

EXPLORING WATER TAXATION SYSTEMS LOGO EAST PROJECT R005.13

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Abstract

In the first part of the paper the stages of our researches, the objectives and the methodology are presented. The paper focus on creating an evaluation system in order to compare the water taxation systems in the following countries: Holland, Hungary and Romania. This evaluation system is important if one takes in consideration the particularities of these systems. More than that, the comparison must take in consideration two very different systems: a centralized one in Holland and a decentralized one in Hungary and Romania.

1. Starting Point

Our research was developed within the LOGO EAST Project Ro05.13, presented in the conference of Someș-Tisa Water Division in September 2007.

In 2006, within the LOGO East Programme, financially supported by MATRA programme of The Netherlands Ministry of Foreign Affairs, the relationship has continued with a training concerning the improvement of internal management. Experts from VNG International and from the Dutch water board offered to the participants from Romania and Hungary information and experience on issues related to Human Resources Management and Financial Management.

The main objective of this research was determined by the fact that organization Someș-Tisa Water Division (STWD) was confronted with a major and important problem, namely an imbalance between income and expenses thus having substantial difficulties to accomplish its primary tasks. Additional central funding for shortages was coming to an end. Restoring the equilibrium between income and expenses became a necessity in order to maintain the present public service. The most important possibility to raise income is imposing taxes for public services, more specific, protection against flooding.

This study endeavors to evaluate two water taxation systems - Dutch and Hungary – in order to discover the best practices that can be implemented in Romania. The research was financed by the Social Transformation Programme Central and Eastern Europe (Matra) of the Netherlands Ministry of Foreign Affairs.

2. Background

Because of an imbalance between income and expenses one of the partner organizations Someș-Tisa Water Division (STWD) had substantial difficulties to accomplish its primary tasks. Additional central funding for shortages was coming to an end. Restoring the equilibrium between income and expenses became a necessity to maintain the current level of the public service. In this way profound examination and analyses of income and cost components in relation to public service activities was done by STWD partner. They discovered possibilities to raise income and reduce costs. The most important possibility to raise income is imposing taxes for public services, more specific: protection against flooding. Expenses for construction of dykes and embankments are covered by the central government (until now). Expenses for maintenance come to the account of STWD. The funding of these expenses is not sufficient yet.

In order to find answers to specified questions and for the transfer of knowledge necessary for the design (plan) of an appropriate and legitimate system to impose taxes, necessary for additional funding for expenses concerning maintenance of dykes and embankments (for protection against flooding).

- Evaluate the foreign tax systems and
- Define, based on exploration and evaluation, an appropriate and legitimate tax system for STWD i.e. a blueprint for approval by the central government.

Target:

- a) To provide an elaborated/well funded financial support for the maintaining and for the continuous development of the quantitative and qualitative management of the water management; to provide the financial equilibrium of the organization.
- b) Beneficiary – the local population.

3. Methodology

The research's objective is to design a blueprint for a tax system for financing maintenance expenses against flooding which will be design by STWD and presented to ARNA (Agency of the Association of Netherlands Municipalities) and the Ministry of Environment and Water Management.

The blueprint will help STWD to generate additional funds for financing the maintenance costs against flooding in order to restore the equilibrium between the incomes and costs.

According to the objective, the research's phases are:

- Phase 1: Designing an evaluation grid in order to analyze The Water Tax Systems;
- Phase 2: Exploring and evaluating the Dutch tax system;
- Phase 3: Exploring and evaluating the Hungarian tax system;
- Phase 4: Compare The Water Tax System in Holland an Hungary in order to reveal – The “STARS” of the systems, for each principle and characteristic;
- Phase 5: Evaluating the Water Tax System in Romania
- Phase 6: Compare the Water Tax Systems Holland-Hungary-Romania in order to discover – The “black holes” of The Romanian Water Tax System
- Phase 7: In order to discover where and how to improve the Romanian system we combined the stars with the black holes, to discover where the problems are and where the best solutions to follow are.
- Phase 8: Results dissemination.

