almost 3 percentage points higher, there are significantly higher projections of shared revenue increase. The average increase of own revenues by increasing the local government size in comparison with the present state equals 8.20% and for shared revenues 41.47%. The annual rate of growth for own revenues 1.64% and 8.29%. Since the share of own revenues in total revenues (expenditures) equals 17.35% this results with 0.28% of annual increase of own revenues expressed as share of total annual budget of whole local government sector. Similarly, since the share of shared revenues in total revenues equals 27.83% we obtain 2.49% of average annual increase of total local government shared revenues after amalgamation. All these impacts in five years produce amount of resources equal to 88.10% of total budget expenditures for the year 2016. In other words, savings from administrative-territorial reform in five years are at the level of almost one year total budget.

4.4 Change in expenditure structure

The analysis of expenditures show us that, on average, 30-50% of money is spent for education (a delegated function), while administrative expenses range between 10% of the total for rayon-centre towns, up to 31% for units with less than 1500 inhabitants. There are municipalities which allocate 86% of their expenditures on administration. Communal services, the most important category of local services, are insignificant, taking up no more than 6-8% of expenditures for the majority of local authorities. Only rayon centre towns allocate more substantial amounts for communal services - 19% of their budgets – a sign that this type of services matter and there is institutional capacity for their provision. In Rayon centre towns administrative expenses represent on average 10% of the budget. With the exception of 55 local governments (6%) all local authorities spend more per capita for their administration than for all communal services together. For many, the amounts allocated are insignificant: 214 (24%) local governments spend less than 20 MDL (1 EUR) per year for all communal services, while 639 (71%) spend less than 100 MDL.

In Figure 12 we can also notice that the local government size is positively related to the share of expenditures on communal services in total local government expenditures. However, this relationship is not that strong as in the case of administrative costs. Of course, this is due to the reason that local governments have different spending preferences and, instead of spending on communal services, may prefer spending on social protection or other given competences. However, figure 13 presents the trade-off between administrative costs and communal services – less spending on administration costs enables more spending for communal services.

4.5 Borrowing capacity

Current subnational debt in Moldova is low – about 0.7% of GDP in 2013, however, such low level of debt is more related to low level of fiscal capacity (i.e. borrowing ability) than to financial discipline.³⁴ Since the most of the local government spend majority of revenues to finance administrative functions, there are no funds left for using long-term sources of financing which are generally used to finance investment in

³⁴ World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014

communal infrastructure. Particular problem related to shortfall in ability to borrow raises what the increase of available EU funding. Without co-financing of EU financed projects enabled by borrowing it will not be possible to apply for these funds. Such state could have devastating consequences for development of smaller local governments.

4.6. Institutional capacity

The institutional capacity refers to the capability of LPAs to provide sufficient level of standard of delivery of local public goods and services regardless of the resources available. This denotes technical, organisational and educational level of LPA to cope with delegated functions. One of the reasons for lower level of investments in smaller governments is in the lack of qualified human resources necessary for to conduct the necessary administrative activities. One of the often addressed issues related to administrative capacity is tax collection and enforcement. The level of own taxes in total revenues of local government is low and continuously decreasing (revenues from recurrent taxes on immovable property declined from 0.7% in 2003 to 0.3% of GDP in 2013)³⁵.

Lack of both public (mostly in communal services) and private investment decrease economic growth potentials, and thus, local government revenues as well. There are many causes of low level of investment per capita in cities of Moldova (excluding Chisinau and Balti) such as limited scope of and lack of infrastructure, deficient tax system and economy of scale, causes related to poor management of development processes, causes due to limited access to transport hubs; another group of causes related to low investor interest to cities and regions, a group of causes related to outdated or no planning tools³⁶. All these problems derive from the lack of financial, technical and human resources which are related to local government size. In such manner present territorial division creates a „vicious circle“ where local governments do not have capacities to develop necessary preconditions to increase growth potentials and remain on a low level of economic and fiscal activity.

4.7. Project management capacity

Insufficient human resources and poor capacity for development, implementation and monitoring of local investment projects is a significant constraint for local governments. For higher quality of strategic planning and systemic management of investments, the local public authorities require specialized staff, that deals with investments and project management. However, given the low level of own revenues, even in the local governments where such positions have been introduced, the number and quality capacity of such staff are poor.

Outdated or no planning toolkit is another cause of development problems. Many areas of the country have not drawn clear and realistic prospects for long-term economic development. Currently few localities in Moldova have credible strategies or plans for socio - economic development. Also, most of the local governments are not equipped with urban landscaping plans. According to the Ministry of

³⁵ World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014

³⁶ Ministry of Regional Development and Constructions (2012): Public Policy Proposal on sustainable urban development in the Republic of Moldova, Chisinau 2012

Construction and Regional Development most of the general urban plans of towns' strategies are not integrated with socio - economic development, and this has a negative impact on the sustainable development of communities³⁷.

In addition, the domestically-funded part of capital investment is not subject to adequate appraisal. The propensity to under-estimate costs, indicating optimism bias in project preparation is especially evident for projects of local authorities. In recent years, estimated cost at inception was exceeded in about a third of local investment objects, by 60 percent on average. There were cost over-runs in 20 percent of local government capital repair objects, and these over-runs averaged nearly 50 percent. Capacity for appraisal is very weak, including at the raion level. The increase of costs may also be due to high corruption incidence.

Most importantly, capital expenditure allocations do not reduce inequalities in infrastructure access and quality. Capital expenditures are not greater in more deprived areas, as measured by the Multiple Deprivation Index calculated by the Ministry of Economy, an indicator aiming at identifying the most deprived areas in Moldova and tackling inequalities in development across and within raions. There is no correlation between per capita capital expenditures and local area multiple deprivation.

