

ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE**Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe, Caucasus and Central Asia
Group of Senior Officials on Urban Water Sector Reform****NATIONAL POLICY DIALOGUE ON FINANCING URBAN AND RURAL WATER SUPPLY AND SANITATION IN THE KYRGYZ REPUBLIC****EXECUTIVE SUMMARY
Annual Meeting of the EAP Task Force
Special Session on Water****16 October 2009, Paris (France)***Special Session on Water*

This report presents key results of a National Policy Dialogue (NPD) on Financing Urban and Rural Water Supply and Sanitation (WSS) conducted in the framework of EECCA component of the European Union Water Initiative (EUWI) and sponsored by the European Commission and the Task Force for the implementation of the Environmental Action Programme for Central and Eastern Europe (EAP Task Force). The objective of the dialogue was to strengthen the capacity of the Government of the Kyrgyz Republic to plan and implement prioritised water supply and sanitation infrastructure investments to reach the water-related Millennium Development Goals (MDGs), while taking account of the affordability for households and the public budget. To achieve this, a Financing Strategy for Urban and Rural Water Supply and Sanitation in the Kyrgyz Republic was developed.

Action required: For information

Mr. Peter Borkey, Environment Performance and Information Division, Environment Directorate, tel: +33 1 45 24 98 75, email: peter.borkey@oecd.org

JT03271472



EXECUTIVE SUMMARY

The overall objective of this project has been to strengthen the capacity of the Government of the Kyrgyz Republic (GoKR) to plan and implement prioritised water supply and sanitation (WSS) infrastructure investments, so that limited financial resources can be effectively allocated to reach the water-related Millennium Development Goals (MDGs). At the same time, the project has sought to ensure that WSS infrastructure development is affordable for the population and the public budget. To achieve this, a Financing Strategy for Urban and Rural Water Supply and Sanitation (WSS) in the Kyrgyz Republic was created through a National Policy Dialogue (NPD) conducted in the framework of EECCA component of the European Union Water Initiative (EUWI) and sponsored by the EC and the OECD/EAP Task Force.

National Policy Dialogue on Financing for Urban and Rural WSS in the Kyrgyz Republic

Through this project, the OECD/EAP Task Force and their appointed consultancy, have worked closely with a Coordination Council (CC) created by GoKR. To inform and facilitate the NPD, the consultancy selected by the OECD/EAP Task Force has prepared a number of background documents based upon the results of data and information analysis, and scenario simulation. To do so, the consultancy collected information on the rural and urban WSS sector (through published statistics and accounts, interviews with government ministries, local government organisations (mayors and *Aiyl Okmotus*), *vodokanal* staff and communities) and fed this information into a financial model for WSS called FEASIBLE.

Key results of the National Policy Dialogue are presented in the Box below.

The main results (outputs and outcomes) of the National Policy Dialogue are as follows:

- Consensus built on, and raised awareness of, the main challenges facing the WSS in the Kyrgyz Republic, which are technical, socio-economic, environmental, geographic, financial and institutional in nature. Agreement on the realism of key assumptions of the Baseline (“business as usual” or “no new policy”) scenario;
- Agreement on the key measures to close the baseline financing gap, amounting to 1.5 billion Kyrgyz soms (KGS), which are:
 - increasing tariffs from the current levels of less than 0.5% of household (HH) income to the maximum level of affordability (2.5% of HH income) after 20 years.
 - increasing collection rates from current levels (<25% in rural areas and <50% in urban areas) to 60% in rural areas and 85% in urban areas after 5 years.
 - increase public budget expenditure on WSS from current levels of about 0.3% of total budget to 2% of public budget (still less than most countries) after 20 years.
- After having considered three alternative development scenarios, the CC unanimously agreed that the scenario that anticipated achieving the Millennium Development Goals for WSS provided the best balance of achieving required improvements in WSS services for the Kyrgyz Republic but with a realistic requirement for total financing and external funding assistance (1 billion KGS or EUR 22 million) (hereafter – the “preferred scenario”).
- A feasible financing strategy associated with the “preferred scenario”.
- Agreement on the policy measures needed to implement the “preferred scenario” and the associated financing strategy, including linking the financing strategy to the budgetary processes (MTBF and annual budgets), integrating it into broader socio-economic policy framework, and a pressing need for national coordination of the urban and rural WSS sectors to improve management and financing, as well as for a sound national policy for the whole WSS sector.

