

ALBANIA WATER FINANCING STRATEGY

An example for Moldova?

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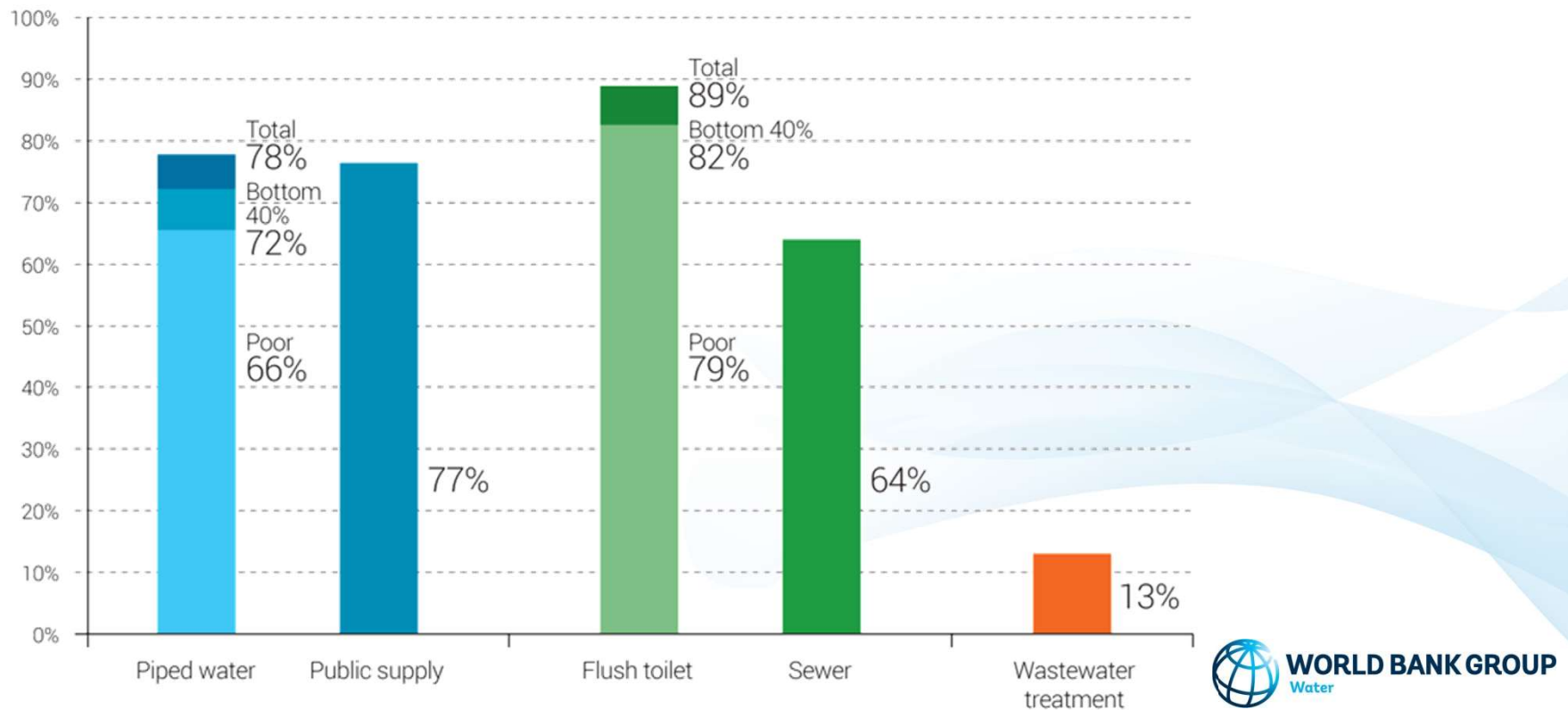
Structure

- Albania in a nutshell
- Rationale and Organization of Financing Strategy
- Key Results
- Applicability for Moldova?

