

Albania



Public Expenditure and Institutional Review

Restructuring Public Expenditure to Sustain Growth

Sector related presentations-**Water**

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March 15, 2007



Main messages

1. Despite improvements, water sector access and service quality are poor and below required standards
2. Large inefficiencies and low cost recovery are creating an increasing fiscal burden,
3. The current subsidy scheme rewards inefficiencies and does not create incentives to improve performance
4. Substantial savings (about 0.8% of GDP) are possible through tariff reforms, reduction of inefficiencies and improvement in central government subsidy allocations



Topics/Outline

1. Sector spending and financing
2. Sector outcomes
3. Explaining poor outcomes
4. Facing the challenge

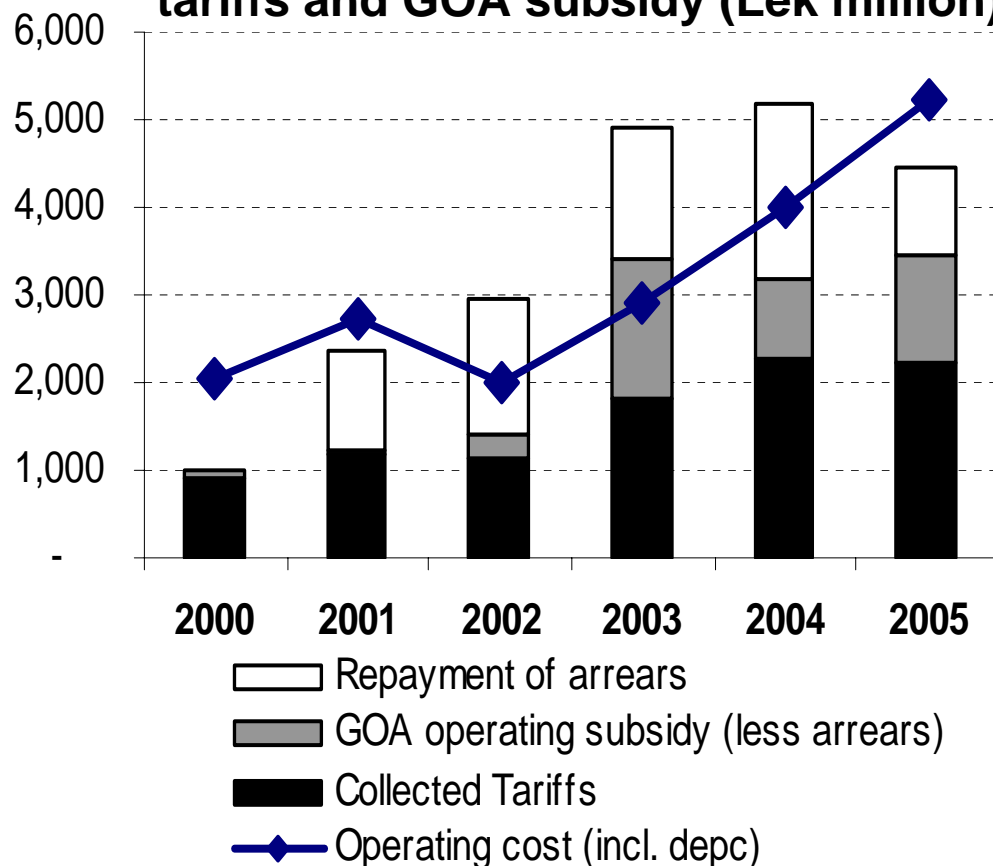


1- Water sector spending and financing

Increasing spending in the sector reflect rising dependency on budgetary transfers

- Government spending has increase five fold since 2000
- Ratio of operating outlays to capital spending rising to unusually high levels
- The sector dependency on central government transfer has increased over time

Financing operating costs through tariffs and GOA subsidy (Lek million)

