

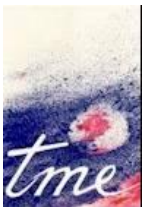
*JOINT MEETING OF THE EU WATER INITIATIVE'S EECCA WORKING GROUP
AND THE OECD EAP TASK FORCE'S GROUP OF SENIOR OFFICIALS FOR WATER
SECTOR REFORM IN EECCA*

National Policy Dialogue on Financing Strategy for Rural Water Supply and Sanitation in Armenia

Bucharest, 12-13 May 2008

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State Committee for Water System, Republic of Armenia**


http://www.tme.nu/english/Arm_Steering_Committee.htm



EAP Task Force

OECD  OCDE

Structure of presentation

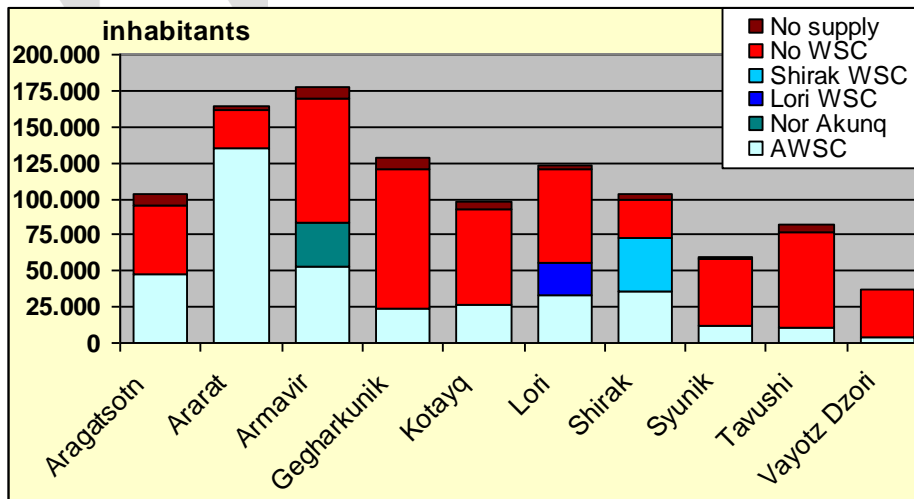
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- Rural population and present situation in rural WSS
 - Government policy and the need for a Financing Strategy for Rural WSS
 - Organisation, Key Objective and Activities of the NPD in the framework of the EUWI
 - Baseline scenario
 - Policy scenarios: MWSS and PRSP
 - Results of scenario simulations: Investments, Expenditures, Financing and Policy package
 - Affordability and Main Conclusion
 - Institutional issues
 - Next steps (*towards implementation*)

Rural population in Armenia

- **Total rural population – 1.1 million, living in 880 villages**
- **Average size of village – 1250 people**
- **Average rural household income - 818 000 dram per capita per annum (= 1820 euro, 450 AMD= 1 euro)**
- **Of which money income – 65 %**
- **Big labour migration and seasonal fluctuations of the income**

Present situation in rural WSS

- 1/3 of villages is served by 4 water companies, 2/3 of villages no WSC service
- About 80 villages without piped water (40 000 inhabitants)
- Existing infrastructure often oversized (400 lcd) but worn out (50% needs renovation)
- Sanitation – 80% uses pit latrines



- Annual expenditures for WS - about AMD 2 bln (excl. renovations), financed by user charges (AMD 1 bln) and budget (AMD 0.8 bln)

Government policy and the need for a Financing Strategy

- New Water code and other legislation (metering and forgiveness of old debts against timely payments of present water bills)
- Establishing of the SCWS for water infrastructure management, and the national Regulator (PSRC)
- Gradual decentralisation of responsibility for providing WSS services (Nor Akunk, Lori, Shirak, Yerevan and Armenian water utilities/vodocanals)
- International loans for capital improvements, combined with
- ... Delegated management of water utilities (lease and management contracts)
- Priorities: Urban water supply, and then (since recently): urban sanitation, rural water supply
- Why a Financing Strategy?