4.8. Participation in EU regional development projects

It is estimated that, in the following period, from 2014 – 2020 due to the fact that the level of GDP in Moldova is 1 593 EUR per capita, as one of the lowest in the EU, the potential allocation of EU funds could be between 7912.0 and 9567.7 million EUR. In addition, for all NUTS 3 regions eligible for cross-border cooperation potential allocation of EU funds for Moldova could be between 161 and 167 mil. EUR.

Regarding the EU fund absorption, it is also not possible to consider the number of factors that might be key for successful absorption. Some of those factors belong to institutional framework that does not relate to territorial-administrative system (for example, mechanism that supports co-financing, central management system features etc.). Currently, there is no regulation on co-financing EU funded projects which are available for Moldova, i.e. the cross-border cooperation programmes. The applicants, including LPAs are, thus, exposed to the co-financing requirement when applying for projects within the framework of the cross-border cooperation programmes, which in itself is not a matter of territorial-administrative organisation, but a matter of Government support and partial or integral coverage of the 10% co-financing requirement coming from the EU.

The study of Bremsmits et al.³⁸ pointed out that in view of Moldova's European integration aspirations, it is very important that regional statistics relevant to the country, are compiled in accordance with EU standards and best practices, taking into account the characteristics of the Republic of Moldova. The basis for compilation of relevant and comparable statistics is ensured by applying the appropriate

³⁷ Ministry of Regional Development and Constructions (2012): Public Policy Proposal on sustainable urban development in the Republic of Moldova, Chisinau 2012

³⁸ Bremsmits, Raivis et al. (2014), Feasibility report on the alignment of the Republic of Moldova to the territorial statistical classification at the UE level - NUTS, UNDP, August 2014

classifications, including the classification of territorial statistical units NUTS classification which is used for the purposes given in the EU with a geographical encoding standard to refer to countries for statistical purposes subdivision within three NUTS levels.

Potential administrative-territorial reforms must take considerations on the importance of administrative structure for EU funds absorption. The most appropriate structures whose competencies could be adjusted for the needs of installing the mechanism for EU fund schemes are development regions. Moldova's development regions differ greatly by size (in terms of number of population) - from about 156,000 population in the Autonomous Territorial Unit of Gagauzia to up to 987,000 people in the Central region. Since the NUTS 2 and NUTS 3 regions are used in the allocation of cohesion funds, special attention has to be paid to the methodology for EU funds allocation. Such regional organisation should facilitate evidence-based policy planning, improved planning, monitoring and evaluation and greater comparability with EU regions.

Based on mentioned very comprehensive research³⁹ it is suggested that the most efficient scenario is to declare the entire country as a single NUTS 2 region and form 3 regions as NUTS 3 level – North, Center and South. However, given the political situation with regard to Transnistria, it is considered to be more feasible and logical for Transnistria to become a distinct NUTS 3 level region.

Besides with these considerations it is important to note that the Regional Development Agencies do not have administrative functions. Nevertheless, due to the fact that their size fits the standards given by the NUTS classification, these structures form potential boundaries of amalgamation of Raions which would be not just cost efficient (according to the Expert group study⁴⁰ there are significant savings of administrative costs by amalgamating raions) but would also provide an efficient framework for EU fund allocation. In addition to that, the amendments of the Law on Local Public Finances (LPF) in 2013 which introduced a formula-based revenue sharing arrangement for local governments eliminated fiscal subordination of municipalities to the raion-level governments⁴¹. Therefore, the only reason for Raions to exist is to attempt to overcome fragmentation by delegating more functions to the raions. However, it is clear that the reassignment of functional expenditure responsibilities from local governments to raions is not a substitute for administrative-territorial reforms. Particularly due to capacity shortfalls at the raional level as well⁴².

It is important to note that the level of EU fund absorption is related to many factors, not only the regional structures, which comply with the NUTS classification. Many factors are related to the local government size such as project management capacities, co-financing potential (borrowing potentials),

³⁹ Bremsmits, Raivis et al. (2014), Feasibility report on the alignment of the Republic of Moldova to the territorial statistical classification at the UE level - NUTS, UNDP, August 2014

⁴⁰ Expert Group (2010): Analytical Study on Optimal Administrative-territorial Structure for Republic of Moldova, Chisinau

⁴¹ Cevik, Serhan (2014): Fragmentation and Vertical Fiscal Imbalances: Lessons from Moldova, IMF Working paper, WP/14/233, December 2014, p.7

⁴² World Bank (2014): Moldova Public Expenditure Review, Reforming Local Public Finance for More Efficient Equitable and Fiscally Sustainable Subnational Spending, Report No.87268-MD, Washington DC, June 2014

project/investment planning and many other issues. Of course, smaller local governments in principle have more obstacles to attract EU funds.

5. Conclusions and Recommendations

The analysis of the problems showed the strong correlation and causality between territorial administrative fragmentation and the main problems facing local governments in RM: economic inefficiency generated by the low fiscal capacity and high administrative expenses, high vertical fiscal imbalances, lack of basic local service provision, particularly in the rural areas where the majority (65.8%) of the population lives, general absence of institutional structures and capacity to ensure service provision and access, inability of local and raional governments to facilitate economic development.

Local government and local democracy are meaningful only if local governments can fulfil the functions and responsibilities that were entrusted to them.

To overcome the significant problems induced by the high territorial administrative fragmentation and to create the necessary conditions for incremental availability of basic services to all citizens of RM during the next four years, **three alternatives** for the first level local territorial administrative units, and **9 alternatives** for the second level were presented and analysed.

The system that provides the best response to the problems identified and meets best the evaluation criteria will be obtained **by high-efficiency mandatory amalgamation** of the first level government accompanied by a restructuring of the second level government in **three regional governments**.

