



*NATIONAL POLICY DIALOGUE ON WATER POLICY IN
MOLDOVA*

**REVIEW OF DOMESTIC FINANCIAL
SUPPORT MECHANISMS IN THE WATER
AND SANITATION SECTOR IN MOLDOVA**

SUREN POGHOSYAN, ALPHAPLUS CONSULTING

CHISINAU, NOVEMBER 2014

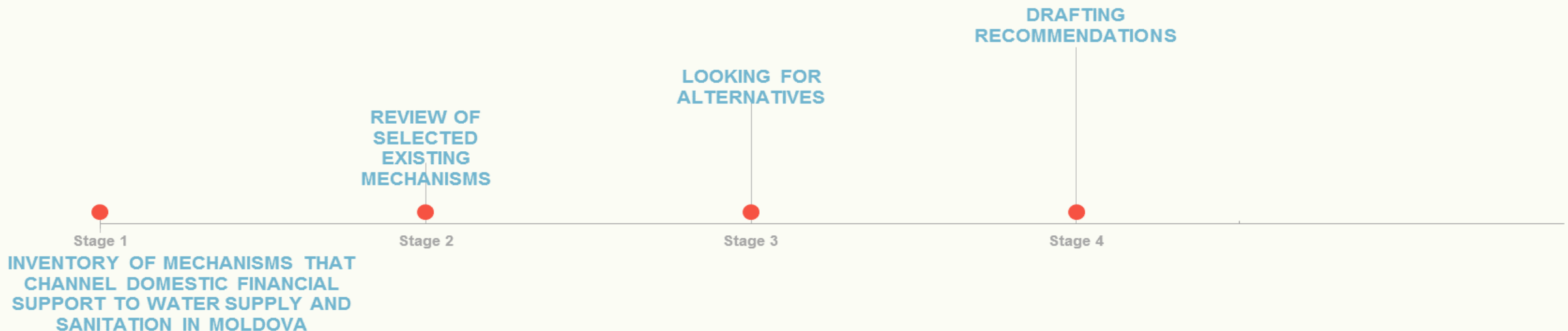


THE POLICY CONTEXT

- ASSOCIATION AGREEMENT – WATER FRAMEWORK DIRECTIVES (WFD) AND OTHER WATER RELATED DIRECTIVES
- NEW ENVIRONMENTAL STRATEGY AND NEW SECTOR STRATEGY FOR WSS
- WATER TO ALL – AS A POLICY OBJECTIVE MORE AMBITIOUS THAN WATER MDG
- EU WATER INITIATIVE – NATIONAL POLICY DIALOGUE

THE PROJECT

- THIS PROJECT AIMS AT **STREAMLINING AND STRENGTHENING THE MECHANISMS THAT CHANNEL DOMESTIC FINANCIAL SUPPORT TO WSS IN MOLDOVA.**
- THE PROJECT IS CO-SPONSORED BY THE **EC AND OECD** AND EXPECTED TO COMPLETE BY **JUNE 2015**
- EXPECTED RESULT: **MAPPING AND REVIEWING EXISTING MECHANISMS AND RECOMMENDING ADJUSTMENTS, BASED ON THOROUGH ANALYSIS AND GOOD**



METHODOLOGY OF THE REVIEW.

