



Financing Water Infrastructure in EECCA – The issue of Affordability

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Structure of presentation

- State of water infrastructure finance in EECCA
- Tariff reform and affordability
- Public budgets
- Conclusions

WSS infrastructure in EECCA is in critical condition

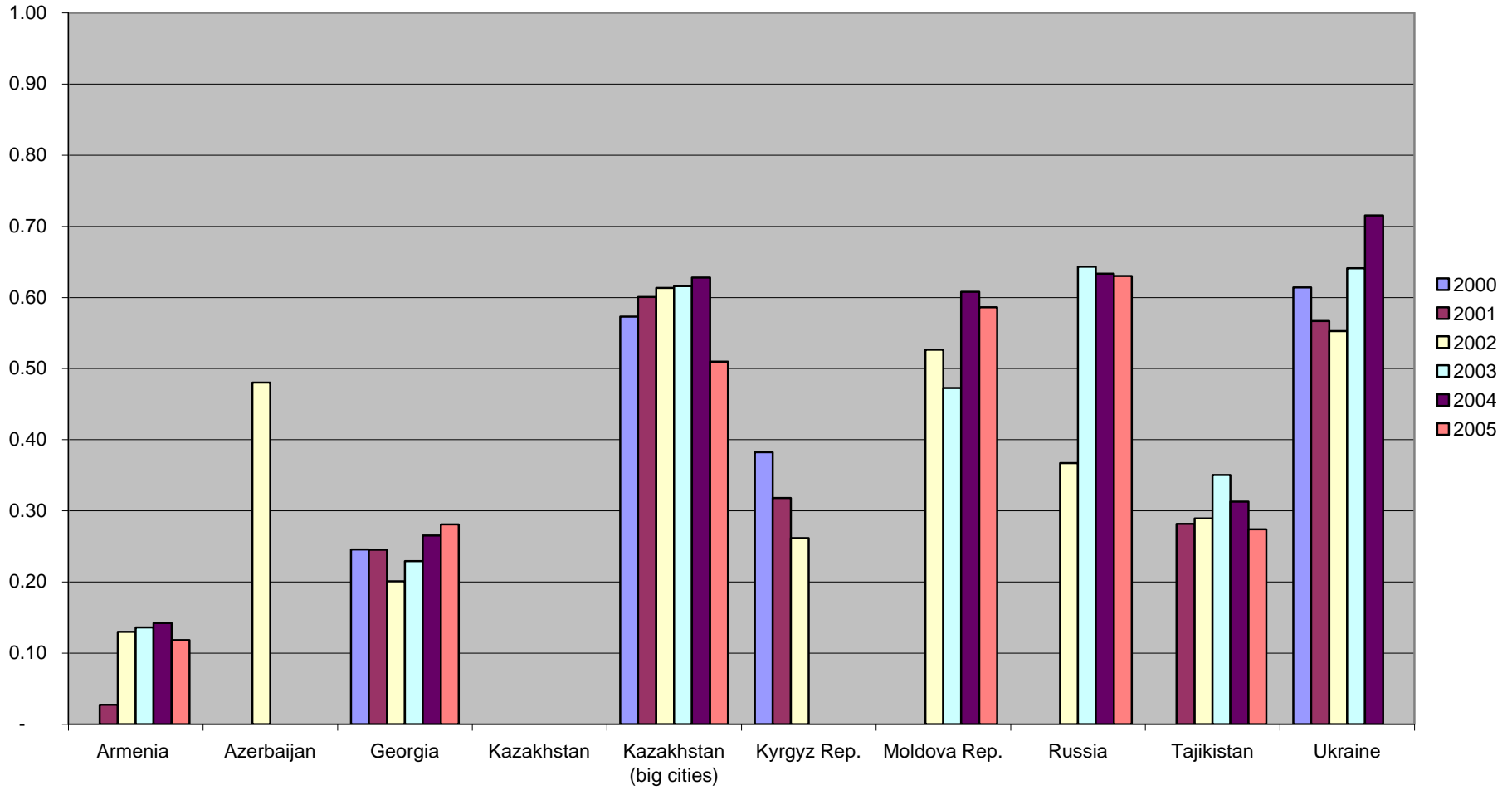
- The water supply and sanitation network is extensive, but increasingly deteriorating
- The quality of service is decreasing as a result, impacting on public health
- Sewerage and wastewater treatment facilities are often the first service items to be shut down resulting in increased environmental impacts
- Adverse impacts on public health stagnate at high levels
- The most alarming situation of water infrastructure exists in small and medium cities