To set realistic targets for rural WSS and design a feasible scenario and financial plan to achieve them

NPD: Organisation, Key Objective and Activities

Key Objective of the NPD sponsored by EUWI and OECD/EAP Task Force:

to develop a financing strategy for rural WSS with water-related MDGs as target

Organisation:

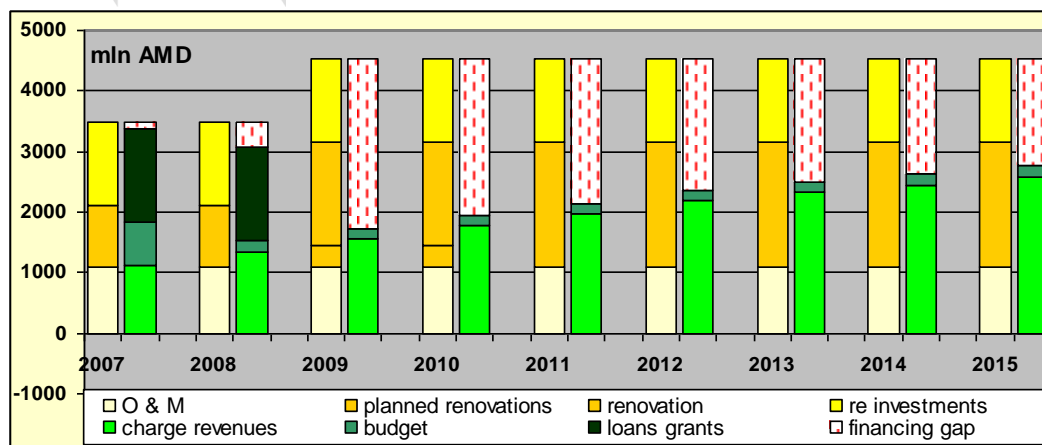
Steering committee guided the project while its meetings provided a platform for the dialogue

Activities to inform and facilitate the dialogue:

- Integrate information from various sources to ONE consistent database on rural WSS in Armenia and prepare datasets for simulation of FS with Feasible
- Simulation of expenditures and financing of **BASELINE & POLICY SCENARIOS**
- Reports presenting analysis of results and recommendations (*e.g.: on options for MWSS definition*)


Baseline scenario for rural WSS

- Simulations show that **higher expenditures** are needed to sustain the rural WS infrastructure (that need to be optimised in capacity): about AMD 4.5 bln/year
- **Renovation & Optimisation** would cost about AMD 35 bln/y (AMD 2 bln/y)
- **Financing GAP:** Additional **finance** needed for renovation and re-investments



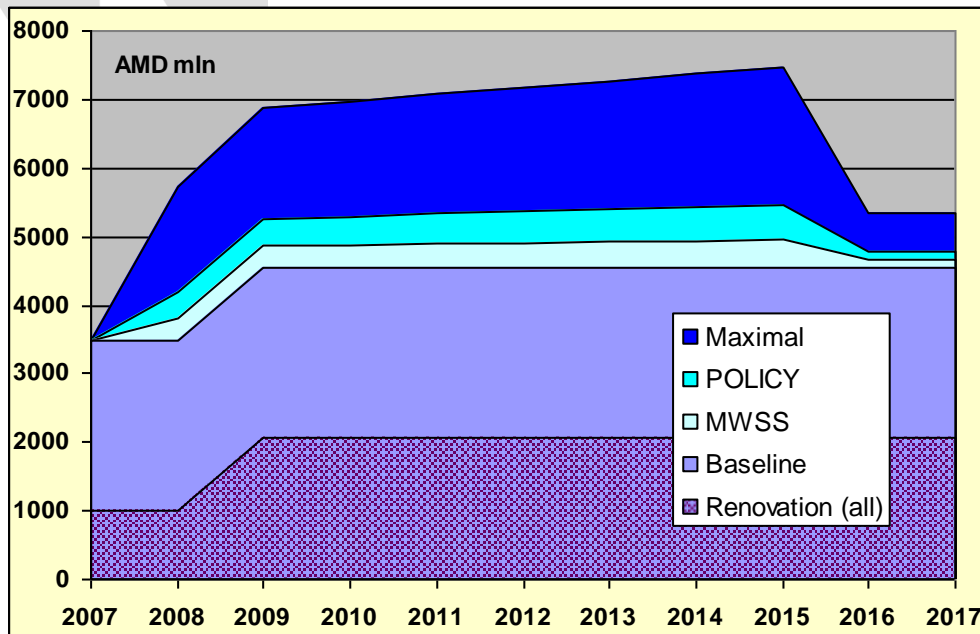
- AMD 16.5 bln (till 2015) needed (possibly new loans and budget)