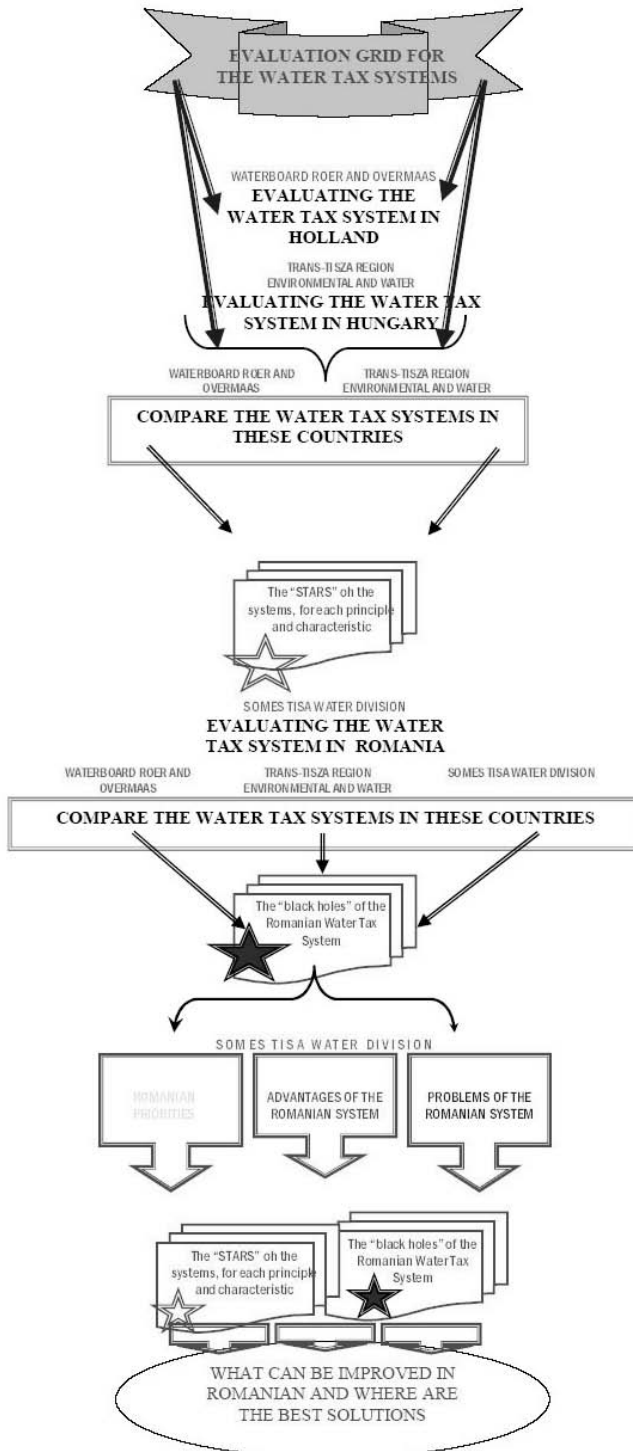
In the following section the results that were obtained in the first phase of this extended research are presented.

4. Evaluation grid and the questionnaire

Benchmarking is a process used in management particularly, in which organizations evaluate various aspects of their processes in relation to best practice, usually within their own sector. Benchmarking is not just a tool for the “down-and-out” (Purdum, 2007). Benchmarking was successfully applied in the non- profit sector too (Letts, 1999). Beginning as a reform movement in the 1990s that encouraged governments to act and operate like the private sector, benchmarking is quickly becoming the standard for resource allocation and management decisions among non profit organization, including local governments. As resources continue to diminish and obligations increase, public agencies are seeking out best practices from others to determine how to operate more efficiently. By identifying jurisdictions with similar demographics, socioeconomic status, geography, crime rate, organizational values and goals, local governments can compare their own service delivery and resource allocation decision with their counterparts to determine areas of weakness and ways to improve (Chaman, 2006).

Considering the results and the effectiveness proven by using benchmarking in different fields of activity we have chosen to apply this method since it represents the proper method in order to accomplish the project's objective.

The scheme presented above reflects in a more suggestive approach the research's phases:



In this way, the instrument chosen to apply benchmarking is the evaluation grid. The designing process of the water tariff evaluation is a complex process and involves, in addition to the water agency itself, outside consulting firms, lending institutions, political leaders, and various stakeholders from the user population. Much of the complexity derives from conflicts or different opinions among the various objectives and considerations that different parties bring to the discussion.