Current state of financing WSS in EECCA

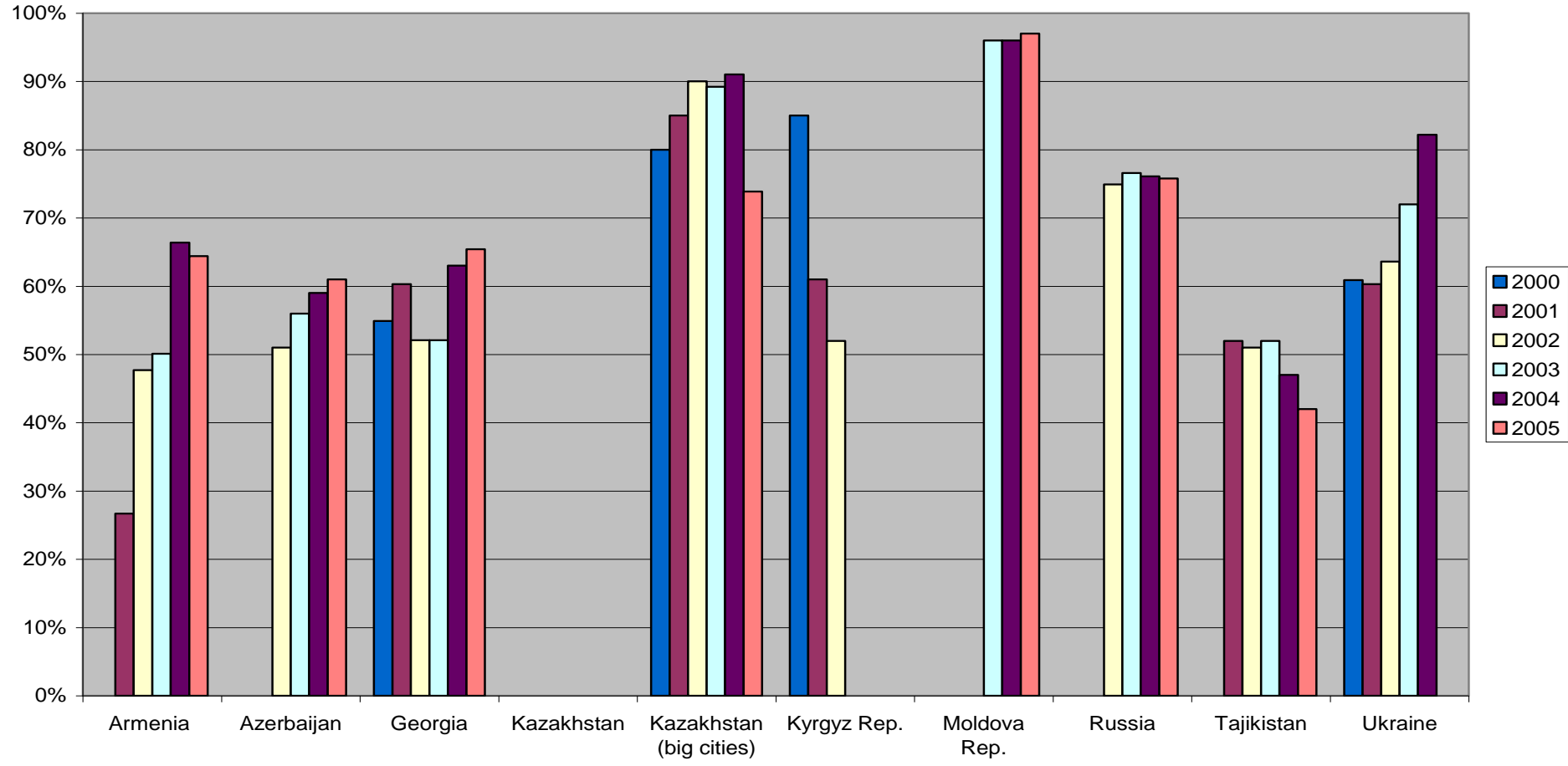
- 50-90% of water utility revenue is generated by user charges
- The rest mostly comes from public budgets
- But these funds are insufficient even to cover operational costs
- In some countries utility revenue covers only 60% of operational costs