The Context

Of the population of about 5.2 million people, about one-third live in urban areas and two-thirds in rural areas. The main challenges facing the WSS in the Kyrgyz Republic are technical, socio-economic, environmental, geographic, financial and institutional in nature.

The existing infrastructure is in a poor condition and many of the 1,074 centralised piped water supply systems in the country do not operate effectively. About 90% of these systems are served by groundwater sources (including springs) and about 10% by surface water sources. Many people also do not have any access to piped water supplies at all (whether to the home or to street water taps – *kolonkas*).

For those that do have access to piped water supplies the level of service, in terms of reliability, predictability and water quality is often poor. The Sanitary and Epidemiological Service (SES) reported

that on average about 2% of chemical and 10% of microbiological water quality tests failed to reach national norms. The number of cases of acute water-borne enteric infections is rising and reached 485 per 100,000 in 2007.

A lack of water metering to assess production and use in most *vodokanals* (municipal water utilities) means that it is not possible to estimate what the levels of Unaccounted for Water (UfW) are and means that any reasonable charging for levels of use is not possible.

There is a general low level of household (HH) income with almost 42% of people living below the general poverty line and a smaller minority in extreme poverty. However, there is also a big regional disparity meaning great variation in affordability (ability to pay for WSS) and this, along with great population density variation around the country means that there are certain ‘hot spot’ areas where ability to pay is low and the unit costs of water supply provision are high. The harsh climate and seismic activity further increase risks for the sustainability of the infrastructure, while the general presence of rocky ground, the topography and many remote locations lead to high construction costs. This has big implications when allocating national financial resources around the country for WSS.

The low level of affordability and the general poor level of service mean that there is a high level of dissatisfaction with the standard of service and a consequent unwillingness to pay for WSS unless there are clear improvements in services. The rates of cost recovery are poor both due to low tariffs (about 4 KGS per person per month – less than 0.5% of HH disposable income) and low collection rates (<25% on average in rural areas and <50% on average in urban areas). There is also substantial cross-subsidisation of residential customers by industry and commercial enterprises.

There are very low levels of public budget expenditure for water and sanitation (<0.3% of budget expenditure) and almost all of this is for WSS services provided to budget organisations, not capital expenditure. There is also a high level of unpredictability attached to Official Development Assistance (ODA) and external lending and some concern about how effective some of the external lending is. All of this, and the fragile and uncertain macroeconomic outlook means that the financial context is a challenging one, but one with significant potential for improvement.

The institutional and policy context is also challenging. There is currently no national coordinating or regulatory body for the WSS sector as a whole, although this seems to be in the process of reform, and there is no national water supply and sanitation policy. There is also a lack of coordination between water sector policy and that of other sectors, such as housing. Local Government Institutions are responsible for WSS service delivery but have little capacity or resources and the over-fragmentation and decentralisation of the water sector means that there are few economies of scale available and too much diversity of costs. The lack of a database and Management Information System (MIS) for sound decision making and an over-reliance on Soviet consumption norms restricts target definition.

“Business as usual”: financially feasible, but not an option for Kyrgyzstan

Introduction and Assumptions of the Baseline Scenario

The Baseline Scenario considers the funds available and the expenditure required for operating and maintaining the existing assets in the Kyrgyz Republic and sustaining the existing level of WSS services, aiming to provide sufficient funds for operation and maintenance (O&M), as well as for reinvestment in the existing assets to prevent any further deterioration in WSS services over the planning period (2008-2027).

Throughout the financial modelling process, three main categories of settlement have been assumed. These are (1) towns and cities (having a Mayor and served by a *vodokanal*), as well as and villages with a

population in excess 10,000; (2) villages with a population of less than 10,000 people but not less than 750 people, and, finally, (3) villages with a population below 750 people. For each category data was collected, aggregated and entered in the FEASIBLE model for scenario simulations.

