

## **Ladies and gentlemen,**

In 2003, it was suggested that we implement a project to monitor the performance indicators of Kyrgyz water and wastewater utilities over a period of five years (1998-2002) using the World Bank toolkit, compare actual performance to recognized benchmarks and make the first steps to establish future cooperation with international institutions in this vital area.

We believe that this project has been very useful in terms of accumulating a reference database in areas which we have not focused on as much as, for example, the financial and operating results (such as failure incidence, number of consumers, unaccounted-for-water etc.).

As the proposed methodology significantly differs from the one applied in Kyrgyzstan, we encountered certain difficulties. We had to clarify and specify many aspects and we are grateful to our foreign colleagues for their extensive assistance in the process.

The situation in the utility sector in Kyrgyzstan is somewhat different from that in other CIS countries. Kyrgyzstan has retained a national coordinating authority in the utility sector, Kyrgyzzhilkommunsoyuz, as well as all water units in towns and regional centers, while in rural areas water user associations are being established virtually from scratch.

## **Ladies and gentlemen, colleagues,**

I would like to start with a very brief description of Kyrgyzzhilkommunsoyuz.

Kyrgyzzhilkommunsoyuz is a comprehensive diversified production and technology housing and utility complex designed to satisfy vital human needs and secure the socio-economic functioning of industrial and social infrastructure. Water, sewerage and heating represent the key segments of the housing and utility sector catering to virtually the entire totality of material, sanitary/hygienic and other needs of the population. These segments comprise the day-to-day operation and maintenance of all respective infrastructure components in inhabited localities securing uninterrupted provision of services and products required to support human activity and the functioning of the industry and the services sector. To meet the requirements in water and sewerage services and ensure an adequate living environment, Kyrgyzstan operates a network of water and sewerage utilities serving 37 towns and district centers. Potable water for the population, utilities and other enterprises and organizations is sourced from 124 intakes (101 underground and 23 open) with a total capacity of 88.241 million cubic meters per annum. The water distribution networks stretch for 2,590.8 km and comprises 2,000 standpipes. Utility personnel totals 700 persons.

Wastewater is processed at 15 sewerage treatment facilities with installed capacity at 284.7 thousand cubic meters per day. The length of sewerage networks is 362 km, and personnel totals 282 persons. The existing sewerage processing facilities provide complete biological treatment. The quality of treated wastewater complies with applicable requirements.

The authorities of Kyrgyzstan consider uninterrupted water supply a priority task. Uninterrupted daily service in virtually all areas exceeds 20 hours, and in 2002 totaled 22 hours at 15 of the 18 water utilities.

I would like to stress that the suggested indicators are an effective tool for assessing utility performance and selecting the optimal investment targets.

In addition to the above practical application, operating and financial performance indicators can also be successfully used for assessing the performance of water and sewerage utilities when concluding contracts with local authorities - a practice that, regrettably, is yet to be introduced in Kyrgyzstan.

High-quality water and the peculiar geographic characteristics of the Kyrgyz Republic allow water utilities to provide services at negligible cost. Kyrgyzzhilkommunsoyuz believes that modest investments will be suffice to eliminate current problems, increase the quality of services and make them more accessible.

### **Ladies and gentlemen, colleagues,**

Now let me briefly outline the current problems affecting the operations of Kyrgyz water utilities. We hope that their discussion at this representative forum will help develop adequate measures acceptable to the Republic of Kyrgyzstan and employ the relevant global and other countries' experience.

Despite the Republic's transition to a market economy, there have been no significant changes in the operations of Kyrgyz water utilities as yet. Since 1998, most water utilities, which were previously state-owned, have been divested to municipal authorities and have become communal property.

The current legislative framework significantly limits the economic autonomy of water utilities due to a number of major economic restrictions.

First and foremost, water utilities are natural monopolies subject to state registration and as such are strictly regulated in terms of pricing and maximum profit margin.

While being responsible for tackling a crucial national task, namely providing the population with quality drinking water at affordable prices as stipulated by the *Araket* National Program, water companies do not receive any state support, which obviously puts them in an extremely difficult economic conditions.

The transition of vital service providers to self-financing and cost-recovery principles as part of the housing and utility reform goes hand in hand with social protection measures, such as the statutory ratio of residential charges for housing and utility services to their cost, which was fixed by Government Resolutions No. 236 of April 30, 1998, and No. 520 dated August 5, 1998 at 50% for Phase 1 (2000). The actual ratio in 2002 totaled 49.8% for tap water and 54.1% for wastewater.

For Phase II (2005), the ratio has been fixed at 75%, equivalent to a 5% annual increase in residential tariffs against the costs of service provision.

In 2002, residential charges for drinking water and sewerage services covered 53.5% and 52.1% of costs, respectively.

