

Financing Water Supply and Sanitation in EECCA
Conference of EECCA Ministers of Economy/Finance, Water and Environment and their Partners
from the OECD
17-18th of November, 2005, Yerevan, Armenia

Co-Chair's Summary

Background and objectives

At their meeting in Yerevan, EECCA Ministers of Environment, Finance, and Economy, Ministers and senior representatives from several OECD countries, as well as senior officials from International Financial Institutions, International Organisations, non-governmental organisations, and the private sector, met to discuss the situation in the EECCA water supply and sanitation sector and the measures needed to ensure sustainable financing to meet the millennium development goals on water.

The conference aimed at reviewing the progress and discussing next steps in implementing conclusions adopted at the Ministerial Consultations on Water Management and Investments in EECCA countries, held in Almaty (Kazakhstan) five years ago. In Almaty, Ministers recognised the critical condition of the urban water supply and sanitation sector in EECCA and endorsed “Guiding Principles for the Reform of the Urban Water Supply and Sanitation Sector in the NIS”. The Guiding Principles identify the key elements of urban water sector reform, which include:

- Establishing strategic objectives for the reforms;
- Reforming institutions and clarifying the roles of the national authorities, local governments, *vodokanals*, and the public;
- Establishing a framework for financial sustainability of the sector and promoting efficiency and cost-effective use of resources;
- Outlining the sequencing of reforms.

Since the Almaty Conference, water has received significant attention and been identified as one of the major development objectives. The Millennium Summit of 2000 set a target to improve access to safe drinking water, which was later complemented at the World Summit on Sustainable Development in Johannesburg, in 2002, with a target with regard to sanitation. In both cases, the target is to reduce by half those without access to these services by 2015. The World Summit also saw the launching of two major initiatives: the Pan-European East-West Environmental Partnership for Sustainable Development, and the EU Water Initiative. Both these initiatives seek to foster East-West co-operation on water and have components that focus on urban water supply and sanitation, and integrated water resource management.

The main agenda items were:

- Reviewing progress in reforming the water supply and sanitation sector, including progress in achieving the water-related Millennium Development Goals
- Financing strategies and options for the water supply and sanitation sector
- Reform of the municipal water services sector.

The Conference was organised jointly by the State Committee of Water Systems of the Ministry of Territorial Administration of Armenia and the OECD/EAP Task Force.

Main conclusions

The main conclusions from the discussions at the conference are summarised in the following:

- ◆ Many EECCA countries have undertaken measures to improve the situation in the water supply and sanitation sector, most of them in line with the recommendations set out in the Almaty Guiding Principles. The Armenian experience could serve as a useful reference for many EECCA countries in this regard. In particular, central governments have improved the institutional set-up for the water sector, and developed framework legislation to better guide local level actors, mainly in setting tariffs. However, there are only a few examples where the water-related MDGs have been integrated into national development plans or, where appropriate, Poverty Reduction Strategy Papers.
- ◆ The portion of urban populations having access to centralised water services in EECCA countries remains at a high level, but the quality of that access has deteriorated: disruptions of water supply, pipe breaks, and unaccounted-for-water have steadily increased in recent years. Similarly, key financial indicators have not shown improvement. At the same time, new information presented at the Conference suggests that for countries like Russia data in the meeting reports reflects the situation of a few years ago and that the current situation is improving. The current indicators on the MDGs on water supply and sanitation paint on overly optimistic picture. They should be supplemented by indicators that describe the quality of access to water services to give a more complete picture. This could help to “de-block” potential IFI and donor support.
- ◆ While the overall trend is broadly the same across the EECCA region, the state of water services and their adverse impacts is quite diverse. Some positive achievements have been registered in the richer EECCA countries, and in some capital and large cities. However, the situation is much worse in small and medium sized cities, and water services in many rural areas, where 36 per cent of the population lives, have collapsed. This underlines the importance of effective programmes in these areas.
- ◆ Slow progress in reform at the municipal level is now one of the most important obstacles to improved provision of urban water supply and sanitation.
- ◆ Public participation in reforming the water supply and sanitation sector in EECCA is an important prerequisite for a more effective implementation of reforms and for securing public support. We welcome the constructive participation of NGOs and Regional Environment Centres and look forward to further cooperation. 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.
- ◆ We welcome conclusions from a private sector Roundtable and are pleased to note that the debate has moved forward since our previous gathering in Almaty, and that it is now focussing on the practical measures that help to ensure the effectiveness of private sector involvement.
- ◆ We also welcome the side-events that enabled additional exchange of experience and inputs to the Conference.
- ◆ The operational efficiency of water utilities needs to be significantly improved in order to reduce operational costs. Energy costs and unaccounted for water are 2-3 times higher than in OECD countries. However, achieving efficiencies often requires up-front finance for investments and the corporatisation of utilities.

- ◆ User charges, combined with improved billing procedures, will continue to be the major source of finance for utilities, particularly for operational and maintenance costs. We saw how increased user charges have helped to decrease the excessive demand for water which is far higher per capita than in OECD countries.
- ◆ Public budgets will be essential in most countries, particularly for capital costs and for ensuring that the poor have access to water services when tariffs increase. They should be designed to provide a predictable stream of revenues and incentives for sound financial management at the local level. Subsidies should be more linked to outputs like increased coverage with water services.
- ◆ Affordability constraints are leading some governments to 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.
- ◆ Finance strategies for the water sector should be developed within the framework of Integrated Water Resource Management schemes and integrated into binding budgetary procedures such as medium-term expenditure programmes.
- ◆ Official Development Assistance (ODA) and finance from International Financial Institutions will play a small role in terms of total flows, but they may nevertheless have an important demonstration and catalytic role. Further attention should be given to borrowing at the sub-sovereign level. Increased ODA would be essential if the water-related MDGs are to be achieved. There is scope for more cooperation among donors and between donors and IFIs.
- ◆ The US shared its experience in accessing local capital and financial markets to finance water infrastructure. The Kyoto mechanism might provide additional resources for the development of water supply and sanitation in EECCA. There is a need to develop finance for rural and peri-urban areas, where projects often fall below the used IFI project threshold.
- ◆ Local authorities in EECCA will need significant support to develop their capacity in managing water systems, but they will also need to develop the political willingness to undertake reforms. Local authorities need to commit, and require support in order, to:
 - set consistent, stable objectives for the water supply and sanitation sector as part of city or regional master plans and with clear links to Integrated Water Resource Management plans;
 - elaborate realistic finance strategies to achieve these objectives;
 - translate these strategies into rolling, medium-term investment programmes, rather than the annual programmes that many municipalities currently follow;
 - promote public participation in the development and implementation of these activities;
 - clarify responsibilities of utilities and municipalities, preferably through corporatisation of utilities and the establishment of performance based contracts between these parties;
- ◆ Looking forward, we encourage further exchange of experience and encourage all stakeholders to continue their efforts to improve access to water services in EECCA countries, including through the development of partnerships and working through the EAP Task Force. We suggest that the issue of water supply and sanitation feature on the agenda of the 2007 “Environment for Europe” Ministerial Conference.