

Water Sector experiences in Macedonia

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Further Implementation of
Environmental Approximation Strategy

Some History of MK - EU Accession

- SAA signed in April 2001 and entered in force in April 2004
- February 2005 the Answer to EU Questionnaires were submitted to EC
- October 2007 Financial Agreement signed thus enabling use of IPA funds (including III Component)
- Candidate Status granted in December 2005
- October 2009 EC recommended to start negotiation for EU membership

EU Department (1)

- Two main functions:
 - Environmental acquis approximation coordination and transposition
 - IPA funds management
 - Structure of the Department:
 - 4 units** and **2 PIUs** for infrastructure projects
- EU Department involvement into the water sector development because of:
 - Planning and implementation of IPA financed projects
 - Creating conditions for sustainability of investments into water sector

EU Department (2)

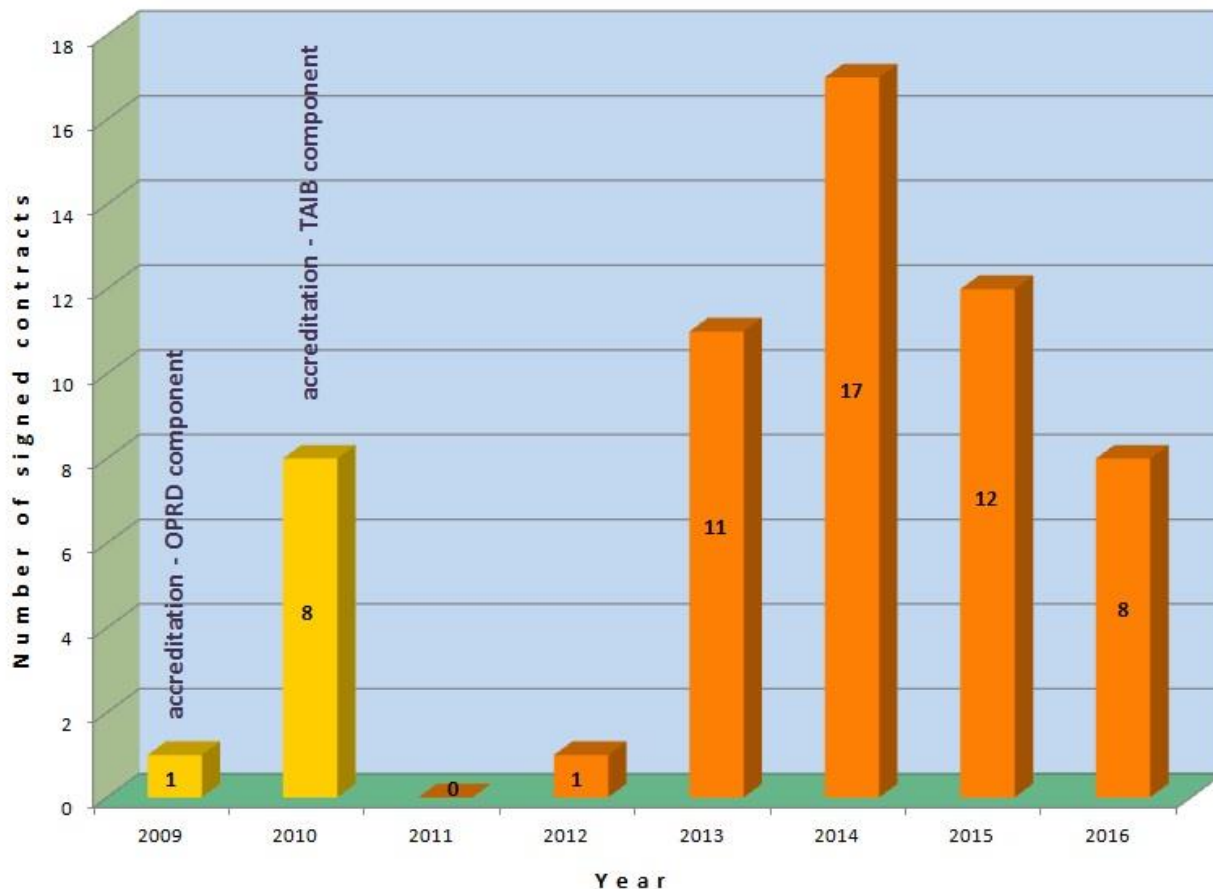
IPA part of responsibilities:

- Currently EUD is implementing **30 projects** with a value of more than 80 million Euros:

- 22 technical assistance and twining projects
- 8 investment projects – Works contract projects
- **18 of them in water sector**
- 13 projects completed since 2013 from which 8 were in water sector

In the Department we have **13 staff responsible for IPA activities plus 4 in PIUs.**

Number of Signed IPA Contracts - ENVIRONMENT -



Component I – TAIB
- 5 projects completed
- 5 projects under
implementation
Total amount –
11 Mililion Euros

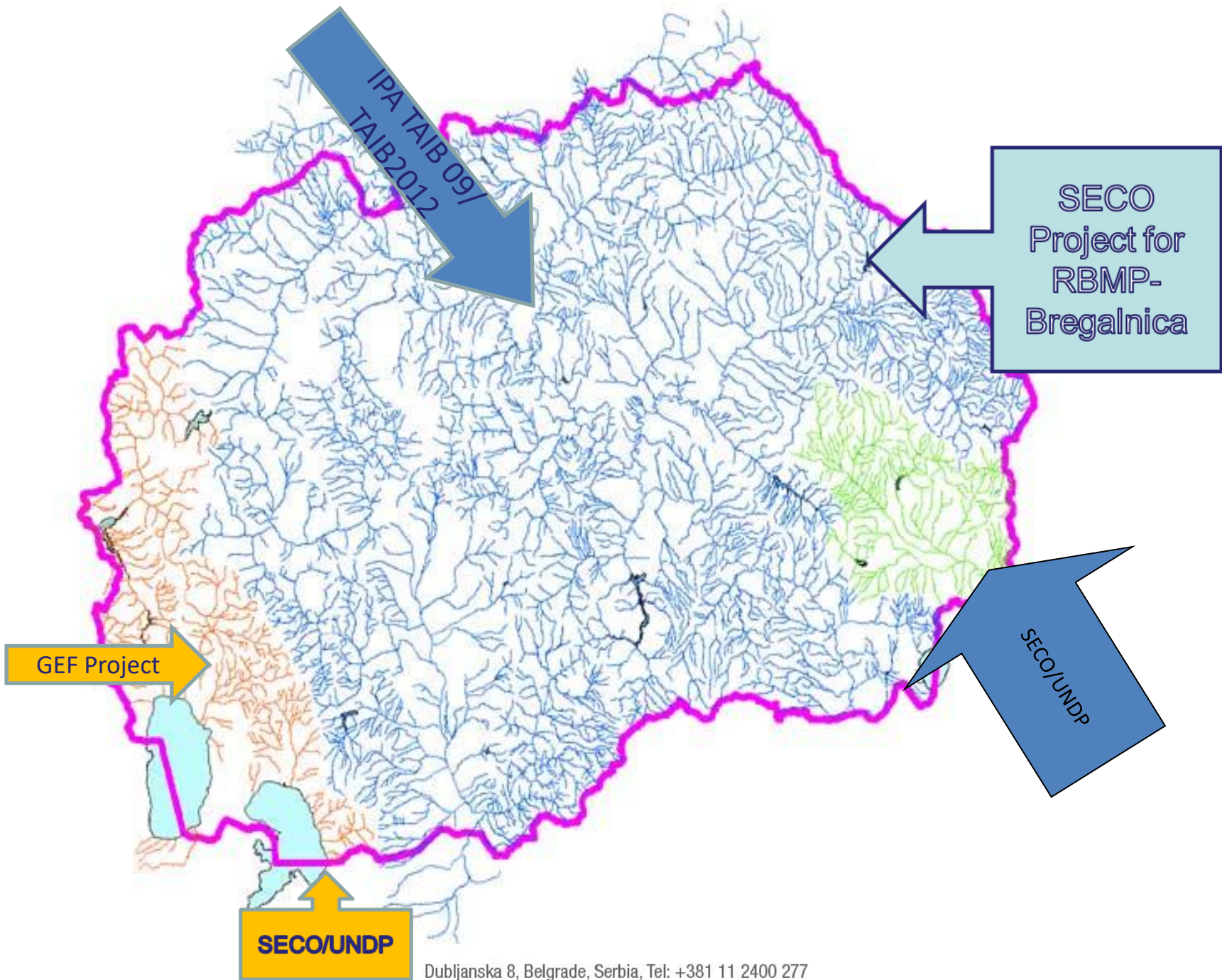
**Component III – Regional
Development**
- 8 projects completed
- 25 projects under
implementation
Total amount –
86 Milion Euros

