



Opportunities to reform economic instruments for water resources management in Armenia

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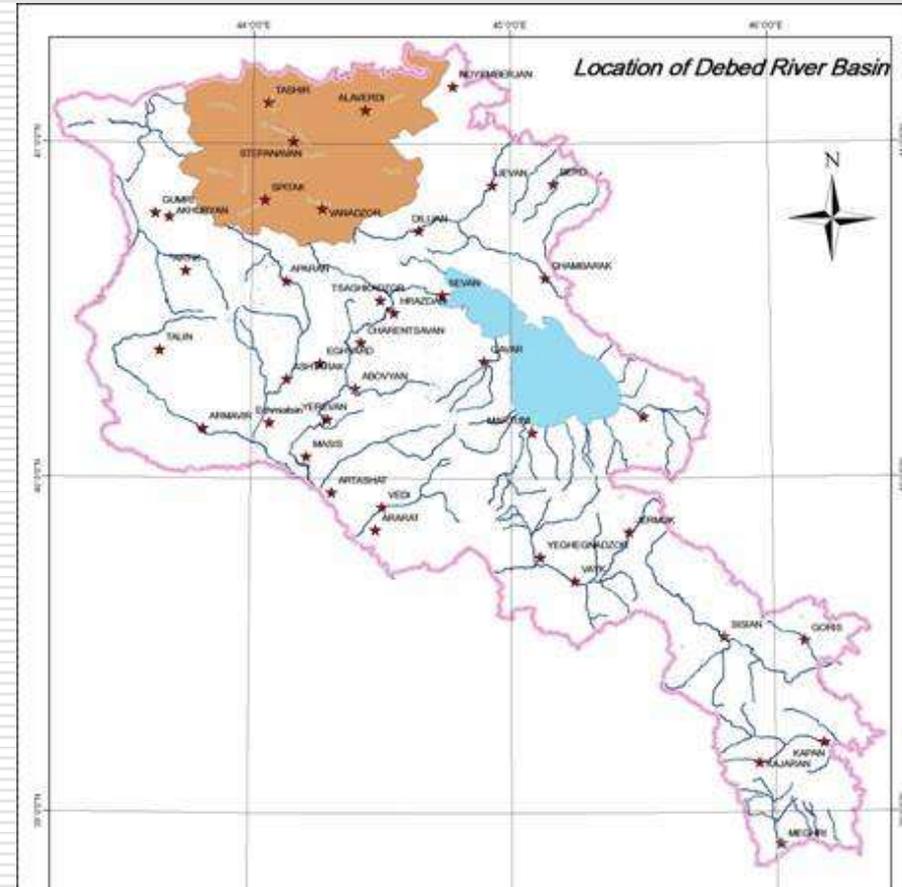


Identified problems

- ❑ Limited available financial resources for water sector,
 - ❑ Only partial application of economics instruments,
 - ❑ Revenues collected from water tariffs do not cover financial costs of water services and only part of the O&M costs are covered (***in 2011 all revenues collected in water sector from all existing instruments in Armenia covered only 17.1% of total water management and water service costs***),
 - ❑ Very low water abstraction fee does not provide any incentive for more efficient water use,
 - ❑ Overall, economics receives “limited attention” water management, including in draft river basin management plans developed for different pilot river basins of Armenia
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OECD “Debed pilot project”

- Are existing economic instruments coherent with the “polluter pays principle” or “user pays principle”?
- Do the revenues collected from these instruments cover costs?
- Do existing economic instruments provide an incentive for more efficient use of water resources?
- How affordable are the existing instruments for various water uses?
- What are the new potential economic instruments that can be applied?



Recommendations to improve the situation

- ❑ Adaption of the existing instruments and application of new economic instruments,
 - ❑ There is a wide diversity of innovative economic instruments that can be proposed in Armenia,
 - ❑ EU WFD gives clear directions on how to apply economics (cost-recovery, incentive pricing, cost-effectiveness analysis, cost benefit analysis),
 - ❑ These instruments can help: (a) diversifying “financial resource base”, and (b) mobilizing different sections of society around water management,
 - ❑ ***A key component of “acceptability” and “effectiveness” is the “earmarking” of financial resources, ensuring financial revenues are re-allocated to “water improvement” projects and initiatives***
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Next steps

- **A.** Explore selected set of the new economic instruments at national level,
 - Assess the political acceptance of new instruments to build stronger political support,
 - Conduct robust ex-ante assessment (assessment of social, economic and environmental impacts of the economic instruments) of the new economic instruments

 - **B.** Moving to the **strategic level**: developing a sound “financing” strategy (including new instruments) for achieving the “vision” of the water sector
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