High-efficiency amalgamation requires amalgamation of the small communities into larger municipalities, from 898 in present to 111, with an average population of 23,800 (excluding Chisinau and Balti). This further demands abolishing the current raions and entrusting municipalities with providing a significant amount of public services. The economic simulations based on the proposed strong amalgamation model shows 70-80% reduction of administrative costs. This model will require a transition period of maintaining and then transforming some of the local administrative services.

A Regional level of government will be introduced. The three proposed regions (Nord, Centru, Sud) have the highest potential for regional integration, balanced development, operational feasibility, administrative costs, regional offices, EU funding and economic benefits, and meet best EC criteria for NUTS regions.

Amalgamation is the only way to achieve important savings by reducing the administrative expenses and reallocating the resources freed in this process for service delivery.

The responsibility to provide local services will belong to local authorities which already have the administrative and institutional capacity to deliver those services, and will be able to strengthen those capacities by attracting skilled and knowledgeable staff. Those local authorities will be able to expand the delivery of already functional communal services (like waste management) to neighbouring rural localities, and implement projects to build the necessary infrastructure for the provision of those services.

Among the new local authorities, about 30-40 towns already have the institutional structures and capacities to provide the full range of services required by the law. The remaining 70-80 local authorities represent a manageable number for an effective capacity building program to allow them to become

effective and efficient services providers in a span of 4 years. **The average number of staff per municipality will increase to 40 (forty) from the current 5.7.**

The restructuring should not result in diminishing of inclusive democratic representation and participation in local decision making. Elected councils leading the new local governments should have representatives from all participating communities/localities.

Amalgamation **will most likely not result in diminishing of the total number of jobs in local government.**

The nature of jobs will change, resulting in functional specialization according to the various functional responsibilities that the new local governments will now be able to fulfil. A program should be put in place for training, re-training, and gradual reassignment of staff from amalgamated units and raion administrations towards the new local authorities. Some of the raion level staff should be reassigned to emerging de-concentrated offices of the state (for example staff from the Directia de Finante can join the offices of the Treasury and continue coordination and monitoring of local finances as employees of the Ministry of Finance).

The resulting larger local territorial administrative local and regional units will have sufficient territorial coverage and more resources to be able to plan and facilitate local and regional economic development.

The new local government finance system made a big step by providing clear, predictable, stable and transparent streams of revenues to local governments and increasing local autonomy and accountability. The territorial administrative reform, through high efficiency amalgamation, takes the second big step by increasing funds for communal services from economies achieved through reduction of administrative expenses, and giving responsibility for service provision to a manageable number of stronger local authorities, or to local authorities whose institutional capacity can be truly strengthen.

The new territorial administrative units improve also the conditions for provision of the most important local services.

Communal services, like water and sewerage and waste management require larger areas to be economically provided, in line with the regionalization concept in the sectoral decentralization strategies.

Environmental protection needs scale, which is better provided by the larger territorial administrative units.

Culture can be managed from the center of the commune, as the culture institutions are located physically already in the territory.

Education and social services, currently the responsibility of the raion, will be brought closer to the citizens, while at the same time allowing the necessary scale for optimization of the services or catchment areas.

The reform requires a number of actions, steps and programs to be undertaken to ensure successful implementation and transition:

- A sustained, strategic, and comprehensive **communications campaign** – explaining the objectives and, most of all, the benefits of the reform. The general population, local government staff and elected officials should be targeted with clear messages.

- A possible update of the **electoral system** to ensure representation of all localities in the new local councils.
- **Plan and methodology for amalgamation** (similar with corporate mergers and acquisitions)
- Agreement of **allocation of responsibilities** and possible adjustment of **local finance system**
- **Program for institutional and organizational development.** This should include technical assistance and consultancy for general administration, local financial management, as well as service provision.
- **Plan for assigning and reassigning staff and departments** from the current local authorities to the new ones.
- **Redundancy fund**
- **Program for human resource development and capacity building** (training and retraining). The topics should reinforce the institutional development program.
- Availability of supplementary **funds for transformation** (National transformation fund)
- Plan and fund for **restructuring of de-concentrated state services.**

The alternative options analysed, although apparently easier to implement on political grounds, have important drawbacks that make them ineffective in the short and long run:

- Asymmetric decentralization does not respond to the main principles laid out in the national decentralization strategy, and will require radical changes in the local government finance system recently introduced. It risks consecrating the large majority of local authorities to a limited set of simple responsibilities and requires strengthening of the raions.
- Inter-municipal cooperation (IMC) is not actually a model of administrative-territorial organization, but rather a (short-term) alternative to reorganization. Given the practical experience with pilot IMC in RM, their complexity, as well as assessing the speed of development and implementation of policies regarding local governments, we can conclude that IMC cannot yield significant, nation-wide, positive results during the next 4 years.
- Voluntary amalgamation and partial amalgamation (of territorial administrative units which do not meet legal criteria for viability) will achieve minor savings of administrative costs while not creating sufficient conditions for improvement of local public services in a significant number of local governments, because the restructuring is not comprehensive. There is a high risk that, in 4 years, the population will become unhappy with the results and resistance for another wave of restructuring will build up.

The strongest barrier for amalgamation of first level territorial administrative units stems not from the legal, administrative or functional complexities, but from the apparent political consequences of diminishing the number of local elected officials. The current 898 local councils provide political positions and leading community roles for 12,000 representatives, elected in majority on party bases. A rational amalgamation will result in approximately 3,000 elected positions – a drastic decrease of political jobs and positions of influence offered to local party elites.

Scenarios

Since the political feasibility of the optimal territorial administrative restructuring is still to be decided, below are several alternative scenarios for territorial administrative reform processes during the next four years.

