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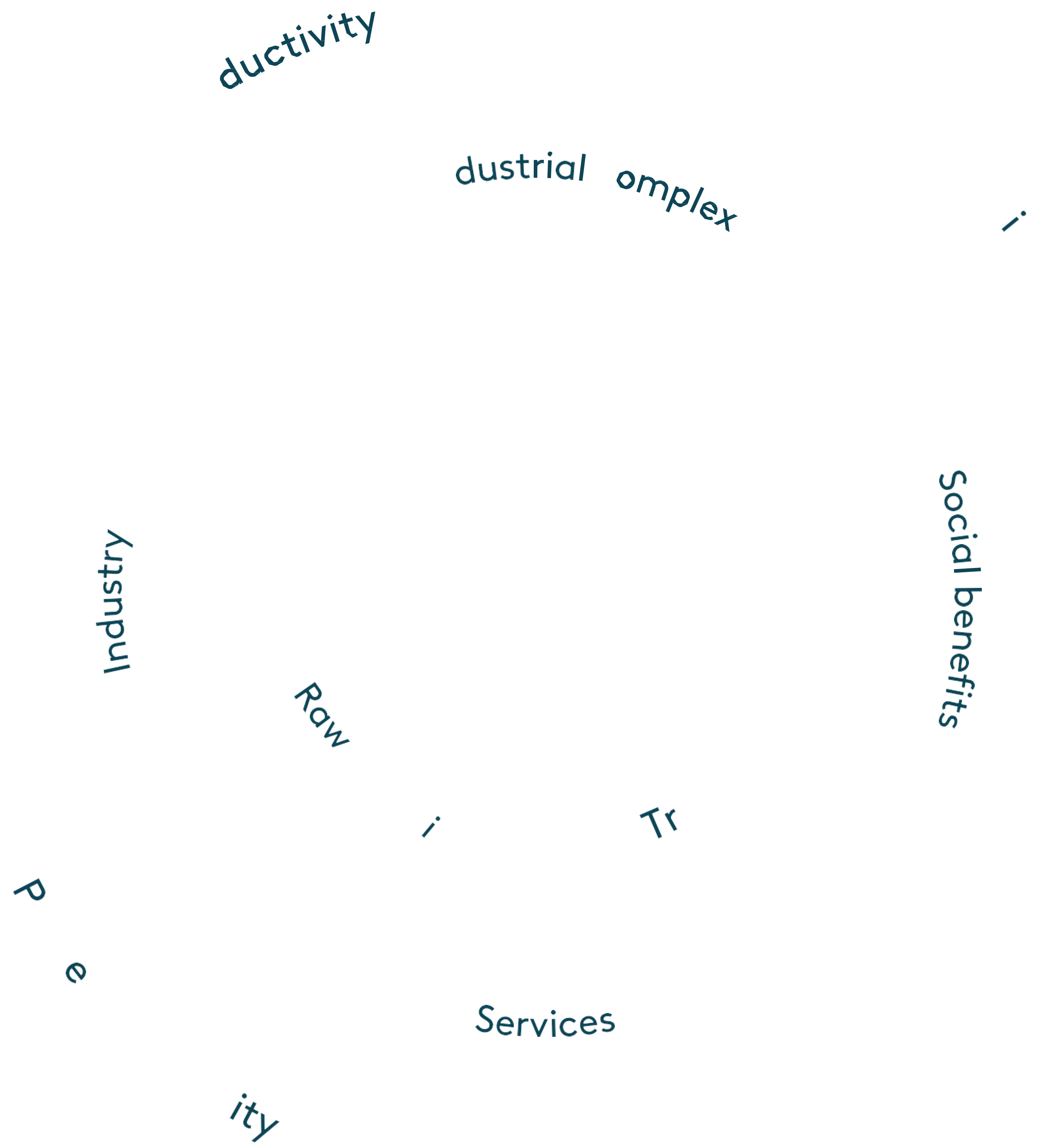
Financial Solutions to Close the Investment Gap in Drinking Water Supply and Sanitation in Central Asia

August 2024



Source: IHLPWIA, 2023.

