'Strengthening financial planning and management for WSS in central government, municipalities and utilities of EECCA countries’’

National Policy Dialogue on Financing Urban and Rural Water Supply and Sanitation in the Kyrgyz Republic

- Kiev, 24 April 2009 –

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Organisation of the National Policy Dialogue

- Mutual understanding has been reached with key partners on main objectives and organization of the NPD.
  To develop a financing strategy for urban and rural WSS with water-related MDGs as target.

- Membership of a Coordination Council (CC) was approved to guide the process and provide a platform for the dialogue and Regulation on CC (decree of the Prime-minister of the KR of 22.07.08 № 377-p);

- Consultant was mobilised to inform and facilitate the dialogue (Atkins&PKF with support from COWI on FEASIBLE simulations – training was conducted);

- Four National Policy Dialogue meetings so far.
Kyrgyz Republic – Key Features

- Low-income country (2007 GDP: some 750 USD per capita)
- High proportion of people living in poverty (some 42%)
- Small population (some 5.2 million) with low population density
- Rural population almost two-thirds of the total population
- Almost one-third of villages less than 750 people
- 25 urban settlements with WSS managed by vodokanals
- Plentiful water resources but glaciers shrinking
- Harsh climate (from +45°C to -30°C) and high seismic activity threaten sustainability of infrastructure
- Rocky ground, plenty of distant villages in high lands – impact on unit costs
Challenges for WSS in the Kyrgyz Republic

- No accurate information on water production and use
- Urban access – 90-98% for piped water and 75% for improved sanitation
- Rural access – 19-81% for piped water and 51% for improved sanitation
- Poor condition of existing infrastructure and poor level of service (reliability, predictability, water quality)
- Unwillingness to pay for poor level of service
- 85% of old water supply systems use groundwater but surface water rising – problems with pollution and health
Impacts on Health and Environment

- 20% water supply systems do not comply with sanitary norms with many lacking sanitary protection zones water treatment plants and disinfection systems (SES, 2008);

- Waste water treatment plants either don’t work at all (in villages), or don’t provide required level of treatment and waste sewerages into the rivers;

- Hence - problems with environmental pollution and population health;

- Children’s mortality from acute water-born enteric infections remains high. Typhoid morbidity remains a big problem and caused by poor drinking water quality.
Financial Challenges in the WSS Sector

- Low levels of cost recovery - low tariffs and collection rates
- Payment for WSS is from 0% to 0.9% (Bishkek) of HH income. Overall collection rate in KR is about 40%
- Cross-subsidisation of population by industry/commercial enterprises
- Low level of public budget contributions for WSS
- Effectiveness of external lending is extremely variable

Objective factors:
- uncertain macroeconomic outlook on national and international levels
- harsh climate and seismic conditions (increasing of costs)
Institutional Challenges in WSS Sector

- Lack of coordinating and regulatory bodies for the WSS sector as a whole
- Lack of capacity at local level for service delivery and financing
- Lack of database and MIS for sound decision making
- Over-fragmentation and decentralisation of the water sector meaning a lack of economies of scale and too much diversity in unit costs
- Over-reliance on Soviet consumption norms restricting realistic target definition
- Lack of coordination between water sector policy and that of other sectors (e.g. Housing)
Baseline and Development Scenarios

**Baseline** – business as usual, expenditure limited to maintenance of current level of infrastructure and service (uniform access to piped WS in all cities and 34 big villages, 50% through street-posts with 35 LCD)

Three alternative development scenarios:

1 - **Basic Improvements**
   - Rural - piped water supply from street-posts for all
   - Rural - school sanitation
   - Urban - improved management of existing services

2 - **Millennium Development Goals on WSS**
   - As above for rural water supply and urban services
   - Hygienic pit latrines for all in villages

3 - **Maximum Coverage**
   - 100% access to WSS in the home for urban
   - 50% home/50% street-post access in rural
Preferred Development Scenario: Targets and Key Assumptions

- **Millennium Development Goals on WSS**
  - Rural - piped water supply from street-posts for all
  - Rural - school sanitation and hygienic pit latrines to be used by all
  - Urban - improved management of existing services

