ROMANIA: Regional approach in a decentralized context and impact on service outcomes

Afrodita Popa
Adriana Pienaru
ROMANIA: 2 Governance models in the water sector

- Model III. Decentralized model with public service provision
  - 43 Regional Operating Companies (ROC)

- Model IV. Decentralized model with private service provision
  - 2 Private Operators providing services in big cities (Bucharest, Ploiesti)
Regionalization of water and wastewater service

Concentration of the water and wastewater services provided to a group of municipalities within a geographical area defined around a river basin and / or within a county

- **Institutional environment**
  - The Intercommunity Development Association (IDA) - association of municipalities
  - The Regional Operating Company (ROC) - commercial company, owned by all or a part of the IDA member municipalities, to which the management of the service is delegated
  - The Delegation Contract - delegates the management of the service in IDA area to ROC
Stakeholders in the water sector

- Ministry of Administration and Interior (MAI)
- Ministry of Public Finances (MFP)
- Ministry of Environment and Forests (MMP)
- Ministry of Health (MS)
- National Authority for Regulation of Public Services (ANRSC)
- Central Finance and Contract Unit (CFCU)
- National Agency Romanian Waters (ANAR)
- Division of Public Health
- Local government
- Consumers
- Romanian Association of Water (ARA)

IDA
ROC
Stakeholders roles and responsibilities

- Overall sector strategy – Central Government
- Sector regulation, operators licensing – National Regulator (ANRSC)
- Sector development (including drafting of legislation, best practices and benchmarking initiatives, PSP, etc.) – Professional association (ARA)
- Selection of service provider (selection process, procurement, privatization) – Local Government
- Procurement regulations – Central government
- Tariff regulation and tariff setting procedures – National Regulator (ANRSC)
- Tariff setting – ROC, with IDA approval; National Regulator (ANRSC) approves tariff; Tariff strategy included in the Delegation Contract
- Asset Ownership – Local Governments
- Service provision – ROC
Key features of the governance model III in Romania

- Stable legal framework - very well regulated sector
- Self-sustained operators (ROCs)
  - No subsidies
  - Formula based tariff - that takes into consideration the evolution of costs and the impact of the investment projects
  - Tariff policy set in the Delegation Contract and aimed at full cost recovery (operation and maintenance, development, financial expenditures, royalty, depreciation, profit)
  - Profit and royalty re-invested in sector’s development
- Unique tariff for the entire area of operation (by 2014 for all ROCs)
- Affordability ceiling regulated by the law at 3.5% from the average income of the lowest decile
- Quality standards in line with EU requirements for water by 2015 and for wastewater by 2018
Two-folded research

Impact of governance factors on service outcomes

Impact of external factors on service outcomes
**Service outcomes indicators taken into consideration in impact analysis**

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<th>Affordability indicators</th>
<th>Sustainability indicators</th>
<th>Service quality indicators</th>
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<td>Access to services</td>
<td>Ownership &amp; management of public assets</td>
<td>Drinking water quality (compliance with standards)</td>
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<td>Water tariff / household income ratio</td>
<td>Sources of cost-recovery</td>
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<td>Arrears statistics and management</td>
<td>Capital investments funding</td>
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<td>Water tariff structure</td>
<td>Non revenue water (NRW)</td>
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<td>Facility size / economies of scale</td>
<td>Distribution network reliability (% of network repaired / replaced per year)</td>
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Impact of governance factors on service outcomes

- Increased access to services
- Better management of arrears
- Ensure a mix of funds for capital investments
- Improved debt management
- Bigger facilities and economies of scale
Impact of external factors on service outcomes

- Impact on access to services
- Impact on ROCs revenues
- Influence the level of tariff
- Influence the volume of arrears
- Determine the affordability ratio
- Impact on water and wastewater quality
- Impact on capital investment needs and funding
- Influence the operation and maintenance funding
- Impact on network reliability
- Impact on NRW
CONCLUSIONS

There is a causal relation between the governance type and the performance of the sector

- The key difference between the Governance Models existing in the water sector in Romania is not given by the type of service provision (public vs. private) but by the regional approach in public service provision.

In Romania, EXTERNAL FACTORS (economic development, geographical and technological factors) HAVE A GREATER INFLUENCE ON water and wastewater SERVICE OUTCOMES THAN the GOVERNANCE FACTORS (incentives, accountability, rule of law) in the framework that regulates the sector.