However, higher energy costs drove the average drinking water and sewerage tariffs up to KGS 1.69 and KGS 1.37 in 2002, respectively, against the KGS 1.10 and KGS 0.95 stipulated by the Conceptual Framework of Reform, i.e. the actual ratio totaled 153.6% and 144.2%, respectively (these calculations factor in depreciation).

As is known, at this point drinking water supply is primarily a residential service. In 2002, households accounted for 65.2% of total water supplied. With actual water costs standing at KGS 3.16 per cubic meter, residential consumers on average paid KGS 1.69 per cubic meter, thus covering only 53.5 of production costs. The amount of missing revenues built into the approved tariffs, but not compensated by local authorities totaled KGS 16.0 million in 2002.

With unpaid residential bills of KGS 5.9 million factored in, total lost profit and economic benefit for drinking water alone capped KGS 21.9 million in 2002.

For wastewater, these indicators totaled KGS 4.1 million and KGS 1 1 million, respectively, or KGS 5.2 in total.

The use of soft water and sewerage tariffs directed by authorities resulted in utility losses of KGS 20.1 million in 2002, or 24.1% of total bills due, and 32.6% with unpaid residential bills factored in.

The system of so-called cross-subsidizing at the expense of other consumers is virtually ineffective given reduced business activity and industrial output. The share of other consumers is 19.1% for water service and 34.8% for wastewater.

Even though tariffs for other consumers and budget sector entities are set above cost, they do not compensate utility losses on residential services.

Besides, this consumer group is itself habitually in arrears.

The results of monitoring indicate that annual water produced and annual metered water deliveries declined over 1998-2002 by 7.1% and 24.4%, respectively, not in the least due to the introduction of limits in the public sector, where the drop in consumption is especially evident at 66.7% (down from 7.8 million cubic meters in 1992 to 2.6 million cubic meters).

The major drop in the industrial and commercial sectors also drove down the volume of water sold, from 9.0 million cubic meters to 3.2 million cubic meters, or by 64.4%, over the same period.

Average national water production reduced from 499 liters to 440 liters per person daily (or by 10%), with the industrial, commercial and public sectors factored in. Actual average daily consumption per person declined from 245 liters in 1998 to 233 liters in 2002.

The consumption rate decreased to 102 liters per person daily (by 60%).

However, we should not ignore such factors as the absence of individual residential meters and the discrepancy between the number of actual persons using water and sewerage services and registered tenants in whose names bills are issued, as well as the migration from small villages to urban areas where newcomers settle without registration. All this has thinned the revenue base of water utilities and significantly affects financial results.

For example, the monitoring of data for 2000-2002 showed that population reduced from 10.2 thousand in 2000 to 9.4 thousand in 2002 (or by 8%) in the village of Chui, from 25 thousand in 1999 to 23 thousand in 2002 (by 8%) in the town of Kant, from 11 to 7 thousand (more than 30%) in the village of Lebedinovka, and from 7.6 to 5.4 thousand (30%) in the urban settlement of Orlovka.

A similar situation may be observed in many other small towns and urban settlements where large enterprises that used to be the major local job providers closed down or significantly scaled down their operations.

Meanwhile, migration to central regional cities has continued. For example, over 1998-2002 the population of Dzhahal-Abad and Karakol increased by 10 thousand and 5 thousand persons, respectively.

All this makes it difficult to keep accurate records of consumers actually using utility services and to make quality revenue calculations.

The consumption rate has been changing (dropping by 60%) commensurate with changes in the served housing stock and the quality of housing. The more comfortable housing in central regional cities is gone now.

In terms of residential consumers only, actual daily consumption per person totaled 150 liters in 1998; 129 liters in 2001 and 66.8 liters in 2002. This proves that the actual number of residents using water services is higher than the number of registered tenants shown in utility bills. Secondly, in 2002 large water utilities in central regional cities were divested to municipal authorities as directed by Government Resolution No. 608 of October 8, 2001. Therefore, in terms of residential consumption a comparison between 1998 and 2002 is more relevant, with the drop in

consumption totaling 14% (from 150 to 129 liters per person daily), i.e. this indicator is more stable and authentic.

The 66.8 figure is obviously understated.

In the second place, the 5% profit margin cap imposed by anti-monopoly authorities significantly limits the utilities' ability to finance infrastructure renewal from own resources.

In the third place, the tariffs approved by local authorities do not incorporate the investment component.

The water sector has been receiving virtually no allocations from either the national or local budgets since 1991.

All operations are maintained on self-financing basis, with costs fully covered by utilities from own resources.

In the fourth place, utilities' financial condition is further aggravated by rising energy tariffs.