Cost recovery



Source: EAP Task Force Water Utility Performance Indicator Database

Collection rate



Source: EAP Task Force Water Utility Performance Indicator Database

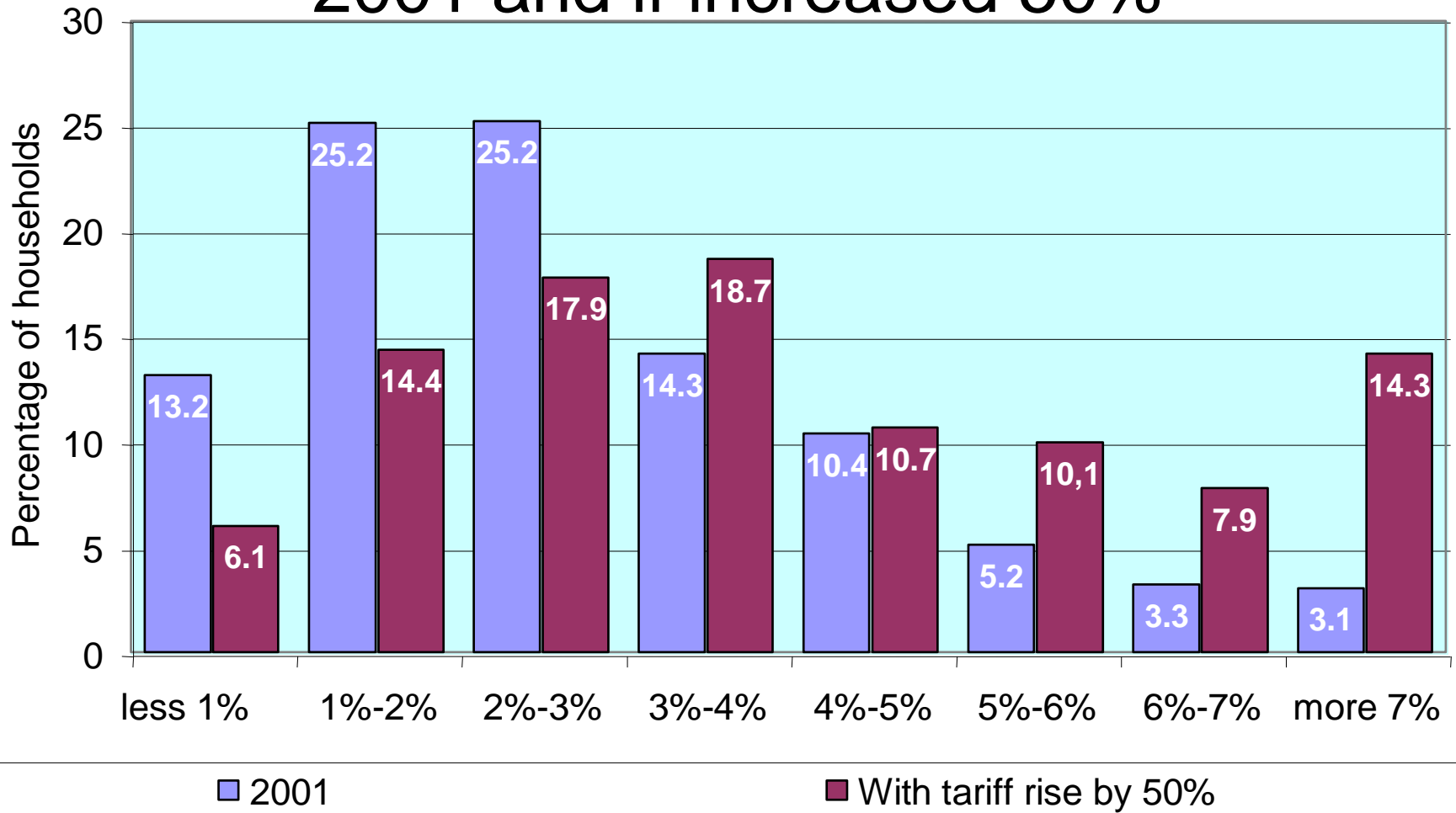
Affordability is a constraint

- Even at present, very low water tariffs mean many people in EECCA face an affordability problem; as countries