Scenarios simulated

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- **Minimal Water Supply Standards** for rural WSS (*more ambitious than UN MDGs*):
 - Minimal 50 lcd for all rural inhabitants
 - Maximal 100 meter from home
 - Regular supply (**for piped water**- min. 8 hrs/day)
 - Safe (chlorination, safety checks)
 - **POLICY: Poverty Reduction Strategy Paper targets & MWSS**
 - MWSS
AND
 - On average 75% on **plot supply** (100 lcd)
 - **MAXIMAL**
 - 95% house connections (in-house taps), 150 lcd

POLICY scenarios, expenditures

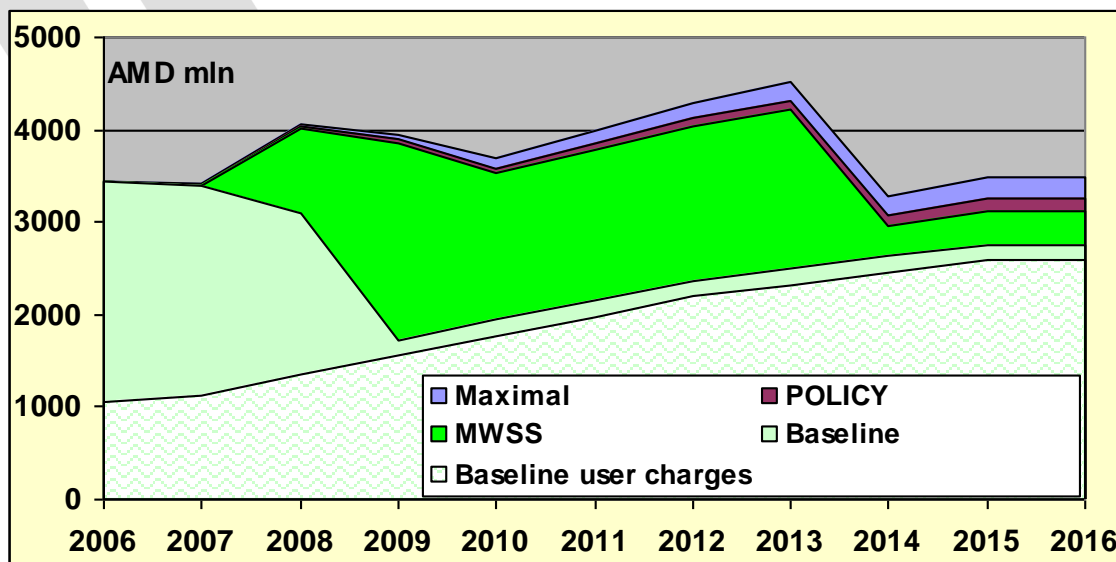
- Additional annual expenditures mostly linked to **renovation** (AMD 2 billion/y)
- **Policy targets related** expenditures - relatively small share in total (7-17%)



- No big difference in expenditures between options (Baseline, MWSS and POLICY)

