

## **AGGREGATION ALTERNATIVES IN WATER SUPPLY AND SEWERAGE SECTOR IN ALBANIA**

The WSS sector in Albania is quite fragmented with 57 WWS utilities, where only 2 of them (Tirana and Durres) cover about 40% of the total number of customers in the country. The sector needs to aggregate in order to benefit from economies of scale, hence allowing a reduction in the operating costs, increases quality of services, opportunity for more qualified staff, and generating liquidity for small investments needs. As a consequence, Albanian utilities may become more financially sustainable and attractive for donors to realize the needed investments on a strategic scale.

In the national financing strategy of the WWS it is estimated that in the next 22 years, the state budget can cover less than 50% of the investment needs in the sector.

Albania is expected soon to open negotiations for accession into EU. The accession to the EU will be accompanied by the allocation of significant funds to the water sector in order to comply with the requirements of the European legislation *acquis* on water.

A fragmented sector has limited capacity to absorb strategic funds. Referring to the period immediately after the EU accession in Bulgaria and Romania, the absorption of EU funds by a fragmented sector was relatively difficult, and in the end, the constructed works resulted with quite high operating and maintenance costs. In the last decades, despite several efforts, no significant aggregation of utilities has been realized in Albania.

Aggregation by itself represents a very complex and delicate process that combines many objective and subjective factors. A feasibility study financed by World Bank drafted PADECO Co. Ltd in association with Valu-Add Management Services (June 2009) on the aggregation of the WWS sector in Albania concluded that: ***aggregation should be carried out on a voluntary basis and with incentives from the central government.***

The same conclusion was also reached in the study conducted for the sector aggregation in April 2020 and funded by Swiss State Secretariat for Economic Affairs (SECO).

There are currently several opinions on the possible ways to achieve sector aggregation. One of them is by an aggressive and immediate aggregation, where the sector **at the national level will be organized into one or 3-4 WWS utilities.** An alternative option would be ***to realize a soft or gradual aggregation of the sector through pilot projects*** that should serve as success stories for aggregation of the whole sector.

Taking into consideration the complexity of the aggregation process, as well as the specific sector conditions in Albania, an immediate aggregation of all utilities could face the following problems:

- A compulsory/forced large-scale aggregation would encounter some legal barriers due to a potential conflict with the organic Local Government Law, which clearly provides that local governments are responsible for the water and wastewater services in their administrative area. Hence, it would be necessary to amend the above law by at least a three fifth (3/5) majority of votes in the Albanian Parliament. On the other hand, this option falls in

contradiction with the European Charter for Local Autonomy signed by the Albanian authorities.

- Having one or just few aggregated utilities for whole country would face considerable difficulties in managing the existing 850 and more independent water supply systems and more than 300 water sources scattered throughout the territory. The management of the whole sector by one utility is recommended mainly for water production and transmission parts of the systems (like for instance in Portugal and Israel), where the transmission pipelines cover almost the entire territory of country. Furthermore, there are many management alternatives of distribution and billing services at the local government level..
- Other examples where water and wastewater services are provided by a single utility are some Anglo-Saxon countries, such as Ireland and Scotland. The climate conditions and management forms of water and wastewater services in those countries are different and they would be difficult to apply in Albania. In Ireland, the utility does not apply any tariffs for the population, and the O&M costs are subsidized by the central government by means of taxation. In Scotland tariffs are based on the living space, not on the volume of water consumption. Additionally, both countries do not face big wasting drinking water problems by using it illegally for irrigation because they have favorable climate conditions with frequent and moderate rainfall. Those countries also do not have problems applying a unified country-wide tariff that, if applied in Albania may affect households affordability to pay bills because of big income differences in the country.
- In Albania, each utility applies their own tariffs for different categories of customers in the covered area. Currently there are 57 different tariff systems that need to be unified. The average amount of the monthly bill in all 57 utilities can vary even 6 times from one utility to another utility. If all tariffs were unified for all utilities, the population of the smaller or medium size utilities would be penalized by higher tariffs than the current ones, hence generating risks of social problems for the municipalities. This situation is evident especially for the northeastern area of Albania, where unification of tariffs must be preceded by a tariff subsidy policy.
- The current tariff methodology applied by the Water Regulatory Authority (WRA) for each utility breaks down each cost of the services in sub-tariffs, respectively, for water supply, wastewater, drinking water treatment, wastewater treatment and for bulk water sale. The above five sub-tariffs are different for each one of the three possible categories of customers, respectively, households, public institutions and private companies. The unified billing system must represent all service specifics for each utility. Consequently, ***building a centralized billing system (software) for the entire country would not be technically easy to realize***, and would take quite a long time. On the other hand, this system would be subject to a dynamic and frequent updating due to the changing condition of services in every region or separate administrative unit.

An alternative option would be a gradual aggregation of the sector, realizing one or more successful aggregation through pilot projects and following the criteria of a voluntary basis aggregation, with incentives from the central government. The pilot projects would serve as success story and as feasibility reference for the strategy implementation of the whole sector. A strategy of aggregation could then be planned and implemented in the medium term according to the such criteria.

The implementation of this process requires in advance a survey in all municipalities to select the municipalities where it is possible to conduct an aggregation on a voluntary basis. It would be recommended to select 2-3 pilot examples and to take into account the following criteria of aggregation:

- a) The target should be preferably the utilities in the same region, where the Mayors are typically from the same political side and/or have a good understanding each other.
- b) Targeting one utility with a relatively solid budget and one or more utilities with poor financial performance.
- c) Engage the Mayors on the advantages of aggregation (economies of scale), as the most appropriate way to improve the financial performance of the utility and the quality of services provided.
- d) The aggregation process should be realized voluntarily and incentivized by the central government. Incentives may consist in subsidizing the aggregating utility for a transitional period to cover the O&M costs of the weak utility, as well as the physical investment for the new area of the service of the aggregate utility.
- e) The selected municipalities/utilities for a successful aggregation with the participation of the central government (Ministry of line) has to sign the preliminary agreements according to the template prepared in advance.

The implementation of this process needs the support of consultancy services to collect the required information about the performance of each utility, including the investment needs. Furthermore, short reports/studies should be drafted with expected tariffs for each possible aggregation and other details for the practical implementation of each selected pilot case.