Source: WHO/UNICEF, 2023

Source: EDB based on WB and UN data

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Key factors shaping the water and sanitation sector of Central Asia

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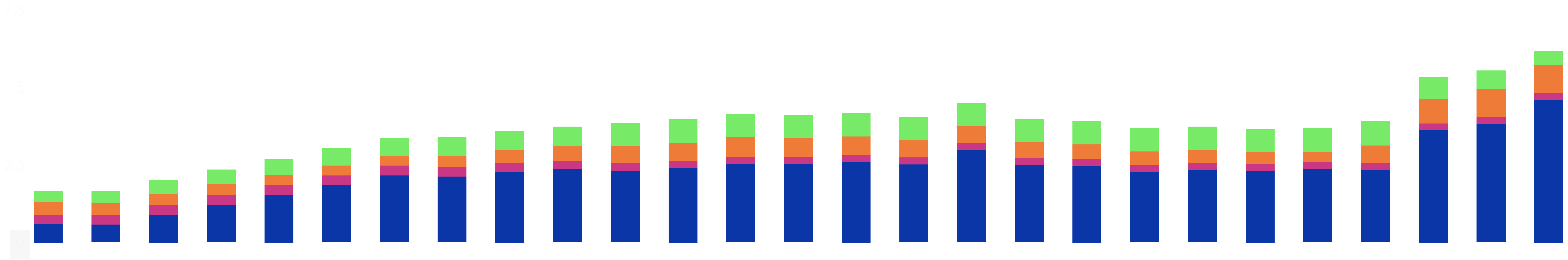
1	2	3	4	5
Water Resources Deficit since 2028	Ageing Infrastructure	Deteriorating Water Quality	«Bad» Management Practices	Rapid Urbanisation



Source: EDB based on AQUASTAT, UN data

Source: government agencies data

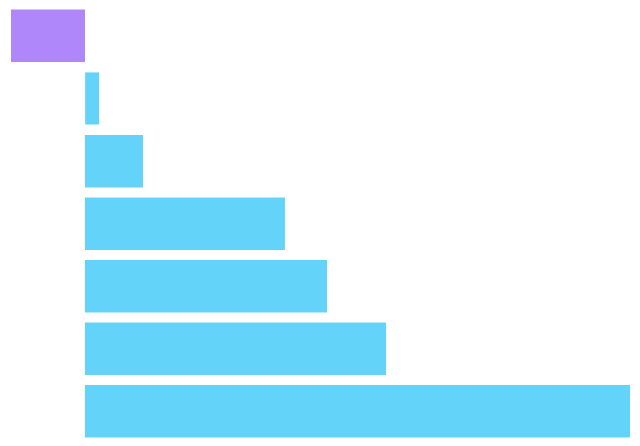
«Bad» management practices at water and sanitation facilities in Central Asia

1. Decentralization of management systems is cities and villages
2. Transfer of water pipelines and facilities to local authorities
3. Privatization of housing and transfer operation property operation and repair obligations to the population
4. Lack of a mechanism of coordination among central and local government bodies and water and sanitation companies

Reduced quality of planning and design

Emergency repair and restoration **costs have increased** by a factor **of 2–3.5**

Reduced reliability of high-quality water supply to the population



Source: EDB based on WB and UN data

50

40

30

20

10

Source: EDB based on WB and UN data

Current financing of the water and sanitation sector in Central Asia is not sufficient to reach SDG 6

