



STRENGTHENING THE ECONOMIC AND FINANCIAL DIMENSION OF WATER MANAGEMENT IN AZERBAIJAN

THE 3RD NPD STEERING COMMITTEE MEETING

Tatiana Efimova
OECD/EAP Task Force
23 January 2014, Baku



Outline

- Background
- The need for a National Strategy
- Objective of the project and proposed programme of work
- A focus on economic instruments for water management



Background

- Azerbaijan is considering a reform of its water management policies, to ensure food, energy, transport, environmental and other components of the national security
- To achieve this, the country needs to address the challenges faced by its water sector:
 - better protect water resources from pollution
 - drastically improve water efficiency
 - better manage floods and water-related disasters
 - ensure sufficient financing for water management and water services



The need for a National Strategy

- A national Strategy is required
 - To set priorities
 - To insure consistency across water and water-related policy objectives
 - To coordinate initiatives across levels of government and other players
 - To ensure consistency across policy instruments



A valuable starting point

- A draft National Strategy
 - A 2 year process
 - Some consultation
- Need to walk the last mile
 - Strengthen the economic dimension
 - Fit into Azeri legal framework
- The added value of the National Policy Dialogue on water



Objective of the project

- Strengthen the economic dimension of the National Water Strategy
 - Make the link between water policies and economic development
 - Put water policies on a sustainable financial path
- Expected outcomes
 - A strengthened National Strategy, which contributes to economic development and is financially robust
 - A clear case for the adoption of the Strategy
 - A agenda for the reform of economic instruments for water management



Proposed programme of work (1/2)

- Inventory economic instruments to manage water resources in Azerbaijan
 - Abstraction and pollution charges
 - Tariffs for water services
 - Water-harmful subsidies
 - Payment for ecosystem services
 - A review and an agenda for reform



Proposed programme of work (2/2)

- Assess implementation of economic instruments at one multi-purpose water reservoir
 - Investment and operating costs of the reservoir
 - Other costs (environmental, opportunity, etc.)
 - Mechanisms in place to recover (some of) these costs
 - Possible options to better cover costs and achieve water policy objectives
 - Accompanying measures, based on an assessment of potential consequences for water users
 - Recommendations on how to put multi-purpose reservoirs on a sustainable financial path



Why focus on economic instruments

- Generate revenues, to finance water services
- Promote water efficient practices
- Make water efficient technologies competitive
- Make low cost options attractive
- Value the benefit of watershed services



A Framework for Financing WRM

- 4 principles
 - Beneficiary Pays
 - Polluter Pays
 - Equity
 - Coherence
- Implementation issues
 - Earmarking?
 - Cost efficiency
 - A role for the private sector?
 - The value of water services
 - Governance



The experience with similar projects

- Good practice in OECD countries
- Recent reviews
 - Kyrgyzstan, Moldova, Russia
 - The Netherlands
- Some lessons learned
 - The importance of robust economic analyses
 - Affordability/competitiveness issues
 - The importance of accompanying measures
 - Enforcement and compliance
 - Targeted social programmes
 - Transition
 - Recycling revenues