

Ministers of Economy/Finance, Water, and Environment from Eastern Europe, the Caucasus and Central Asia (EECCA) have met with representatives of OECD countries, international organisations, the private sector and civil society at an OECD conference on the 17-18 November in Yerevan, Armenia, to discuss ways to improve the water and sanitation infrastructure and attract investors.

Ministers acknowledge that, although the status of the water supply and sanitation sector in the region remains gloomy, there are reasons to believe that the actions taken over the last decade start yielding results. One result of the conference was a recognition that the data used in the reports for the meeting refer to several years ago; more recent data from countries like Russia suggest that the situation has improved. The stage could now be set for investors to intensify their activities in the region.

Participants welcomed the opportunity to exchange experience and to identify successful models for reform. They called for these success stories to be more widely disseminated and for further exchange of experience.

### **Water supply and sanitation in the former Soviet Union is in crisis**

Ministers confirm that the overall situation in the water supply and sanitation sector of EECCA remains critical:

- The operational efficiency of water utilities needs to be significantly improved to reduce operational costs. Energy costs and unaccounted for water are 2-3 times higher than in OECD countries.
- Overall, investment falls short by a factor of five to ten of the level that would be required to maintain and renew existing water infrastructure (about EUR 14 billion to meet the internationally agreed millennium development goal on water).

As a consequence, disruptions of water supply, pipe breaks, and unaccounted-for water have steadily increased. Ministers acknowledge that the situation is worse in small and medium sized cities, and that this raises critical health issues.

Indeed, one hundred million people, or 36% of the population of the EECCA countries, live in rural areas, where access to improved sources of water supply and sanitation is 20 to 40% lower than in urban areas. As a consequence, a growing share of the population fetches water from unsafe sources thus being increasingly exposed to contamination. In a preliminary study, WHO finds that children are the most affected, with 11,000 deaths from water borne disease in the in the EECCA region.

### **Reasons why investment into the water sector could now resume in the region**

Ministers consider that there are three reasons which are likely to prompt investors to resume work in the region.

First, the recent up-turn in GDP growth and household income in most EECCA countries provides a more favourable context for the financial recovery of the water sector.

Second, the institutional and legal context is becoming more favourable to investment. For instance, the Russian Federation recently adopted a law on concessions which significantly reduces the risk for investors. Similarly, new water law in the Ukraine and a new water code in Armenia bring significant improvements to the legal situation.

However, slow progress in reform at the municipal level is now one of the most important bottlenecks; the creditworthiness of these institutions should be enhanced, to attract additional finance. Equally, delays in establishing public utilities as autonomous, commercially-run institutions are impeding positive effects of measures taken at the central level.

Third, these factors concur with/to the recent involvement of the private sector in some countries. The involvement of the private sector is an indicator that the financial situation of water utilities has improved. Domestic private operators are supplying 40% of Armenians. In the Russian Federation, domestic companies established contracts in more than 20 large cities, representing about 11% of the urban population. While at first, most of these contracts were short-term leases, some are being converted into long term leases, and some operators are investing their own money in the development and restructuring of infrastructure.

#### **Adequate policies have to be designed and monitored, in a public debate**

Ministers noted that money is available to finance the needed investment in water supply and sanitation in EECCA. This is even more so as public money invested in the sector yields a substantial social return in terms of avoided health costs. According to the World Health Organisation the social return could be thirteen times for each dollar invested.

Some positive achievements have been registered in the richer EECCA countries, and in some capital and large cities. However, all stakeholders agree that rural areas deserve an urgent and dedicated attention. Innovative financing mechanisms exist which were designed to address the specific needs of these areas, e.g. output-based aid.

Some governments confront the politically sensitive choice of either providing a smaller number of urban residents with in-house connections, or a larger number with access to communal stand-pipes. As an example, 5% of the city dwellers in Georgia will have to fetch water at standpipes when they were used to in-house tap water, if Georgia is to achieve the millennium development goals on water supply and sanitation.

Ministers believe that, when such debates are at stake, public participation is all the more important for an effective implementation of reforms and for securing public support. They agree that significant additional efforts will be needed to improve and establish mechanisms that allow the public to participate in the decision-making on water supply and sanitation more efficiently.

All conference materials are available from the OECD website at: [www.oecd.org/env/water/](http://www.oecd.org/env/water/)