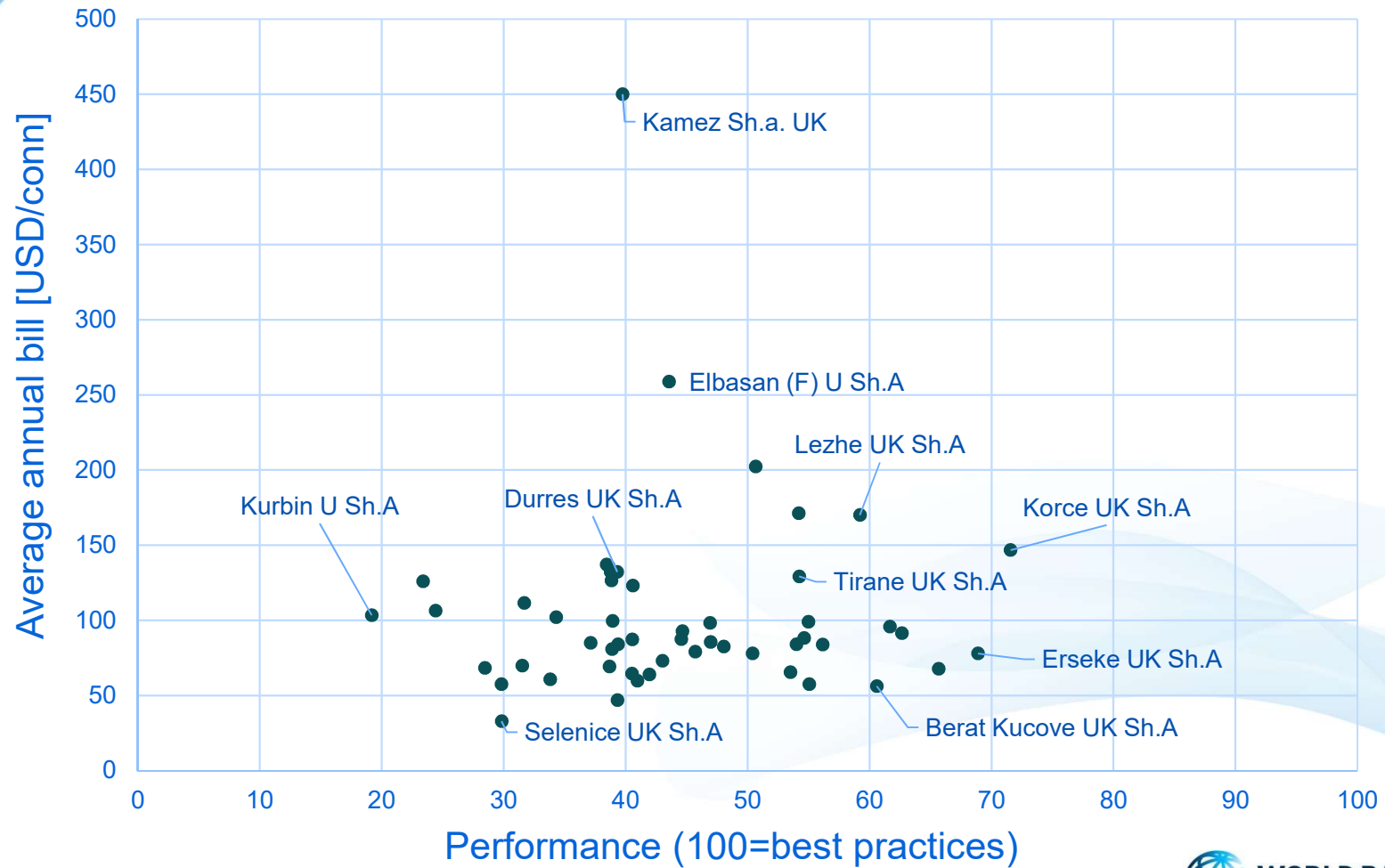
Albania in a nutshell

Coverage still a challenge

- Public services still low in particular in rural areas and for sewer
- Almost no wastewater treatment