proceed with reforms this situation is likely to worsen
- Mechanisms to protect the poor exist but are frequently ineffective and insufficiently targeted at those in need
- A majority of people is usually ready to pay more for improved water services

Water supply expenditure in Moldova

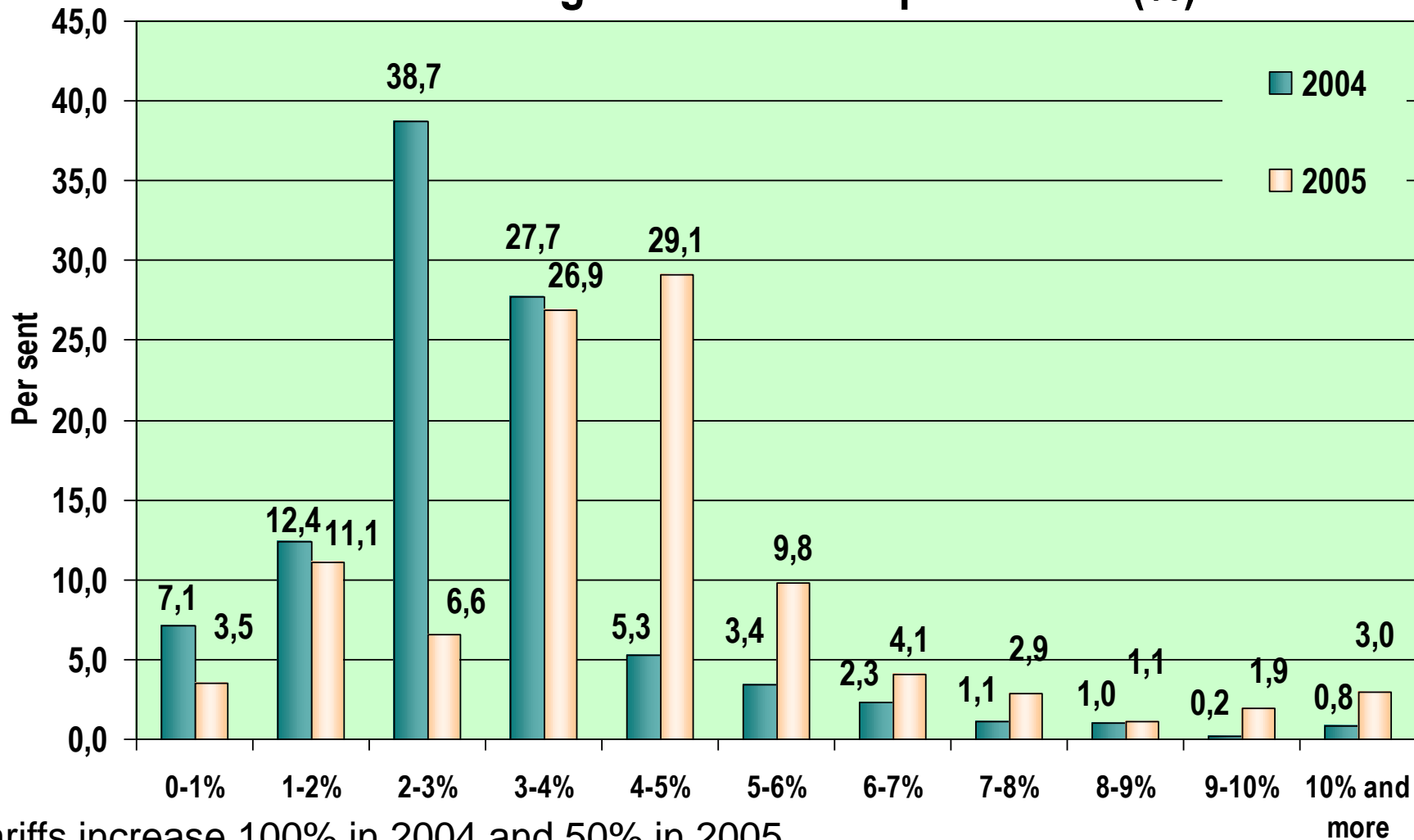
	Nisporeni		Căușeni		Nisporeni		Căușeni	
	PWS	No PWS	PWS	No PWS	PWS	No PWS	PWS	No PWS
	Lei				%			
Water supply expenditures, total, including:	99.1	65.9	50.9	52.0	100.0	100.0	100.0	100.0
Bottled water	47.0	34.3	25.7	5.4	47.4	52.1	50.5	10.4
Well maintenance	11.4	31.5	0.1	6.4	11.5	47.9	0.2	12.4
PWA water	37.5	0.0	25.1	0.0	37.9	0.0	49.3	0.0
Water tankers	3.2	0.0	0.0	40.2	3.3	0.0	0.0	77.2