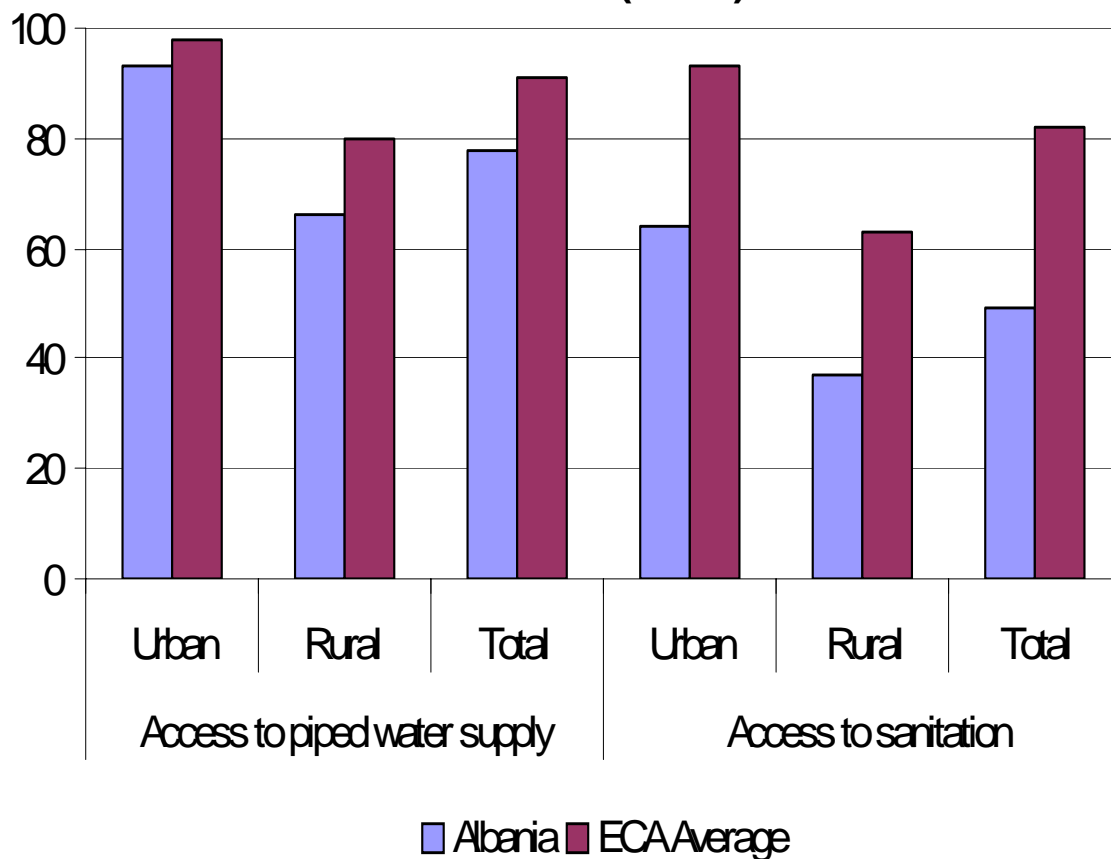




2- Water sector outcomes: **Access and service quality remain low**

- Despite improvements, access to adequate water supply remains low
- The situation is worse in terms of sanitation
- Low service quality: 13 hrs on average/day compared to 19 hrs in Europe and Central Asia (ECA);
- Poor water quality compliance

Access to Water and Sanitation – Albania and ECA (2004)