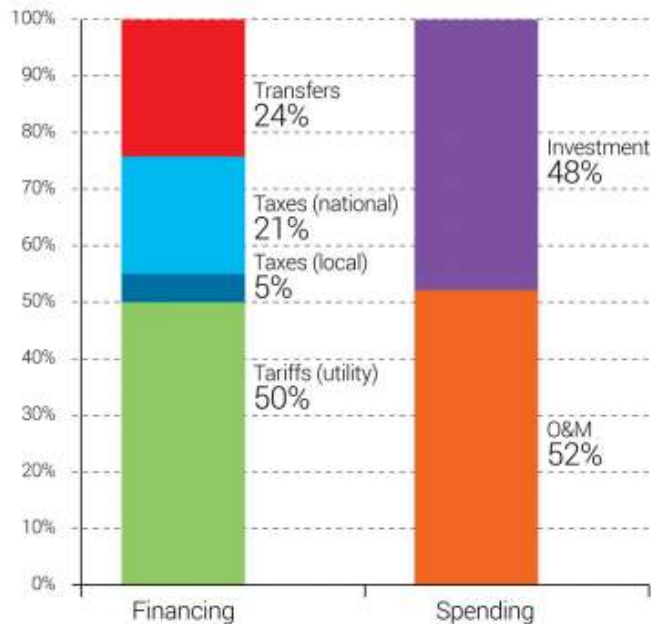


Service performance, value for money varies...



And a distorted financing

- Tariffs only 50% of total costs, significant transfers and taxes
- Very significant investment gap vis-à-vis total financing needs



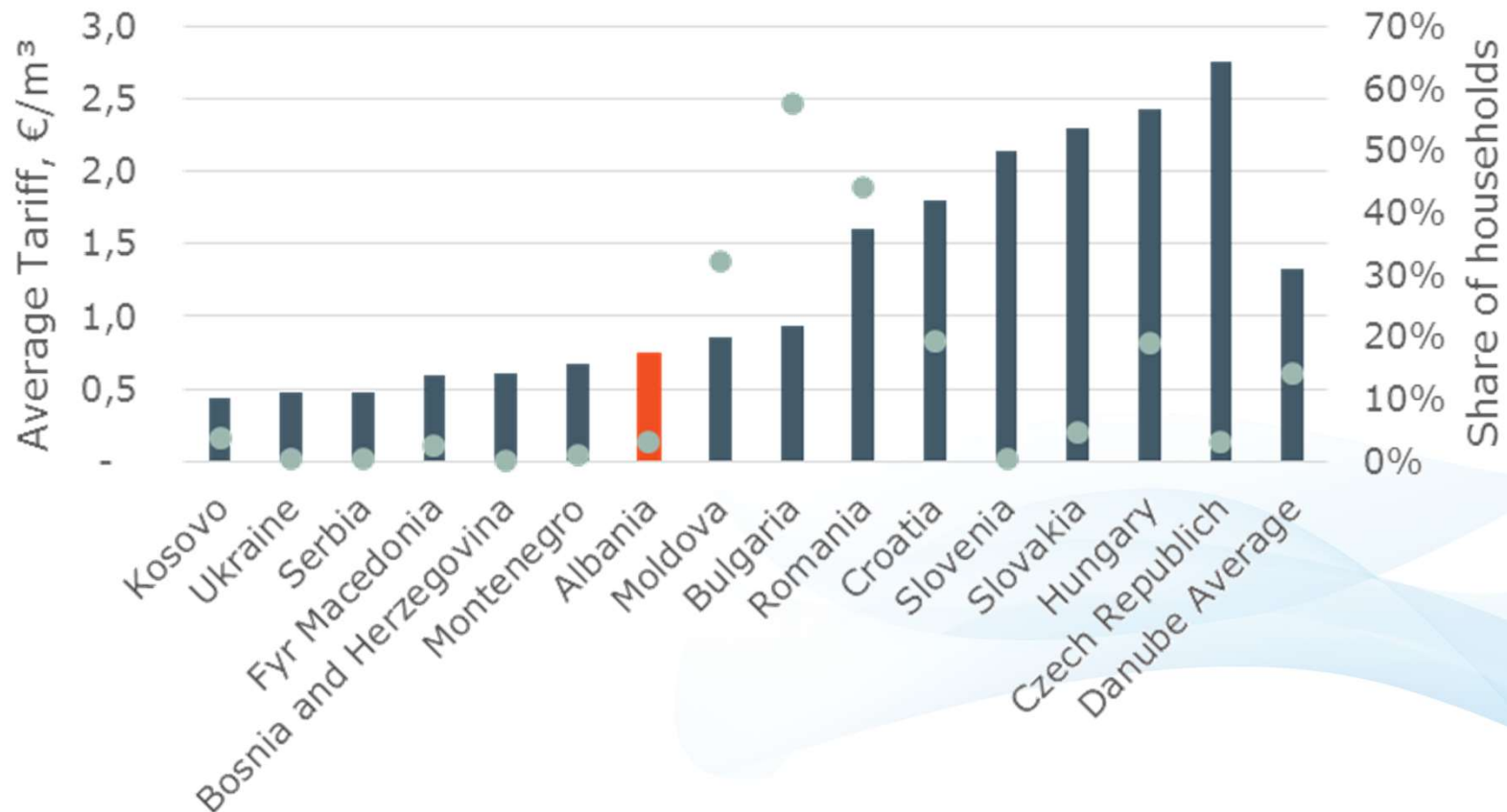
SOURCE: AUTHORS' ELABORATION.