Based on national statistics and village surveys, levels of access to piped water supply and basic sanitation under the baseline scenario were assumed to be at the base year (2007) level:

	Water Supply			Sanitation	
	Non-piped water supply	Piped in-house/yard	Piped from street posts	Basic	Improved
Urban municipalities (with <i>Vodokanals</i>)	35%	48%	18%	51%	49%
Villages >10,000 population (Rural)	50%	0%	50%	100%	0%
Villages <10,000 population (Rural)	41%	0%	59%	100%	0%

Sources of finance are assumed under FEASIBLE model to come from the 3Ts: Tariffs (user charge revenues from households, budget and commercial organisations), Taxes (allocations from the public budget) and Transfers (external grants and loans, i.e. ODA, and eventual charities).

For Tariffs, in urban settlements and large villages served by vodokanal, the collection rate was assumed to be 50% for households and 100% for budget and commercial organisations, while data on coverage by piped water supplies, water consumption norms and tariff rates (per m³) was provided by *vodokanals*.

Data on fixed fees paid by rural households (per person per month) was provided by the Kyrgyz Alliance for Water, the World Bank and Asian Development Bank.

Taxes: data on allocations from the public budget was provided by the Ministry of Finance. It was assumed that there is no significant tariff revenue from budget or commercial organisations in villages with populations below 10,000. The only significant contribution to WSS services from the public budget there is through the payment of user charges by budget organisations (e.g. schools, hospitals, government offices) and amounts to approximately 0.2% of the government expenditure budget.

Transfers/ODA: the Baseline Scenario includes the government expenditure for the repayment and interest on the first round loans from the World Bank and Asian Development Bank for the rural water supply projects which have already been completed. These repayments commenced in 2008. While the repayment terms are favourable and the interest rate is low, this does comprise a significant addition to expenditure to be covered by central government in the coming years.

The main macro-economic assumptions were:

- all simulations are made in base year prices (thus no projections for inflation).
- no appreciation or depreciation of the KGS against the EURO or other major currencies.
- energy prices used in the model were as of July 2008 – so a high baseline – and assumed no increase in real terms.
- real household income and real GDP are assumed to grow at 5% p.a.

Results

Total expenditure on O&M and reinvestment over the planning period is 2.07 billion KGS in 2007, rising to 2.10 billion KGS in 2027. O&M requires 47% of total WSS expenditure (excluding loan repayments) and reinvestment¹ requires 53%. Loan repayments represent 4% of the total required expenditure on average. Excluding the loan repayments, 83% of WSS expenditure is in urban areas and 17% is in rural areas. Against this expenditure of approximately 2 billion KGS just to maintain services at their current levels, current revenue is less than 0.5 billion KGS (split about the same as expenditure between urban, about 80%, and rural, about 20%).

The key message is that current levels of revenue are not sufficient to even maintain WSS infrastructure at its current level. Infrastructure will continue to deteriorate unless revenue can be increased.

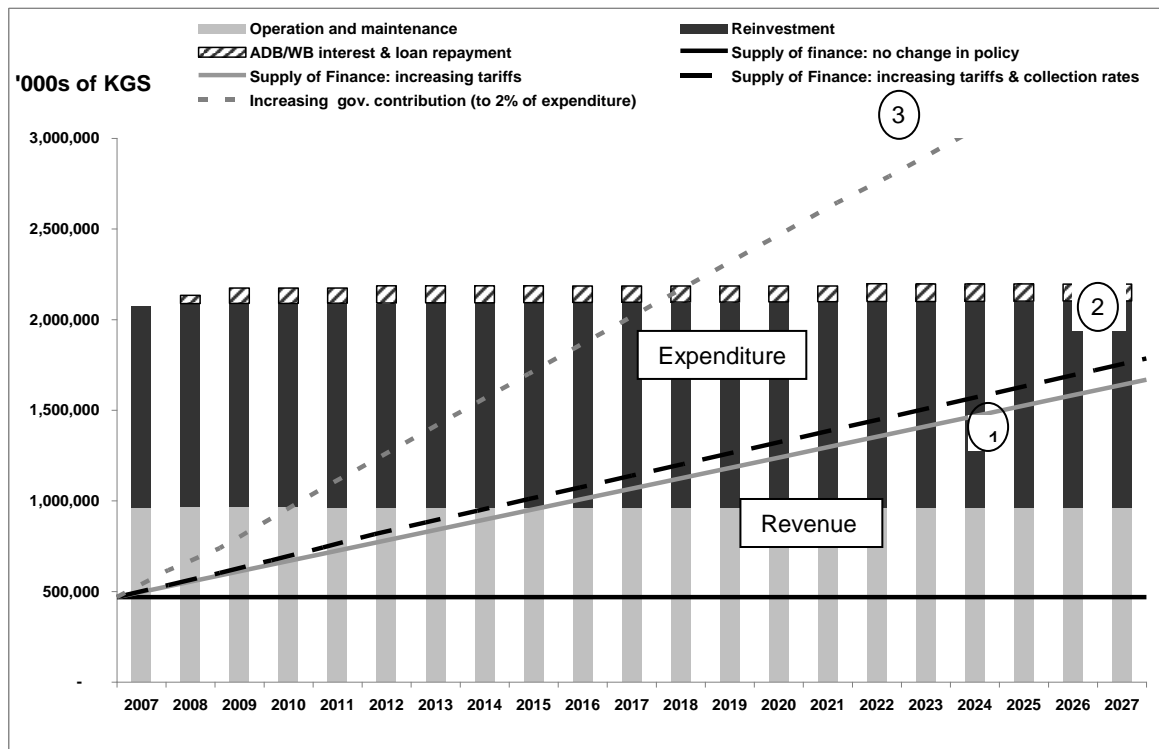
Policy measures to close the financing gap

