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The Role of Public-Private Partnerships in Armenia's Water Sector Reforms

Liana Karapetyan

About the Author



Liana Karapetyan began working in the State Committee of Water System of the Ministry of Territorial Administration in 2001, as a Chief Specialist in the Division of Reforms, Investments and External Relations. She left the Committee in 2004, and was involved in different projects in the water and sanitation sector. In 2005 she worked as a Local Coordinator of the Yerevan Secretariat for Ministerial Conference on Financing the Water Supply and Sanitation Sector in countries of Eastern Europe, Caucasus and Central Asia (EECCA) organized by the Organisation for Economic Co-operation and Development (OECD). In 2006 she returned to the Committee as an Adviser to the Chairman. Her main responsibility is overall coordination of international relations, including reporting to donor organizations on the status of projects in water supply, sanitation and irrigation sectors.

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Abstract

This article, by IP3 Alumnus Liana Karapetyan, describes the role that PPP has played to date in reforming Armenia's water supply and sanitation sector. In the article, the author describes three forms of private sector participation that have been employed in Armenia: lease contracts, management contracts, and community-based partnerships.

Introduction

Armenia is located in southeastern Europe and shares boundaries with Georgia on the north, Azerbaijan on the east and south, Iran on the south, and Turkey on the west. Total boundary length is 1,254 km (778 mi). The population of the Armenia is about 3,2 M people. Administratively Armenia consists of 10 provinces (marzes) and the capital city, Yerevan.

Water resources

The biggest water basin of Armenia is the Lake Sevan measuring 34 billion cubic meters. The key rivers of Armenia are the Kura and Araks rivers. More than 80% of river flows are formed in the territory of Armenia. The total flow of the rivers is about 7,15 billion cubic meters.

There are 80 medium and large water reservoirs in Armenia. Ninety-six percent of drinking water is received from underground via springs or bore holes. The quality of the water from the springs is mainly high. Armenia has ample drinking water resources, but there are not adequate distribution systems to reach the entire population.

Water and wastewater system situation before reforms

After the collapse of the former Soviet Union and the subsequent economic difficulties in Armenia, water resources and system management in Armenia suffered significant setbacks. Water levels of the Lake Sevan were dropping due to overuse of lake's resources for generating hydropower and irrigation. The overall management of water resources was weak, institutions were unorganized and management in general was not integrated.

Poor coordination among various water sector agencies led to system deterioration, increased water losses and eventually collapse of the entire system. In order to rehabilitate and reform the sector, huge capital investments were required.

Tariff collection rates were very low, about 15%, and didn't even cover the costs for electricity to supply water, which was 80% of the tariff. Since the supplied water was not metered, it was not possible to calculate the real water use. Due to absence of the water supply network zoning, insufficient volume of daily regulating reservoirs, network deterioration and large volume water losses, water users started to receive water on average only 4 to 6 hours per day. In a few provinces the water was supplied only once or twice a week.

Implemented reforms

Taking into account the difficult situation and market demand projections, the Republic of Armenia made a decision to reform the sector. In February 2001 the RA Government adopted Decision #92 "On Reforms of Water System Management", which aimed to rehabilitate the financial structure of the water sector companies, improve the services provided to customers, modify tariff policy, and introduce economic reforms within the sector. The State Committee of Water System under the RA Government was established in Decision #92.

In 2002 the new Water Code was adopted, which enabled creation of a new institutional framework in Armenia. USAID provided the technical assistance to the Water Code revision working-group.



Water Code Revision Working Group

Lacking the resources within the national budget, the Government of Armenia sought foreign credits for the reforms. The World Bank and German KfW Rehabilitation Bank have contributed greatly to the reforms made in the water and wastewater sector, without which realization of the stipulated reforms would have been impossible.

There are five water supply utilities providing the water supply and sewerage removal services to the population of the Armenia. About 530 rural communities in the country are not served by any water utility. The State Committee of Water System negotiates with the donor organizations in order to find investments and start reforms for those communities.

Two management models are used by the water utilities in the country: centralized and decentralized. The centralized model of management is carried out by contracting private operators and the decentralized model of management is that of community involvement.