IPA 2 - Sector Operational Programme for Environment and Climate Action (2014-2020)

Total/ Aggregated Per year	2014	2015	2016	2017	2018	2019	2020
TOTAL	16,941,176.47 €	21.605.882,35 €	12.941.176,47 €	19.570.588,24 €	23.686.956,47 €	10,581,074.12 €	26.807.981,29 €
TOTAL/AGGREG. 2014-2020					Total Cost		
Action 1- Approximation of environmental and climate change legislation in priorities areas					24.123.529,41 €		
Action 2 - Investment in water and waste management					100.011.306,00 €		
Action 3 - Support to Sustainable Development					8.000.000,00 €		
TOTAL					132.840.717,75 €		

Water Sector Development - 1

- Law on Waters was prepared in 2004 and adopted in 2008
- Huge discussion between MoEPP and Ministry of Agriculture, Forestry and Water Economy (MAFWE) over competencies in water management
- MoEPP “won” against MAFWE and got the “custody” over water management
- Water Strategy adopted in 2011





Water Sector Development - 2

- In 2004 and 2010 raff cost assessment for compliance with water *acquis* was done that estimated app. one billion Euros:
 - 650 – 700 ME for implementation of UWWTD
 - 250 – 300 ME for Drinking water directive

Water Sector Development - 3

- Who is going to receive all these investments?
 - State Bodies: MoEPP, MAFWE, MTC – 10 %
 - Municipalities and Public Utility Companies (PUCs) – 90 %
- Are Municipalities and PUCs ready to receive and manage the new infrastructure in financial and sustainable manner?

Reasons for reform in waters - 1

- Obligation to build waste water treatment plants for each settlement above 2000 inhabitants (Law on Waters and UWWTD)
- Use of IPA funds (III Component) conditioned for establishment of sustainable water pricing system, which will generate enough revenue for operation and maintenance of new infrastructure (agreement between RM and EC for financing waste water treatment plant in Prilep. Deadline - end of 2017)



Reasons for reform in waters - 2

- Tariffs Methodology is not mandatory
- Tariffs do not cover all costs, not revised at required frequency
- Part of revenue of PUCs is directed to other than water sector needs
- Majority of PUCs were performing with low efficiency and low quality of services

Reasons for reforms in waters - 3

- Water abstraction and pollution charges as foreseen in the Law on Waters are just partially implemented
- Need for investment planning both on national and on PUCs level
- High political influence on the work of PUCs on local level
- Increase the efficiency and quality of service provided by PUCs

Increasing water sector services sustainability

- Four main directions or goals in water sector reforms :
 - Improving cost recovery system
 - Strategic planning of investment
 - Developing capacity at central level
 - Developing capacity at local level
- Four IPA projects to support main directions
- First being “Water Tariffs study” project

Improving cost recovery system

- Support from IPA project “Development of National Water Tariff Study”, implemented 2013 – 2014
- Project focus:
 - Establishing economic instruments in water
 - Law on Setting Prices for Water Services
 - Methodology for water tariff
 - Establishment of the water prices Regulator
 - Actions plan of the reform