Three financing policy options are suggested to raise sufficient funds to cover the costs of maintaining the current situation. These are listed below and their impacts on the financing gap are shown in Figure 1 below:

- Policy Measure 1: Increase tariffs to the maximum level of affordability (to 2.5% of household income after 20 years – as guided by the CC). This would generate enough finance to cover the required O&M expenditure by 2016 but by the end of the planning period (2027) this option would only cover 76% of all required expenditure (including loan repayments).
- Policy Measure 2: Increase both tariffs and collection rates. Same increase in tariff as Measure 1 but also increase tariff collection rates over a five-year period to 85% in urban areas and to 60% in rural areas. This would cover O&M expenditure by 2015 but by 2027 this option would still only cover 81% of all required expenditure (including loan repayments).
- Policy Measure 3: Increase government contribution. With no change in policy, about 0.3% of the public budget will be spent on WSS each year (one third on ADB/World Bank loan repayments and two-thirds on WSS tariffs for budget organisations). This could be increased to 2% of public budget by 2027. This level is achieved in many countries (e.g. Armenia spends about 4% of the national budget on water services). This would cover O&M expenditure within three years (by 2010) and all expenditure by 2018 (including loan repayments). After 2018, there would be a surplus of available finance which would reach 1.37 billion KGS per year by the end of the planning period (2027). The surplus in available finances with this policy option means that there would be potential for capital investment in service extensions.

¹ Reinvestment is the investment which is necessary to maintain the value of the infrastructure at the present level (i.e. to compensate for its depreciation) and prevent more deterioration in the performance of WSS assets (e.g. refurbishment of mechanical and electrical equipment, minor structural repairs)

Figure 1 - Baseline Scenario: total expenditure by type with policy options for closing the financing gap



Social Dimension of Financing Strategy: Affordability is an Issue but not an Obstacle

The financial impact of the FS proposals on households (HHs) will be felt in a variety of ways. The current level of household spending on WSS (about 3 som (€0.06) per person per month – range 0.2 som to 6 som per person per month) is well below most countries and the potential for increasing tariffs (in return for improved levels of service) in both urban and rural areas would seem to be considerable.

This is reflected in a Willingness-to-Pay (WTP) survey carried out by the Kyrgyz Alliance for Water for this project which would seem to suggest that people would be WTP between 10 and 35 KGS per person per month (compared to payments of between 0.2 and 6 som per person per month in the base year) by between 75% and 100% of respondents (depending on the *Oblast*) in return for an improvement in water supply and sanitation services.

Although income distribution in Kyrgyzstan is more even than in many EECCA countries (and on average HHs will only pay 2.5% of their income), the lower income deciles of the population would probably pay 4-5% of their income. Therefore, they would need some support. The budgets of the WSS bill of 2-3 lowest deciles (those who would overpay) should be assessed along with the amount of money they would overpay above 2.5% of their incomes – theoretically the “overpay” should be compensated to them through a cost-effective solidarity mechanism;

Options to address the affordability constraints would include specific tariff measures and non-tariff measures (e.g. transfers from the public budget to poor HHs through a well-targeted social support system - the affordability of such transfers for the public budget should be assessed);

The existing social support system in Kyrgyzstan is very weak. Therefore, if the GoKR prefers to subsidise the poor through housing allowances or general income support schemas, then the system would need to be strengthened.

