

Opportunities, Challenges and Results of the Regionalization Process in the Romanian Water Sector

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Abstract: One of the specific objectives of the Sectoral Operational Programme Environment SOP ENV is to *improve the quality and access to water and wastewater infrastructure, by providing water supply and wastewater services in most urban areas by 2015 and by setting efficient regional water and wastewater management structures*. (Priority Axis 1 – Water: regional projects). In order to implement the investments needed to comply with the relevant EU environmental directives for improving the quality of water services and environment, the regional operators have access to the EU Funds from the current programming period 2007-2013. For the Priority Axis 1 the allocated funds raise up to 2,78 billion Euros from Cohesion Funds and 0,49 Billion Euros from national co-financing. The paper presents a comparative approach of current status of the regionalization process in the water sector in Romania as well main problems encountered by the regionalization process, in general and the regional operators, in particular, presenting some solutions and success factors in the regionalization process in the Romanian water sector

Keywords: regionalization; water services; Sectoral Operational Programme for Environment; Intercommunity Development Association; tariffs

JEL Classification: O2; O18; P48; Q56

1. Introduction

The joining of the European Union brought to Romania the need and obligation to comply with the European standards, including the water and wastewater sector. As a consequence, the European standards were transposed in the Romanian legislation. The two major Directives regarding the water and wastewater sector are Directive 91/271/CE on urban wastewater and Directive 98/83/CE regarding the drinking water quality.

The implementation of the European directives is made in the context of the national strategic framework, the most important being the Sectoral Operational Programme Environment, setting the general and specific objectives in the water and wastewater sector.

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The regionalization of water services is a key element in improving the quality of services and the efficient use of the infrastructure in order to comply with the environmental objectives.

2. Strategic National Objectives

The SOP Environment - Sectoral Operational Programme Environment - regards a national development priority for 2007-2013, e.g. the “Protection and Improvement of the Environment Quality” and it considers social, economic and environmental needs in Romania so as to obtain the highest positive impact upon environment and to stimulate the economic development. From international perspective, it is based on the EU Strategy for Sustainable Development and the 6th Environmental Action Programme of the EU.

In this respect, SOP ENV focuses on the improvement of accessibility to public services, on ensuring adequate quality and level of services and on preservation of the environmental potential. *Ensuring the basic water and environment infrastructure and adequate public services is an essential requirement for encouraging the investors and is a pre-requisite for the economic development of the country. Creation of better jobs is also expected as environmental protection is a growing sector in Romania.*

The objectives of Priority Axis 1 “Extension and modernization of water and wastewater systems” aim at the improvement of quality and access to water and wastewater infrastructure, by providing water supply and wastewater services in line with EU practices and policies, in most urban areas by 2015 by the following aspects, as presented in the

- *Providing adequate water and sewerage services, at accessible tariffs;*
- *Providing adequate drinking water quality in all urban agglomerations;*
- *Improving the purity of watercourses;*
- *Improving the level of Waste Water Treatment Plant sludge management;*
- *Creating innovative and efficient water management structures.*

An efficient management in the water structure depends on the institutional setting, on one hand, and on the available financing, on the other hand.

The financing in the Romanian water and wastewater system before Romania’s accession to the EU was well below the real needs in terms of quality and quantity of the provided services. An important number of municipalities did not attract financial funds from national or international financial institutions or from private operators, hence the water and wastewater infrastructure falls behind the population and economic agent’s quality standards.

After the accession to the EU, Romania intends to access important funds for investments in the water and wastewater sector, in order to comply to the EU requirements applied to the drinking water – such as requirements on turbidity, pesticides, nitrates, etc. as well as requirements related to the collection and treatment of the wastewater.

In Chapter 22 – Environment of the Accession Treaty, Romania committed to major improvements in the quality of water and wastewater system and has been granted transition periods for compliance with the Directive 91/271/EEC related to urban wastewater collection, treatment and discharge – by 2015 for a number of 263 agglomerations of more than 10,000 population equivalent (p.e.) and by 2018 in 2,346 agglomerations between 2,000 and 10,000 population equivalent.

In the same vain, transition periods are also agreed to comply with the Directive 98/83/EC on drinking water quality by 2015. Moreover, following the negotiations for accession, the whole territory of Romania was declared as a sensitive area. This means, that all the urban agglomerations with an equivalent population of 10.000 p.e. - or above - will require an advanced wastewater treatment level (that will remove phosphorus and nitrogen).

