The Financing of Water Supply and Sewerage Services in Romania

Alina Florentina CUCOS⋆, Nicolae Viorel TRIF⋆⋆, Doinita CAZAN⋆⋆⋆

A B S T R A C T

Water supply and sewerage services represent utilities that must be provided to all users, both the urban and the rural. The responsibility to ensure these services in terms of non-discrimination and affordability belongs to the local authorities, which in the spirit of decentralization have exclusive jurisdiction on their establishment, organization and operation. Regardless of the chosen management, the funding of water supply and sewerage services, is accomplished by means of the prices and tariffs paid by the users. Their quantum, specific to some social services, covers the costs without allowing the accumulation of consistent profit margins, which would ensure the development of the specific infrastructure from the operators' own funds. It is therefore necessary that funding for the creation and rehabilitation of water supply and sewerage systems to be provided from other sources than the budgets of operators, such as: budgetary allocations of local public authorities, government or European funding programs.

This paper is of interest because it captures just how the prices and tariffs for these services are composed, and the entire procedure for foundation, adjustment and modification that follows different rules from those of pricing in the market economy, and it provides a review of the types of programs through which the development of the specific technical-urban infrastructure and the significant increase in the number of users in the past 25 years.

1. Introduction

Water supply and sewerage service involves the development of activities through which the collection, treatment, transport, storage, and finally the distribution of drinking and industrial water to all users from the operating area are ensured, or the collection, transport, treatment and discharge of residual, storm and surface water from a built-up locality. Water supply to users is done through a network that consists of collections, adductions, treatment plants, pumping stations with or without hydrophore, storage tanks, transmission and distribution networks, connections to the point of demarcation which represents the specific technological installations. The public sewer system consists of a series of technological installations such as: sewer connections at the point of separation and collection, sewers, pumping stations, treatment plants, exhaust manifolds to the emissary, water mouths in the emissary, deposits of dehydrated sludge.

The infrastructure specific to water supply and sewerage services belongs to territorial administrative units, making part of their public domain.The relationship between the state and the economy is one of the most controversial issues of economic theory and practice. Thanks profound implications in social, economic, political and moral state participation in society is a major concern for all economic agents. Currently, the actual functioning of the economy is no longer an issue substantiation state intervention in the economy, but its implementation in accordance with the specific conditions of each country and stage. [1]

The responsibility of managing the water supply and sewerage services belongs, from the decentralization and subsidiary perspective, to local public authorities that take decisions in order to establish the management of these services, development, expansion, rehabilitation of the systems through which the services are provided, approve regulations for services operation and approve prices and tariffs that are applied in the relationship between operators and users.

2. Rules and principles regarding the financing of water supply and sewerage services

Water supply and sewerage services are services of general interest that belong to the sphere of public utilities, and are regulated by Law 51/2006 of community services of public utilities, and by Law no. 241/2006 of water supply and sewerage services, which set out the principles and rules that define the prices and tariffs in the domain of these services of general interest, but also rules allowing the central and local

⋆, Dunarea de Jos University of Galati, România; ⋆⋆ Academy of Public Administration under the President of the Republic of Moldova, Chișinău, Moldova. ⋆⋆⋆Dunarea de Jos University of Galati, România; E-mail addresses: saracu_alinaflorentina@yahoo.com (A.F. Saracu); nvv_trif@yahoo.com (N.V. Trif) ; zafiud@yahoo.com (D.Zafiu).

governments to participate by means of public assistance, subsidies, budgetary allocations to finance current expenditures for supply/provision of public utilities, maintenance, utilization, and operation of related systems as well. [2] [3]

The financing of the current expenditures for supply / provision of water supply and sewerage services and also the maintenance, operation and functioning of the related systems is carried out by taking into consideration the economic and commercial criteria; material and financial resources for specific activities of each service are provided by the incomes and expenditures of the operators. The operators revenues results from the collection from users in the form of prices or tariffs,of the amounts representing the supplied / provided services and, where appropriate, from the allocation of local budgets. Regardless of the operators organization in the field, as the obligation to ensure these services belongs to the local government, which, besides the determination of management, performance indicators and approval of tariff policies have also to contribute financially to the modernization, the development of the specific technical infrastructure, which are systems through which the supply / provision of services to the population is ensured.