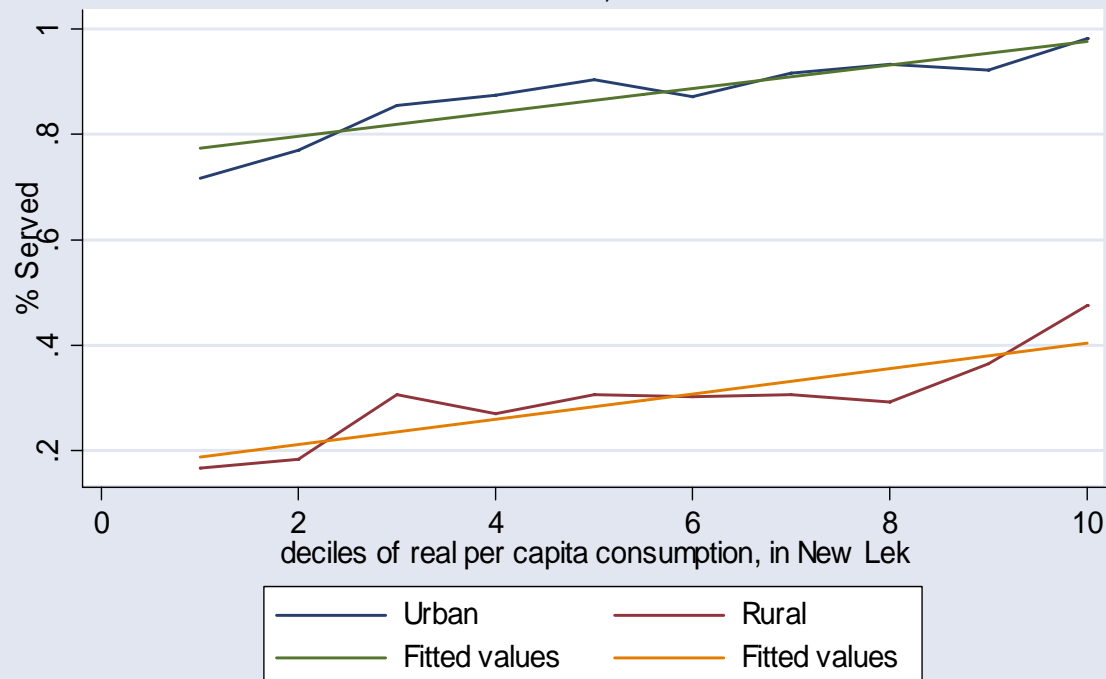


2- Water sector outcomes: **Inequities in access persist**

- In both urban and rural areas, the poorest are less likely to have access to services.
- Differences are larger in urban than in rural areas.
- The Northern Region has the lowest access to water and sanitation.

Percent of Population Served with Running Water Inside Dwelling

Percent of population served with running water inside dwelling
Albania, 2005



Source: LSMS 2005



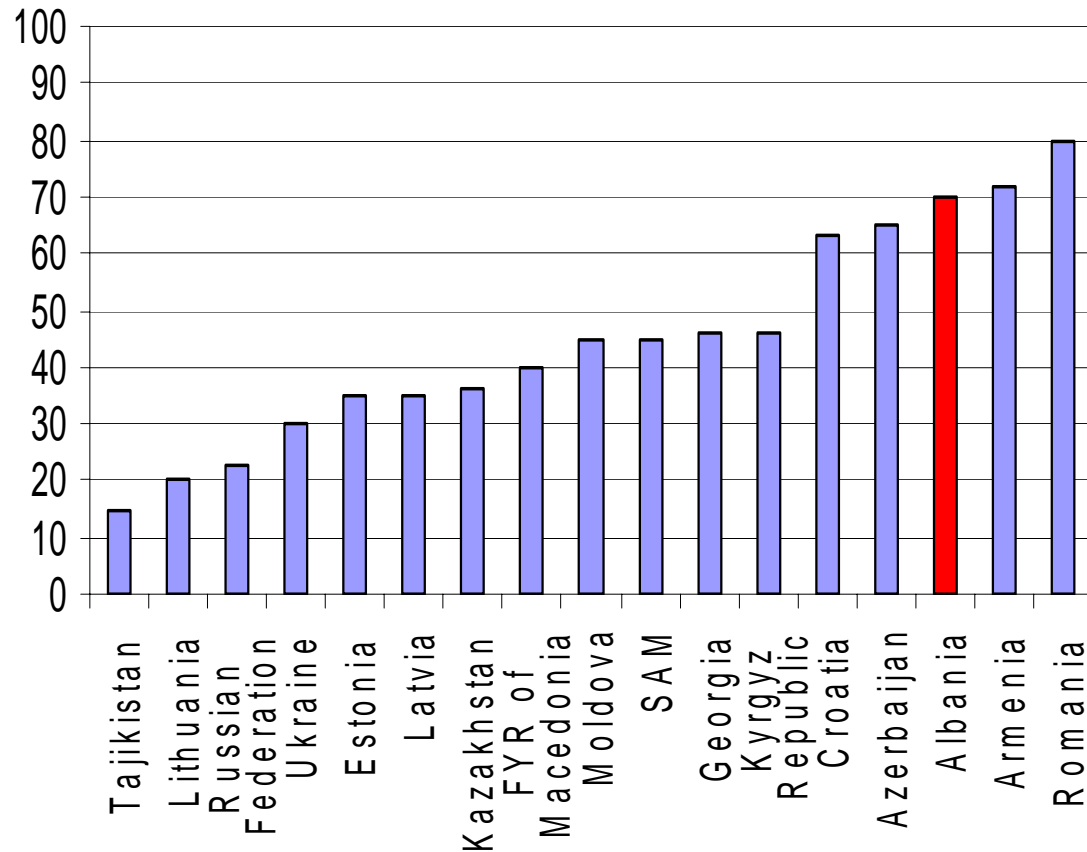
3- Explaining poor outcomes: **Inefficiencies**