In order to reach the above mentioned objectives, Romania through the Ministry of Environment has received financial assistance through several pre-accession funds (PHARE, ISPA, SAMTID, etc.) as well as the Cohesion and structural funds after the accession to EU. To implement all the specific projects that will ensure meeting the general and specific objectives presented above, it is needed to create strong regional operators in the water and wastewater sector that, by adopting polluter-pays and water conservation-principles, will ensure the correct implementation of the EU-funded projects, an adequate operation of the existing and new infrastructure and, overall, will ensure meeting the EU standards through rehabilitation and extension of water supply and wastewater services.

The responsibility of implementing SOP falls to Management Authority for SOP Environment, supported by eight Intermediate Bodies for SOP Environment, one for each development region of Romania. The funds allocated for SOP Environment for the current programing period of 2007-2013 is 5.6 billion Euros, of which 4.5 billion Euros represents EU grants from the two major EU Funds – European Fund for Regional Development and the Cohesion Fund. The difference is represented by national co-financing contribution. For the next programing period 2014-2020, Romania has obtained a budget of 39.887 billion Euros, an increase of 18% compared to the previous programming period.

3. Regionalization of Services

According to Romania's policy reflected in the SOP Environment, the achievement of the objectives for the water and wastewater sector is realized through a process of regionalization, meaning the implementation of an institutional framework for the creation of a public operation regional system respectively of a technological, operational and managerial assembly achieved by gathering several local water and wastewater systems with the scope of optimizing the level of services supplied through common operating process and use of resources and facilities.

The regionalization is a key element in improving the quality and cost efficiency of local water infrastructure and services in order to fulfil environmental targets assumed by Romania in the Accession Treaty, but also to assure sustainability of investments, of operations, of a long term water sector development strategy and of a regional balanced growth. Providing grant financing in the water and wastewater sector is conditional to setting up Regional Operating Companies (ROC). The regionalisation process represents an essential element for achieving the environmental Acquis in the water and wastewater sector because experienced operators are needed to accomplish the investments and to guarantee their satisfactory maintenance and operation.

Without grant-financing, most of the smaller operators will not be able to comply with the Acquis. Accordingly, there is a strong incentive for the different operators to arrange an appropriate set-up of ROC, and to overcome potential administrative and political burdens. The pre-accession funds and programs – such as PHARE, ISPA, SAMTID, FOPIP – have ensured the financing as well the technical assistance in creating efficient regional operators in the water sector, able to successfully implement the EU funded projects. The Regionalization process includes 35 beneficiary counties in Romania. In the current programming period 2007-2013 as well as in the next one 2014-2020, the EU funds such as Cohesion and Structural Funds will contribute to the financing of the investments in the water and wastewater sector.

These investments are the key of the creation of strong regional operators, capable to ensure good quality services, at acceptable tariffs – high enough to ensure the cost recovery and the further development of the infrastructure, but taking into account in the same time the affordability level of the population. The key institutional elements according to the strategy from the Sectorial Operational programme (SOP) are: the Intercommunity Development Association (IDA), the Regional Operating Company (RO) and the Delegation Contract – as the main management tool of the relation between the Regional Operator and the local councils.

The framework is set up to function as follows: a single regional operator is created based one or more existing water companies; In order to co-ordinate the

development of water and waste water services in the county, its various territorial administrative units should become members of the Intercommunity Development Association (IDA). The County Council will also be a member of the IDA, and will represent the interests of the smaller communities. The communities that comprise the IDA will delegate to the IDA the responsibility for their water and waste water service provision.

The IDA and the operating company will then enter into a bilateral service contract, whereby the operating company provides services to the IDA's member communities under the general oversight of the IDA itself.

Taking into account all the aspects mentioned earlier, the requirement for creating regional operators in the water and wastewater system can be based on the following aspects:

- Legal – given by the existing European legislation and the Romanian legislation, that have transposed the EU Directives
- Policy implementation – for implementing the objectives of the Sectoral Operating Programme
- Financial – in order to access the European funds – both pre-accession as well the Cohesion and Structural funds available for the current and next programming period
- ‘In House rules’ instituted by the Government Ordinance 13/2008 stating that the regional operator should provide exclusively the essential parts of the drinking water and wastewater services and it should be completely in public ownership and controlled by the public authorities
- There are some principles in the construction of the regional operators (RO)
- The OR cannot externalise the core drinking water and wastewater services
- The OR should activate exclusively in its own operating area
- The OR ownership is exclusively public and all its members should be part of the IDA – Intercommunity Development Association – that will control the OR as an internal department, based on the provisions of the Delegation contract

The delegation contract will ensure a correct relationship between the local authorities and the regional operator in the interest of the final user of the services, by ensuring the absorption of the financial funds needed construct, extend and rehabilitated the infrastructure while establishing a correct tariff strategy.