SOURCE: AUTHORS' ELABORATION BASED ON SOS DATA COLLECTION, ASSUMING COUNTRY-PROJECTED INVESTMENT NEEDS.

But tariffs still quite low and affordable

Share of households that pay more than 3% of their income for WSS



■ Average Tariff, €/m³ ● Share of households

Rationale and Organization of Financing Strategy

What Drove Us to Undertake the Study?

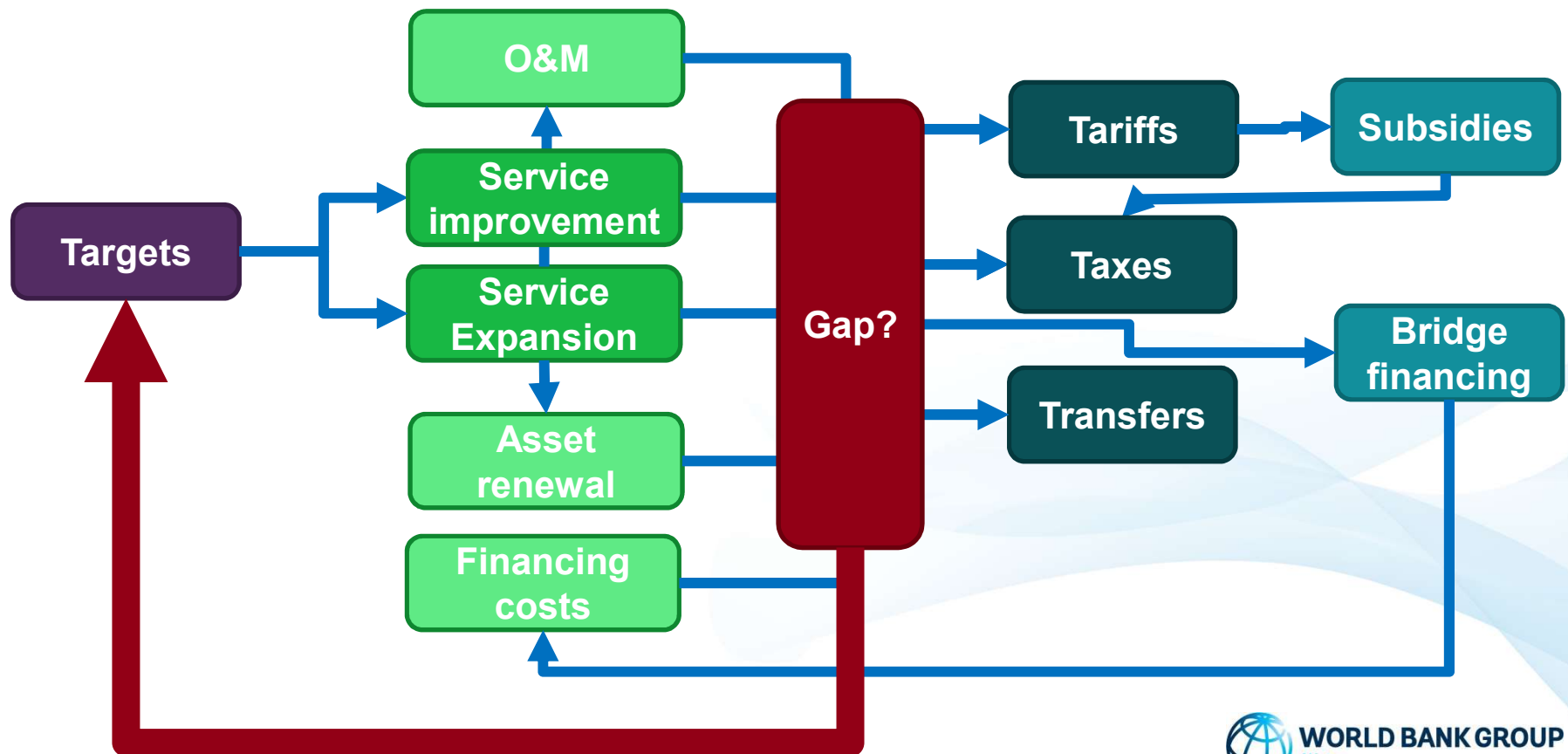
- We felt we knew our water supply and sewerage services objectives.
- We had a strong feeling that we had a serious financing gap.
- We lacked the harmonization of needs with wants and the real possibilities for going forward.
- We had no clear methodology to understand and address the gap.