Non-Revenue Water (NRW) at 69 percent on average is very high compared to 38 % in ECA

But variations across utilities:

- 15 utilities: NRW > 70%,
- 8 utilities: NRW < 30%
- the rest: NRW between 30 and 70 %

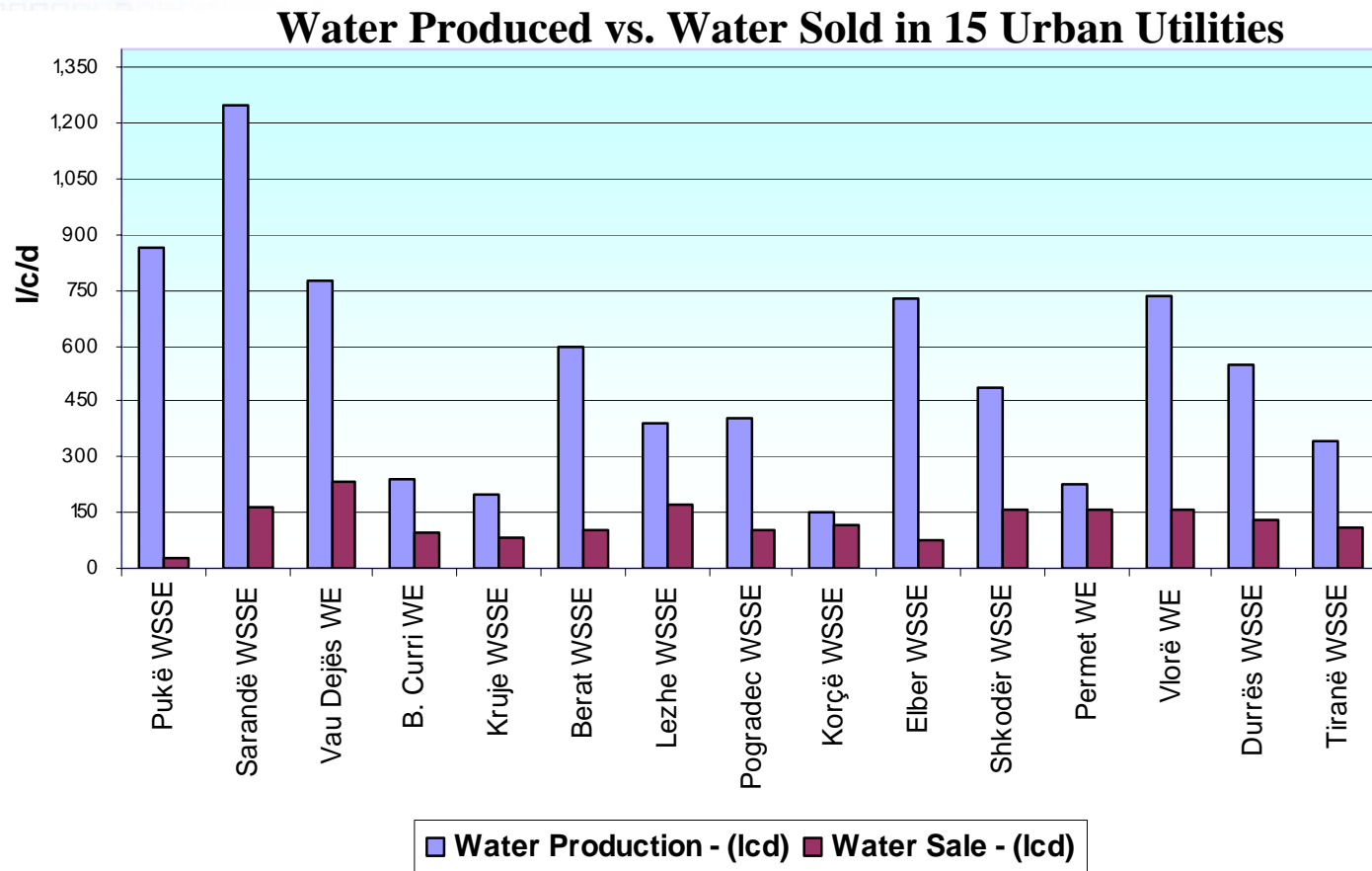
NRW: Albania and ECA Countries, %





3- Explaining poor outcomes: **Inefficiencies**

- Technical losses (leaks) account for over 50 percent of NRW with the remainder being commercial losses