The financial support from the local government, when talking about public utilities services is subject to the following principles:

a) ensuring financial autonomy of the operator;

b) ensuring profitability and economic efficiency;

c)ensuring equal treatment of public utilities services in relation to other public services of general interest;

d) the full recovery by the operators of the supply / provision costs.

3. The financing of water supply and sewerage services operation

In a market economy, free price formation is a fundamental operation of economic mechanisms. However, the real mechanism of the market economy involves direct or indirect involvement of the state in this process. This commitment is reflected in the pricing policies, which should stop the free price formation and operation of all market mechanisms. [4]

In the field of water supply and sewerage services, by law, the cost recovery of services provided/ supplied is done by means of prices and tariffs. The prices and charges for public utility services are not established only on the basis of supply and demand in the market economy, but they are also established taking into account the observance of the calculation methodology established by the regulatory authorities.

The substantiation is based on the summation of production and operating costs, of maintenance and repairing costs, of reductions in value related to fixed capital in tangible and intangible assets, of environmental costs, of financial costs associated with loans, of the costs arising from the contract of management delegation, and it includes a quota for creating development and modernization resources of public utility systems and it also includes a profit share.

3.1. Substantiation of prices and tariffs
a) Pricing and tariffs for public water supply and sewerage services

Order 65/2007 includes regulations on which the prices and tariffs are based, both for the operators who perform in direct management and who are structures within the specialized unit of the mayor, such as: departments, offices, public services, directions, and also for the operators performing the delegated administration, under a contract of management delegation concluded with the local public authorities, such as companies that may have capital of administrative territorial units, or private capital.

According to the legal provisions in force [5], pricing and tariffs for public water supply and sewerage services is made according to the formula:

$$P = \frac{V}{Q} \quad \text{where:}$$

P = price or tariff established;

V = scheduled value of the work for the year in which the proposal is made;

Q = scheduled quantity for the year in which this proposal is made.

A number of elements are compulsory in pricing and setting tariffs:

a) costs of purchased raw water, consumed electric energy and used materials are determined according to the purchase prices prevailing at the date of acquisition, being correlated with the proposed quantities for use in one year;

b) specific consumption of electric energy and used materials for the operation and functioning of water supply and sewerage system will be counted at levels reflecting their real situation;

c) costs resulting from the human resource necessary for providing the activities, costs that are substantiated in connection with the economic efficiency principle in the legislation in force;

d) costs regarding the amortization and / or rent will be calculated in accordance with the legal provisions in force;

e) correct dimensioning of price in relation to users will obligatory include the water losses in the system, related to the activities of generation, transmission and distribution. Their quantum is determined based on a technical audit, and approved by the local public authority, by decision of the Local Council.

f) annual scheduling of the amounts of delivered and residual water processed through the exploited water supply and sewerage systems;

g) the inclusion according to the current regulations of a profit share and of a share related to the Fund for Maintenance, Replacement, and Development in the prices and tariffs;

In particular, pricing and setting tariffs for water supply and sewerage services is done by operators or economic operators, based on background sheets whose model is approved by Order of the President A.N.R.S.C. no. 65/2007. Prices and tariffs resulting from such substantiation, in order to be applied in the relations between operators and users, are endorsed by the regulatory authority and then approved by the deliberative bodies of territorial administrative units.

b) Adjustment of prices and tariffs for public water supply and sewerage services