Economic instruments - Charges: Law on Waters

- Two sides:
 - Incentive role to use less water or to reduce pollution
 - To generate revenue
- Incentive role:
 - Abstraction charge (2% of the invoiced value) has limited role to encourage water savings
 - Two elements of pollution charge:
 - Basic value (1% of the invoiced value)
 - Variable value (depends on discharged pollution load)
- Variable part is not implemented



Abstraction charge

- Current abstraction charge shall remain the same - applied to the invoices for water services at a rate of 2%
- Current abstraction charge is generating about 1.640.000 EUR

Pollution charge

- Current discharge charge (basic value, 1% invoices for water collection and treatment) generates only 15.500 EUR
- The variable value is not implementable:
 - Charge is unrealistically high and legal basis too complicated to implement
 - Applicable only to PUCs with waste water treatment plants have water permits

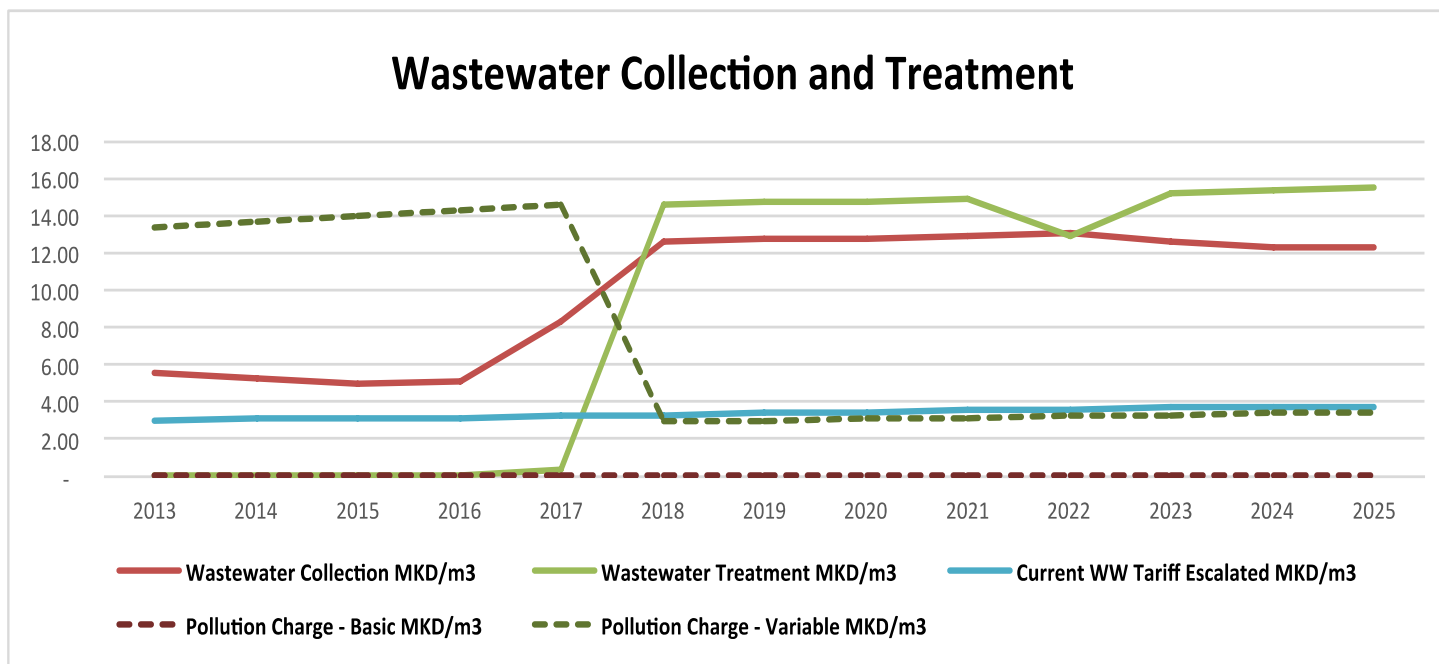
Pollution charges system revised - 1

- Two main goals:
 - To ensure that tariffs level is equalised/ made similar in municipalities with waste water treatment and without waste water treatment
 - To create revenue stream at least allowing accumulation of 8 million EUR per year in order to cover State level co-financing commitments