financial support mechanisms - framework

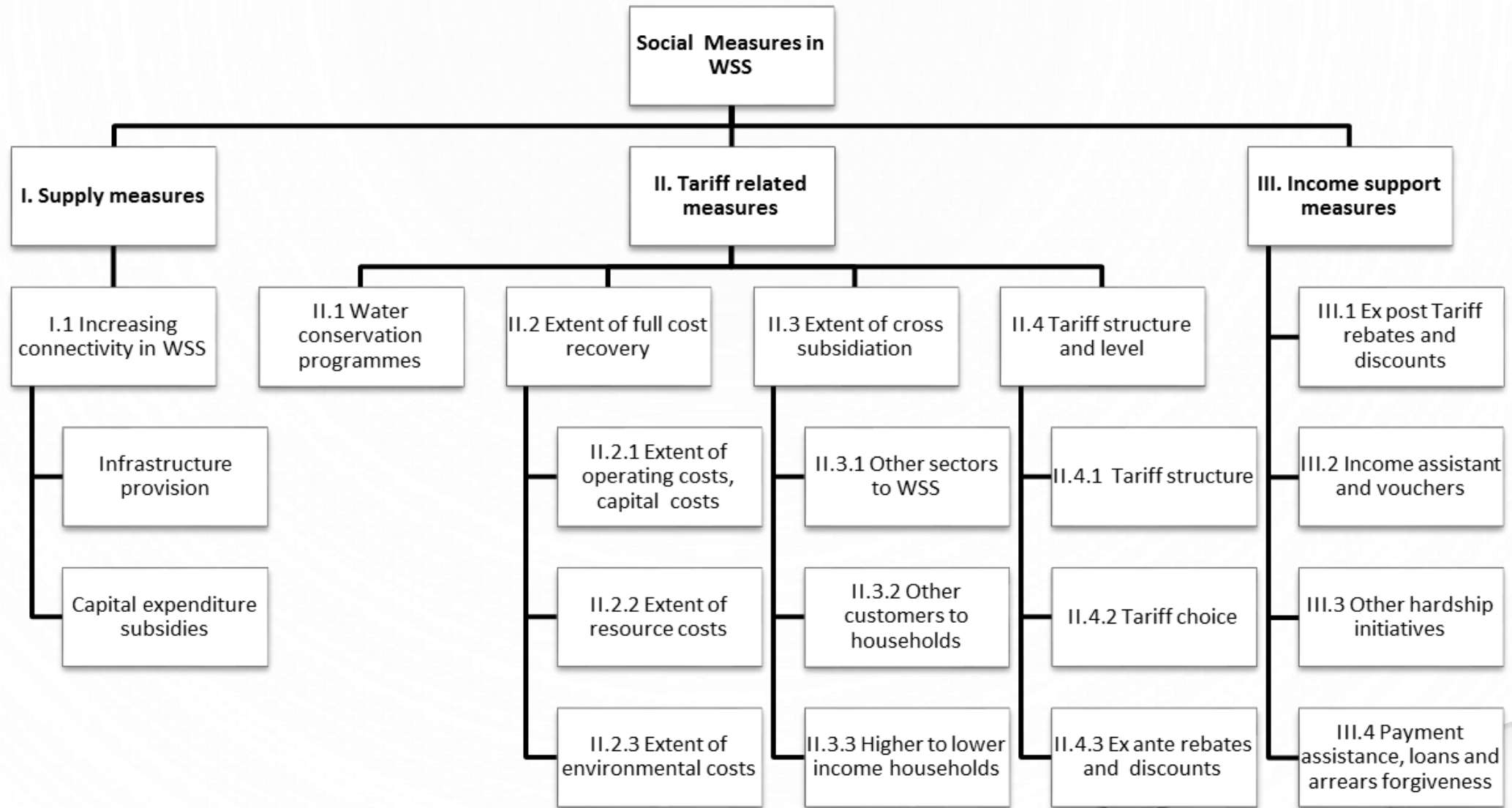
Domestic		External
General Government Sector	Other Public and Private Sectors	(in-budget)
State budget	Apa-canal	Donors
MOE	Consumers	Grants
Environmental Funds (projects)	Households	Loans
Apele Moldovei (projects)	Businesses	
MCRD (NFRG - projects)		
Other forms		
Local budgets		

SOURCES OF INFORMATION

- AVAILABLE OFFICIAL STATISTICS (BUDGETS), SURVEY, OTHER REPORTS
- CAVEATS: Preliminary findings (data from primarias have not yet arrived; functional classification issues (e.g. “Utilities” category may include expenditures on transport); most of data comes from BOOST database)

METHODOLOGY OF THE REVIEW.