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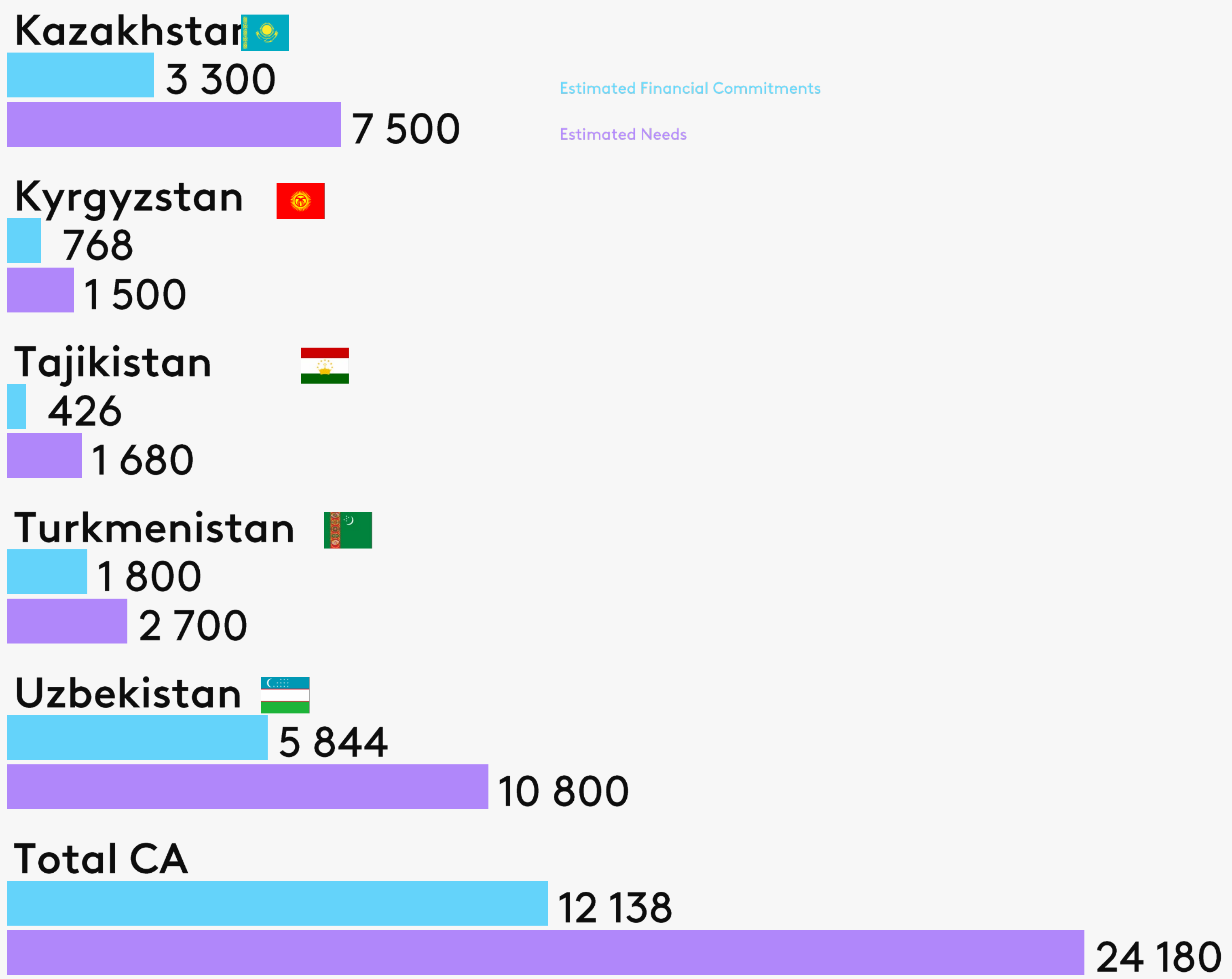
Estimated CA financing shortfall

$ millions and %, 2025–2030



CA Financing needs

4–6 programmes
to improve water and sanitation were adopted in each CA country over the last 30 years. Implementation difficulties

$12 billion
CA 2025–2030 shortfall of financing required to achieve SDG 6

$2 billion
annual CA 2025–2030 shortfall of financing required to achieve SDG 6

5X
lower average drinking water tariffs in CA compared to Europe

Source: EDB based on UN and government agencies data

CA is facing a challenge: it needs to close the water and sanitation sector financing gap in the next six years

Financial and economic solutions

Strengthening of PPP institution
Reform of the water sector, including application of diverse forms of ownership and management methods to its companies and facilities

Prioritisation of investment projects
will make it possible to optimise the scope of financing and release a significant amount of capital investments

Position on tariffs
Tariff policies must be improved. Tariff hikes are possible. On the average, tariffs are five times lower than in Europe

The tariff setting function should be gradually delegated to water and sanitation companies, but it should be done under the supervision of local government bodies or an independent regulator, and with the involvement of the general public

Attraction of IFI financing
the water and sanitation sector accounts for merely 6% of total IFI-approved sovereign investment financing in 2008–2023. There are examples of non-sovereign financing

Engagement of operators with suitable track record
mostly in large cities

Investments in water infrastructure lay the foundation for future economic development

