National strategies and financial plans for water and sanitation – Experience from the former Soviet Union

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Water in the City and Urban sanitation
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Structure of presentation

- What is the OECD?
- State of water infrastructure finance in EECCA
- How can Financing Strategies help?
- Some key messages from work in the former Soviet Union
What is the OECD?

- A forum in which governments work together to address the economic, social and environmental challenges of interdependence and globalisation
- A provider of comparative data, analysis and forecasts to underpin multilateral co-operation
- 30 member countries – the world’s most industrialised economies
- Supports policy dialogue with key transition and developing countries
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
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Financing strategies – what and why?

- A policy dialogue process supported by strong quantitative analysis
- Objectives:
  - to structure a policy dialogue involving all relevant stakeholders and to forge consensus
  - Initiate discussions and illustrate effects of different objectives/targets for a long-term perspective
  - Provide a missing link between sector policies and programs and feasibility studies
  - Pave the way for external financing by providing clear and transparent data on financing requirements
Structure of the FEASIBLE model

Framework assumption and forecasts
(e.g. macroeconomic variables, public revenue, sector outputs, population)

Specific, measurable, time-bound targets
• level
• year

Existing situation and baseline forecast

Demand for financing (cost of meeting targets)
Investment expenditure (rehabilitation & new)
Maintenance expenditure
Operational expenditure
Annual cost

Supply of financing (forecast)
Financing institutions/financial products
• Public budgets
• Private financiers
• Donors and IFIs
• Retained earnings (e.g. user charges)

Rules governing:
• Public transfers
• Private sector finance
• User charges

Gaps:
• Financing (cash flow) gap (with and without backlogs)
• National affordability gap
• Household affordability gap

Scenarios for closing the gaps (EFS sensu stricto)
<table>
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<tr>
<th>Country</th>
<th>Region</th>
<th>Urban water supply</th>
<th>Urban wastewater collection and treatment</th>
<th>Municipal Solid Waste</th>
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Outcomes

• Shared understanding of issues
• Consensus on realistic infrastructure targets
• More objective discussion of tariff policy
• Reflection on realism of social and environmental objectives
• Opportunity to improve dialogue with MoFin
• Opportunity to incorporate results into MoFin MTEF and into PRSP
Some key messages from work in the former Soviet Union

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

Source: OECD/EAP Task Force (2008)
Thank you!!

www.oecd.org/water/