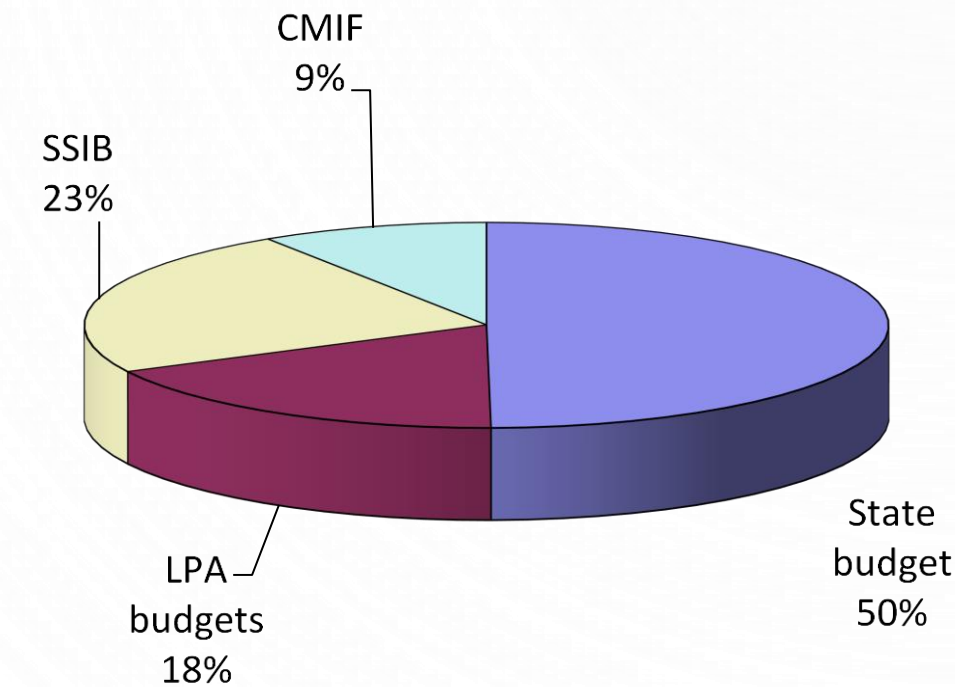
Social Support Mechanisms - Framework



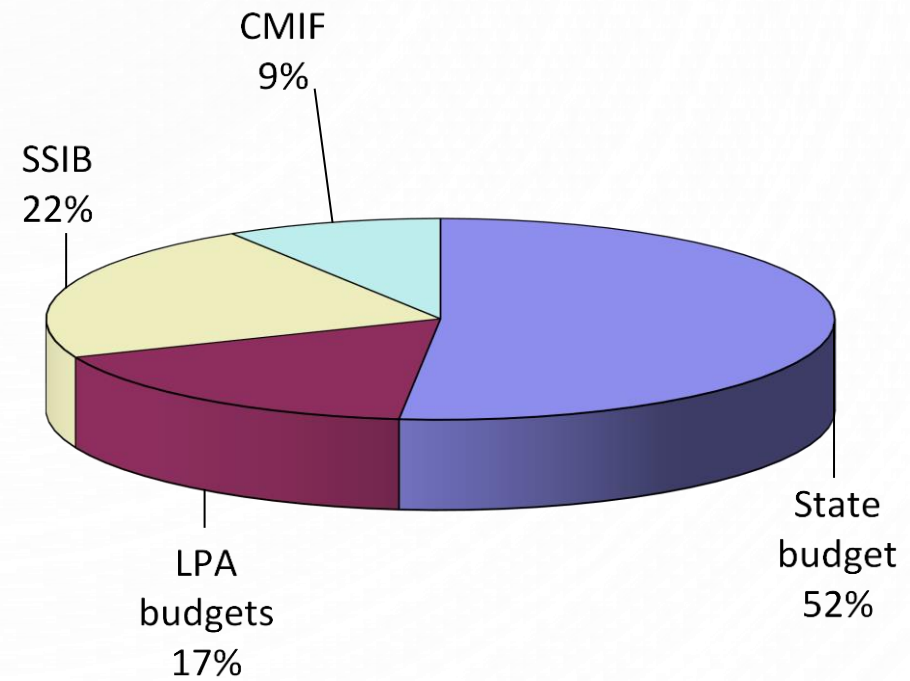
OVERVIEW OF NATIONAL PUBLIC BUDGETS

- STATE BUDGET IS AROUND HALF OF THE TOTAL NATIONAL PUBLIC BUDGET

(2014)



Revenues



Expenditures

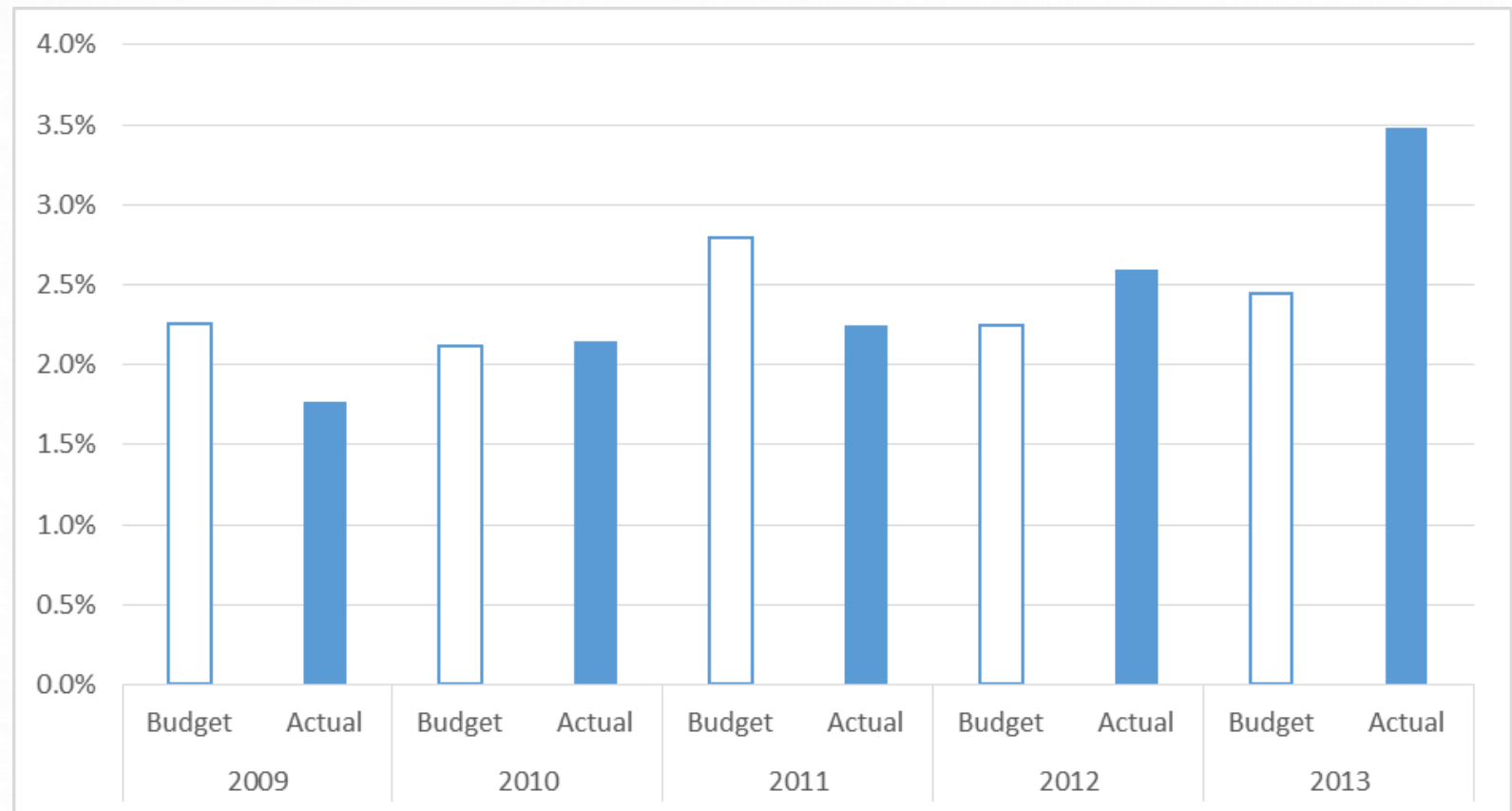
FISCAL DISCIPLINE – OVERALL PUBLIC BUDGETS