The 1M € question:

How to finance sustainable WSS services for all?

Expenditures

Sources of funds



Purpose of Financing Strategy support

1. Support the Government (Water for People working group) in developing a realistic, affordable WSS vision
2. Show options for redesign of investment flows and instruments (efficiency, targeting of investments, links to performance)
3. Support improvement to the tariff setting (fixed and variable components, policies and practices of regulator)
4. Assess tariff level and affordability issues
5. Assess subsidy scheme and coping cost (outside the Financial Strategy Model)

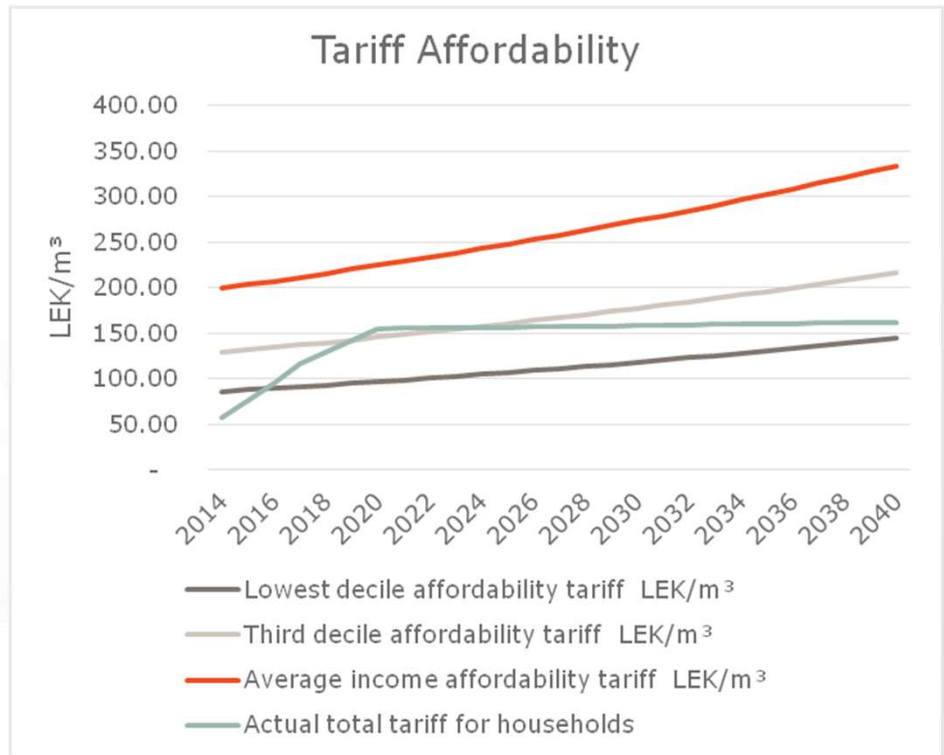
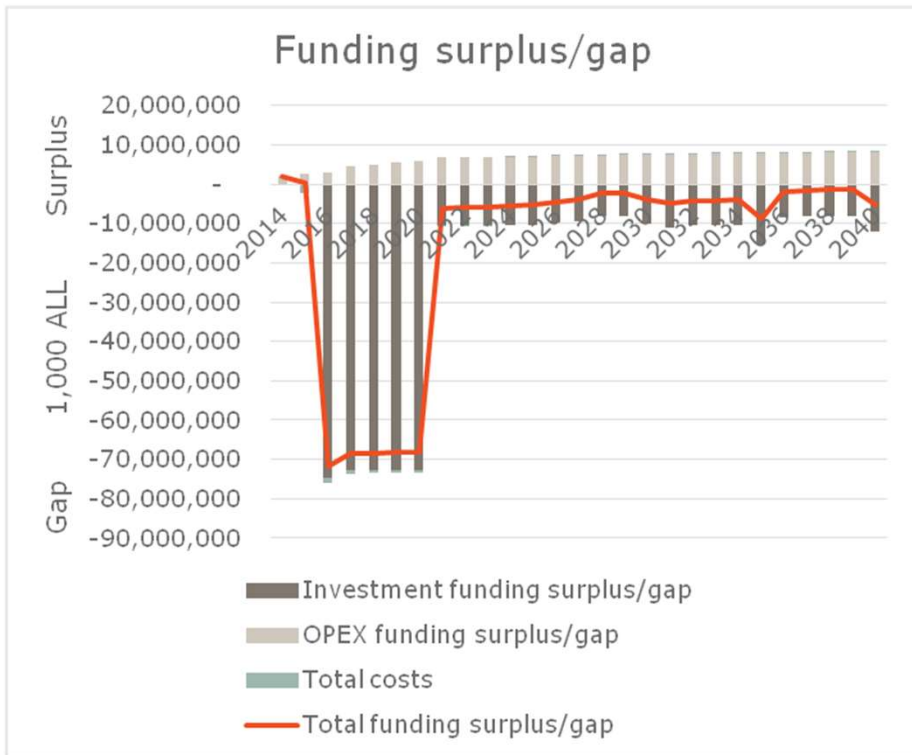
Iterative approach followed