POLICY scenarios, finance

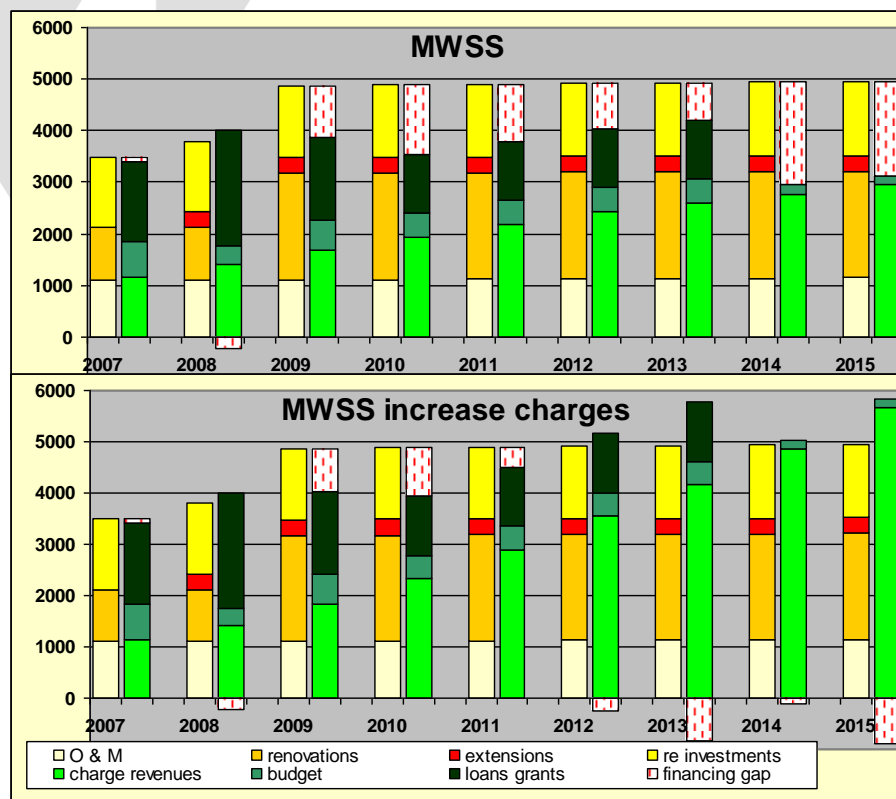
- Available finance between AMD 3.5 and 4.5 billion per year
- Increasing share of user charges (collection rate substantially improves)



- In MWSS the ADB loan and central budget contribution provide AMD 8.6 billion

POLICY scenarios, financing gap

- Financing gap between AMD 8.7 billion (MWSS) and AMD 11.7 billion (POLICY) over 2006-2015



- Need to increase expenditures for rural WSS (from present AMD 2 bln, up to AMD 6 bln per year)
- Financing gap **can be closed** by gradually increasing water tariffs - by 92% (MWSS) or by 120% (POLICY)

Affordability, households

- Threshold for affordability set at 3% of HH income
- Only for part of 20% poorest, some affordability problems can be expected
- Increased user charges (by 120%) will not create additional affordability problems

Consumption quintile	Baseline	MWSS	MWSS	POLICY	POLICY
	2006	2015	2015	2015	2015
		pessimist	optimist	pessimist	optimist
20% poorest	2.1%	2.6%	1.8%	3.0%	2.1%
2nd 20% population	1.7%	2.1%	1.4%	2.4%	1.6%
3rd 20% population	1.5%	1.8%	1.2%	2.1%	1.4%
4th 20% population	1.3%	1.4%	0.9%	1.6%	1.1%
20% richest	1.1%	1.5%	1.1%	1.8%	1.3%
Average	1.5%	1.9%	1.3%	2.2%	1.5%


Affordability, budget and loans

- In 2006/2007 budget expenditure and loans allocated for RWSS is about **0.33%** of central budget
- In the **POLICY** scenario, closing the Finance gap by additional contributions from the budget, would require just about **0.3%** of central budget for rural WSS


Main Conclusion:

Overall, the implementation of the financing strategy based on the POLICY scenario would be more an institutional and organisational challenge than a financial challenge

Institutional: key issues

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- 2/3 of settlements are not served by WSC
 - Responsibilities and ownership
 - Scale of operation
 - Ability for cross subsidisation
 - Private or public operators
 - Regulation and Financial sustainability of Natural monopolies

Next steps *(towards implementation)*

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- National implementation agency:
 - Collect/update data on rural WSS (fin., techn.)
 - Prioritisation of projects
 - Planning of projects
 - Reporting and monitoring of progress
 - Adopt MWSS
 - Integrate FS in PRSP and MTEF/budgets
 - Attract international loans
 - Discuss improved institutional framework for rural WSS in Armenia with stakeholders (smaller settlements)