- FISCAL DISCIPLINE IS QUITE ROBUST – LESS THAN 1.5% VARIATION IN RECENT YEARS

	2011		2012		2013	
	Budget	Actual	Budget	Actual	Budget	Actual
<i>Central</i>	20,354,074	20,004,146	22,164,269	21,675,321	23,611,476	23,901,196
<i>Local</i>	7,842,099	8,187,210	8,855,301	8,965,603	9,045,986	9,608,471
<i>Other</i>	12,977,500	12,849,200	13,865,815	13,703,783	15,085,100	14,961,400
Total	41,173,673	41,040,555	44,885,384	44,344,708	47,742,562	48,471,067

FISCAL DISCIPLINE – WATER SECTOR

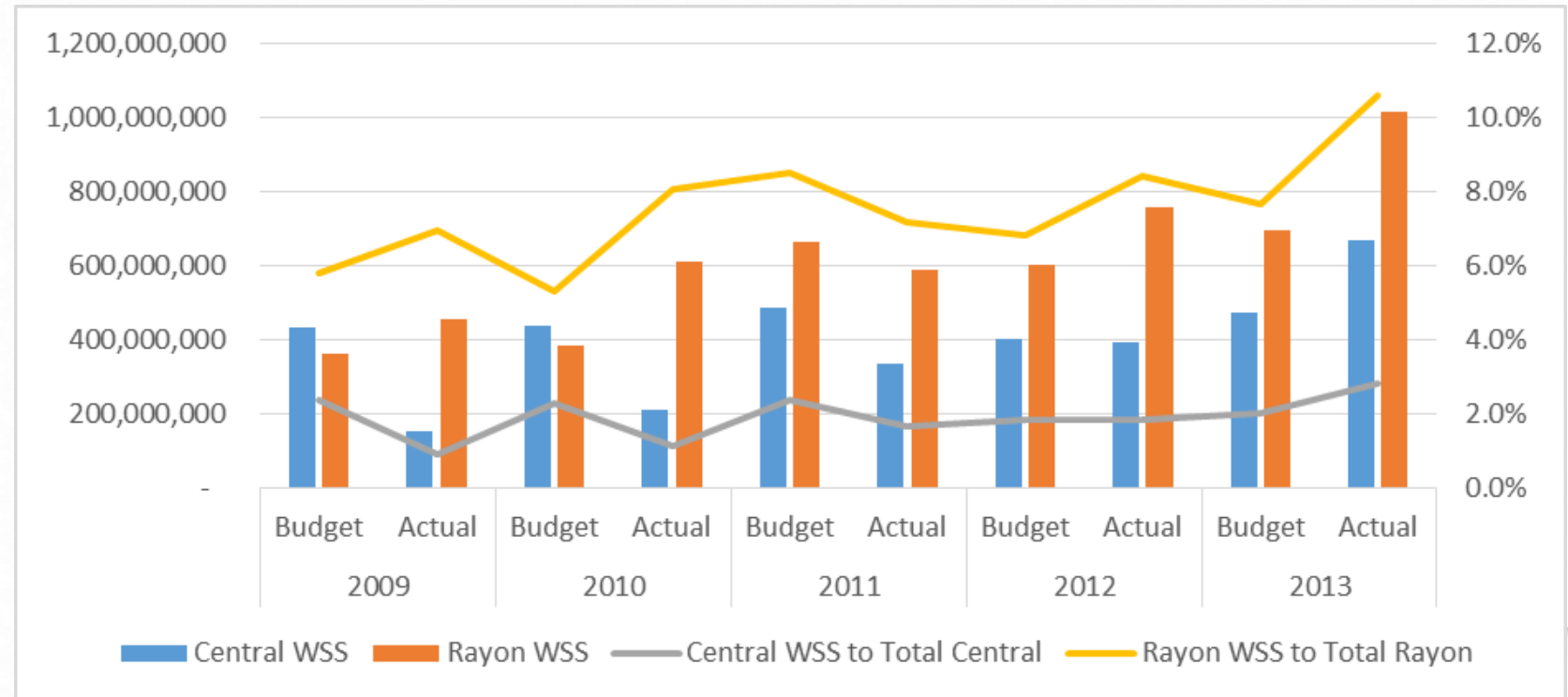
- FISCAL DISCIPLINE IN THE WATER/UTILITIES SECTOR IS SIGNIFICANTLY WORSE – WE OBSERVE SIGNIFICANT VARIATIONS BOTH WAYS THROUGHOUT THE WHOLE REVIEWED PERIOD (2009-2013)



- POINT FOR DISCUSSION: IS IT DUE TO POOR (NOT COORDINATED)**

STATE AND LOCAL BUDGETS – MOVING TRENDS

- LOCAL PUBLIC ADMINISTRATION IS NOTICEABLY INCREASING ITS ROLE IN WSS BOTH IN ABSOLUTE AND IN RELATIVE TERMS
- POINT FOR DISCUSSION: IS THIS IN LINE WITH GENERAL STRATEGY FOR THE SECTOR?