Beyond the initial establishment, any intervention in the pricing and tariffs of public utilities, like their adjustment and modification, is made according to the calculation methodologies developed by the regulatory authorities. The adjustment is the procedure of increasing prices and tariffs which is encountered when real influences received after costs caused by the evolution of prices and tariffs in the economy, based on an economic and financial analysis of the economic operator, are found to be necessary in order to change their structure to cover the costs of exploitation and operation of water supply and sewerage systems, through which these services are provided to users. The new levels of prices or tariffs resulting from the adjustment are subject to approval of ANRSC then approved by the deliberative bodies of territorial administrative units. The adjustment of prices and tariffs is permitted by law, under the previously stated conditions, at a 3 month-interval. The expert opinion of the regulatory authority shall include, in case of adjustment, the quantum of the price or tariff for public water supply and sewerage services, and also the value of the price or tariff at the date of the adjustment, because according to these data the next subsequent adjustment parameter will be determined. The prices and tariffs for public water supply and sewerage services are set by the operators or the economic operators.

According to the law in force the adjustment of prices and tariffs for public water and sewerage services is done according to the formula [5]:

$$P1 = P0 + DELTA(p), \text{ where:}$$

P1 = adjusted price or tariff;
P0 = current price or tariff;
DELTA (p) = price or tariff increase caused by the actual influences which affected the costs;

$$DELTA(p) = \frac{[DELTA(ct) + DELTA(ct)xr\% + DELTA(CT)xd\% + IIDFund]}{Q},$$

where:
DELTA (ct) = the increase of total costs caused by the influences which affected the costs;
r% = profit share of the operators or economic operators;
d% = share of development;
Q = scheduled quantity for the year when the proposal is made, which is not different from the amount taken into account in determining the price or tariff in force;
IID Fund = The maintenance, replacement and development fund is included in the prices and tariffs, according to the Government Emergency Ordinance no. 198/2005, with subsequent amendments, approved by Law no. 108/2006. The criteria of the adjustment are the same as the criteria of the setting, except that that they take into account the changes of purchasing price or other cost elements that have occurred from the time of the initial substantiation.

c) Change in prices and tariffs for public water supply and sewerage

The legislation in force distinguishes these situations where prices and tariffs for public water supply and sewerage services can be changed

a) major changes in cost, determined by the putting into service of machinery and equipment to improve the quality of public services of water supply and sewerage and only after their entry into service;

b) for cases that lead to structural changes in costs or in produced, transported or distributed quantities, or for the cases that lead to the change of the production, transport and distribution which determines the costs change with a influence of more than 5% over a period of three consecutive months.

Changing prices and tariffs for public water supply and sewerage services is made according to the formula [5]:

$$P1 = P0 + DELTA(p), \text{ where:}$$

P1 = price or tariff as amended;

P0 = current price or modified tariff;
DELTA (p) = increase in price;

$$\text{DELTA(p)} = \frac{\left(\text{DELTA C}_{(v)} + \text{DELTA C}_{(f)}\right) + \left(\text{DELTA C}_{(v)} + \text{DELTA C}_{(f)}\right) \times r\% + \left(\text{DELTA C}_{(v)} + \text{DELTA C}_{(f)}\right) \times d\%}{Q}, \text{where:}$$

DELTA C (v) = increase in variable costs due to the influences which affected the costs;
DELTA C (f) = fixed costs increase as a result of the influences which affected the costs;
r% = profits share of the operators or economic operators;
d% = share of development;
Q = scheduled quantity for the year when the proposals made.
Price or tariff changes are determined taking into account the same criteria as the setting and adjustment criteria except that they are considering significant changes that impact the cost structure elements.