1. Currently proposed scenario - **Mandatory amalgamation of first level local government**, and creation of a **regional level government** instead of the current raions, in 2015. Short term pain, the government has just been elected. Needs a year to put the pieces together, and then work on capacity building. In spite of the short term difficulties, this scenario will have the maximum impact in terms of real improvements and ensures highest positive visibility before the next round of elections.

2. **No territorial administrative reform in 2015**. Do nothing on territorial administrative reform in 2015, use IMC in the interim. Engage in communication campaign until 2019. Do the amalgamation in 2018/2019. This scenario has the minimal political cost, but also the least (possible marginal) impact. There is no guarantee that the communication campaign will be successful and that the future parliament and government will still have territorial administrative reform as a priority.

3. **Limited amalgamation in 2015** (<1500/2000 inhabitants) + **full amalgamation in 2019** (it will need a new study, based on new realities). Engage in communication campaign until 2019. High risk of rejection of second round of reforms, as first round will produce marginal results.

4. **Transitory amalgamation 2015-2017** (voluntary amalgamation with deadline) + **full amalgamation in 2019** (new models, starting from the ad-hoc amalgamations). Engage in communication campaign until 2019. Risk of rejection of second round of reforms, as first round will produce marginal results.

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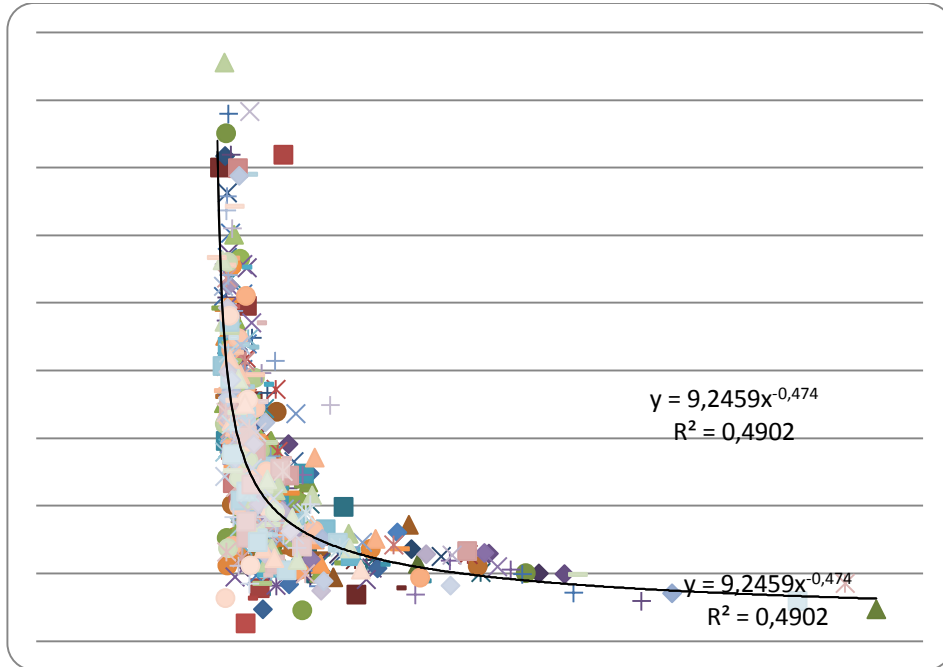
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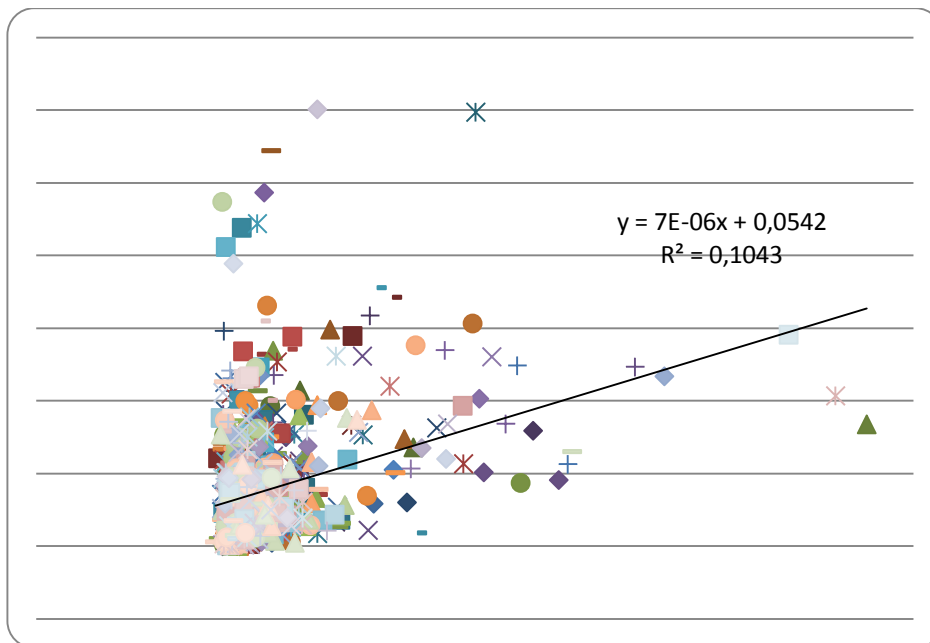
Annexes

Figure 11: Relation of share of administrative costs with local government size in year 2013