Share of water services in total HH expenditures in Khmelnytsky (Ukraine), in 2001 and if increased 50%

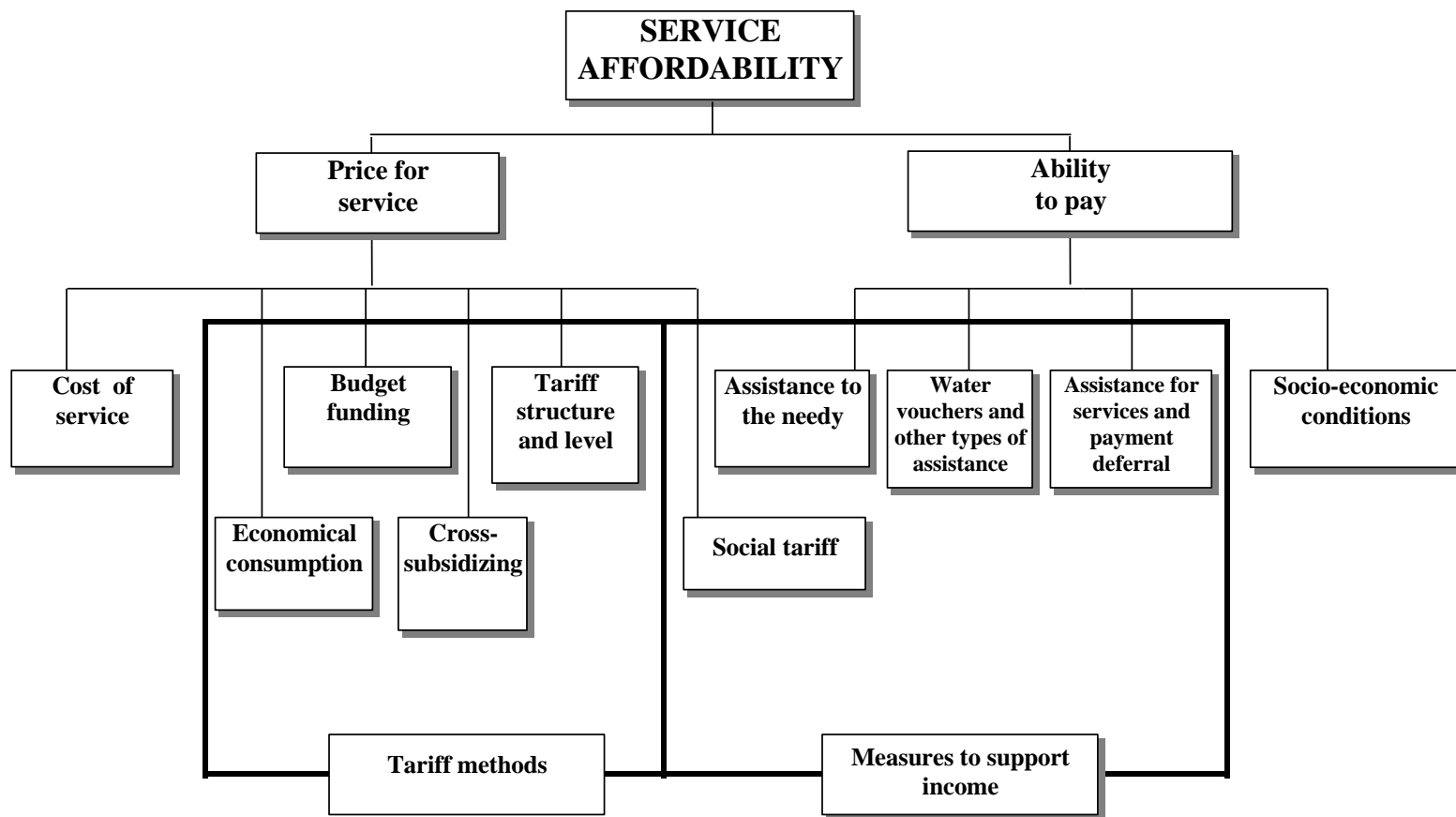


Projections for Yerevan, Armenia

Distribution of Households by Charges for Water/Wastewater Services as a Percentage Consumer Expenditures (%)



An array of social protection measures



Social protection measures pay-off

- Social protection measures place a burden on public budgets
- But such measures can have an important leverage effect
- In Armenia calculations show that every dollar that is spent on social protection measures can help to generate more than 4 dollars of additional revenue for water utilities