e) Prices and tariffs set for public water supply and sewerage services

The system of prices and tariffs specific to the public utilities services, also as a result of the regulation, allows the use of composite tariffs that include a fixed component, proportional to the costs required to maintain the working and operation in safe and efficient conditions of the public utility systems and a variable component, depending on the actual consumption recorded by the record measuring devices mounted on the users' taps, in the separation points of the installations. In case of water supply and sewerage services operators or economic operators may propose compound prices and tariffs which, according to the current legislation, are set, adjusted and modified, if the following conditions are regarded:
   • the existence of end-use metering ;
   • the analysis and consent of the involved local public authorities;
The structure of composite prices and tariffs is given by a fixed component, proportional to the costs required to maintain the operation and functioning, in terms of efficiency of the public water supply and sewerage system or a variable component determined according to the registered consumption of water, or the amount of water taken from the sewers. The formula according to which the composed prices and tariffs are set for the public water supply and sewerage services is the following [5]:

P = a + b, where:
a - (lei / consumer) represents the fixed part of the price / tariff and it is calculated according to the formula:

$$a = \frac{C_{(f)} + C_{(f)} \times r\% + C_{(f)} \times d\%}{Q} \times Q \text{ (average/cs), where:}$$

C (f) = fixed costs;
r% = profit share of the operator or the economic operator;
d% = share of development;
Q = scheduled quantity for the year in which the proposal is made;
Q (average / cs) = average monthly quantity per consumer.
Q (average / household cs) is determined as the ratio between the average monthly quantity delivered to the household users and the average number of consumers.
Q (average / cs remaining users) will result in two or more trenches, depending on the contracted quantities.
Q (average / cs remaining users) will be determined as to reflect more accurately the amount of water contracted by the user;
b - price / tariff per m3 represents the variable part of the price / tariff and is determined according to the formula:

$$b = \frac{C_{(v)} + C_{(v)} \times r\% + C_{(v)} \times d\%}{Q}, \text{ where}$$

C (v) = variable costs;
r% = profit share of the operator or the economic operator;
d% = share of development;
Q = scheduled quantity for the year in which the proposal is made.

The procedures for setting, adjusting and changing prices and tariffs for public utilities payment follow several stages, after the substantiation by operators in the calculation methodologies, namely subject to approval by the competent regulatory authority and then they are proposed for approval to the deliberative authorities of administrative-territorial units or, where appropriate, of intercommunity development associations with object of public utility services. There are situations concerning the delegated administration, when between the local public authorities and operators or between the intercommunity development associations whose activity is represented by the public utilities services and the operators

appear litigation on setting, adjusting or changing prices and / or tariffs, their resolution being achieved by means of court arbitration. The need for such arbitration between the local public authorities on the one hand, and operators on the other hand, is owed to the social economic dimension of these services, also approached by Radu I., in his work entitled "Principles for the sustainable development of community public utility services in the context of the user-regionalization "(2006) as well as the economic and social component, being equally considered when talking about substantiating, pricing and setting tariffs. Differences arise mainly because of the different vision on prices and tariffs, since while the local public authorities primarily pursue social protection, the operators focus on the economic dimension and aim to obtain in exchange for the service performed, not only cost recovery but also to achieve profit margins. [7] Precisely because this area is experiencing a strict regulation designed to ensure equal and non-discriminatory accessibility to public services and to protect users, current regulations reflect monopoly and by the imposed sanctions in the case of pricing and tariffs practice established and charged by violating the law. Thus, pricing, tariffs which are not substantiated, endorsed and approved under the existing methodologies are null and void, and the amounts wrongly collected and identified as such by the regulatory authorities shall be returned to users from whom they have been collected or to the local budgets, as appropriate. Tariff policy must ensure, on the one hand, the sources necessary for operation, development, modernization and / or base-support for the borrowing of refundable or partially refundable credit, and on the other hand, not to exceed the limits of the population's affordability. Making an analysis of the urban technical infrastructure specific to these services Professor Ioan Radu believes that the systems that provide water and sewerage supply until 2000 have a pronounced wear and tear, thus leading to low yields, high consumption and to their poor quality. [7]

Most of the times the prices and tariffs must include quantum by which to ensure social protection, the profit share being low, as well as the IID share, thus the operators own resources, as well as those of the local budgets can not ensure the modernization and the development of the public utilities services infrastructure.