- Financial model in Excel developed for each utility of Albania to support the analysis of various financing options in the WSS sector, based on benchmarking data.
- Tariff affordability analysis to assess level of tariff and impact on the “poorest of the poor”.
- Scenarios of measurable improvements in WSS services defined with Government
- Calculation of associated financing needs for these scenarios.
- Excel-based model ensures internal consistency between policy targets, expenditure needs, and available financing. When there is inconsistency, the tool shows a financing gap.

Key results

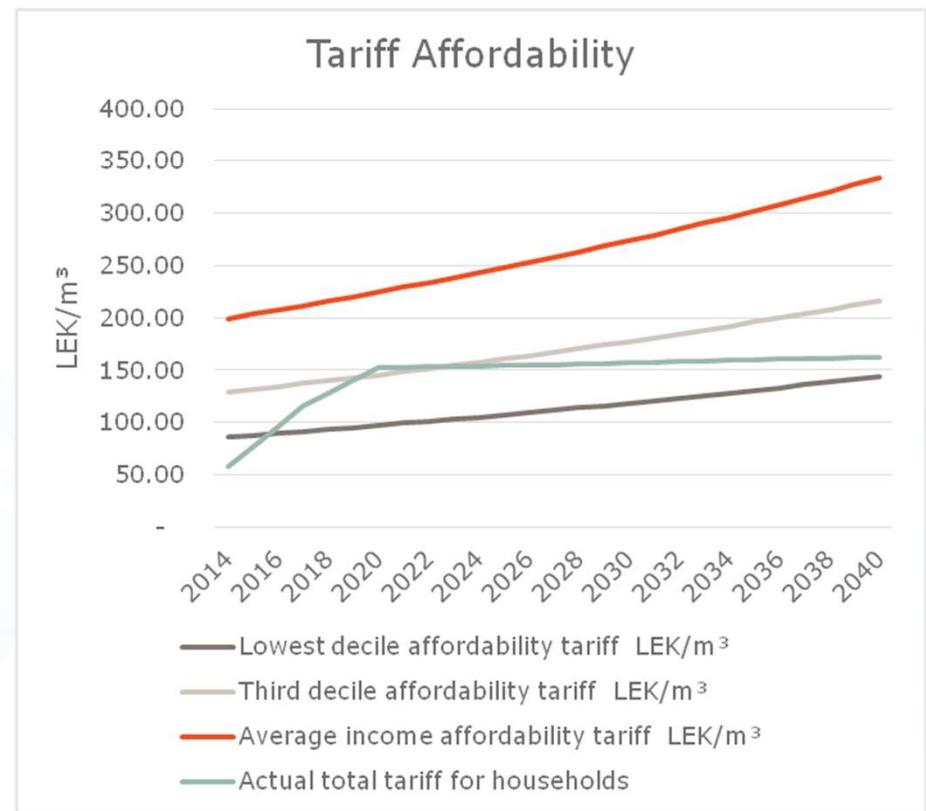
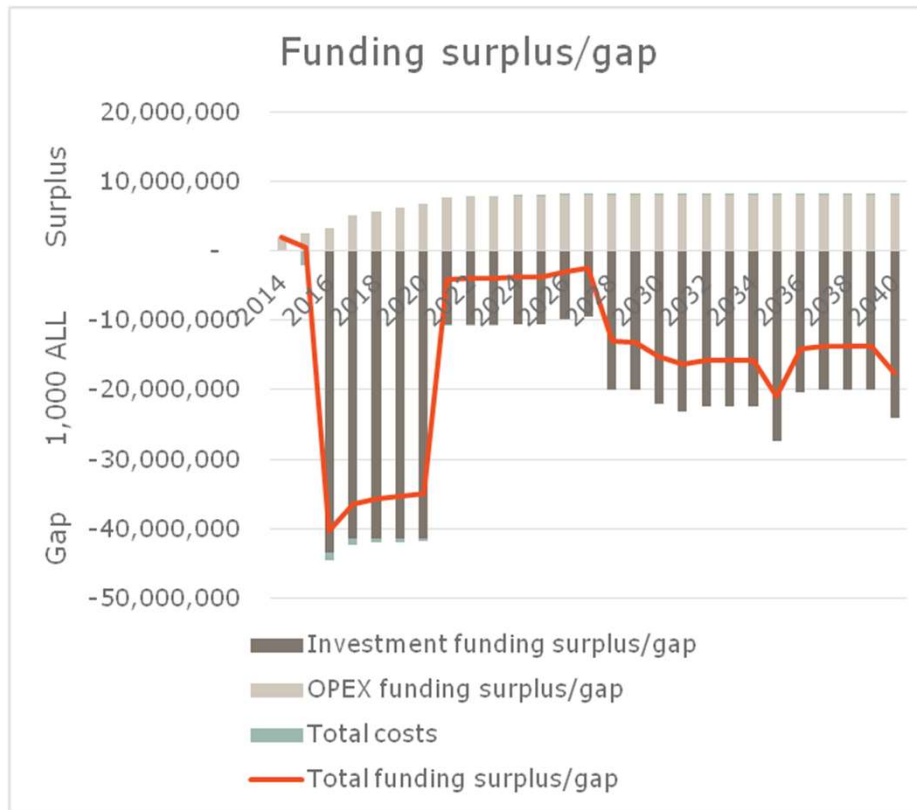
Scenario 1: original government strategy

NOT FEASIBLE: Financing needs of all utilities in Albania is highly negative in the first five years, and stays negative in every single year.



