Chapter 1

Setting the scene

This chapter sets the scene for the analysis of the performance of water supply and sanitation systems in countries of Eastern Europe, Caucasus and Central Asia. It evaluates why it is important to invest in water supply and sanitation. It provides background information on the regional context, regarding the resource and macro-economic and social drivers.

The objectives of this report are to evaluate the performance of the water and sanitation sector (WSS) in Eastern Europe, Caucasus and Central Asia (EECCA) over the last ten years and to identify potential driving factors for that performance.[1] In particular, the report reviews the institutional reforms that took place over the last ten years as well as the financing that has been allocated to the sector. Based on this evaluation, the report draws policy recommendations to help countries stem the overall decline in WSS performance in the region, build on existing successes and tackle new challenges, such as rising energy costs and public budget cuts, in a context of global economic crisis and climate change.

The report highlights the difficulties and potential pitfalls of assessing performance based solely on coverage indicators. As such, it can make an important contribution to the ongoing debate on tracking sector performance beyond the MDGs, *i.e.* beyond 2015.

The report has five chapters, as follows:

- This chapter sets the scene for the rest of the report, giving some background on the contrasted situations in the twelve EECCA countries.
- Chapter 2 examines the performance of WSS in EECCA countries over the last decade, both in technical and financial terms. The impact on the broader economy of inadequate services is then assessed in terms of health and environmental impacts, although no comprehensive estimates are available.
- Chapter 3 reviews the main reforms that have been implemented in the last decade and assesses the extent to which the Guiding Principles for reform, adopted at the Almaty Ministerial conference in 2000, have been put into practice.
- Chapter 4 looks at how WSS have been financed over the last decade and, looking forward, where funding for improving performance might come from.
- Chapter 5 draws out the main conclusions and policy recommendations from the analysis.

In addition, the report's Annex provides a brief overview of key contextual data and water and sanitation sector performance for each of the countries under review.

10 Years ago: The Almaty Guiding Principles

At a meeting in Almaty in October 2000, EECCA Ministers of Environment, Finance, and Economy, Ministers and senior representatives from several OECD countries, as well as senior officials from international financial institutions, international organisations, non-governmental organisations, and the private sector, recognised the critical condition of the urban water supply and sanitation sector in EECCA countries. They also agreed on the need for reforms, so as to prevent the deterioration of the existing infrastructure and expand service coverage.

The "Guiding Principles for the Reform of the Urban Water Supply and Sanitation Sector in the NIS" were adopted at the Almaty conference (as a result, they are sometimes referred to as the "Almaty Guiding Principles"). Although they are not binding, these Guiding Principles identified key elements of urban water sector reform, including: (i) establishing strategic objectives for the reforms; (ii) reforming institutions and clarifying the roles of the national authorities, local governments, *vodokanals* (water utilities), and the public at large; (iii) establishing a framework for financial sustainability of the sector and promoting efficiency and cost-effective use of resources.

Participants requested the EAP Task Force to develop a focused programme of work to facilitate the implementation of the Guiding Principles, and asked for regular reporting to assess progress in their implementation. Successive progress reports were presented at a Ministerial meeting in Yerevan, Armenia in 2005 and at the Environment for Europe conference that took place in Belgrade in 2007 (see OECD/EAP Task Force, 2007b). These assessments highlighted a deterioration in performance and concluded that the Guiding Principles should remain as an important reference to guide reforms for years to come.

Relevance: Why it is important to invest in water and sanitation

Lack of investment in WSS can generate substantial costs for the economy as a whole. Existing evaluations in other parts of the world show that the costs of inaction on WSS now are similar or higher than the costs from the impact of climate change, with the major difference that such costs are experienced now rather than in the future (OECD, 2011a). For example, an evaluation conducted by the Water and Sanitation Programme in South East Asia (the Economics of Sanitation Initiative, or ESI) found that lack of adequate sanitation alone "cost" these countries about 2% of their GDP due to health costs, the impact of water resources and negative impacts on economic sectors such as tourism of fisheries. A similar analysis is planned

for Central Asian countries, which would help clarify the impact of the current lack of investment.

Intermittent water supplies and wastewater pollution can have an impact on industry's competitiveness, as they reduce the productivity of water-intensive industries such as breweries or fisheries. Water pollution reduces touristic appeal, depresses land value and can affect important ecosystems with significant economic consequences (for example, pollution in the Caspian Sea has affected caviar production).

The health impacts of inadequate water and sanitation affect young children in particular. Infant mortality rates in EECCA countries are much higher than in OECD countries (between twice and 10 times higher). There is ample evidence that repeated diarrheal events during childhood can lead to malnutrition and reduce cognitive abilities, apart from adding a considerable burden on parents who have to look after sick children. As a result, inadequate WSS can have a very significant impact on the potential for EECCA countries to improve their position in the global economy through education and skills development.

Finally, the impact on dignity and well-being from having adequate water and sanitation facilities cannot be measured with precision, but there is ample evidence that fulfilling such basic needs ranks high on people's list of priorities. Freeing-up time through better and more reliable access to safe water and sanitation enables people to work harder (thereby raising productivity) and have a better quality of life, with more leisure time.

A regional approach

The twelve countries of EECCA are linked by a shared history and administrative tradition from the Soviet era, which ended in 1991. However, EECCA countries face very different contexts, in terms of size, access to water resources, macro-economic performance and social conditions.