IFIs can help with water and sanitation sector financing

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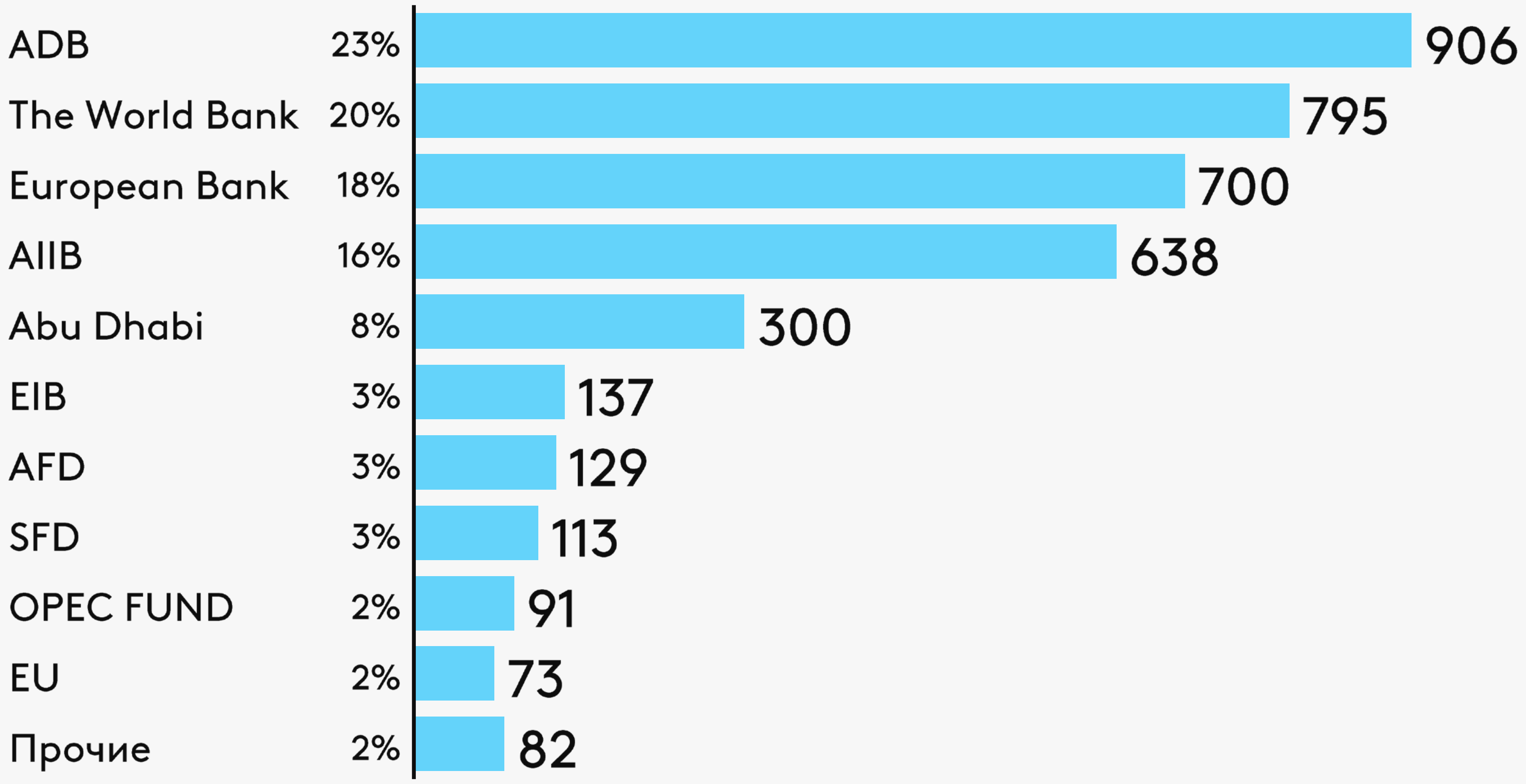
IFIs water and sanitation financing in CA

$ millions and %, 2008–2023



Source: EDB based on EFSD Sovereign Financing Database Version 2.0

IFIs increasingly interested in investing in the sector

$4 billion
of sovereign financing approved by IFIs under 147 CA projects in 2008–2023. It represents only 6% of total financing ($67.5 billion)

75%
approved over the last six years (2018–2023)

76%
approved by four MDBs: ADB ($902 million), WB ($795 million), EBRD ($700 million), and AIIB ($638 million)

75%
went to Uzbekistan, 13% to Kyrgyzstan, 9% to Tajikistan, and 3% to Kazakhstan

**IFIs are an important source of sovereign financing.
There are also some non-sovereign lending projects in CA**

Financing use cases

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Case 1

Sovereign ADB financing in Uzbekistan

Western Uzbekistan (Karakalpakstan) Water Supply System Development Project

Project Objectives

Modernise and expand water supply networks, increase awareness of climate change and sustainability issues, strengthen water and sanitation utility services in Karakalpakstan