3.2. Structure of a price

Analyzed on the elements of cost, a price structure is usually presented as in the chart and table below:
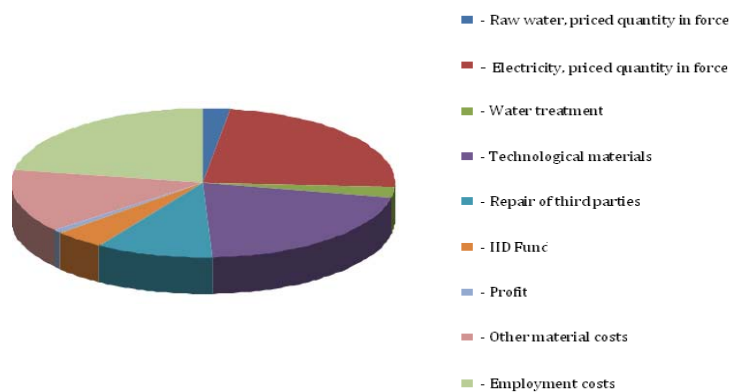
No. crt.	Specification	Share price items
1	- Raw water, priced quantity in force	*2.16%*
2	- Electricity, priced quantity in force	*23.79%*
3	- Water treatment	*2.08%*
4	- Technological materials	*21.21%*
5	- Repair of third parties	*9.96%*
6	- IID Fund	*4.24%*
7	- Profit	*0.68%*
8	- Other material costs	*13.74%*
9	- Employment costs	*22.14%*

One can notice, from the analysis of the graphic and table above that in the elements of price, the profit amount and the reserved amounts for the IID Fund are small, in this case cumulated, and it shows the value of 4.92%, which does not generate significant resources for investment effort meant to lead to the rehabilitation or extension of the systems through which to ensure water supply and sewerage in a locality. The small profit margin for these services is due to the need to ensure their endurance for all users because these services are of general interest and show a pronounced social character.

Therefore, to attract additional sources from national programs of funding or repayable or irredeemable loans, but also to achieve public-private partnerships is often the only viable alternative for the development and modernization of the specific urban technical infrastructure through which water supply and sewerage are ensured. Beyond these financing methods, the intercommunity development association, is not just a way of achieving the combined efforts of several local communities, and a condition of eligibility required by EU in order to grant repayable loans or grants.

4. Financing the development of the technical urban infrastructure of the water supply and sewerage services in Romania

The provision, the supply of all services in this area is made through the public utility systems, which determines the need to attract investment used to create, modernize and develop the technical-urban infrastructure in each administrative territorial unit taken separately. Financing and investments related to the public utility systems are in compliance with the existing legislation on initiation, funding, promotion and approval of public investment under the following principles:

a) to promote effectiveness and cost-efficiency;

b) to maintain the revenues from these activities in the local communities and their use for services development and of the related technical urban infrastructure;

c) to strengthen the fiscal autonomy of administrative-territorial units to create funds necessary for the operation of services;

d) to strengthen the local autonomy on contracting and guaranteeing internal and external loans to fund technical urban infrastructure related to services;

e) compliance with legislation on public procurement;

f) compliance with the legal provisions concerning the quality and discipline in construction, planning, planning.

Financing capital expenditure for public investment objectives of administrative-territorial units, related to the public utilities systems is provided from the following sources:

a) the operators own funds and / or funds from the local budget, in accordance with the obligations under the legal provisions on which the management of services is organized and conducted;

b) bank loans that can be guaranteed by the administrative territorial units, by the Romanian state or other entities specialized in providing bank guarantees;

c) grants obtained through bilateral or multilateral arrangements;

d) special funds established on the basis of special taxes imposed at the level of local public administration under the law;

e) funds transferred from the state budget to participate in co-investment programs conducted by external funding and also from budgets of authorizing officers of the state budget;

f) participation of private capital in the context of public-private partnership contracts such as "build-operate-transfer" and its variations, as provided by law;

g) funds made available to users;

h) other sources [2].