Providing basic amounts (50 lcd) of water at a subsidised rate, or free, is one option to mitigate the impact of tariff increases on the poor. The alternative is to use social benefit payments to target the poor and alleviate their WSS bills. This option has the benefit of avoiding distortions to consumption arising from tariff structures, and can permit better targeting of the beneficiaries. It does, however, depend on the existence of a good national social security payments system. In this context, the Rural Water Supply and Sanitation Strategy put forward by the Department for Rural Water Supplies suggests that it is not the responsibility of the water suppliers to provide social subsidies to the poor or other under-privileged peoples but the responsibility of Local Self Government.

The willingness to pay might be improved by demonstrating improvements in WSS service quality, measured by a set of Indicators that could be set up to reflect tap water quality, reliability of service, public health, sanitation and hygiene standards and customer relations.

Overall, the Baseline scenario (of maintaining the present situation) would be financially feasible and affordable for HHs. However, the CC did not consider it as a policy option, as it would not be acceptable for Kyrgyz people, nor would it comply with MDGs on WSS. Both the government and the people of the Kyrgyz Republic have made it clear they would like to improve the situation in WSS and quality of life, and to fulfil its international obligations (MDG). Therefore, it was decided that alternative scenarios with more ambitious targets, consistent with MDGs, should be considered.

Alternative Development Scenarios

Three development scenarios were considered which ranged from basic to substantial improvements in WSS infrastructure and services.

- Basic Improvements which involved an increase in rural water supply coverage such that 100% of villages have access to piped water systems from street-post connections (*Kolonkas*) and provision of basic sanitation facilities (latrine blocks connected to serviceable storage tanks) for all schools by 2012.
- Millennium Development Goals on WSS (halving the proportion of people without sustainable access to safe drinking water and basic sanitation). The Basic Improvements Scenario above already achieves the MDG target of halving the proportion of people without sustainable access to safe drinking water so this scenario includes the same proposed water supply investment and only requires additional investment to achieve the MDG target for sanitation. This means either being connected to a centralised sewerage network or having access to improved hygienic latrine facilities. For this scenario, the entire population of villages with populations of less than 10,000 people (i.e. 53% of the country's population) is provided with improved hygienic latrines by 2012.
- Maximum Coverage which means universal access to piped water supplies in urban (100% via house connections) and rural (50% house and 50% street connections) areas. 100% of the urban areas would be connected to centralised sewerage systems with wastewater treatment works providing at least basic mechanical treatment and in rural areas 100% of the population would have access to improved hygienic latrines.

The Coordination Committee did not consider that the Basic Improvements Scenario (though affordable) was sufficient for the Kyrgyz Republic and considered that the capital investment shortfall for the Maximum Coverage Scenario, of 18.5 billion KGS (EUR 370 million), could not realistically be met. They unanimously agreed that the MDG Scenario represents the best balance of achieving the required improvements in WSS services for the Kyrgyz Republic but with a realistic requirement for external funding assistance (1 billion KGS or EUR 22 million).

Capital investment shortfall for the three development scenarios modelled

Development Scenario	Service Extension capital investment	WB/ADB/DFID grant funding	Capital investment shortfall over 2008-2027	
	KGS	KGS	KGS	EUR
Basic Improvements	2,056 million	1,750 million	306 million	6 million
MDGs	2,845 million	1,750 million	1,095 million	22 million
Maximum Coverage	20,273 million	1,750 million	18,523 million	370 million

Achieving Millennium Development Goals on WSS: possible but with a delay

Under the preferred / MDG Scenario, national sustainable access to piped water supply would increase from 60% to 82% and to improved sanitation from 19% to 80%, that is the targets are more ambitious than official UN/WSSD definitions of MDGs on WSS in terms of service quality.