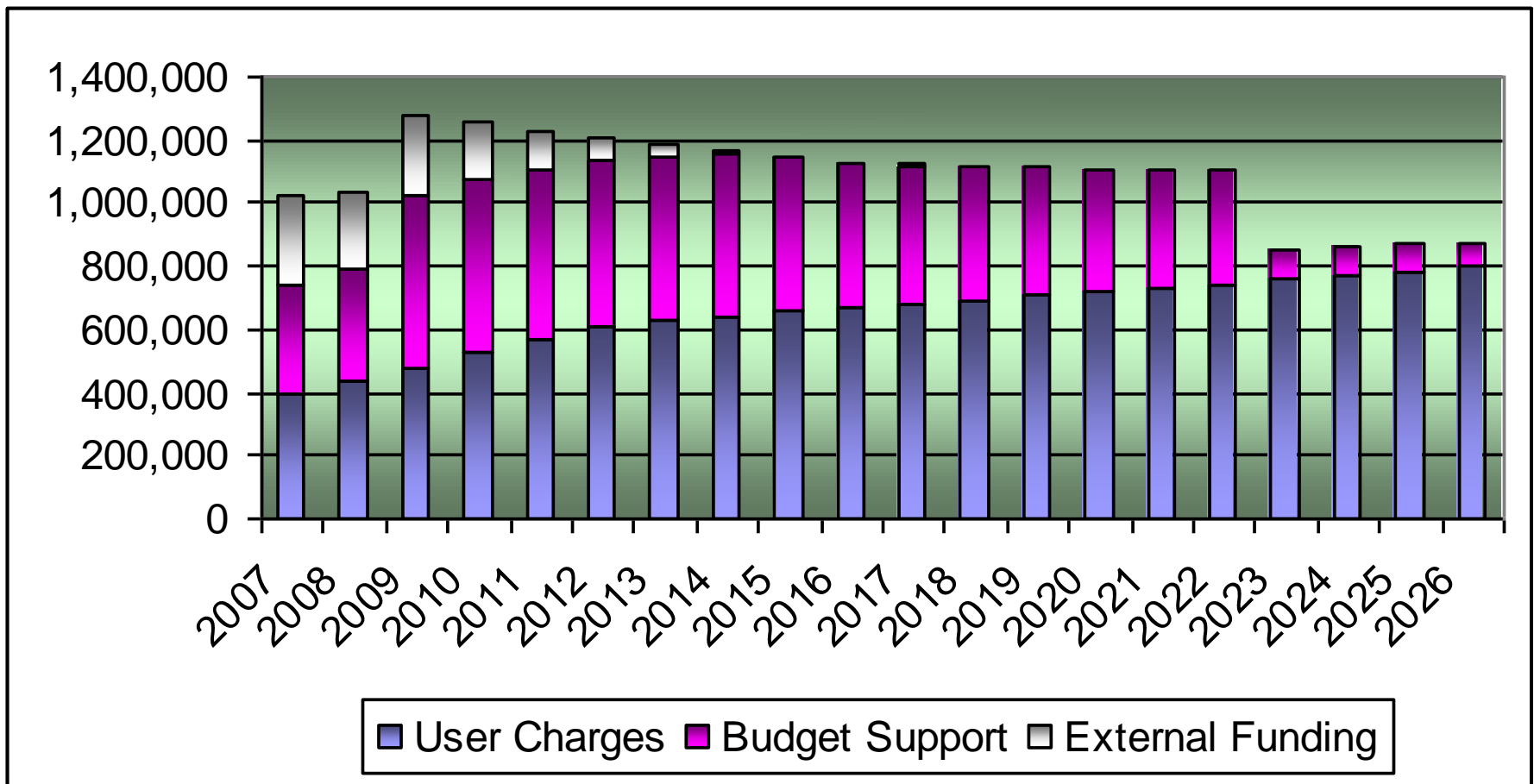
Public budgets

- OECD carried-out financial projections assuming:
- Increase of tariffs to affordability level
- Increase of collection rates from HH to 90%
- Improvement of operational efficiency

Demands on Public Budgets

- **Armenia:**
 - If water tariffs were to be increased up to the affordability level of an average of 4% of HH income
 - 2.2% of public budgets would still need to be spent on water for almost a decade
- **Georgia:**
 - If water tariffs were to be increased up to affordability level of « only 5% of population having to spend more than 2.5% of income on water »
 - 3-5% of public budgets would need to be spent on water, depending on technology used for achieving MDG 7

Summary of Financing Sources for Baseline Scenario (Lei '000), Moldova



Source: OECD/EAP Task Force (2008)

Conclusions

- There is some room to increase tariffs, but it is limited
- The capital costs of water services in many EECCA countries need to be co-financed from public budgets, for the foreseeable future
- Significant finance will be needed from central budgets, since municipalities are often too weak to generate the necessary levels of finance locally
- Effective mechanisms to channel this finance will need to be developed
- ODA has an important role to play in the poorest countries

Thank you!!



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