Developed in the context of EU accession, public utilities services legislation includes provisions on irredeemable financial assistance from the EU but also loans from international financial organizations whose beneficiaries are territorial administrative units or directly the operators / regional operators for creation, modernization and / or development of technical urban infrastructure related to the public utility services.

The benefit of these financing options, also includes the correlative obligation of establishment, supply and use of a reserve fund required for maintenance, replacement and public utility systems development, and to provide the funds necessary to pay public debt service for co-financing these projects. Investment efforts in the field of water supply should not be considered simply a financial resources consumption, but must be judged as a complex process in which material goods are produced with a long period of use, living conditions at European standards for the entire population of the country were created and environmental policies and sustainable development were met for which Romania is committed towards EU integration.

4.1. National funding programs
> **Villages water supply subprogram approved by G.D. no. 577/1997 with subsequent amendments and completions**

This grant program represents a way to offer the government's support for local communities in order to achieve large infrastructure works in rural area to respond to the European requirements of development and to ensure accessibility to water supply and sewerage services for residents of the communes and villages from Romania. As it was established, by means of the normative act content, funds were allocated from the state budget by the Ministry of Development, Public Works and Housing, but also from financial resources from foreign repayable loans and local budget allocations. The subprogram as it was established, aimed at introducing water systems in about 9,000 villages, the estimated value being 3,274,000 LEI. Quantified

results ten years later (2007), were below expectations, insuring water supply systems in only 375 villages and other 470 systems were in progress. [8]

Thus, the initially proposed objectives, which aimed at introducing centralized water supply in order to provide drinking water for about 2.5 million inhabitants from about 30% of the villages from Romania, were only partial achieved. The program benefits, by subsequent modifications of various laws, of continuity up to current date.

➢ **The Government Program regarding the rural and social housing water supply approved by G.D. no. 687/1997 with subsequent amendments and completions**

Among the objectives targeted by this government program is the establishment and improvement of quality of life in rural areas by providing water supply for a total of 1,200,000 inhabitants in 855 villages. The total value of the program, which included other objectives, was $ 510 million.

Funding sources of the program consisted of the following components: external repayable grant totaling USD 440 million, MRDH budget of USD 70 million and budgets from the County Councils in order to pay approvals, authorizations, electrical connections and other utilities.

The program was designed to be developed in three phases over 11 years, from 2000 to 2011, the first phase being approved by GD 687/1997 with funding provided by foreign loans, who's total was of USD 340 million, out of which 280 million was allocated for water supply systems in 617 villages, with it's deadline in 2007; the second phase approved by GD 1036/2004 financed by means of foreign loans which worth USD 90 million, aimed at creating water supply systems in 137 villages by the end of 2007, with a granted grace period until 2009; and the third stage contained in the Memorandum of MTCT approved in 2006, aimed at securing a grant of USD 80 million in foreign loans and resources from the state budget in order to achieve water supply in 101 villages by 2009. [9]

➢ **Program called - Integrated rehabilitation of water supply systems and sewage treatment plants for drinking water and wastewater treatment plants in towns with a population of up to 50,000 people**

The approach of this project is zonal, taking into account the settlements with a population of up to 50,000 inhabitants, with the surrounding areas which ensure the respective agglomerations from 16 Romanian counties. The objectives of the project are to combat trans boundary pollution by means of the development of environmental infrastructure, creating wastewater treatment plants and sewerage systems in river basins Cris River, Somes River – Tisa River, Mureş River, Prut River, Siret River, Jiu Arges - Vedea, Buzau - Ialomita from their upstream area and Dobrogea Basin - Black Sea Coast; to improve the quality of drinking water supplied to population, to reduce system network losses, to lower energy consumption and chemical reagents used for water treatment, in other words to ensure the environmental rules and public health, with lower costs by streamlining the functioning model of systems. [10]