Sustainable access to piped water supply and basic sanitation for MDG Scenario

	Water Supply			Sanitation	
	Non-piped water supply	Piped in-house/yard	Piped from street posts	Basic	Improved
Base Year (2007)					
Urban municipalities (with <i>Vodokanals</i>)	35%	48%	18%	51%	49%
Villages >10,000 population (Rural)	50%	0%	50%	100%	0%
Villages <10,000 population (Rural)	41%	0%	59%	100%	0%
Target year (2012)					
Urban municipalities (with <i>Vodokanals</i>)	35%	48%	18%	51%	49%
Villages >10,000 population (Rural)	0%	0%	100%	0%	100%
Villages <10,000 population (Rural)	0%	0%	100%	0%	100%

The scenario is based on the assumption that the main issues in urban areas is the current poor quality of service within the existing piped water network, whilst in rural areas the main issue is the high proportion of people without access to improved piped water supplies. Therefore, this scenario does not significantly increase the number of people in urban municipalities who are connected to the piped networks (i.e. no network extension - many people have their own sources of water which are already improved), but it does account for significant improvement in the quality of service within the existing piped network.

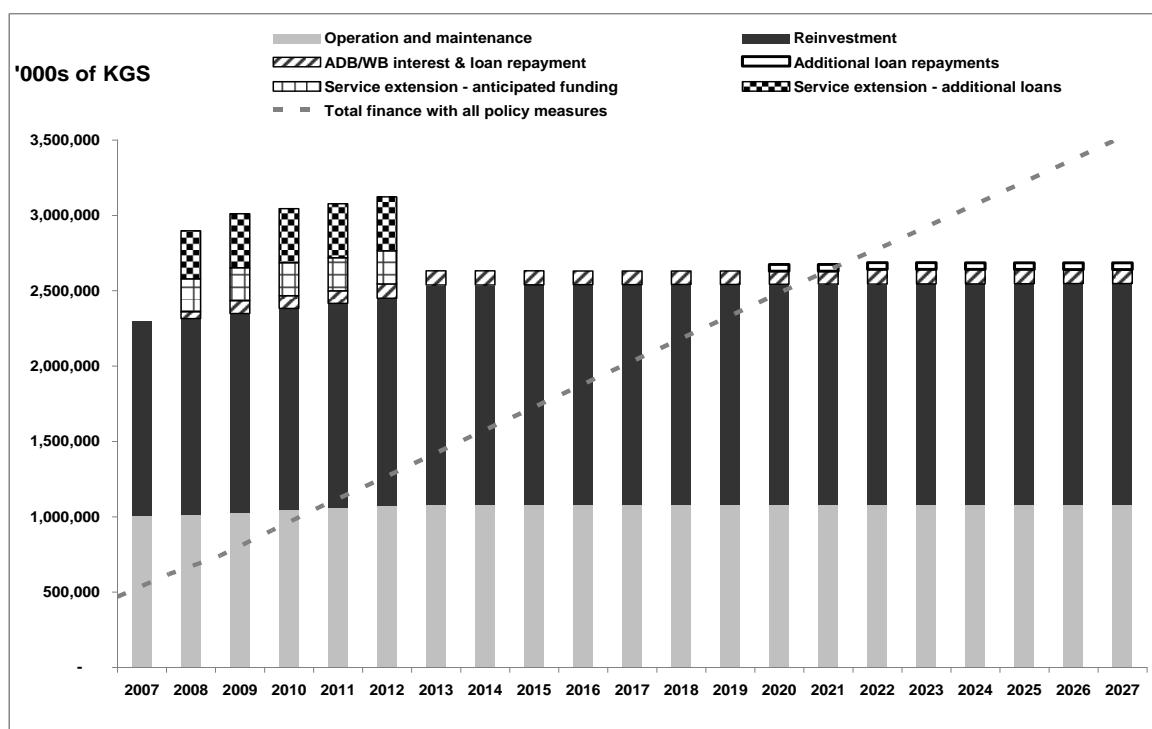
Expenditure on, and Finance Available for, Water Supply and Sanitation

Expenditure includes ongoing operation and maintenance (O&M) and reinvestment costs for the existing and proposed new WSS assets but also includes service extension (capital investment) costs and expenditure on loan repayments (WB/ADB rural water supply projects).