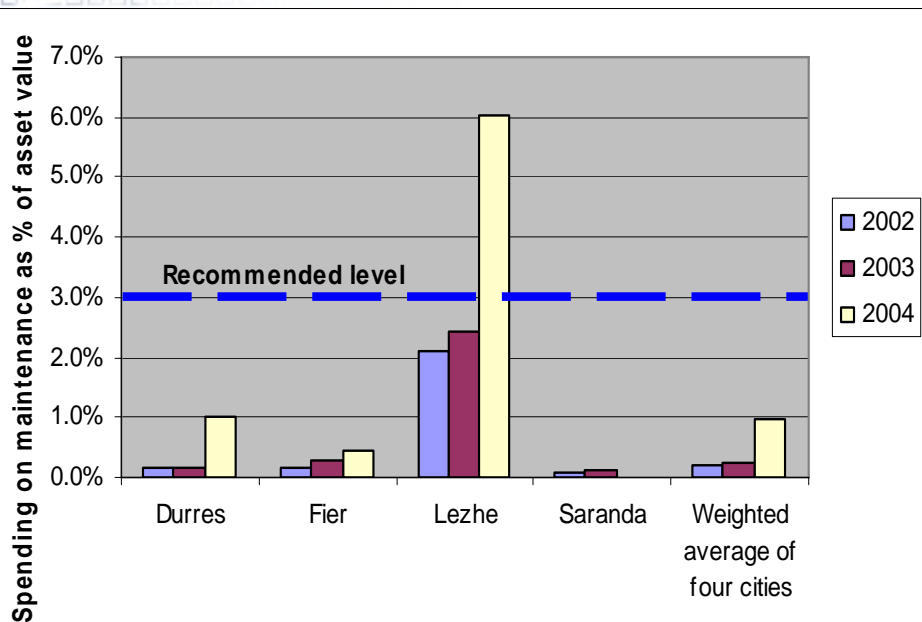




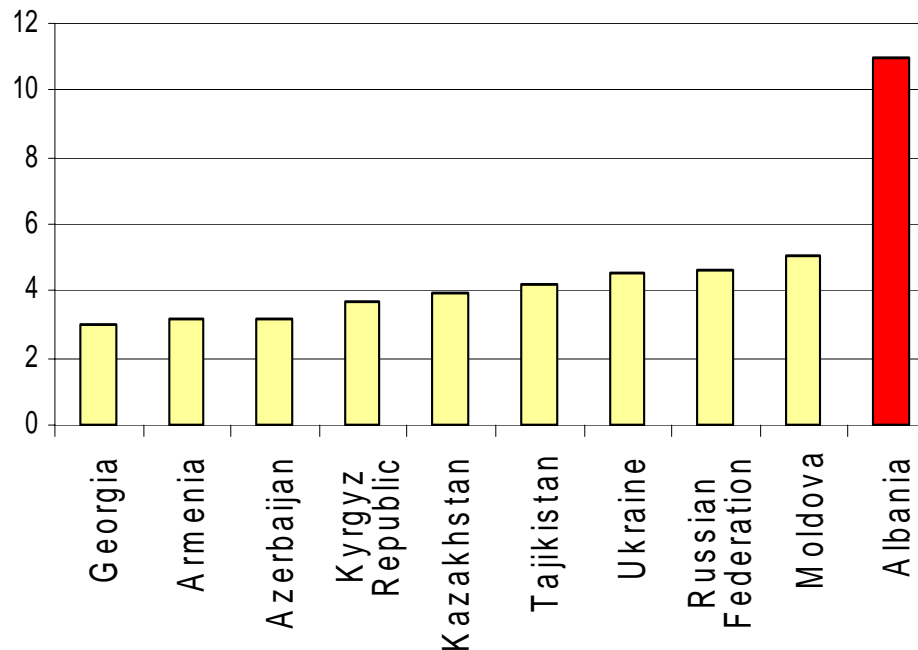
3- Explaining poor outcomes: **Inefficiencies**

- Less than 20 % of household connections are metered
- Under investment in Operations and Maintenance: 0.4 percent of asset values compared to recommended levels of around 3 percent.
- Overstaffing: 11 staff/1,000 connections compared to an ECA average of 4 staff/1000 connections.

