LESSONS LEARNT FROM THE REGIONALIZATION PROCESS IN ROMANIA
CASE STUDY: RAJA CONSTANTA

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1. Starting point

The ‘90s – general context:

- 1990 finds the Romanian municipal sector quite centralized: 42 multi-utilities at country level;
- Piramidal resources’ planning and allocation;
- No efficiency criteria applied;
- Tariff setting policy established at national level, without cost recovering criteria (financial losses in many utilities’ cases);
a) Technical and operational status

- Weak assets’ maintenance, high water losses in the distribution networks (over 50%) and associated discontinuity of supply;
- Huge energy consumption (up to 40% of the operational costs);
- Lack of customer care and poor quality in water services’ delivering;
- No environmental care;
b) Financial status

- No multi-annual planning => lack of predictability;
- Frequent changes of the tariff’s level due to the high inflation rates;
- Uncertain financial results, even losses, in many cases;
- Lack of funds for investments;
- Periodic changes of the billing system:
  - Differentiated tariffs for domestic, industry, and public institutions in the ‘90s;
  - Unitary tariff system after 2000;
c) Institutional status

- The ‘90s start with an institutional de-structuring of the sector (the number of organizations directly involved grows 20 times)
- one utility (autonomous regia) is created within each municipality;
- the Gov. implements a ‘surviving policy’;
- No specific legislation in place;

Coverage of water/sanitation services before regionalization

Characteristic: overfragmentation – more than 800 water operators
Progressively, the criteria for regrouping the utilities have been set up (2000 – 2005):

- Specific legislation issued in 2001
  - Setting up the Association of Municipalities
  - Integrated management for water / sewerage / wastewater treatment services
  - Belonging to the same river basin/catchment area
  - Exclusive public authority ownership of the assets

Map of the AoM for Water Services
Romanian institutional arrangement
Key players in water sector

IFI:
EBRD, EIB, WB

SHAREHOLDERS
[LOCAL COUNCILS]

R.W.A.

INTERCOMUNAL DEVELOPMENT ASSOCIATION

WATER COMPANY

REGULATOR

EU WATER DIRECTIVE
[MINISTRIES]
2. Regionalization process

The 2005 – 2010 period:

- Local authorities are coming together in Association of Municipalities (AoMs);
- AoMs delegated the management to the new regional operators (ROCs);
- The incentive for the local authority is the promise/commitment of the ROC to modernize the infrastructure and to fulfill the EU requirements in due time;

Coverage of water/sanitation services today
Consequences of the regionalization process

a) Financial consequences:

- Collection ratio has been improved by the new ROCs in order to deal with the new challenges (loan repayment, financial crises’ effects, etc.)
- Better financial situation for ROCs, benefiting from the economy of scale effects;
- Funds for investments become available for ROCs (EU-CF, IFI’s, state budget, comm. banks);
- Significant increase of water tariffs in order to co-finance the necessary investment works (tariff setting policy paper for a 5 years period);

Average Collection Period (Days)

- Decreased almost by half from the year 2000;
- Also, the collection ratio improved to almost 100%
b) Technical and operational consequences

- Improvement of the operational performance indicators (continuous supply, NRW reduction, better assets’ management);
- Master Plans for the infrastructure’s modernization and extension are prepared by ROCs, based on the criteria of fulfilling the EU Directives’ requirements;
- Access to know – how and new technologies, in the context of: investment programmes, WssTP, FP7;
Stage results

- First step of the regionalization process is almost completed (42 ROCs);
- Most of the delegated management contracts between the Associations of Municipalities and ROCs are settled;
- Each regional operator benefits from a strategic investment project (100 mil. Euro on average), which must solve its priority problems and to insure the conformation with the EU Directives;

Strategic investment projects of the new ROCs
3. Case study: RAJA Constanta

Regionalization process time-frame:

• RAJA begins the regionalization process as a county company that supplies 39 localities in the Constanta county;

• Until 2009, RAJA extended its supply area to 74 localities from Calarasi and Constanta counties;

• Today, RAJA supplies with water and sewerage services over a million inhabitants from 130 localities of five counties: Constanta, Ialomita, Calarasi, Ilfov and Dambovita;
RAJA
Institutional arrangement

LOCAL COUNCILS

SHAREHOLDERS

Mandate

Statutory Company’s Act

Regional Operating Company

( RAJA )

Delegation (Concession) Contract

Intercomunal Development Association

( IDA )

Performances monitoring

Water Services

CUSTOMERS
RAJA’s current status

- The largest regional water and sewerage supplier in Romania;
- Operates a water supply and sewerage system comprising:
  - 91 well fields with over 400 wells;
  - Two surface water sources;
  - Water network: over 3500 km;
  - 137 water reservoirs;
  - Sewerage network: 1420 km;
  - 85 wastewater pumping stations;
  - 12 wastewater treatment plants;
RAJA’s Management

- The shareholders of the company are the County Council of Constanta and 33 Local Councils;
- The Company has a Board of Directors and 5 Directorates;
- There are 8 cost centers – profit units, with their own production plans, performance indicators and balance sheets;
- RAJA has a Management delegation contract with the Association of Municipalities that stipulates both parts’ rights and obligations;
- RAJA achieved great levels for the performance indicators;
- RAJA accessed important amounts of European funds;
RAJA’s financial performance indicators for 2010

- Invoiced water: 42 million cm / 100 million Lei
- Invoiced sewerage: 35 mil. cm / 80 mil. Lei
- Water/Sewerage Collection Rate – 97.88%
- GROSS PROFIT – 17 mil. Lei

RAJA’s investment achievements

- **2001-2002**, Large Scale Infrastructure Facilities – LSIF, in amount of **4.76 Mil. Euros**;
- **2000-2010**, Instrument for Structural Policies for Pre-Accession Measure (ISPA), in amount of **91.077 Mil. Euros**;
- **2010-2015**, Sectoral Operational Programme – Environment - in amount of **238.455 Mil. Euros**

**TOTAL INVESTMENTS = 367.435 Mil. Euros**
Rehabilitation and Modernization of Water Supply and Sewerage Systems for Constanta – Ialomita Region

Sectoral Operational Programme – Environment

- Project Amount: 238,455,595 Euros
- Beneficiary population: 603,442 inhabitants
- Project implementation period: 2010-2015
- Financing Sources:
  - European Union: 144,606,838 Euros
  - Stat Budget: 22,116,340 Euros
  - Local Budget: 3,402,514 Euros
  - Operator’s Contribution: 68,329,903 Euros
4. Conclusions

1. The ‘90s found the Romanian water sector very centralized, with many infrastructure problems, huge leakages and poor financial performance;

2. An institutional de-structuring of the sector begins, conducting to over-fragmentation (the number of organizations directly involved grows 20 times);

3. Between 2000 and 2005, the criteria for regrouping the utilities have been progressively set up: specific legislation, the new established AoMs delegated the management to the new regional operator (ROC);
4. Conclusions (contd.)

4. As a regionalization consequence, the financial and operational performance of the ROCs improved;

5. The new ROCs benefited of large investment programmes, which helped improve the infrastructure’s status;

6. Most probably, after 2015, a new stage in re-grouping will begin and directing the regionalization process along the river basins will be a priority.
THANK YOU FOR YOUR ATTENTION!

ROMANIAN WATER ASSOCIATION

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