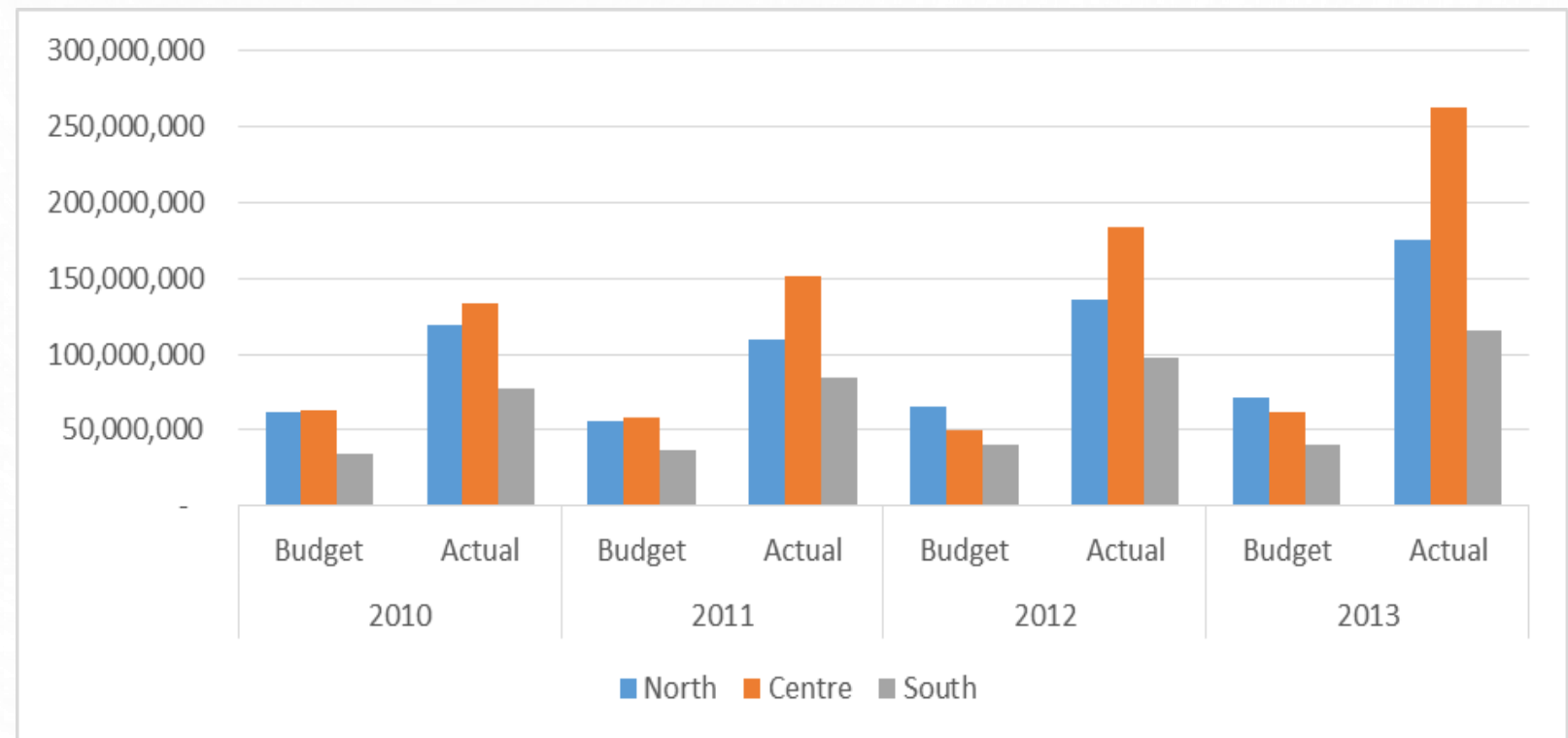


WSS ALLOCATIONS BY REGIONS, W/O CHISINAU

- THE CENTRAL REGION SPENDS MORE ON WSS/UTILITIES WHILE CURRENT LEVEL OF WSS SERVICE COVERAGE IS:

- NORTH – 30.5%
- CENTRE – 27.4%
- SOUTH – 48.8%

- POINT FOR DISCUSSION: IS THIS IN LINE WITH GENERAL STRATEGY FOR THE SECTOR?