Form

Soft sovereign loans from ordinary capital resources

Period	Project Value	Partners
2018-2025	$145 million	–

Case 2

Non-sovereign EBRD financing in Kazakhstan

Shymkent Water Treatment Plant Upgrade Project

Project Objectives

Provide funding for the investment programme of Water Resources – Marketing LLP, including an increase of water treatment capacity from 150,000 m3/day to 200,000 m3/day and reconstruction of the sewerage system

Form

Non-sovereign loans (including technical assistance)

Period	Project Value	Partners
2022–ongoing	€13.9 million	EBRD (€6.9 million senior loan) RK Government (€6.9 million capex grant)

It is advisable to attract private capital to the water and sanitation sector of Central Asia

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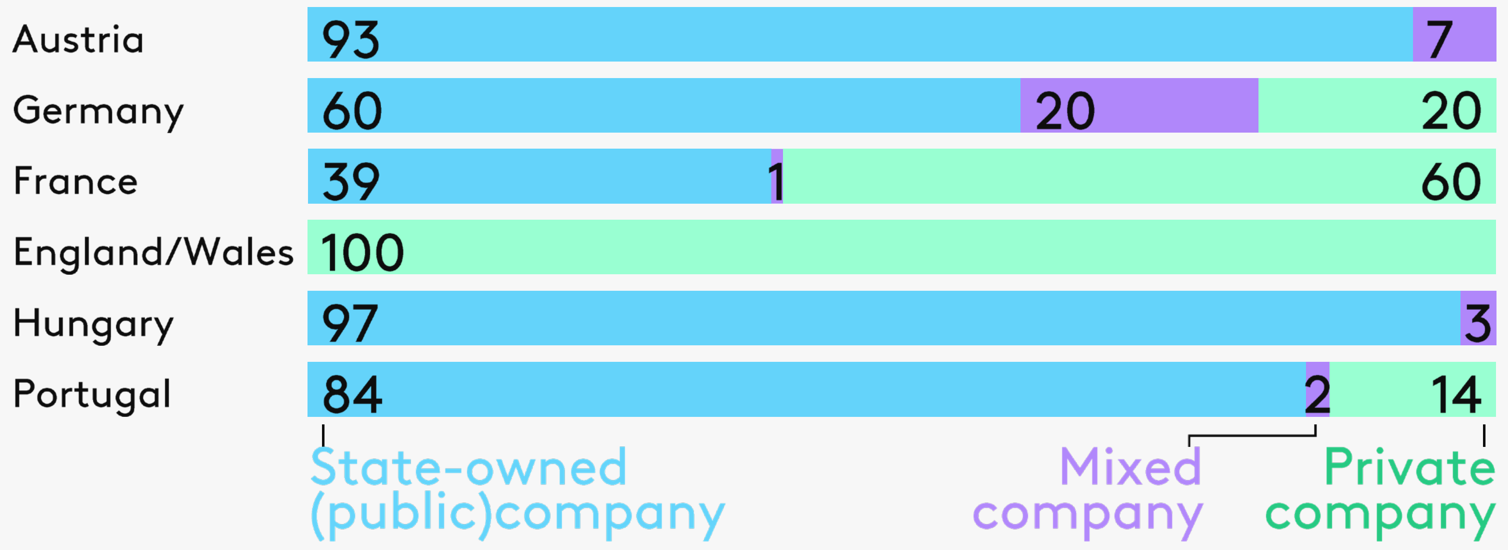
Share of the Population Served by Water Utility Companies, %



Share of the Population Served by Sanitation Utility Companies, %

Source: Getzer M. et al., 2018

International Experience

→ The state is responsible for the provision of utility services Full privatisations are rare

→ Private sector involvement is expanding in many countries of the world

→ Various PPP forms are used. Concession is the most popular form

→ High dependence of concession holders on tariffs, municipal payments, charges, and subsidies (with England/Wales reporting one of the highest unit subsidisation levels)

→ Many concession holders are transnational companies or TNCs (Veolia Environnement, Suez Environnement, Severn Trent, Thames Water). As a rule, they operate in large cities

Institutional and legal solutions

National level

- The mechanism of intersectoral coordination
- Restoration of the project expertise
- Training of engineering and technical personnel
- Systematic implementation of water protection principles

Regional level

- Attracting official development assistance through IFAS
- Regional training program
- Water supply and sanitation program in the Aral Sea region
- The main project consulting company

Achievement of SDG 6 targets by CA countries — roadmap for implementation of national strategies in the water sanitation sector

tention!

Благодарю за внимо

Дзякуй за

ҳмати калон!

Б

гу!

Thank you for yo

ыңыздарга рахмат!

Назар ауда