Electricity costs amounted to 31.7% and 40.7% of total production costs in 1998 and 2002, respectively, and 62.3% and 67.6% in material inputs, due to higher charges per kWh. For sewerage, energy costs totaled 28.7% and 25.5% of production costs, and 69.9% and 58.2% of material inputs, as presented in the table below:

	1998	1999	2000	2001	2002
<b>Water</b>					
Proportion of energy in production costs,%	31.7	37.0	36.5	37.8	40.7
Proportion of energy in material inputs,%	62.3	66.2	66.7	66.3	67.6
<b>Wastewater</b>					
Proportion of energy in production costs,%	28.7	31.4	31.9	29.7	25.5
Proportion of energy in material inputs,%	69.9	62.9	61.3	56.4	58.2

Another problem area for us is depreciation charges. The rates prescribed by the Tax Code increase costs and mandate tariff hikes disallowed by social protection authorities, and are a multiple of 1990 rates that are still used for accounting and tariff-setting purposes.

The financial condition of utilities is further aggravated by the annual buildup of overdue bills.

Accounts receivable from residential consumers increased for water services from 2.4 months in 2000 to 4.1 months in 2002, and for sewerage, from 1.3 to 2.6 months (i.e. by 1.7 and 2.0 times, respectively). Accounts receivable from industrial users increased for water services from 4.0 months in 2000 to 5.4 months in 2002, and for sewerage, from 0.3 to 2.6 months.

In the public sector, there has been a major reduction over the same period in arrears per both types of services due from social and cultural institutions. Receivables for sewerage services reduced from 4.0 to 0.3 months, while receivables for water deliveries, which stood at 3.2 months in 2000, starting from 2001 are fully paid up as they arise, with gradual repayment of prior debts to a total of KGS 5.0-3.6 million. This has improved the financial condition of water utilities, which reported a profit in excess of KGS 1.0 million in 2002 after losses in 1998-2000. Profits from sewerage operations in 2002 totaled KGS 1.5 million.

This obviously has a direct effect on the technical condition of network infrastructure and on failure incidence.

There are considerable water losses due to dilapidated networks and the lack of dedicated investment in the water and sewerage infrastructure. Service proceeds cover only urgent and emergency maintenance and repairs. Large water utilities have been hit the hardest, heavily affected by the lack of investment, uncontrollable migration to cities and the resulting underestimation of the actual number of consumers.

Small and medium-sized utilities so far have been able to cope with losses due to the absence of sophisticated engineering networks and because they are much younger on average than large water utilities, but given the absence of investment and fair tariffs, the general deterioration over time will probably affect them as well.

The actual failure rate per km of water and sewerage networks totals 0.9-1.3 breaks and 0.7-1.2 blockages, respectively. This translates into one incident per each km of networks annually, a very alarming figure. Given the high rate of network wear (up to 70%), each incident response requires increasingly more money, while the resources available are limited.

Given the complicated financial position of water and sewerage utilities, Kyrgyzhilkommunsoyuz maintains persistent efforts to source funds required for the repair of water facilities. Kyrgyzhilkommunsoyuz and individual utilities alike continuously work with investors to raise loans for the water and sewerage sector. Completed projects include the assessment of water and sewerage facilities by the Asian Development Bank and the World Bank. Based on the results of this assessment, ADB has planned investments in water distribution in the towns of Kara-Balta, Tokmok, Kant, Kyzyl-Kia, Uzgen, Kara-Suu and Dzhahalal-Abad to a total \$5.8 million and in sewerage systems in Kant, Uzgen and Kara-Suu worth \$4.8 million.

Kyrgyzhilkommunsoyuz professionals were directly involved in the development of critical programs for the entire national water sector, including the National Potable Water Program, the Fundamental Provisions of the National Water Strategy (Concept), the Law of the Kyrgyz Republic on Potable Water and the Law on amendments to the Law on Potable Water.

To streamline contractual relations, a model service contract (Service Contract to Supply Potable Water to and Accept Wastewater from the General Public and Housing Operators) has been drafted in accordance with the Law on Potable Water and agreed with the Consumer Rights Protection Association. Kyrgyzhilkommunsoyuz has also submitted to the Government of Kyrgyzstan and the Kyrgyz Ministry of Finance information on the required number of meters and a cost estimate for their acquisition and installation (for Kyrgyzhilkommunsoyuz, 261,000 meters are needed worth a total of KGS 697,427.05 thousand).

Given the economic environment faced by Kyrgyz utilities, in 2002 Kyrgyzhilkommunsoyuz drafted and submitted to the Government proposed amendments to the Concept of Housing and Utility Reform, including reinforcement of the role of local authorities in monitoring utility operations. The most acute problem that has not been dealt with yet is that of habitual non-payers.

All possible means and methods are being used to address this issue, including accepting payments in the form convenient for consumers (spare parts, foodstuffs, construction materials; businesses may repair facilities in lieu of payment for services) and initiating lawsuits.

However, as evidenced by the data above, so far these efforts have remained unsuccessful. Hence it would be very useful to become familiar with the relevant experience and practices in other countries.

Thank you for attention.