Maintenance as a % of Fixed Asset Value



Staffs Per 1000 Connections





3- Explaining poor outcomes: **Cost Recovery**

1. Despite increases in tariffs, water rates still do not cover either O&M costs, much less the full cost of supply
2. Significant cross-subsidization → increased consumption and higher production costs

Tariff Structure (2004)

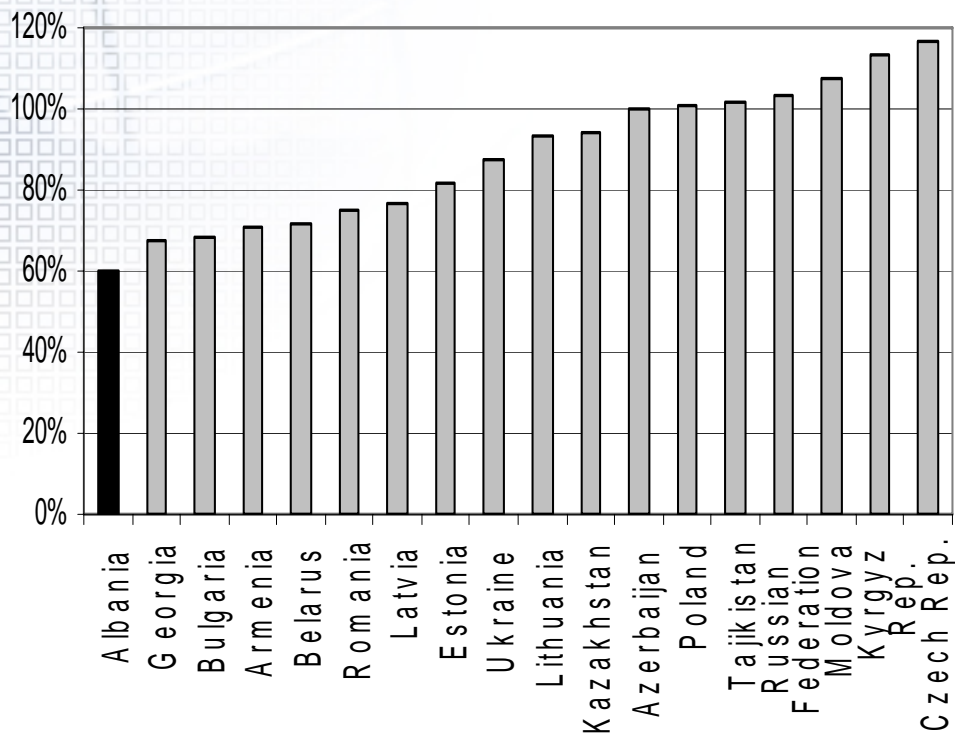
	Lek/m3	Percent of O&M costs	Percent of full cost recovery
Current average residential tariff	27	52%	36%
Current average budget institution tariff	60	115%	81%
Current average commercial tariff	80	153%	108%
Weighted average tariff	41	79%	56%
Operation and maintenance cost recovery tariff (including depreciation)	52		
Full cost recovery	74		