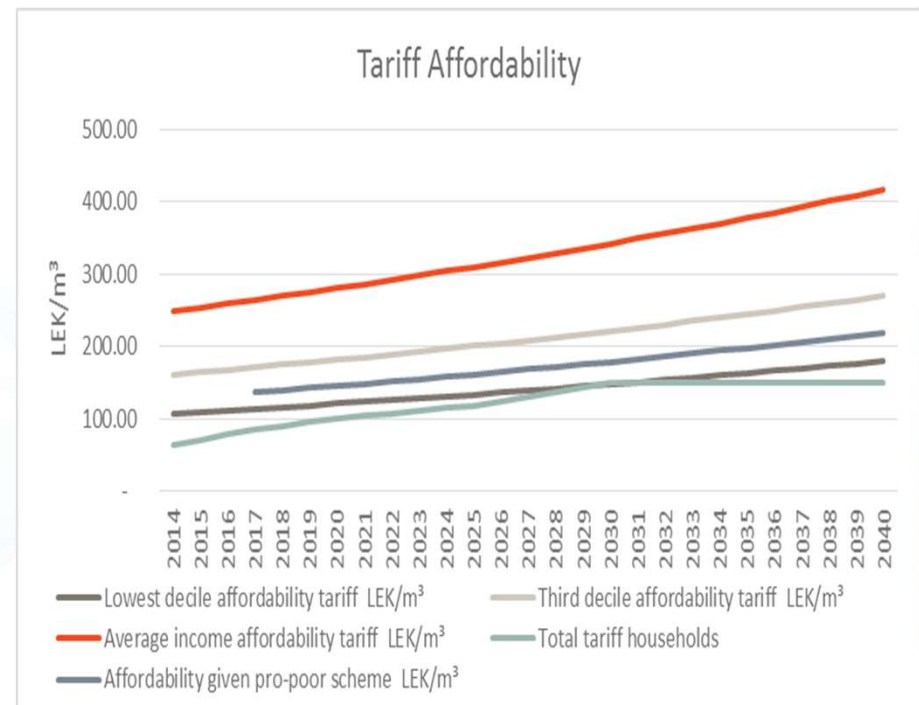
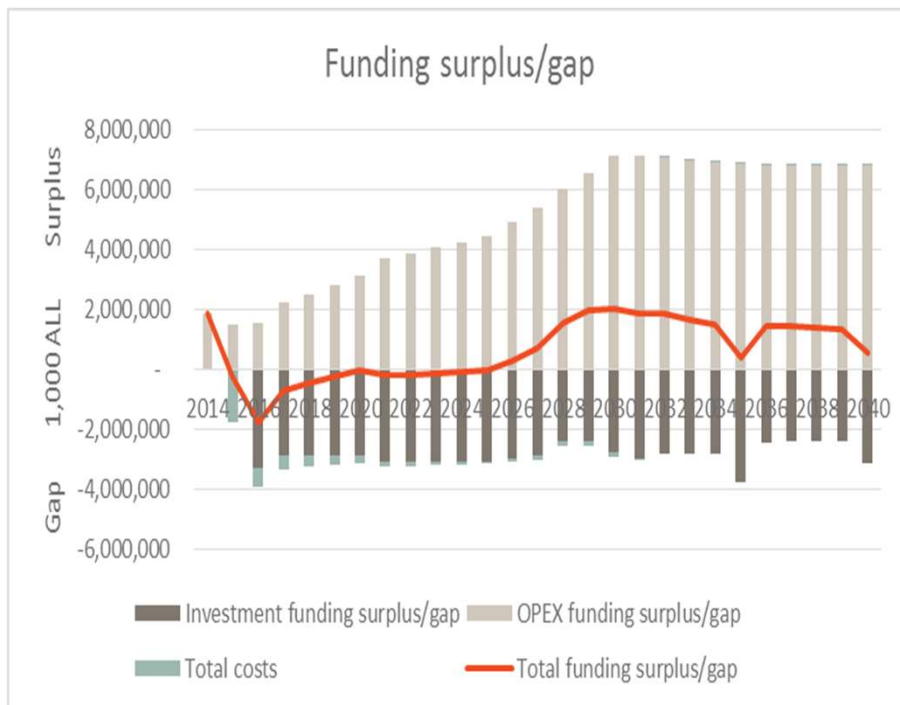
Scenario 2 – slower strategy implementation

NOT FEASIBLE: unless investments are combined with both very substantial increases in both grants and loans for the initial financing as well as very substantial increases in tariffs it is not possible to arrive at a feasible scenario.



Scenario 3 - Affordable Policy Package

FEASIBLE: Significant increase in coverage (but less than original); efficiency improvements, Enhanced maintenance, Tariff increases no more than 10 per cent per year.



What will it take for Albania to succeed?

- A more realistic set of sector targets with gradual improvements
- Investments leading to service level improvements to build population buy-in for increases in tariffs
- Policy measures to enhance efficiency in operations
- Substantial tariff increases
- Requests to IFI's and the Ministry of Finance for increases in CAPEX funding

Relevance for Moldova

Key differences and similarities

- Moldova is not Albania:
 - Different economic and sector development levels
 - Stronger financial situation of the sector
 - Affordability a possible limit?
- But Moldova faces similar issues:
 - Large investments are needed to bring about universal, sustainable services (SDG6)
 - Government (and donors / IFIs) cannot fully cover those investments needs
 - A clear and realistic set of sector objectives, coupled with a credible financing strategy, is key to build consensus among stakeholders

What would a way forward entail?

- Collect financial, access and utility performance data at municipal or regional level;
- Develop a consolidated financial model at municipal or regional level;
- Establish a process to discuss various scenarios and targets and endorse a realistic strategy;
- Develop the policy measures necessary to implement the strategy;
- Build consensus among key stakeholders to support strategy implementation and its policy recommendation.