The instrument chosen in order to accomplish our project's objective is the evaluation grid. Grid Analysis is known as useful technique for making a decision. An Evaluation Grid displays large amounts of information to help with making a decision based on several important factors and allows us to assign a score and rank various factors related to selecting an option from multiple alternatives. Furthermore, an evaluation grid helps successfully to evaluate the value or strengths and weaknesses of several options where many factors need to be taken into account. Besides this, a questionnaire was developed in order to accomplish a deeper analysis of the elements of the evaluation grid.

In order to set up the evaluation criteria we have to identify them first. In this way we needed to find a common framework for the tax systems involved, which we called a perimeter. In our opinion, the optimal perimeter was considered the one who can gather all the three systems and allow them to find themselves inside it.

All the key elements described in the trade literature were taken into account in order to establish the proper factors in designing the evaluation grid. We want to emphasize that choosing the significant factors in order to create the EG was a delicate process which needed a general consensus on the objective from all the partners involved in this project.

After developing our analysis we accomplished to delimitate the tax evaluation perimeter by using the following key criteria: the benefit, the polluter pays, the cost recovery, the solidarity, the legality, the social, the stability, the democracy and complexity criteria.

The evaluation grid's criteria impose extra information and explanation in order to evaluate the tax system. Our goal was to establish some guidance lines for a better understanding of the grid's criteria which will help avoiding eventual misunderstandings. In this way, for a better understanding, we attached to all the key elements an additional explanation through the questionnaire. The purpose of this questionnaire is to familiarize the partners with the chosen criteria. The questionnaire is far more detailed than evaluation grid, so the evaluation grid presents the main directions in evaluation and questionnaire gives details about the direction we are focused on.

Additional information about the questionnaire was provided by specialists only in those cases when it was considered that the detailed information from the questionnaire was not sufficient. We have to underline that every evaluation process of the tax system was done together with the University partner and tax specialist from the country analyzed.

As it can be seen, we didn't design a classic questionnaire with multiple choice questions or with given answers, open or not. Hereby our motivation relies in the

explanation that giving some standard answers would have restrained the analysis area and consequently restricts our research. There would have been a big risk for the answers to be incomplete or insufficient, fact which could have generated the loosing of the essence in our analysis. In this way, all the partners involved in this project have agreed that the guidance lines offered are the most appropriate and also serve the purpose of the project in the best way.

After creating the EG and the questionnaire their components have once again been analyzed and all the inadvertences between the criteria have been eliminated through careful analyzing the evaluation grid and the questionnaire.

Setting up the weight of each criteria & guideline based on their importance compared to the other factors was the next step in our work. Because the purpose of the project is to design a blueprint for Romania's water board tax system the partners decided the weights must be attribute by Someș-Tisa Water Division (STDW). The weights reflect the importance of each criteria/guideline from their point of view.

From the STDW point of view, all the EG's criteria were considered significant, and as a result an equal weight of 100% was given to each one of them with the exception of two key criteria which have been weighted with 200% each: cost recovery and polluters pay criteria. These two criteria were considered by STDW to be the most important in the evaluation process.

The issue of maintaining the initial weights remains under discussion until the first evaluation of the Dutch water tax system when we will observe if the real necessity for changing them appears or not. Evaluating the Dutch water tax system will be accomplished based on the grid which we have presented.

Each criteria was evaluated by the labels: low (LO), average (A) or high (HI). Once the labels have been given, their weights were calculated in order to be written in the *score* column of the label. The final result was calculated by its weighting within the maximum weight given by STWD.

After developing our analysis we accomplished to delimitate the tax evaluation perimeter by using the following key criteria: the benefit, the polluter pays, the cost recovery, the solidarity, the legality, the social, the stability, the democracy and other aspects in tax principles.

We have to underline that the principles involved in our analysis are applied different with regard to the components of water management. We chose to combine all principles because we evaluate the water management system as a whole.

The construction of the EG and questionnaire are presented in details further in the paper "Designing an evaluation grid to assess a water tax system – a practical approach based on facts" presented by us in June 2007 at AMIS Conference in Bucharest.

Furthermore we present the evaluation grid combined with the questionnaire. We have chosen to present them in this manner since it offers the possibility to see the role of the questionnaire within the understanding of the grid.