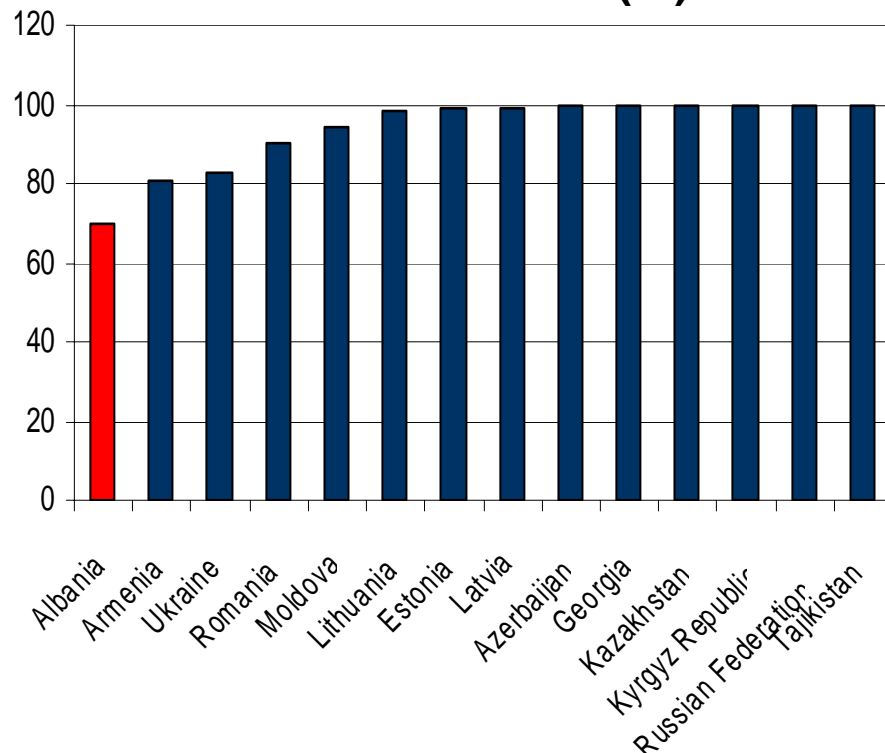
3- Explaining poor outcomes: **Cost Recovery**

- Collection ratios are the lowest of measured ECA countries
- One of the lowest average operating cost coverage ratios in ECA

Operating Cost Coverage Ratios



Collection Ratios (%)





4- Facing the challenge: Improving access within fiscally constrained resources

1. Achieving the MDG goals requires annual investments of around 0.7 percent of GDP; more than double current levels of investment (at 0.3 percent of GDP)
 - ➔ Need to generate sufficient net income to finance some of the needed investments
2. **Eliminating the inefficiencies could generate almost 0.8 % of GDP in savings, annually**

Potential (annual) Savings from Eliminating “Hidden Costs”

Source of potential savings (annual)	Lek millions
A- Collection failure (increase collections from 72% to 95%)	835
B- Under pricing (raise tariffs to cover O&M from 79% to 100%)	857
C- Excess losses (reduce NRW from 69% to 20%)	5,042
Total Savings	6,734
<i>As share of GDP</i>	<i>0.8%</i>



4- Facing the challenge: Increasing operational efficiency of utilities

- Increase collection rates from 72 percent of bills to at least 95 percent;
- Expand coverage: develop electronic customer databases where possible and remove/regularize illegal connections;
- Introduce universal metering (currently at 20 % of residential customers) along with management and administrative improvements;
- Develop plans to reduce technical losses based on identified priorities in each utility
- Rationalize utilities staffing from 11 to 6 staff/1,000 connections;
- Implement energy efficiency measures such as improvements to pumping regimes



4- Facing the challenge: Raising residential tariffs and establishing a targeted subsidy for the poor

- Raise residential tariffs to cover O&M cost and depreciation (from the national average of Lek 27/m³ to Lek 52/m³).
- In the long-term, let tariffs recover the full cost of supply (including the cost of capital);
- Replace the current universal subsidy by a scheme that targets the poor → possible adaptation of Ndihma Ekonomike.

Affordability of proposed tariff increases (% of monthly household income)

	Tariff Lek/m ³	Minimum income	Low income	Medium income	High income
Current average residential tariff	27	3.2%	2.0%	1.1%	0.7%
O&M cash cost recovery tariff (no depreciation)	41	4.8%	3.0%	1.7%	1.0%
O&M cost recovery tariff (with depreciation)	52	6.1%	3.9%	2.2%	1.3%
Full cost recovery	74	8.7%	5.5%	3.1%	1.9%



4- Facing the challenge: Improving incentives for efficient management

- Phase-out operational subsidies to utilities in the medium-term; and transfer these savings to investments
- Allocate investment subsidies from central government based on sector priorities and utility performance
- Clarify governance and financing arrangements between utilities, local and central governments and then accelerate the asset transfer
- Expand MoPWTT monitoring and benchmarking efforts to cover all utilities and communes and provide performance data for this purpose



4- Facing the challenge: Strengthening sector planning, budgeting and oversight

1. Strengthen coordination between central and local government in budget planning and execution:
 - Incorporate all foreign financed projects in the planning and budgeting exercise
 - Link investment allocations to the annual and multi-year objectives as spelled out in the sector's strategic planning
2. Develop objective criteria for allocating investments by targeting areas of greatest need and areas of future economic growth, such as tourist areas, in addition to rewarding utility performance