Centralized Lease and Management Contracts

The centralized model is applied for projects financed by the World Bank. The largest water company in Armenia, "Yerevan Djur" (Yerevan Water) operates based on a Lease contract. The company serves the capital city, Yerevan and the nearby rural communities. The second largest water supply company "Armenian Water and Sewerage" CJSC which serves about 40 towns and 300 rural communities, is managed by the French company SAUR, based on a management contract.

Yerevan Water Lease Contract

With the first World Bank loan project, the Government of Armenia signed a 4-year management contract for provision of drinking water services in Yerevan. The contract was awarded through a

competitive bidding process to “A.Utility”, a firm belonging to the ACEA Group Italian Company. The contract was later extended for a fifth year. Over the course of the contract, large-scale works have been implemented, particularly in the sphere of water supply improvement. As a result of this management contract, the following indicators have been reached:

- Water supply has improved from an average of 2-6 hours per day to an average of 18.4 hours per day. 66.4% of Yerevan subscribers now receive 24-hour per day supply service.
- Energy consumption has been reduced by about 50%
- The quantity of installed water meters increased approximately 100 times and reached up to 90%
- Water consumption per capita per/day was reduced by more than 7 times (due to the elimination of leakages and unaccounted-for-water)
- Fee collections for water supply services have been increased by 3-4 times.

In order to continue the work started under this project, and to build upon the achievements of the RA Government, the World Bank approved a second loan project, envisioning an even deeper commitment to private sector participation.

Using complex forecasting tools, the RA Government has analyzed different models of public-private partnerships to decide which form is best to further the management of the Yerevan water system. Through analyzing tariffs and accessibility, as well as a study of potential market participants, a “Lease Contract” was chosen as a more preferable and effective form of PPP for management of the Yerevan water system.

Following an international call for tenders in 2005, a 10-year Lease Contract was awarded to the French company “Generale des Eaux”, Veolia Water in 2006. The company established the new “Yerevan Djur” (Yerevan Water) CJSC at the end of 2005.

The model of the reforms for the Yerevan Water Supply System shows that because of the step-by-step private sector participation, the water utility in the capital of Armenia has become very productive and the quality of services provided has improved.

Armenian Water and Sewerage Company Management Contract

Similar to Yerevan Water, the management contract model is now being implemented in the Armenian Water and Sewerage Company. In 2004 the French company, SAUR was awarded a four-year management contract. This project also was possible by the World Bank loan. After 2008 the Committee will decide if the management contract should be extended for two years or if a lease contract would be more appropriate.

Decentralized Community Partnerships

Regional Partnerships

The decentralized model of partnerships was applied for implementation of the KfW projects in three provinces of Armenia: Armavir, Lori and Shirak. In this case three companies have been founded (in each province) where the state has 51% share and the communities – 49%. Afterwards, the share of the state should decrease; correspondingly the share of communities (the private sector) will increase. The General Meetings of the each company’s Shareholders are their

highest management bodies. The Boards of Directors of these companies implement the general management of the companies' activities. There are also General Directors of the companies, and these are elected positions.

The first project began in Armavir in 2002. Following its successful implementation, the second project began in 2004 in Lori and Shirak, and two companies have been founded with the same management structure.

Community Partnerships in Yerevan

In addition to the PPP contracts that were employed to improve Yerevan Water, there was also the "Community-Based Urban Water Supply Management Project" grant project that was implemented in Yerevan from 2003-2006. The grant was provided by the Japan Social Development Fund with the assistance of the World Bank. The main aim of the project was to improve the reliability of water supply in Yerevan's multi-apartment buildings using the community-based approach. Thus the creation and development of a management body in a



*Repairing water supply works in multi-apartment buildings-
Community-Based Urban Water Supply Management Contract*

multi-apartment building enabled the homeowners of the building to maintain and improve on their own the water supply system of their building.

During the project, water meters were installed in the apartments, large public awareness campaigns and training programs were implemented, and technical assistance was provided to the condominium managers. Inner water supply repair works in the multi-apartment buildings was carried out as well. This Project encouraged the support to the owners for establishing condominiums, assisted the existing condominiums for their development and strengthening.

Conclusion

Public-private partnerships in Armenia have become an important mechanism for solving various and complicated problems in the water sector. Involvement of the private sector in company management and financial investment promotes the development of the knowledge and the transfer of private sector management experience to the water utilities. Thanks to public-private partnerships the state bodies are not as concerned with the "day-to-day" management of the services and can now focus their time on regulation of the sector and quality of the provided services.

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