

## **FINANCIAL INSTABILITY THREATENS THE INVESTMENTS FOR ENVIRONMENTAL PROTECTION IN ROMANIA**

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### **1. Introduction**

As a first issue, the main idea is that the environmental sustainability must be integrated into core development work, maximizing synergies.

Then, it should be underlined the link between the environment problems and the economic and social situation from every country. Concretely, it should be noticed that there is a correlation between poverty and its destructive effects on the environment.

In addition, in the last time, it should be underlined the problems of the financial crises.

### **2. Environmental policy in the European Union. Financing and Economic Instruments**

The problems posed by the environment become pressing at the global level for the developed countries as well as for the developing countries.

In 2006 the European Council adopted a renewed Sustainable Development Strategy (SDS) that sets out a single, coherent plan.

The plan consists of seven key challenges which must be tackled if Europe is to move along a sustainable development path and maintain current levels of prosperity and welfare.

Regarding the **Financing and Economic Instruments**, a wide variety of market based instruments (taxes and emission trading system) and policy specific market incentives (financial support to R&D (research-development),

innovation and demonstration on specific issues) are used at EU and Member State level to support sustainable development. There is more potential for the use of market based instruments.

In March 2007, the Commission adopted a Green Paper on the use of market-based instruments for environment and energy related policy purposes and in the course of 2008 the Commission will review the Energy Taxation Directive and start to examine how to identify and phase-out environmentally harmful subsidies.

The Commission proposed legislation to re-structure passenger car taxation and to coordinate taxation of unleaded petrol and gas oil used as motor fuel.

The European Regional Development Fund and the Cohesion Fund are major EU financial instruments providing significant financial support for the 2007- 2013 period to key areas of the EU SDS such as climate change (€ 9 bn) and sustainable transport (€ 36 bn). Cohesion policy applies the sustainable development principles of both 'Involvement of citizens' and 'Policy coherence and governance', by including all stakeholders at all levels of government, as well as promoting coherent policy making across different sectors.

### **3. The Sectoral Operational Programme Environment in Romania**

The Sectoral Operational Programme Environment (**SOP ENV**) is closely linked to the national objectives of

the strategy laid down in the National Development Plan 2007-2013 (NDP) and National Strategic Reference Framework (NSRF), which takes into consideration the European Union's supporting objectives, principles and practices.

First of all, the programme covers the period of 2007-2013, but its objectives also look forward to Romania's development needs beyond 2013 by laying the foundations for sustainable economic development.

Secondly, it will contribute to Romania meeting its EU obligations in the environment sector offering investment opportunities in all the regions of the country.

Thirty, it is designed to lay the foundation and be a catalyst for a more competitive economy, a better environment and more balanced regional development.

The overall objective of SOP 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 specific objectives of the SOP ENV are:

**1. 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.**

**2. Development of sustainable waste management systems**, by improving waste management and reducing the number of **historically contaminated sites** in minimum 30 counties by 2015.

**3. Reduction of negative environmental impact and mitigation**

**of climate change caused by urban heating plants** in most polluted localities by 2015.

**4. Protection and improvement of biodiversity and natural heritage** by supporting the protected areas management, including NATURA 2000 implementation.

**5. Reduction of the incidence of natural disasters affecting the population**, by implementing preventive measures in most vulnerable areas by 2015.

In order to achieve these objectives, the following **6 priority axes** are identified:

- Extension and modernization of water and wastewater systems.

- Development of integrated waste management systems and rehabilitation of historically contaminated sites.

- Reduction of pollution and mitigation of climate change by restructuring and renovating urban heating systems towards energy efficiency targets in the identified local environmental hotspots.

- Implementation of adequate management systems for nature protection.

- Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas.

- Technical Assistance.

#### **4. Financing Plan of the SOP ENV in Romania**

Both the Cohesion Fund and the European Regional Development Fund will be used to finance SOP ENV.

SOP ENV is one of the largest Operational Programmes developed under National Strategic Reference Framework. The EU contribution to SOP ENV represents about 23.5% of the total Structural Funds allocated to Romania under the „Convergence“ Objective (ERDF) and the Cohesion Fund (CF) for 2007-2013, amounting to about Euro 4.512 billion. A national contribution of approximately Euro 1.098 billion is added.

**Table 1. Financing Plan of the SOP ENV giving the Annual Commitment**

Year	Euro	% in total
2007	272,372,736	6.04
2008	437,302,592	9.69
2009	578,507,217	12.82
2010	683,350,731	15.14
2011	761,146,030	16.87
2012	848,813,721	18.81
2013	930,977,111	20.63
<b>Total 2007-2013</b>	<b>4,512,470,138</b>	<b>100.0</b>

Source: Sectoral Operational Programme ENVIRONMENT 2007-2013.

The annual breakdown has taken into account both the experience gained in project management during the pre-accession period and the issues related to the absorption capacity of funds.

The detailed financial allocation by Priority Axis is presented in Table 2.

**Table 2. Financial plan of the SOP ENV giving, for the whole programming period, the amount of the total financial allocation of each fund in the operational programme, the national counterpart and the rate of reimbursement by priority axis.**

Priority axis and EU fund	Euro	% in total	EU Co-financing rate %
Axis 1 CF	3,266,508,423	58.2	85.0
Axis 2 ERDF	1,167,778,849	20.8	80.0
Axis 3 CF	458,537,288	8.2	50.0
Axis 4 ERDF	214,985,867	3.8	80.0
Axis 5 CF	329,145,954	5.9	82.0
Axis 6 ERDF	173,920,564	3.1	75.0
<b>Total</b>	<b>5,610,876,945</b>	<b>100.0</b>	<b>80.4</b>

Source: Sectoral Operational Programme ENVIRONMENT 2007-2013.