Background data is appended, on access to water resources, population, macro-economic and social conditions, and recent macro-economic performance of the twelve countries.

Access to water resources

The distribution of water resources in the EECCA region is very uneven. In terms of per capita renewable water resources (RWR), three groups of countries can be distinguished:

- At the lower end of the spectrum, RWR per inhabitant was under 3 000 m^3/year in 2007: this was the case in Armenia, Turkmenistan, Ukraine and Uzbekistan.

- Azerbaijan, Belarus, Kazakhstan and Moldova have medium water resource availability, with per capita RWRs ranging from 3 040 m^3/year (Moldova) to 7 158 m^3/year (Kazakhstan).
- The Russian Federation and Georgia, the Kyrgyz Republic and Tajikistan are overall water-resource rich, as they have more than 10 000 m^3/year per inhabitant.

However, these figures can hide deep regional disparities: in the more densely populated western part of the Russian Federation, for example, the annual renewable surface water resources are estimated at approximately 2 000 m^3 per inhabitant, while in the Siberian and Far East regions, the figure can reach 190 000 m^3 per inhabitant. Despite the abundance of water in the Russian Federation, a number of cities and towns suffer from a shortage of drinking water. Overall, approximately 10% of the drinking water demand remains unmet in the Russian Federation. In the southern part of the country, the water deficit can reach 30% as a result of a chronic shortage of available water resources (DANCEE/COWI, 2005).

The interdependence among EECCA countries for water resources management is high, as more than 50% of the EECCA countries are made up of transboundary river basins (Haener, 2010). Some basins are shared by three or four countries, like the Amu Darya, which provides water to the Kyrgyz Republic, Tajikistan, Uzbekistan and Turkmenistan.

Population

As shown in Table A.1, there is a wide diversity of situations between countries in terms of population size. As an example, the Russian Federation's population is 50 times bigger than that of Armenia and more than 50% of the total EECCA population lives in the Russian Federation.

On average, there are more urban dwellers than rural ones (with 64% being the EECCA average for the percentage of urban population). However, the distribution of the population between urban and rural areas is also extremely varied: for example, only one in four Tajik lives in an urban area, compared to three quarters of Belarusians.

Macro-economic and social conditions

Variations in population size are also reflected in terms of the relative size of the economies, compounded by the fact that the countries have very different natural resource endowments and economies in terms of level of development. The EECCA countries can be divided into four broad groups[2]:

- A first group includes countries with relatively high incomes per capita (*i.e.* the average GNI per capita is higher than 10 000 current international dollars in PPP terms). This group includes Belarus, Kazakhstan and the Russian Federation.
- A second group includes countries with GNI per capita ranging from 5 000 to USD 10 000: this includes Armenia, Azerbaijan, Ukraine and Turkmenistan.
- A third group includes countries with GNI per capita between USD 2 500 and 5 000. This group includes Georgia, Moldova and Uzbekistan.
- Finally, the poorest EECCA countries (Kyrgyz Republic, Tajikistan) have a GNI below 2 500 current international dollar per capita. This is still substantially higher than most low-income countries in other regions, which reached an average of 500 current international dollars in 2009 but below the average for middle income countries, which stood at USD 3 400.

In addition, in-country variations are also significant, typically with rural areas being much poorer than the rest of the country. For instance, 50.8% of the rural population of the Kyrgyz Republic are below the poverty line, compared to 29.8% of the urban population (World Bank Development Indicators).

Macroeconomic trends in EECCA since 1990

Economic performance has been contrasted over the past decade. The economic decline that affected the region starting in 1990 was such that the region as a whole did not recover to the 1990 level of real output until 2004. Between 2000 and 2008, EECCA countries generally enjoyed stable economic growth, with most spectacular results being achieved in Azerbaijan, where the economy grew at an average rate of 16.4%, followed by Turkmenistan with an average rate of 15%. The Kyrgyz Republic exhibited the lowest growth rate in this period, with an average rate of about 4.6%, whereas the real GDP annual growth rate was 7.5% for the region as a whole.

On the whole, EECCA countries were hit badly by the global economic and financial crisis which started in the middle of 2008. Average GDP growth in the East European and Caucasus group of countries went from 8.3% in 2008 to -8.0% in 2009. In the Russian Federation, the GNI per capita decreased from USD 19 770 to 18 350 between 2008 and 2009. The downturn in 2009 resulted in this group of countries suffering the most severe economic decline in the world (by contrast, global GDP fell in 2009

by an estimated -0.8%). The Central Asian countries were less exposed to the global financial and economic turmoil, possibly because of a lower degree of integration in the global economy.

Today, the objective of many countries in the region is to avoid another "lost decade". Analyses by the World Bank suggest that many EECCA countries will recover to the 2008 level of output only by 2013, losing half a decade of growth.

Notes

1. Countries reviewed in this report include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
2. This classification draws on the World Bank classification of income, which classifies countries based on GNI per capita calculated based on the Atlas method. For 2009, the bounds used by the World Bank were as follows low income countries have a GNI per capita below USD 995, lower middle income have a GNI per capita between USD 996 and 3 495; upper middle income have a GNI per capita between USD 3 496 and 12 195 and high income above USD 12 196.

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