The EG presents 12 big criteria, detailed, from case to case, within the questionnaire as it is shown in the table below:

CRITERIA

Score
(Lo, A, Hi)

1. The benefit criteria

- 1.1. Those who benefit of water organizations' services will be charged
- 1.2. Benefits are measured from objective points of view
- 1.3. Related costs of benefits are directly (not arbitrary) assigned to benefits

2. The polluter pays criteria

- 2.1. Everybody who discharges wastewater pays a pollution levy
- 2.2. The height of the levy depends on the pollution value
- 2.3. Industrial pollution is determined in a more specific and exact way
- 2.4. The polluter is financially responsible for the cost of water management in general and for the related specific cost of embankments and dykes.

3. The cost recovery criteria

- 3.1. Charges and taxes must be in agreement with EC 2000/64
- 3.2. The resources assure the recovery of costs
- 3.3. The taxes are costs fundamented
- 3.4. The cost's structure is unitary and established at district or water organization's level
- 3.5. Does the legislative frame give the possibility to turn account all the work done?
- 3.6. Are necessary investments included in cost structure?

4. The solidarity criteria

- 4.1. Existing services are based on a democratic decision making processes, in which all interests are involved in a well balanced way.
- 4.2. Water organizations don't do anything specific in return for pollution levy taxes
- 4.3. The level at which this principle operates is a local (Water organization/division) one
- 4.4. The level at which this principle operates is a national one
- 4.5. The level at which this principle operates is a geographic one
- 4.6. Do exist any financially transfers between water organizations?

5. The legality criteria

- 5.1. Water organization taxes have their legal basis in the water boards act which prescribes the way water boards have to set up their tax
- 5.2. Tax amount/percentage (tariffs) and taxpayers are defined on a legal basis in ordinances
Formal laws of state taxes have to be applicable to water organization
- 5.3. taxes (regulations of levying and collection, procedures and appeals, legal protection, etc.)
- 5.4. Local authorities can interfere in tax establishing process?(intraregional and interregional)

6. The social criteria

- 6.1. Tax legislation is authorized in a (local) democratic way
- 6.2. The poorer groups in society are taxed different (i.e. less) or excluded from taxes note: poorer groups in household industry agriculture
- 6.3. There is an relation between income and water board tax

6.4.	Dodging is severely punished (financially)
6.5.	Different groups are taxed differently (in democratic decision making processes)
7. The stability criteria	
7.1.	The taxes are steady in time (refers to the number of taxes consumers have to pay)
7.2.	The tax value (or percentage) are steady in time
8. Other aspects in tax principles	
8.1.	Complexity
8.2.	Democracy
8.4.	Transparency
8.5.	Robust
8.6	Costs
TOTAL	

For a better understanding and comparisons of different Water Taxation Systems, evaluations from above are transformed in marks as following:

Table 1 LO=1, A=2, HI=3

Finally, for each criterion, the Romanian partner, Someş-Tisa Water Division attributed weights according with the importance of these criteria for Romanian Water Tax Systems:

Table 2 WEIGHTS FOR THE PRICIPLES	
1. The benefit principle	100
2. The polluter pays principle	200
3. The cost recovery principle	200
4. The solidarity principle	100
5. The legality principle	100
6. The social principle	100
7. The stability principle	100
8. Other aspects in tax principles 5 aspects each 20	100
TOTAL	1000

These weights help us to calculate, in final step, a weighted mark for each Water Taxation System.

5. Conclusion

The aim of the EG is to identify the criteria which rule the system at the level of each water tax system and to allow the comparison between tax systems. All this process of identification is being done through the necessities of the project's

beneficiary: attributing the weights by the beneficiary is considered to be a mirror for the importance of each criterion.

The project's beneficiary (STWD) has an optimal instrument (tool) for measuring the quality of water tax systems within partner's countries, and this way being able to select the best practices within the analyzed systems and to try applying them in order to improve its own tax system.

We have presented the way the EG and the questionnaire were made in order to evaluate a water tax system. These two instruments were used in benchmarking the Dutch, Hungarian and Romanian water tax system in order to define, based on exploration and evaluation, an appropriate and legitimate tax system for STWD and a blue print for approval by the central government.

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