Pollution charges system revised - 2

- Proposed charge rate is approximately 1.5 MKD on every 60g of BOD5 (1 daily P.E.) discharged into the environment
- This equals to approximately 14 MKD (0,22 EUR) for discharge of m3 of untreated waste water
- If pollution charge at proposed level adopted, it contains strong incentive role to reduce pollution (it costs similar to pay the pollution charge or to cover waste water treatment costs)

Incentive role - Prilep case



Law on Setting Prices for Water Services

- General Provisions
- The Tariffs for Water Services
- The Water Service Tariff Regulatory Commission
- Tariff Setting (manner and procedure)
- Control and Surveillance
- Sanctions and fines
- Transitional and final provisions

The Ministry of Agriculture and Environmental Protection organised translation of the Law to Serbian language

Institutional system

- Establishment of a Regulator for water service prices
- Two options were proposed for consideration for the Government:
 - Water Sector Regulator as part of the energy sector regulator;
 - Special Water Sector Regulator
- The Law established the Regulator adding water sector functions to the Energy Regulatory Commission (ERC) of Macedonia

Tariff Methodology – key terms - 1

- Water services are included in the Law:
 - Delivering raw water intended for human consumption into public system
 - Collecting of waste water
 - Draining urban waste waters into a recipient or WWT Plant
 - Waste water treatment

Tariff Methodology – key terms - 2

- Payments for Services:
 - Tariff: payment for services ONLY
 - Price: whole payment inc. tariff, charges, taxes
- Entities
 - Water Service Providers: includes PUCs & Water Economy Companies
 - Founder(s): creators of Water Serv. Providers: mainly LSGUs
 - Consumers:
 - Household – “the public”
 - Institutional – “public” organisations
 - Commercial – business, industry

Tariff structures

- Bulk Water Supply: One Structure: Two part: fixed & volumetric
- Drinking Water Supply: choice of 4 structures:
 - Simple Volumetric: Default
 - Two-Part: Fixed & Volumetric – fixed part up to 30%
 - Rising Block: Increased consumption – increased unit tariff
 - Complex: Two part with Rising Block Volumetric part
- Wastewater Collection: choice of 2 structures:
 - Simple Volumetric: Default
 - Two-Part Fixed & Volumetric
- Wastewater Treatment: One Structure
 - Volumetric: adjusted for strength of non-HH discharges to sewer:
- Biochemical Oxygen Demand
- Suspended Solids

Making water affordable

- Affordability limit:
 - 3 - 4% of average household income
 - 5 - 6% of the lowest quintile (20%)
 - 7 - 8% of the lowest decile (10%)
- Government concluded that Affordability level should be around 3 % of average household income
- Affordability Level shall be determinate by ERC with guidance
- Social policy needed where 5 – 8% levels are exceeded



Overall schedule

	Name	2015				2016				2017				2018				2019				2020				2021	
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
1	☒ Legislation				■	■	■	■																			
19	☒ Establishment of Regulator							■	■																		
33	☒ Preparation for Tariff System Introduction - Regulator									■	■	■															
56	☒ Capacity Development - Large Water Service Providers (11)					■	■	■	■	■	■	■	■	■	■												
64	☒ Business Planning Process - First Iteration											■	■	■													
74	☒ Tariff Adjustment and Business Plan - Implementation																										
80	☒ Second Iteration of Tariff Adjustment and Business Planning																										
85	☒ Major Policy Developments				■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
101	☒ External Assistance Projects																										

