

Financing and funding sources in Drina Basin

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ECRAN Multi-beneficiary Workshop, Tirana, 20-22 June 2016

Financing Strategy

- Financing sources:
 - EU funds (Pre accession and then cohesion)
 - National and local budgets
 - Loans and PPP
 - Environmental Fund
 - Water operators
 - Consumers (tariffs and taxes)

Financing of the Programmes of measures

- Implementation of the POM considering the financing sources from:
 - European funds - Cohesion Funds for implementation of the requirements of Drinking Water Directive and Urban Waste Water Directive and for financing of the measures addressed to hydromorphology, priority substances and groundwater, EFARD, EFRD, LIFE, European Fisheries Fund, etc.
 - Governmental budget, Environmental Fund, local budget, ministerial environment budget for specific research activities;
 - Operators for water services and own sources of economic units for implementation of the technical measures;
 - River basin authorities – contributions from all water users;
 - Other sources (i.e. international loans)

Implementing financing strategy

- Ensure EU funds adsorption
- Linking the strategy to the budgetary decision making process
- Ensuring that tariff policies are sustainable from economic and social point of view
- Increase the collection rate for water bills
- Rehabilitate and rationalize infrastructure by adjusting its capacity to present and future
- Optimizing capital and operational expenditure

Cost recovery

- Resource and environmental costs recovery included
- Costs for water resource management including monitoring and assessment
- Costs for water and sanitation services operation and maintenance
- Revenues from tariffs grew by more than 10% (real terms) in EU member countries and about 5% in other countries for last 20 years

Address affordability

- Affordability of water is a potential issue for the majority of the countries population
- Upcoming investment efforts should be financed by the national budgets, EU funds and tariffs
- Explore the possibility for subsidy scheme for low-income users
- Focus on well-sized investments

Emission fees

- Means charging polluters a fee per unit of pollutants generated
- This is not a fine for emitting more than allowed
- The idea behind this instrument is that there is no correct amount of pollution but, all other things equal, less pollution is better
- The emission fee makes discharging pollution a little less attractive to the polluter
- No matter what amount of pollution is generated, the polluter must pay a fee to the regulatory body covering those emissions

User Fees

- Users of a system can be charged according to the load they place on the system
- A sewer use charge that is unrelated to the amount of waste generated (for instance, a fixed monthly charge) provides little incentive to reduce wastewater discharges to the system
- Relate the charges paid by users to the cost of providing services to those users in order to ensure a proper financing of the wastewater treatment
- This fee is based on metering. If metering wastewater generation is too costly, charges can be based on closely related variables, such as water use or size of facility.

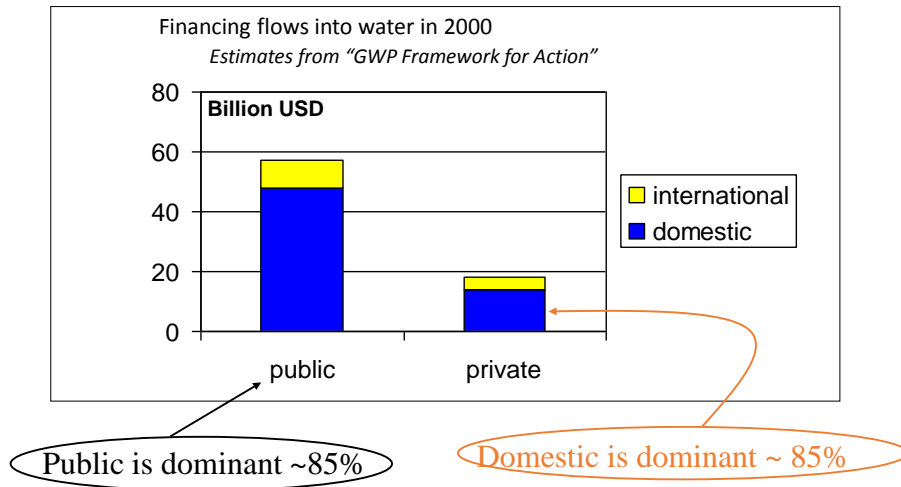
Subsidies

- Subsidize pollution reduction.
- Pay for every unit of emissions reduced below the baseline
- The problem with subsidies is that they require a source of funds, which may not be readily available.
- Removal of harmful subsidies is also a measure to influence the reduction of eutrophication
- A condition for granting subsidies for agricultural activities could be to meet the pollution standards related to eutrophication

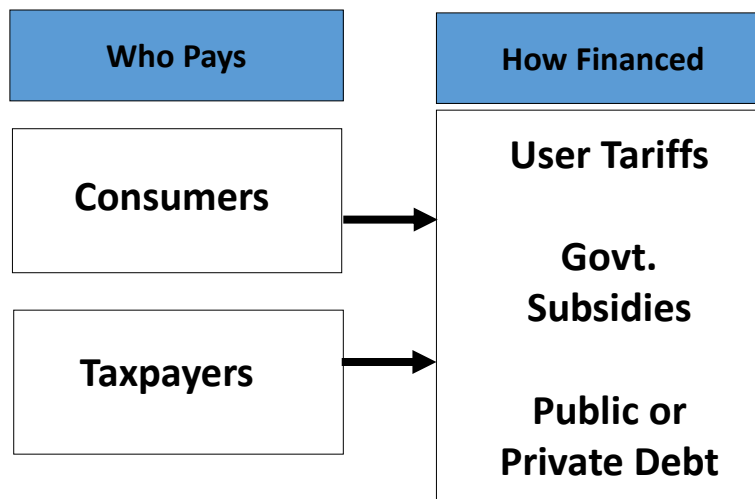
The WSS market poses special challenges

- Limited number of developers/operators
- Generally low margins
- Complexity and risks in the contractual and regulatory framework
- Sub-sovereign risk
- Limited pool of bankable projects (size, condition, readiness)

Domestic public finance remains the dominant source for water & sanitation



The financing paradox must be resolved



Redirect funds to the poor

- Stop subsidizing the rich, they can pay for themselves
- Target subsidies better (subsidize connections rather than consumption)
- Invest in differentiated service levels, giving consumers a choice
- Decentralize funds (not only responsibilities) to local governments

Improve Creditworthiness

- Agreed programme of tariff increases, taking into account social considerations
- Clear / predictable allocation from central/local tax revenues
- Improved operational management/collections
- Increase data availability to make informed decisions

Issue to be further explored

- Reassess the environmental cost in water price (including drinking water and waste water)
- Assess, establish and internalize the environmental costs for diffuse pollution and hydromorphological alteration
- Reassess the environmental cost of water for irrigation
- Promote a system of social protection in order to improve affordability
- Balance supply and demand
- Implement the bonuses as an incentive for reaching good water status