Romania's commitments for Environment for water and waste sectors have weighed very much in the financial allocation. Also, the need to support sustainable investments for these sectors in the near future has been taken into account. The principle of concentration of resources to solve the major needs of environment has been observed. On the other hand, huge investments necessary for the basic infrastructure in water and waste sector represent the basis for the economic development of the country.

Overall, the Community cofinancing represents about 80.4% of the total allocation for SOP ENV.

### 5. Financial instability and the environmental investments in Romania

Total estimated required environmental investments in 2007-2013: about € 18 bn Euro out of which ca € 6.4 bn were foreseen from the EU funds. However, **the highest investment pressure is foreseen for the next 7 years** based on the following:

- many of the transition periods for various EU directives are agreed up to 2013;

- minimum investments are needed as a first phase of long term investment plans in the water and waste sectors as to ensure sustainable development.

In fact, the total estimated cost for compliance with the environmental EU Directives is about **29.3 billion Euro up to 2018**, out of which:

- 5,4 billion Euro – state budget and local budget (18%);

- 9,9 billion Euro- EU funds (34%);

- 7,8 billion Euro – private sector (27%);

- 6,2 billion Euro - other sources [Environmental Fund, international projects (other than those financed with EU support, foreign loans, etc.(21%)].

Romanian absorbed in the period 2007-2008 only 18% from the funds designed to the environment protection. The main causes are the followings: the excessive bureaucracy, the lack of

trained staff, the lack of projects and corruption.

Concretely, the axis regarding the water management had 33 projects with a total value of 3.5 billion Euro, and the residuals had 30 projects with a total value of 750 million Euro. For the urban heating, there were proposed 8 projects, with a total value of 460 million Euro. As well, the major investment regards the flood prevention, the projects summing about 200 de million Euro. The poorest field is the biodiversity because in the two years since the European integration, our country used just 1.8% from the funds for this sector.

Since 2009, there should be taken into consideration another major cause, the financial crisis, and therefore the state should ensure the forecasted co-financing. Moreover, the private sector is less probable to imply in the environment investment.

## 6. Supporting the environmental investment for SMEs

The SOP ENV is mainly oriented towards the development of management systems for environmental infrastructure according to the national strategies in the relevant environmental sectors. These systems are designed to provide population with public services at European standards or to ensure them protection against natural risks.

Concretely, the beneficiaries within the framework of the SOP ENV may be municipalities, associations of municipalities, companies owned by municipalities, public entities and NGOs.

The small and medium enterprises (SMEs) sector can involve more easily in the investment for the environment protection.

In June 2008, the European Commission elaborated the *Small Business Act for Europe (SBA)* which creates the new framework for the development of SMEs sector in the European Union.

One of the principles regards the premises for SMEs to transform the

challenges generated by the environment in opportunities. Therefore, it should be ensured for SMEs more information, expertise and financial initiatives regarding the exploitation of the opportunities offered by new markets and increased energetic efficiency, through implementation of management systems for SMEs.

Thus, for transpose in practice this principle, the Commission will take the following actions:

- is facilitating the SMEs' access to the *Eco-Audit and Management Scheme (EMAS)* through lighter environmental procedures, reduced fees, and the option of cluster registration;

- will finance a network of environment and energy efficiency experts in the Enterprise Europe Network providing advice on eco-efficient operations, markets potential and funding opportunities for more efficient operations in particular for SMEs;

- is developing new forms of support for innovative start-ups and SMEs in the field of eco-innovation, with a view to facilitating market access, technology transfer, use of standards and access to finance, in line with existing State Aid provisions.

But the success of the European policy in the SMEs field depends also on the actions taken by the member states, because they have the main competences in the field of trade and environment policy at the enterprises level [UNCTAD, 2008]. Thus, the member states are invited to encourage the business and eco-efficient products accordingly with the *Community Guidelines on State Aid for Environmental Protection* and to use appropriate the 2.5 billion Euro allocated to the cohesion programs for supporting the ecological products and processes at the SMEs level.

A system of environment management and establishing certain responsibilities in the field of environment protection have a higher influence on the firm involvement in the environment

protection than a checking or control on the norm regulations.

The Eco-Audit and Management Scheme (EMAS) was developed by the European Commission in order to support the firms in their efforts towards a durable development and in administrating their impact on the environment. The EMAS help the firms to plan, review and improve the environment performance, through the optimizing the use of raw material, the transport, services, water, electricity and through the conforming to the environment legislation.

Those firms which participate voluntarily to the EMAS, can use the EMAS logo and thus not only beneficiate by the environment developments but also get a better visibility and an improved image.

Among the benefits of the system are the efficiency from the view of costs and the better access to financing, as well as the new business opportunities on the markets where the ecological processes are important.

As well, the SMEs can beneficiate by the cheaper and faster registration with fewer formalities through the *EMAS Easy* – a training process designed to the SMEs.

The pilot phases were already passed in the member states, proving that the EMAS complete registering is

easy to be done at the micro enterprises level.

## 7. Conclusions

**Romania** benefits by the structural funds in the same conditions as the ones applicable to the other Member States since the data of adhering to the European Union - the year 2007 - being eligible in the frame of the objectives of Convergence and European Territorial Cooperation.

The Romanian leaders must integrate environmental sustainability into core development work, including new sources and modalities of international and European aid. Also, they need to catalyze and leverage more private capital in support of development.

A series of post-adhering to EU situations indicate that the most difficult problem for Romania is the problem of financing management. Even there are available funds, there is not the possibility to access the external and internal financing resources and to check and administrate the project implementation. The recent financial market turbulence and the resulting global economic slowdown pose difficult challenges for policy makers.

But there also many opportunities for the SMEs sector, thus, through low investment but numerous can be obtained generalized effects.

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