Figure 2 shows expenditure and supply of finance available for WSS services for the chosen Development Scenario. In this Figure, the WB/ADB/DFID funding (which is specifically for rural water supply service extensions) is removed from the projection of available supply of finance so that it is possible to see the point when O&M costs are covered (i.e. the year 2011). Instead, the expenditure required for service extensions between 2008 and 2012 is split into two parts. The first part is shown to be covered by the committed funding from WB/ADB/DFID. The second (upper) part of the required expenditure (totalling 1 billion KGS or EUR 22 million) is shown to be covered by loans in addition to the grants currently being disbursed by WB/ADB/DFID. The repayments which would be required for these additional loans are shown based on the repayment terms offered for the previous loans from the World Bank (10 years of grace, 40 year repayment period, 0.75% interest with interest capitalised during the grace period). The repayments therefore commence in the year 2020 and these would continue at the same rate until 2060.

The supply of finance, indicated by the dotted line in Figure 2, includes all three policy measures, i.e. increased tariffs, increased collection rates and increased allocations from the public budget.

Figure 2 - Expenditure and full finance available for the MDG Development Scenario



One can see that under this scenario O&M expenditure would be fully financed from 2011 onwards, while the re-investment needs could be fully met only by 2021 (compared to 2018 for the baseline scenario), that is some 6 years after 2015 (the target year for achieving the MDGs). However, this delay could be considered as the price for meeting targets consistent with, but more ambitious than official UN/WSSD definitions of MDGs on WSS.

In comparison to the baseline, this scenario requires a major increase in capital spending on water supply service extension (in rural areas). This amounts to 2,845 million KGS over the 20 year planning period (2007-2027) of which 1,750 million is covered by committed funding from the World Bank, Asian Development Bank and DFID. The remaining 1,095 million KGS (22 million Euro) will require additional ODA assistance.

New infrastructure means there is a 26% increase in the required reinvestment costs over the planning period in comparison to the baseline scenario. This amounts to an additional total of 6,178 million KGS (124 million Euro). The additional water supply services in rural areas also mean an 11% increase in O&M expenditure over the planning period in comparison to the baseline scenario (amounting to an additional 2,180 million KGS: 44 million Euro).

The total available tariff income in comparison to the baseline scenario is increased by 2% over the planning period as a result of the newly connected rural water supply customers. The additional income from this is quite limited due to the low tariffs and low consumption volumes for rural customers supplied by street-post connections. This provides an additional 303 million KGS (6 million Euro); only 7% of the additional finances required for the additional ongoing expenditure (O&M and reinvestment). The increasing central government contribution must therefore pay for the remainder causing a 3 year delay from 2018 to 2021 (compared to the baseline scenario) in reaching the point where ongoing costs are covered by new sources of income thus ensuring that there are sufficient financial resources for sustainable operations of WSS systems in the Kyrgyz Republic.

Implementation mechanisms: integration into policy framework and MTBF

Implementation of the preferred scenario and the Financing strategy would be a challenge, It was agreed with all stakeholders that the key implementation mechanism would be the integration of the strategy into:

- - general policy framework, including Country Development Strategy (CDS), and sectoral policy; and
- - budgetary process, MTBF and annual budgets.

To help the government of the Kyrgyz Republic to integrate the strategy into the policy framework and MTBF; recommendations and an Action plan on “Incorporating the Water Supply and Sanitation Sector Strategy into Government Policy and Finance” were developed

Assisting the Kyrgyz Government in implementing these mechanisms was the main task of Stage 4 of the project. The work for stage 4 identified the following fundamental weaknesses which currently represent significant obstacles to implementing the WSS strategy:

- neither the MDGs on WSS, nor development targets for the WSS sector in general, are sufficiently reflected in the Country Development Strategy (CDS) – this is especially valid for urban WSS, and, as stated above, there is currently no comprehensive sectoral programme for WSS which could integrate the Financing Strategy;
- the indicators set out in the CDS to measure progress in WSS sector development and performance are not appropriate;
- WSS is not very high on the socio-economic policy agenda, there is no government body responsible for the whole WSS sector and for that reason, arguably the major “agents of change”

in the WSS sector are international donors (World bank, ADB, DFID, Swiss Co-operation etc.), rather than domestic institutions; and

- rural WSS has recently been excluded from the MTBF process, while urban WSS has never been included.

To help the GoKR address the aforementioned weaknesses and integrate the strategy into policy framework and MTBF, Recommendations and an Action plan on “Incorporating the Water Supply and Sanitation Sector Strategy into Government Policy and Finance” were developed (see Annex 5).