4. Problems and Solutions Encountered by Regional Operators; Success Factors of the Regionalization Process

In the regionalisation process, the regional operators are activating in an existing national policy framework for capacity building programme in the water sector.

From the total 41 Counties plus Bucharest, 35 Counties have the experience of implementing ISPA projects – where they entered the process of regionalization. Moreover, in the current programming period, most of the counties have well established regional operators.

Nonetheless, in the regionalization process, several issues had to be addressed, that can be summarised as follows:

a. Institutional/ Organizational difficulties

The difficulties encountered can be related either to the existing of an inefficient operator, as main operator to build the Regional Operator on, or to the existing and building the institutional capacity of the OR personnel.

Regarding the first aspect, there are several counties in Romania, where the main existing operator had large historical debts, and, as a consequence, the creation of a new, strong and financially viable OR is jeopardised.

On the other hand, the strength of the OR is based as well on the quality of the personnel. In many cases, the senior and experiences staff has left the water companies due to new opportunities in the private sector or their own reluctance to change or los of some administrative positions.

b. Political difficulties

The regionalisation process is strongly linked to the commitment of the local decision factors – from county level to each community. Moreover, a good collaboration should exist between the local politicians and the regional operator's top management – and this is not always the case.

The local and central elections cycles have delayed or disturbed, as well, the implementation of the regionalisation process

c. Financial difficulties

Regarding the financial performance, in some cases the financial performance of the existing water companies is poor.

Another issue is when the main operator or even a newly created regional operator has signed financial agreements with some other technical assistance, and, as a consequence, this will raise important property transfer issues.

Difficulties may appear in sustaining the co-financing investment costs of the projects especially by the small and medium communities, as well as cash flow problems related to the Value Added Tax payments.

d. Technical/ infrastructure difficulties

In some cases, the regional operator has to manage an insufficient or obsolete wastewater treatment and sewerage network. There are inadequate facilities for sludge treatment, inefficient water management structures, especially in smaller towns and not all the infrastructure needs can be addresses with the limited funds received from the EU grants.

Among the **success factors** to an efficient regionalisation process are:

- Decrease the political influence and interests; politicians should only supervise and support the regionalization process
- The regional operators should have professional and experienced managers
- Ensure the full cost recovery of the operation and maintenance costs and the investment cost
- Ensure a sound financial flow by taking into considerations all the constraints on the financial flows when implementing EU funded projects – from delays in the work/service contracts due to delays in tendering procedures to delays in received the authorised reimbursement sums or VAT related issues
- Implement and efficient tariff policy that will balance the need cost recovery and the population affordability of the water services; if needed, social policies should be specifically targeted
- Sound social climate ensures by informing the population about the advantages and possible short-term disadvantages of the regionalization process and the implementation of new investment in the water and wastewater sector.

5. Conclusions

The overall objective of the Sectoral Operating Programme is to protect and improve the environment and living standards in Romania, focusing in particular on meeting the environmental Acquis. The aim is to reduce the environment infrastructure gap that exists between the European Union and Romania both in terms of quantity and quality. This should result in more effective and efficient services, while taking fully into account sustainable development and the polluter pays principle

The objectives for the environmental operating programs in the water and wastewater sector can be achieved through an efficient management of the

financial funds, achieved through a regionalization process – the creation and implementation of a sound institutional framework Romania, suitable to combine the water supply and wastewater services.

The purpose of the process of regionalization of water services, initiated by Romanian authorities and largely supported by the pre-accession programs (PHARE, ISPA), is to assist the local beneficiaries (Associations of Municipalities and Regional Operating Companies) in the creation of efficient water and wastewater service operators and in strengthening the capacity of local authorities to monitor their activities effectively

The regionalization is a key element to improve the quality and cost efficiency of local water infrastructure and services in order to fulfil environmental targets but also to provide sustainability of investment and operation.

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