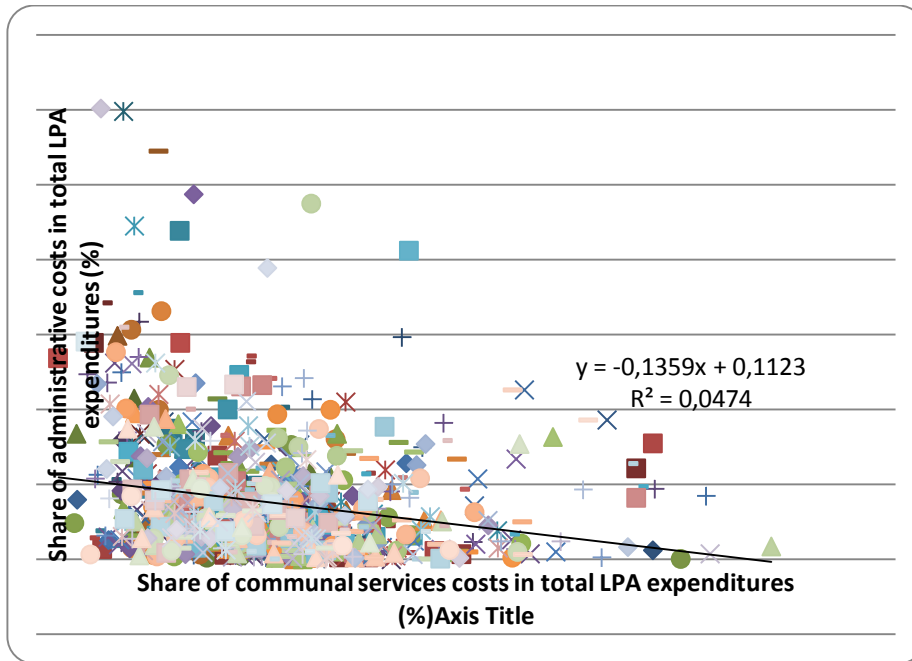
Source: Ministry of finance, Author's calculations

Figure 12: Relation of share of expenditures on communal services in total local government expenditures with local government size in year 2013



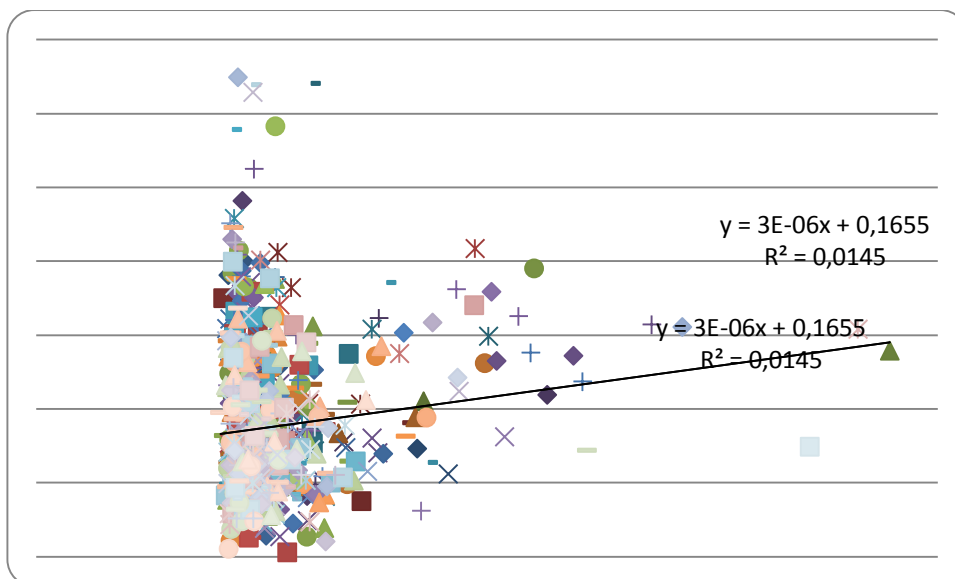
Source: Ministry of Finance, Author's calculations

Figure 13: The relationship between expenditures on administrative costs and communal services



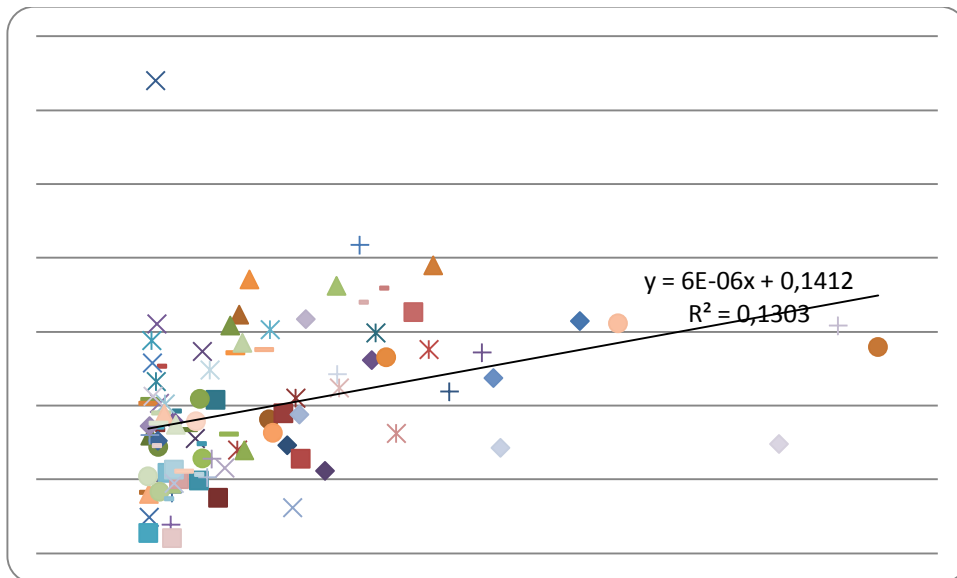
Source: Ministry of Finance, Author's calculations

Figure 14: The relation of share of own revenues in total revenues of local governments and local government size