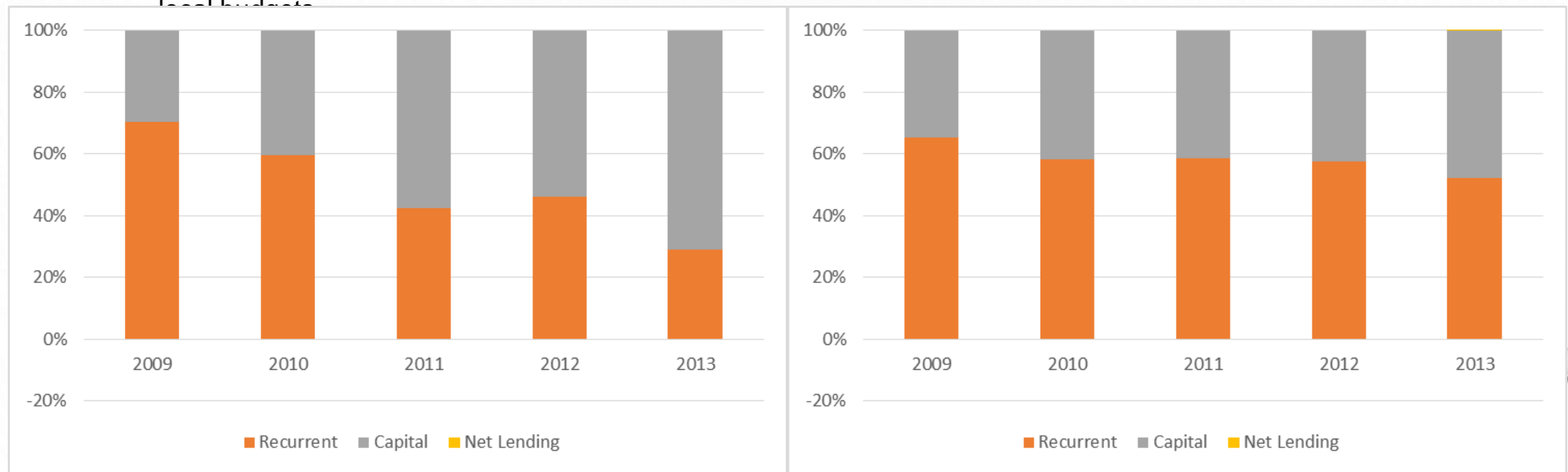


BREAKDOWN BY ECONOMIC TYPE

- STATE FUNDS HAVE RECENTLY INCREASED THE SHARE OF CAPITAL EXPENDITURES WHILE LOCAL BUDGETS' REMAINS NEAR 50%

state budget

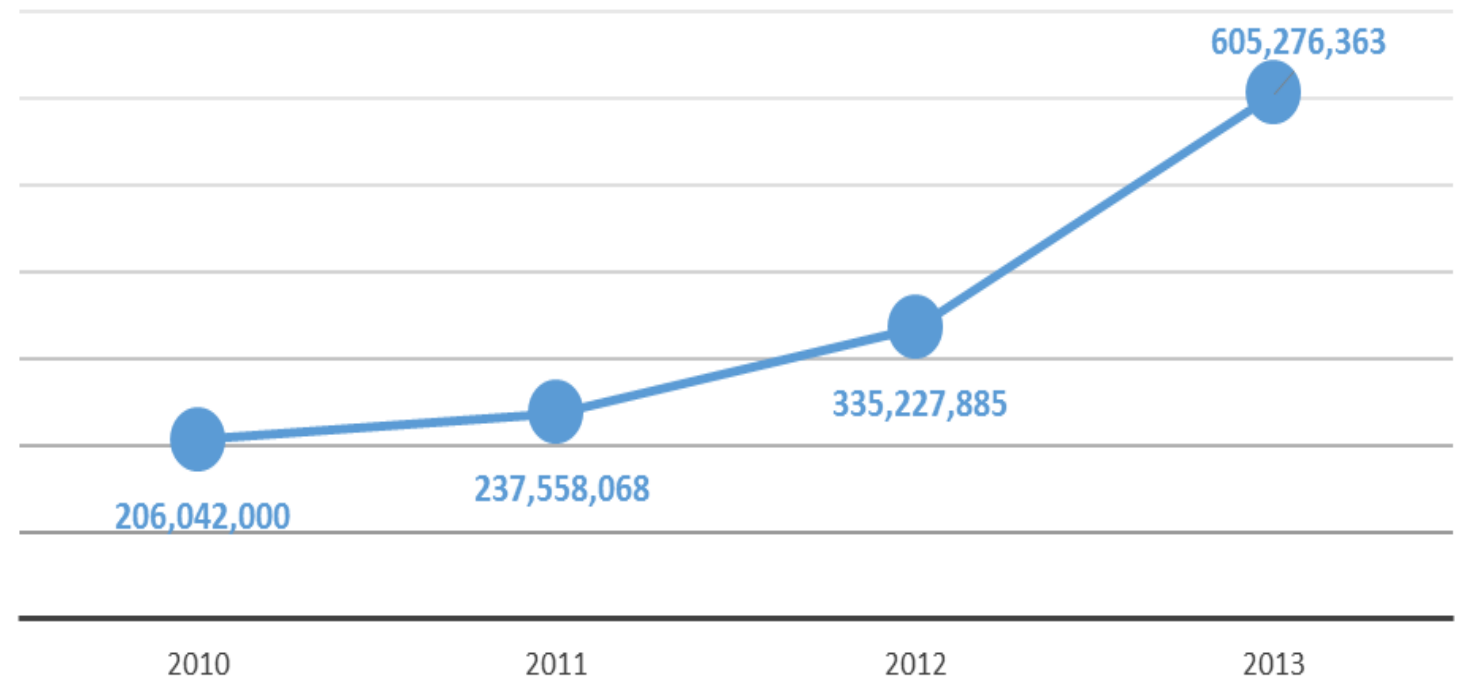
local budgets



- POINT FOR DISCUSSION: IS THERE A ROOM FOR FACILITATING MORE CAPITAL EXPENDITURES IN THE SECTOR?