- Based on the assumptions that:
  - the main issue in urban areas is the current poor quality of service within the existing piped water network, whilst
  - the main issue in rural areas is the high proportion of people without sustainable access to piped water supplies and improved sanitation

- 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.
Model Results for the Preferred Scenario

'000s of KGS

- Operation and maintenance
- Reinvestment
- Service extension
- ADB/WB interest & loan repayment

Expenditure

Current Revenue

EAP Task Force
Key Financial Measures for Closing the Financing Gap

- Domestic tariffs gradually increased to 2.5% household income with a maximum of 5% of household income for any income group (the maximum level of affordability) from current levels of <0.5%. Maximum level of affordability achieved after 20 years.
- Increased collection rates from current levels (<25% in rural areas and <50% in urban areas, at present) 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 some EECCA countries) after 20 years. The 0.3% includes repayments of IFI loans and WSS contributions for budgetary organisations.
- Even with these improvements in revenue, there is a shortfall in capital expenditure for extension and rehabilitation of €22 million.
Financing the Preferred Development Scenario with Policy Measures in Place

'000s of KGS

- Operation and maintenance
- Service extension
- Reinvestment
- ADB/WB interest & loan repayment
- Total finance with all policy measures

Year: 2007 to 2027

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Recommendations – Policy and Practice

- Define institutional structure for coordination, regulation and implementation and develop Water Supply Policy to clarify roles and responsibilities.

- Develop a regulation to define standards in terms of reliability, predictability and water quality.

- Review the decentralisation process for service delivery – consider some agglomeration for technical support functions.

- Promote alternative models for water supply provision - improving private sector with increasing technical resources available.

- Define best practice for operation to maximise performance – benchmarking, O&M (and deferral of maintenance) and reinvestment/rehabilitation prioritisation, staff/utility incentives.
Recommendations – Management & Finance

- Create national database/MIS from existing data sets
- Prioritise infrastructure improvements - identify causes of dissatisfaction and “hot spots” and develop specific plans for improvement
- Assign higher priority to WSS in the national economic policy and budgetary process (MTBF) and improve and monitor Local Government budget requests for WSS from Min. of Finance
- Increase financial contributions to the WSS sector, both through subsidies and direct investment - good economic sense
Recommendations – Finance

- Improve cost recovery from water users by raising the level of bill collection and increasing the general level of tariffs
- Improve tariff policy by:
  - including costs over and above O&M
  - 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”
  - national publicity campaign to explain the need for tariff increases
- Maintain dialogue with international donors for ODA
- Consider alternative mechanisms of mobilising resources – solidarity funds, private sector
Next Stage - Objectives

To integrate the financing strategy into:
- key policy documents (CDS, eventual comprehensive programme for WSS, NEAP, etc.), and
- processes (foremost MTBF)

To meet this objective, the project shall help responsible government agencies and (selected) local state public administrations identify facts and strong arguments needed to feed into the iterative process of revision of MTBFs and the CDS
Integrate the Financing Strategy into the Medium Term Budgetary Framework process – forms/templates

- Develop forms for submissions to the MTBF, consistent with the requirements of the MTBF process and in line with those used or understood by major donors and IFIs.

- Suggest a form of presenting convincing arguments to justify proposed investments and “soft measures” to be co-financed from the public budget.

- Pilot test the forms on priority rehabilitation projects and institutional measures and integrate these into the DRWS submissions to the MTBF.

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Integrate the Financing Strategy into the Medium Term Budgetary Framework process – regulation, monitoring and reporting

- Recommend improved regulation and procedures of MoF and other government bodies related to budget and capital investment planning in WSS sector
- assist the GoKR in developing a subset of the WSS-related performance indicators to be used in the MTBF and updated CDS
- develop an annotated outline for annual report on WSS sector performance targeted at the GoK and general public, and at international stakeholders
Annotated outline for a WSS sector policy document to include:

- Sector governance, organisation and ownership of WSS infrastructure
- Responsibility for strategic/investment planning, sector regulation and supervision, operations, sector financing
- Sustainable models of financing WSS O&M and capital expenditure
- Role of private sector to benefit consumers and society
- Objectives and instruments for water demand management, such as water audit and water mass balance analysis, metering supported by appropriate tariff policy, public awareness campaigns