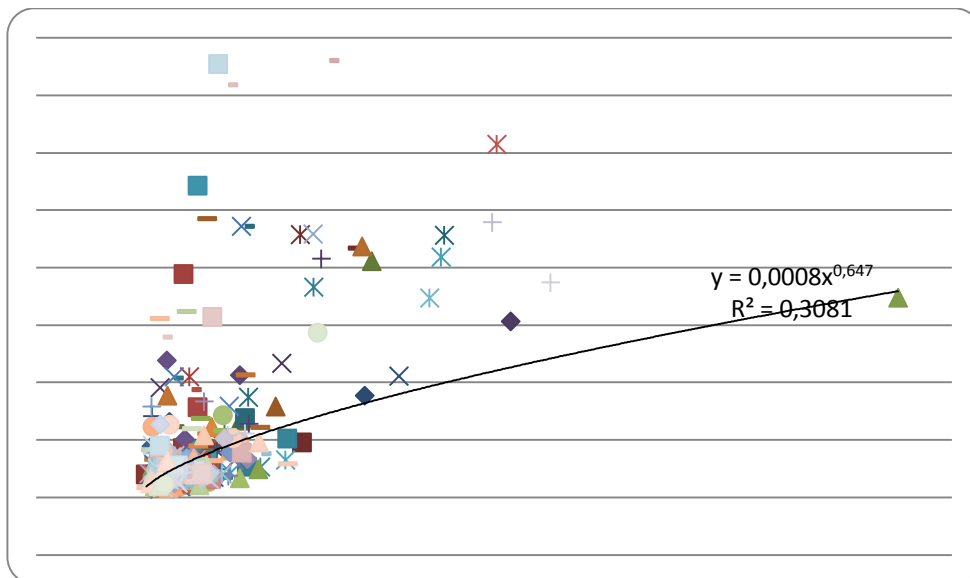
Source: Ministry of Finance, Author's calculations

Figure 15: The relation of share of own revenues in total revenues of local governments and local government size (for the governments larger than 5000 inhabitants)



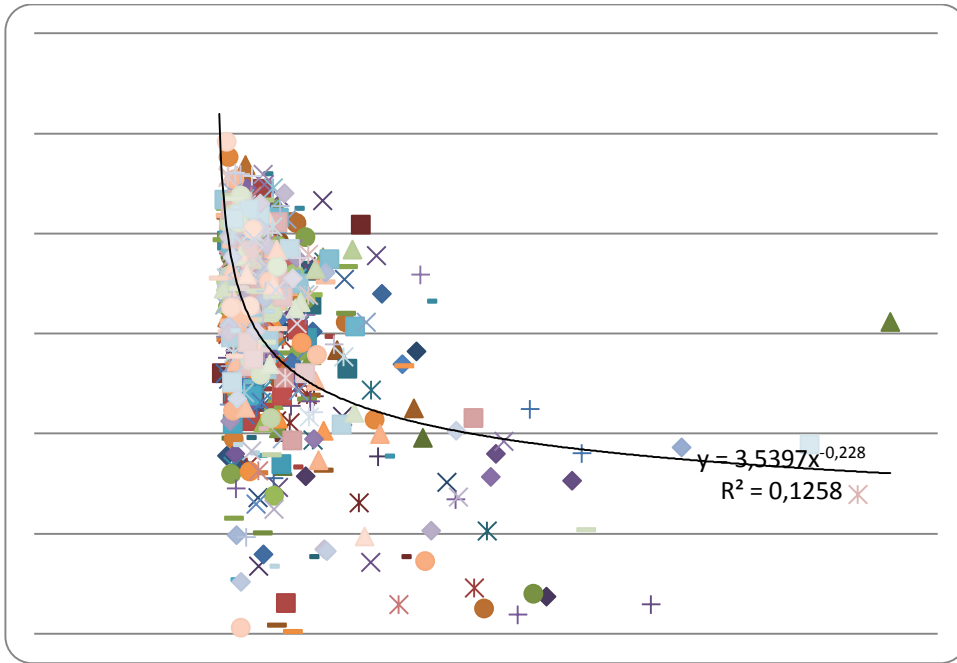
Source: Ministry of Finance, Author's calculations

Figure 16: The relation of share of shared revenues in total revenues of local governments and local government size



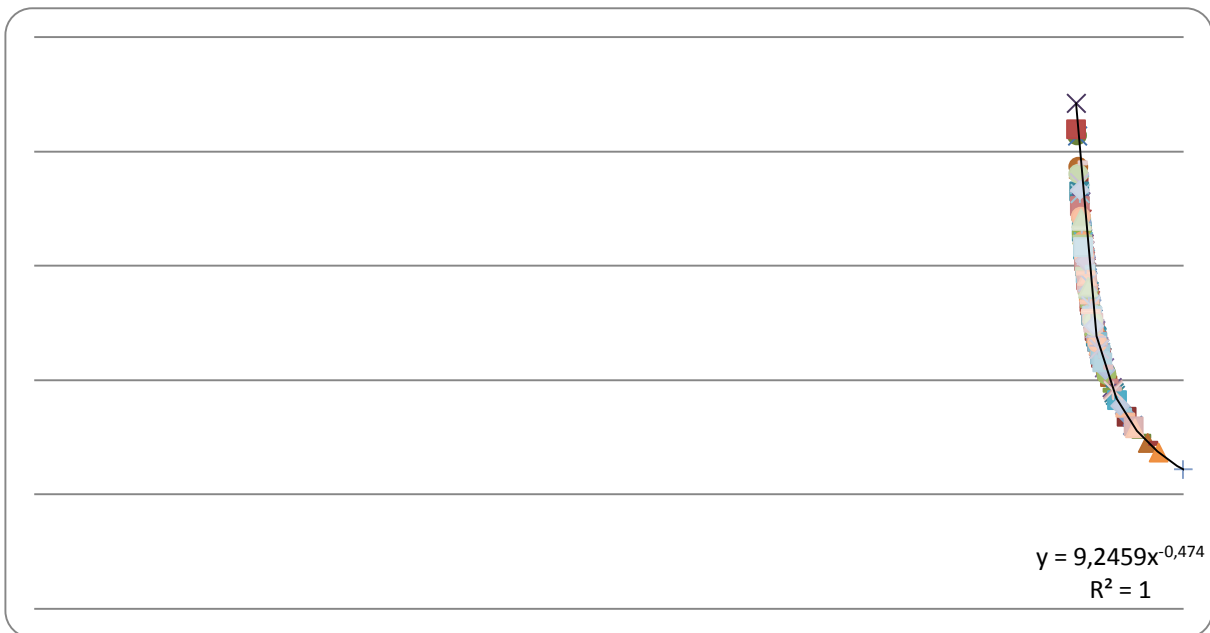
Source: Ministry of Finance, Author's calculations