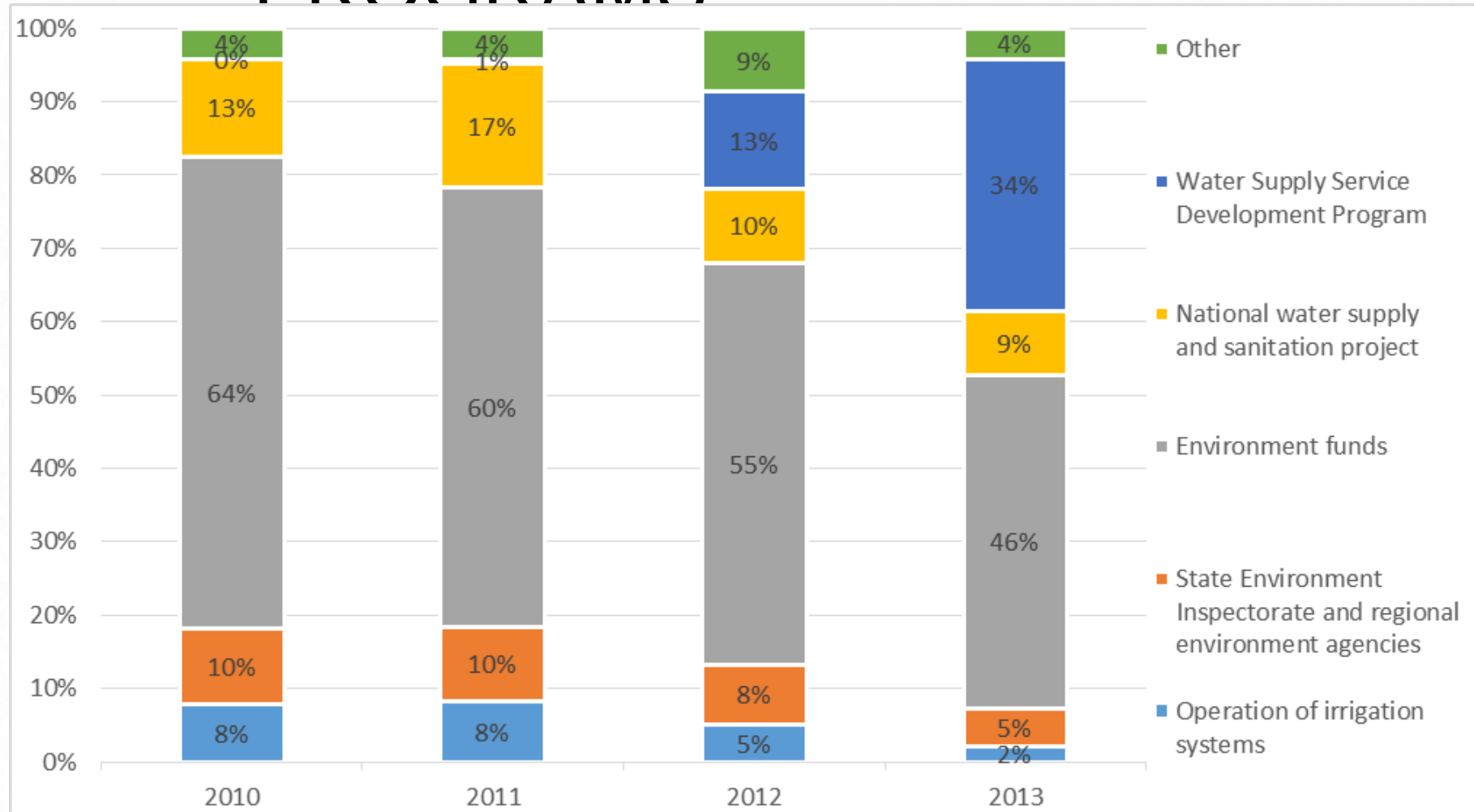
EXPENDITURES BY INSTITUTION - MOE

- MINISTRY OF ENVIRONMENT HAS SUBSTANTIALLY INCREASED ITS ALLOCATIONS IN RECENT YEARS
- CAPITAL EXPENDITURES VARY FROM 40% IN 2010 TO 89% IN 2013 (MOSTLY DUE TO CAPEX IN EXTERNALLY FINANCED PROJECTS)
- 20-30% IS CURRENT



MINISTRY OF ENVIRONMENT – BY PROGRAMS

- “ENVIRONMENTAL FUNDS” IS TRADITIONALLY THE BIGGEST BUDGET PROGRAM
- WATER SUPPLY SERVICE DEVELOPMENT PROGRAM COMES NEXT



MINISTRY OF CONSTRUCTION AND REGIONAL DEVELOPMENT – BY PROGRAMS

	2010	2011	2012	2013	
<ul style="list-style-type: none"> OVER 90% OF EXPENDITURES OF MCRD IN WATER SECTOR IS MADE THROUGH THE NFRD 	Ministry of Constructions and Regional Development	1,777,363	96,167,448	59,387,717	63,918,252
	Urban planning/development in municipalities	-	-	993,480	-
	Spending earmarked for emergency situations and coping with consequences of natural disasters	-	6,807,596	765,744	3,923,580
	National Fund for Regional Development	1,777,363	89,359,853	57,628,493	59,265,308
	Local public services modernization project	-	-	-	729,364

- ALL IS CAPITAL EXPENDITURES

FINANCIAL FLOWS OF APACANALS

- AS WE OBSERVE, APACANALS GENERATE THE VAST MAJORITY OF CASH IN THE SECTOR, I.E. CUSTOMERS ARE THE BIGGEST SOURCE OF CASH IN THE WSS SECTOR
- WHILE DIRECT SOCIAL MEASURES BY APACANALS ARE NEGLIGIBLE
- POINT FOR DISCUSSION: THE STATE ALSO DOES NOT HAVE DIRECT WSS SOCIAL SUPPORT MEASURES ON THE DEMAND SIDE (WHILE THERE IS A SUPPORT ON INCOMES). IS THIS A MODEL TO KEEP RUNNING?

