



# NPD on Water Policy in Moldova 21<sup>st</sup> SC Meeting

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## NEW METHODOLOGY FOR SETTING WSS TARIFFS IN MOLDOVA: SOME COMMENTS

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# Improving tariff policy in WSS in Moldova

- **Tariff reform is equally important for:**
  - ensuring Accessibility and Affordability of WSS
  - meeting cost recovery targets; financial sustainability of operators
- **Impact of International obligations on Tariff policy:**
  - Human right to WSS (UN GAR); equitable access to WSS
  - WFD (full cost recovery)
- **Increasing role of domestic financial support mechanisms in meeting policy objectives and WSS Strategy targets**
- **Positive sides of the new Methodology approved by ANRE:**
  - contribute to financial sustainability of operators (apacanals)
  - jointly with metering, a key Instrument for managing demand for water resources and WSS systems capacity



## Some drawbacks of the new Methodology

- It does not offer any direct incentives for optimising WSS systems (additional measures are required – e.g. revision of respective design and contraction standards and norms – SNiPs etc .)
- Formula for calculating drinking water supply tariff (article 17):

$$\mathbf{TSAPn = (VSAPn) / (VAPn)}$$

provides an incentive for operators to manipulate (superficially diminish) the estimated volume of water sold - **VAPn** willing both to be conservative (per head water consumption in Moldova drops indeed), and/or extract a rent in case a higher tariff is established.

The document is not clear about how to proceed if the actual volume of water sold highly deviates from the estimated value (**VAPn**)? Whether and how respective operators would pay back the rent appropriated due to an intentional manipulation with the estimated **VAPn** driven by the desire to benefit from a higher tariff?



# Some drawbacks of the new Methodology

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- The Methodology (art. 4) rightly assumes the necessity to reimburse the funds invested in the modernisation and development of WSS systems. However, it is unclear about several things:
- - how exactly related costs are reflected on the accounting books of respective operators, including costs of servicing (interest, loan insurance) and paying back credits and loans;
- - in tariff setting process, how are the following loans attracted by operator accounted for :
  - (a) loans for capital investment, и
  - (б) loans to replenish working capital?
- - what are the rules for adjusting book values of loans attracted by operators in hard currency (say, in Euros or USD); are they qualified as intangible or financial assets?



## Some drawbacks of the new Methodology - 3

- If the latter holds, the Methodology allows for using Producer Price Index (**PPI**) for adjusting book values of respective assets; however, devaluation of national currency may well be over and above the PPI (e.g. Q1 2015).  
How to deal with this real risk?
- The Methodology (art. 61) suggests that the amortization fund is used for the repaying credits and loans attracted by the operator. But it is unclear how to proceed if amortization provisions are well below the amount of credits and loans to be repaid? - how would the operator resolve the issue?
- Finally, what will (should) happen if in a settlement the new WSS tariff set in line with the Methodology would force a substantial share of population to pay for WSS more than 5-7% of their disposable income?
- Ability-to-pay assessment and estimations of demand for additional subsidies to vulnerable households are not envisaged in the Methodology



# The Regulator and Regulatory System

- **Economic (tariff) Regulator is a key - but not the only - element of a sound Regulatory System**
- **The Regulator** should not perform the function of social support system. However, **a social tension and problems may emerge if NOBODY performs the function**
- **The role of Demand-side and Supply-side support mechanisms and instruments, incl.:**
  - state support to WSS (incl. (co-)financing of capex);
  - cross-subsidisation;
  - targeted social support to vulnerable households (general income support, or support related to paying for WSS services)



# Towards establishing a sound System of Economic Regulation

- **Key actors:**

- economic (tariff) regulator (ANRE)
- MoENV and Apele Moldovei
- Ministries of Finance, and of Regional Development and Construction
- Ministry of Social Affairs and its territorial bodies
- Local Public Administrations and association(s) thereof
- Basin councils (incl. social society and expert community organisations)
- operators (apacanals) and association thereof

- **Procedures**

- **Ability-to-Pay assessment** (for households and the public budget) incl. demand for state support – it should be part of the tariff setting procedure as it provides main Actors of the Regulatory System with key data for decision-making
- **An iterative (not straightforward) process:** incl. eventual revisions of investment programme, associated with non-affordable tariffs or public expenditures.



## *Main recommendation*

**Main recommendation:** after setting good rules and procedures for the Regulator (NARE), make next steps towards establishing a sound Regulatory System, including economic regulation

*Thank you for your attention!*

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