Figure 17: The relation between the share of transfers in total local government revenue and the local government size in year 2013



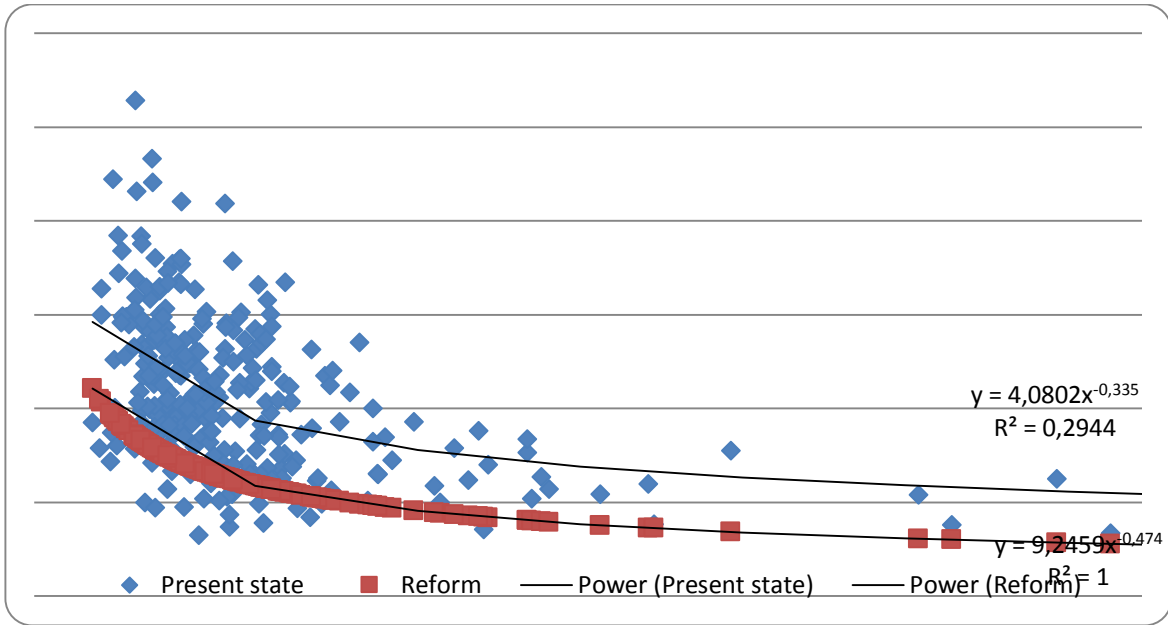
Source: Ministry of Finance, Author's calculations

Figure 18: The relationship of share of administrative costs in total expenditure and local government size (mild amalgamation scenario)



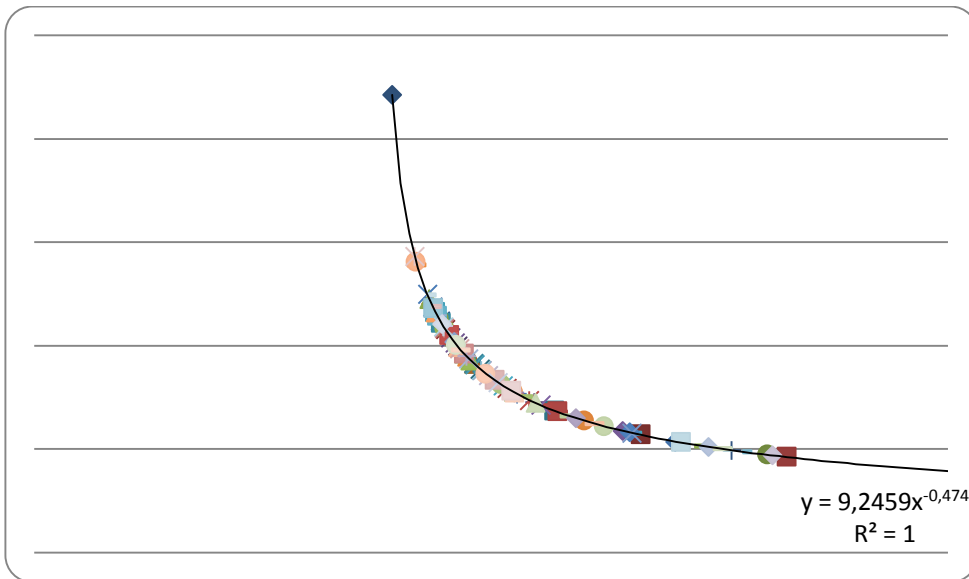
Source: Ministry of Finance, Author's calculation

Figure 19: Comparison of administrative costs efficiency – present state vs. mild amalgamation