Reform timetable - 1

- Action plan was adopted by MoEPP:
 - Law on Setting Tariffs on Water Services entered into force September 2016
 - 2 new Regulatory Commissioners for Water in ERC were nominated in September 2016
 - Methodology for Water Tariffs to be adopted by November/December 2016 (by ERC)



Reform timetable - 2

- Starting day to apply to ERC for new tariffs – November 2016
- For PUCs serving areas more than 10 000 inhabitants the new tariffs shall be applicable by January 2018
- For other PUCs – by January 2019

Next steps to support the reform

- With the support of the “Water Tariffs study” project essential elements for the cost recovery system have been established
- The background has been created for next generation of activities supported by the other IPA projects:
 - Project to support strategic planning in water sector
 - Project to support the central level institutions, in particular, the ERC – Regulator
 - Project to support local level in improvement of efficiency and implementation of the new tariffs methodology

1. Development of National Water Study

- On-going project. Results include:
 - Institutional Development Plan for Water Management
 - Water Supply and Waste Water Collection and Treatment Policy
 - Report on Identified Agglomerations and Sensitive Areas
 - Directive Specific Implementation Plans (DWD&UWWTD)
 - Strategic Framework for Sludge Management
 - Programme for Water Supply and Waste Water Collection and Treatment – obligation from the Law on Water
 - Strengthened institutional capacities and capabilities of infrastructure projects planning, preparation, implementation, supervision and monitoring on central and local level

Currently on the agenda of the National Water Study project

- Institutional aspects of the sector developed
- Methodology for setting agglomerations prepared
- Delineation of agglomeration under discussion
- Defining sensitive areas under discussion
- Water Collection and Treatment Policy under preparation

2. Reform in the system for water supply, collection and treatment at local level

- On-going. -The purpose of the Project is to reform the existing system, concerning organizational, managerial, financial and operational aspects at local level in **11 PUCs** (City of Skopje and in the Municipalities of Tetovo, Gostivar, Bitola, Kavadarci, Strumitsa, Debar, Radovish, Kichevo, Berovo and Kumanovo) in order to enable an effective and efficient management of the water supply, collection and waste-water treatment

3. Reform in Water Sector on Central Level

- On-going project: The purpose of the Project is to implement revised water tariffs policy by:
 - Supporting **establishment and operations of the ERC** responsible for supervision of implementation of water tariffs requirements,
 - Providing guidance to **16 PUCs** on implementation of new water tariff methodology and on long term business and related tariffs planning,
 - Supporting national authorities in establishment of relevant **inspection and enforcement** system for implementation of the water tariff methodology.

Future planned support

- We do hope, that with these 3 ongoing projects we will support main aspects of the reform
- But all is going to end during 2017. Continuous support will be needed
- We are planning a project under IPA II to support PUCs in implementation of the new tariffs, Tariffs Adjustment Plans and Business plans as prepared before through pilot PUCs

Lessons learnt working at local level

- You need good planning on national level
- Include pilot municipalities and PUCs which can promote the change
- Include PUCs of different size and problems they face
- Include PUCs for which infrastructure project documentation is prepared or is under preparation or investment is planned through national or donor assistance programs
- Communicate with PUCs directly or through their associations (ADKOM)
- Involve in debates PUCs, municipal-local and national authorities
- International support using as carrot to engage PUCs and municipalities

Cooperation with EAS project

- EAS project is supporting the MAEP in development of the DSIPs for UWWTD and DWD
- Would be important to exchange information and approach on:
 - Identification of agglomerations
 - Setting the sensitive zones
 - Planning the future investment projects
 - Communication with local level representatives

Conclusions

- Very intensive and demanding process, heavy load on administrative resources of the Ministry
- Requires good cooperation among central level institutions but also with municipalities and PUCs
- Implementation requires intensive efforts in business planning and tariffs adjustment planning
- TA support is very important during reform period
- Positive impacts on the water services sector are obvious
- We are open for cooperation with EAS project



Thank you for your attention!

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Further Implementation of Environmental Approximation Strategy

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