Content

• The work on economic instruments for water resources management (WRM) and water-related subsidies in Kyrgyzstan and Russia
• Methodology for assessing selected subsidies
• Key findings and recommendations
• Towards implementing the recommendations for selected subsidies and supporting measures
National Policy Dialogue on water in Kyrgyzstan

- Launched in 2008
- Financial support from the European Commission, Germany, Denmark, Finland, Norway and Switzerland
- Subsidies in the water sector is a highly sensitive political issue in KR
- Key objectives
  - improve the use of economic instruments for WRM
  - reform, or phase-out, water-harmful subsidies
- Two-stage project
  - analysis of economic instruments for water resources management
  - assessment of subsidies
A selection of water-harmful subsidies

- 12 subsidies identified – 6 targeted for reform
- Selection criteria: significance; data availability; variety

<table>
<thead>
<tr>
<th>Transfer mechanism</th>
<th>Potentially water-harmful subsidies evaluated</th>
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<tr>
<td>Direct transfers of funds</td>
<td>• Capital investment subsidies for WSS service providers;</td>
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<tr>
<td>Tax revenue foregone</td>
<td>• <em>(none was evaluated due to data and resource constraints)</em></td>
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<tr>
<td>User charge revenue foregone</td>
<td>• Deficient irrigation user charges (insufficient for service provision);</td>
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<td></td>
<td>• Free access to surface-water (consumptive or non-consumptive use - including hydroelectric generation);</td>
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<td>Transfer of risk to government</td>
<td>• Government guarantee for repayment of international loans provided for capital investment in WSS projects</td>
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<td>Induced transfers</td>
<td>• Cross-subsidies for WSS services (industrial vs. household tariffs)</td>
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<td>Economic advantage due to unequal</td>
<td>• Different regulation/charging for industry discharging pollutants to sewer systems or directly to water bodies</td>
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<td>regulation/policy</td>
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Criteria to assess subsidies

• Evaluation criteria
  – Economic and financial
  – Social
  – Environmental

• Not every subsidy is water-harmful
Key findings and recommendations - 1

• **Deficient irrigation user charges**
  – significant financial burden (90% of O&M costs in irrigation are subsidies)
  – politically very difficult to increase rates
  – Recommendation: to change tariff structure and improve collection efficiency

• **Free access to surface water**
  – Recommendation: to introduce the charge, starting from big mining and processing industries and hydro-power stations

• **Government contributions to WSS capital investment**
  – direct transfer of funds and transfer of risk to government (not necessarily water-harmful)
  – Recommendation: better targeting government contributions; improving tariff policy and promoting private sector participation in WSS, where appropriate
• **Cross-subsidies in WSS**
  - Not water-harmful
  - Recommendation: reduce cross-subsidies; strengthen targeted support to the poor; introduce two-part charging system

• **Different regulation/charging for industrial wastewater discharges into public sewer and the environment**
  - affects competitiveness
  - Recommendation: charge industrial users based on pollution load
Towards implementation

• A two-part tariff (for WSS and irrigation)
• A surface-water use charge
• A charge on industrial wastewater based on polluting load
• Two key supporting measures
  – Strengthening target support for poor households
  – Improvement of consumption monitoring in WSS and irrigation
• Developing an Action plan on implementing priority recommendations
The use of economic instruments for WRM in Russia

• Economic instruments are poorly linked with the challenges and targets of the state Water Strategy
• Incentives are weak, revenues generated by tax instruments are marginal
• Water bodies use fee rates do not reflect water scarcity in respective basins
• Main issues related to subsidies:
  - Farmers do not pay for water abstraction
  - Pollution charge rates are very low
  - Two parallel regimes exists providing opportunities for minimising payments for water
  - Some water users legally do not have licences or water bodies use contracts
  - WSS tariff outpaced inflated by the factor of 3; accumulated depreciation of fixed assets has grown, however
• Most subsidies in the water sector are counter-productive
Recommendations and the way forward

- Ensure that all water users have either a permit or contract and pay for the water they use
- Revise rates of all fiscal instruments for WRM & differentiate them by key factors
- Revise regulation on depreciation allowance rates
- Explore efficient ways to channel government support to the sector
- Introduce new economic instruments for WRM:
  - Excise tax on pesticides and synthetic detergents
  - Ear-making revenues from water-related instruments, as well as some proportion of the land and forestry taxes
  - Encourage voluntary insurance against the risk of floods
  - In Lake Baikal basin: replacement of some administrative bans by more flexible instruments
- The recommendations will be fine-tuned and further elaborated in the framework of a follow up project in Lake Baikal basin (in Buryatia)