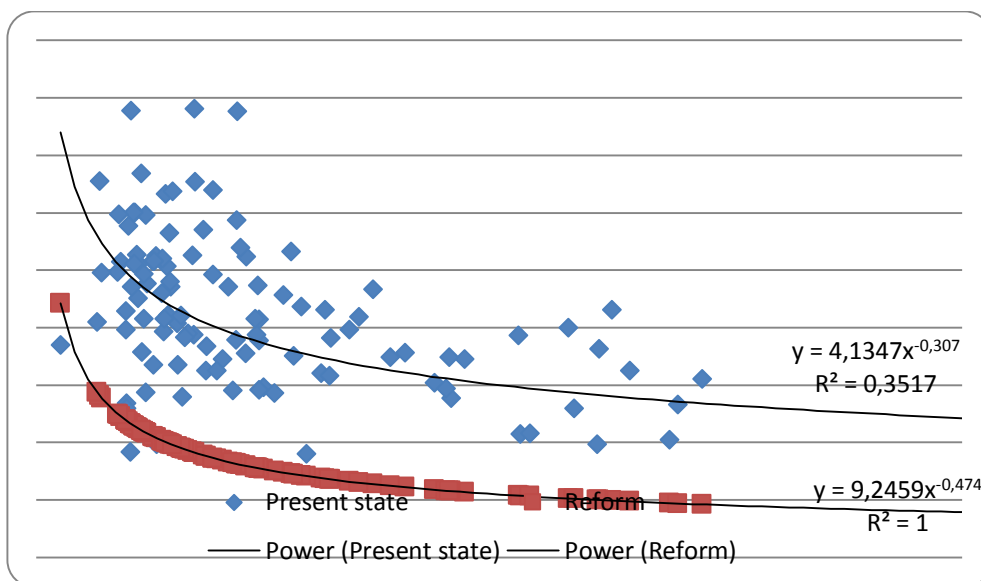
Source: Ministry of Finance, Author's calculation

Figure 20: The relationship of share of administrative costs in total expenditure and local government size (high efficiency amalgamation scenario)



Source: Ministry of Finance, Author's calculations

Figure 21: Comparison of administrative costs efficiency – present state vs. high efficiency amalgamation



Source: Ministry of Finance, Author's calculations

Table 5: Qualitative evaluation of impact of reform alternatives

	Amalgamation	Asymmetric decentralisation	Inter-municipal cooperation and outsourcing
Economies of scale	Substantial effects in administrative and communal services	Limited effects – restrained on large governments	Limited effects – refer to small share of communal services
Institutional capacity	Increased due to additional financial and human resources	Fits the size of the government	Limited effect on joint services
Local government revenues	Increased by the size function	Increased or decreased depending on the size	Limited effects due to higher investment capacity
EU grant absorption	Absorption potential significantly increased	Potential increased or decreased depending on the size	Limited increase of potential
Managing public	Significantly	No change	Limited increase

investment	improved		
Impact on vulnerable groups	Possible significant allocation of funds towards social protection	Possible increase by central government level	No effect

Table 6: Qualitative evaluation of reform alternatives

Alternative models Features	Amalgamation	Asymmetric decentralisation	Inter-municipal cooperation and outsourcing
Costs	Short term reform costs	Preserving the current state of inefficiencies Costs of implementing new competencies for larger governments	No costs. Possible and preferable in all scenarios.
Advantages	Reduction of overall and administrative costs of LPA Better spending decisions (composition of spending) Improved revenue collection Better spending control Better human,	Better spending decisions (composition of spending) Improved revenue collection and better spending control in larger LPAs Certain reduction of costs of smaller LPA	Economies of scale Reduction of administrative costs

	<p>financial and technical resources – increased planning and boost of local economic development</p> <p>Higher chances of attracting external funds (EU etc.)</p> <p>Increased borrowing power</p>		
Disadvantages	<p>Short term costs of restructuring and reform</p> <p>Certain loss of citizen participation</p> <p>Private costs increase (travelling etc.)</p> <p>Employee reduction affects disproportionately women due to higher share in employment</p>	<p>High level of administrative costs</p> <p>More coordination necessary</p> <p>Possible overlapping of functions</p> <p>Strong standards for public goods and services delivery are necessary</p>	<p>Does not solve key issues</p> <p>Low level of economic impact</p> <p>Negligible impact in small size LPAs</p> <p>Lack of trust between local governments</p> <p>Difficult decision making process</p>
Risks	<p>High political risk of implementation</p> <p>Issues of technical implementation of new system – e-government framework etc.</p>	<p>Possible resistance – long time of implementation</p> <p>Less clear division of responsibilities</p>	<p>Coordination risks</p> <p>Implementation risks – history does not provide guarantee for larger extent of such complex coordination projects</p> <p>Decreased</p>

			accountability
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Table 7: Monetary impact of mild amalgamation expressed as percentage of total expenditures of all local governments (%)

	2016	2017	2018	2019	2020	Total
Administrative cost savings	12,10%	12,10%	12,10%	12,10%	12,10%	60,50%
Own revenues increase	0,09%	0,09%	0,09%	0,09%	0,09%	0,45%
Shared revenues increase	0,45%	0,45%	0,45%	0,45%	0,45%	2,25%
Total	12,64%	12,64%	12,64%	12,64%	12,64%	63,20%

Source: Ministry of Finance, Author's calculations

Table 8: Monetary impact of high-efficiency amalgamation expressed as percentage of total expenditures of all local governments (%)

	2016	2017	2018	2019	2020	Total
Administrative cost savings	14,85%	14,85%	14,85%	14,85%	14,85%	74,25%
Own revenues increase	0,28%	0,28%	0,28%	0,28%	0,28%	1,40%
Shared revenues increase	2,49%	2,49%	2,49%	2,49%	2,49%	12,45%
Total	17,62%	17,62%	17,62%	17,62%	17,62%	88,10%

Source: Ministry of Finance, Author's calculation