The following tools were developed that were thought to be useful for implementing the recommendations / the Action plan:

- An Annotated Outline Sector Policy Paper providing a template and setting out the general principles, goals and objectives of a WSS sector policy as well as the key issues that need to be addressed, the key policy instruments and implementation mechanisms. The GoKR requires such a document as there was no policy document on WSS, into which the financing strategy could be integrated.
- A monitoring and evaluation programme was developed in agreement with the Coordination Council with a list of suggested indicators. Responsibilities were suggested for the collection and analysis of information for each of the indicators.
- Guidance notes and supplementary templates for WSS investment proposals (for presenting project concept), consistent with MTBF submission formats/requirements and also in line with those used by major donors and IFIs active in the WSS sector in the Kyrgyz Republic. The forms were tested by preparing conceptual investment proposals for infrastructure projects as well as institutional measures and revealed weaknesses in existing Management Information System and needs for capacity development at both national and local level.
- An annotated outline of a WSS Sector Annual Report and press note for use by a coordinating WSS sector body to demonstrate progress towards meeting targets (for each indicator) to government, donors, the population of the Kyrgyz Republic and other stakeholders and mobilize political support to their efforts to improve the situation in WSS.

The aforementioned sector policy paper and tools were all agreed with the Coordination Council on the National Policy Dialogue and are presented in the Annexes of this report.

Recommendations

The main recommendations that have come out of this project concern sector policy and coordination, Financing strategy ownership and implementation, publicity, finance and investment:

- Assign higher priority to WSS in the national economic policy and budgetary process (MTBF) and set up clear WSS sector development targets in the policy documents. The targets shall be consistent with policies in other sectors (e.g. regional development and housing construction) and should be integrated into CDS and MTBF.
- Develop a National Policy for the whole WSS to provide clarification on policy objectives, roles and responsibilities, resources etc. This may require technical assistance from donors and

international organisations, while the Annotated Outline Sector Policy Paper developed under this project might be useful with this regard.

- Define location and powers for coordination, regulation and implementation, and allocate sufficient resources.

To facilitate the implementation of the the “preferred scenario” and the associated financing strategy as such, the following measures were recommended:

- Develop a regulation to define service standards in terms of reliability, predictability and water quality.
- Prioritise locations and infrastructure components for improvements. Identify causes of dissatisfaction and develop specific plans for improvement. Improve and monitor Local Government budget requests for WSS from Min. of Finance
- Define best practice for operation to maximise performance. Consider benchmarking in defining best practice. Develop best practice for O&M (and deferral of maintenance) and reinvestment/rehabilitation. Provide training where needed and consider incentives to staff/utilities for improved performance.
- The GoKR should seek to increase financial contributions to the WSS sector, both through subsidies and direct investment. It makes good economic sense to do so, as well as to consider alternative mechanisms of mobilising resources (e.g. a National Water Solidarity Fund, micro-loans etc.).
- Maintain a dialogue with international donors for additional financial support over the next 20 years
- Improve the level of cost recovery from water users by raising the level of bill collection and increasing the general level of tariffs. The latter should be supported by the start of selective metering of households, starting with block meters for apartment blocks.
- A number of improvements in the tariff policy should be undertaken, including
 - considering methods to include costs over and above O&M and ways of subsidising poorer households (some of them may require revising and (or) strengthening the existing social support system);
 - getting residential tariff increases towards maximum affordable levels to reduce existing cross subsidy and targeting subsidies to “hot spots” (including unluckiest areas with highest unit costs and low HH incomes) and the poor; and
 - national publicity campaign to explain the need for tariff increases.

The adoption of the FS and the underlying WSS development scenario would be facilitated by the existence of sector service performance indicators in order to demonstrate progress made, provide accountability and transparency, and provide criteria and measures for assessing the performance of sector, provincial and *vodokanal* managers.

Other recommended / enabling measures include the following:

- Review the decentralisation process for service delivery – consider some agglomeration for technical support functions.
- Promote alternative models for management, monitoring, operation and maintenance of water supply systems particularly in the light of an increasingly capable and versatile private sector with increasing technical resources available.
- To improve Management Information System, further develop and link current databases available from the variety of sources in rural and urban sectors (e.g. SES, PMU/PMC, ARIS, UI).