The project was proposed to be undertaken in two stages, as it follows:

The first stage of the project has an implementation period between 2007 - 2014, financing being provided under the Framework Loan Agreement between Romania and the Council of Europe Development Bank, with a total value of € 208.1 million. Funding sources are:

• CEDB - Euro 160.1 million
• State Budget - 8.0 million Euro
• Local Authorities - 40.0 million

The second stage project was approved by the Memorandum entitled "*Approval to initiate the negotiation agreement - framework loan to be completed between Romania and the Council of Europe Development Bank, with an amount of 179.9 million euros to fund the second phase of the project Integrated rehabilitation of water supply and sewerage system, of drinking water treatment stations and wastewater treatment plants in towns with a population of up to 50,000 inhabitants*".

Total value of EUR 232.9 million, of which:

• CEDB - Euro 179.9 million
• State Budget - 8.0 million Euro
• Local Authorities - 45.0 million [10]

4.2. European funding programs

Regarding European funds for the development of water supply and sewerage, there are two stages, namely:

The first stage – The pre-accession one, in which the EU by means of financial instruments like PHARE, ISPA and SAPHARD, supported the efforts of modernization and development with direct implications on infrastructure and water supply services and sewerage. By means of the PHARE and SAPHARD funding type programs the development of the infrastructure for water supply and sewerage services was insured, the objectives of these two programs being different, the ISPA financing type had an important.

By means of ISPA funding a number of 29 projects were ensured in the field of water supply and wastewater treatment, and there was also a number of 7 funded projects in the waste field, the total value amount to 1.45 billion euros, of which 1.045 billion euros ISPA grant, about 195.35 million Euro EIB loans, about Euro 110.95 million EBRD loans and 99.99 million from local and state budgets.

The second stage - The EU membership - funding instruments are provided by the Sectorial Operational Programs, for water supply and sewerage services, the program is SOP ENVIRONMENT, by means of which funds that worth 3.14 billion euros were accessed by a no. of 37 out of the total number of 42 regional operators, which represent funding resources of development for a wide operating of 951 urban and rural areas where over 7.8 million people live. The average value of a POSMEDIU project, a project for the expansion and rehabilitation of water systems is of 106.8 million euros. [10]

5. Conclusions

Financing of water supply and sewerage services involves allocating resources for two types of different activities, namely: service operation and development of specific technical urban infrastructure. This distinction is necessary because, from the legislative point of view, but also according to the real possibilities of operators, regardless of their management, the expenses related to service operation are recovered from the prices and tariffs paid by the users, and the expenses related to the rehabilitation and extension of the systems are covered from several sources, such as local budgets of local public authorities, national budget by means of funding programs, European funds and a share of the operators' own budgets. Tariffs and prices charged by the operators in the field have a social nature, being designed to ensure the affordability of services for all users, this being one of the basic principles of ensuring these services of general interest. The social nature of prices and tariffs determines a small profit share fact that to the operators' impossibility to invest from their own funds for infrastructure development, which requires the allocation of the resources necessary for such programs from local budgets, or by means of national or European funding programs

The necessity for providing co-funding by operators for certain types of financing led, by means of the governing law, to the acceptance of an iid share in the price structure. Another legislative change aimed at promoting inter-community association which favoured the creation of regional operators who met the eligibility requirements for reimbursable or non-reimbursable European funds. Following the inter-association and the institution of the iid share, and especially by means of national and European funding programs, the progress in terms of the development of the specific infrastructure for water supply and sewerage services in the last 25 years is notable, registering an increase from 29% in 1976, to 68% today of the connected population, which represent 14,7 million people out of 21.7 million that have access to drinking water supplied by public networks.

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