In thousands lei	2013
Total Sales	748,373
Total sales (households)	403,541
Total sales (businesses)	344,832
Collection rate	93%
Collection rate (households)	88%
Collection rate (businesses)	99%
Sales by subsector	748,373
Sales (water supply)	542,314
Sales (water sanitation)	206,060
Grants and subsidies	126,819
Total grants and subsidies (water supply)	64,685
Total grants and subsidies (water sanitation)	62,134
Subsidies from apacanals to customers	1,440

FINANCIAL POSITION – SUSTAINABILITY ISSUES

- APACANALS GENERATE A LOT OF FINANCIAL FLOWS BUT...
- MAKE HUGE LOSSES!
- VARIOUS OVERHEADS ARE AROUND 40% OF THE SIZE OF TOTAL SALES
- POINTS FOR DISCUSSION:
 - IS THERE A ROOM FOR OPTIMIZING COSTS OR THERE IS A NEED FOR TARIFF INCREASE?
 - IS IT BECAUSE THE INFRASTRUCTURE IS OVERSIZED?
 - HOW MUCH WILL COLLECTION RATE IMPROVEMENT HELP?

<i>In thousands lei</i>	2013
Gross profit	199,783
Other income, Distribution costs, Administrative expenses, Finance costs and costs of other economic activities, other expenses	-290,380
Profit before tax	-90,597
Income tax expense	6,052
PROFIT FOR THE YEAR	-96,649

SOCIAL SUPPORT MECHANISMS. INTERNATIONAL PRACTICES

Social support system

	Moldov a	Armeni a	Franc e	Romani a	Ukrain e
I. Supply measures					
I.1 Increasing connection rates (coverage) for WSS (through capital expenditure subsidy)	++	++	++	+++	+++
II. Tariff related measures					
II.1 Conservation programs for poor (including leakage reduction) (such as in USA, Australia)	n/a	n/a	+	n/a	n/a
II.2 Reduced extent of full cost recovery (i.e. including environmental and resource costs)					
II.2.1 Reduced recovery of operating costs (including depreciation) and costs of capital	+++	+++		++	+++
II.2.2 Reduced consideration of resource costs	+++	+++	+	+++	+++
II.2.3 Reduced consideration of environmental costs	+++	+++	+	+++	+++
II.3 Extent of cross subsidisation					
II.3.1 From other sectors to WSS	n/a	-	-	-	-
II.3.2 From business and institutions to households	+++	+++	-	+++	+++
II.3.3 From higher income households to lower income households	n/a	-	++	-	+
II.4 Tariff structure or level					
II.4.1 Tariff structure	-	-	-	-	-
II.4.2 Tariff choice	-	-	-	-	-
II.4.3 Exemptions, ex ante rebates and discounts	n/a	-	-	n/a	+++
III. Income support measures					

PRELIMINARY FINDINGS AND POINTS FOR DISCUSSION

1. FUNDS VS. DEDICATED EXPENDITURES PROGRAMS – CHOOSING OPTIMAL MODEL FOR MOLDOVA
 - PROS AND CONS FOR FUNDS AND SUCCESS FACTORS (PROGRAMME BUDGETING?).
2. IMPROVING THE PLANNING MECHANISMS
 - LACK OF SPECIFIC STRATEGIES TO RUN ALL STAKEHOLDERS' DECISION MAKING
 - LACK OF COORDINATION AMONGST THE MAIN SOURCES OF FINANCIAL SUPPORT – CAN MTBF SYSTEM BE HELPFUL HERE?
3. NEED TO IMPROVE DIRECT SOCIAL SUPPORT MECHANISMS ON THE DEMAND SIDE
 - PROS AND CONS OF SUBSIDIZATION OF SUPPLY VS. DEMAND

NEXT STEPS OF THE PROJECT

- DRAFT INCEPTION REPORT BY THE **END OF NOVEMBER** (+1 WEEK FOR RUSSIAN VERSION)
- FEEDBACK FROM COUNTERPARTS RECEIVED - **25TH OF DECEMBER**
- FINAL INCEPTION REPORT – **MID JANUARY 2015**
- INCEPTION REPORT WILL BE THEN ENHANCED WITH SCENARIOS AND RECOMMENDATIONS AND FINAL REPORT IS EXPECTED BY **MAY 2015**

THANK YOU!

CONTACT INFORMATION:

PROJECT TEAM LEADER: SUREN POGHOSYAN
SPOGHOSYAN@HOTMAIL.COM

E-MAIL:

OECD: ALEXANDRE MARTUSEVICH **E-MAIL:**

ALEXANDRE.MARTOUSSEVITCH@OECD.ORG
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