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# ASSESSMENT AND DEVELOPMENT OF MUNICIPAL WATER AND WASTEWATER TARIFFS AND EFFLUENT CHARGES IN THE DANUBE RIVER BASIN.

Volume 2: Country-Specific Issues and  
Proposed Tariff and Charge Reforms:  
Bulgaria – Summary



WORKING FOR THE DANUBE AND ITS PEOPLE

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## PREFACE

The Danube Regional Project (DRP) consists of several components and numerous activities, one of which was "Assessment and Development of Municipal Water and Wastewater Tariffs and Effluent Charges in the Danube River Basin" (A grouping of activities 1.6 and 1.7 of Project Component 1). This work often took the shorthand name "Tariffs and Effluent Charges Project" and Phase I of this work was undertaken by a team of country, regional, and international consultants. Phase I of the UNDP/GEF DRP ended in mid-2004 and many of the results of Phase I the Tariffs and Effluent Charges Project are reported in two volumes.

Volume 1 is entitled *An Overview of Tariff and Effluent Charge Reform Issues and Proposals*. Volume 1 builds on all other project outputs. It reviews the methodology and tools developed and applied by the Project team; introduces some of the economic theory and international experience germane to design and performance of tariffs and charges; describes general conditions, tariff regimes, and effluent charges currently applicable to municipal water and wastewater systems in the region; and describes and develops in a structured way a initial series of tariff, effluent charge and related institutional reform proposals.

Volume 2 is entitled *Country-Specific Issues and Proposed Tariff and Charge Reforms*. It consists of country reports for each of the seven countries examined most extensively by our project. Each country report, in turn, consists of three documents: a case study, a national profile, and a brief introduction and summary document. The principle author(s) of the seven country reports were the country consultants of the Project Team.

The authors of the Volume 2 components prepared these documents in 2003 and early 2004. The documents are as up to date as the authors could make them, usually including some discussion of anticipated changes or legislation under development. Still, the reader should be advised that an extended review process may have meant that new data are now available and some of the institutional detail pertaining to a specific country or case study community may now be out of date.

All documents in electronic version – Volume 1 and Volume 2 - may be read or printed from the DRP web site ([www.undp-drp.org](http://www.undp-drp.org)), from the page [Activities / Policies / Tariffs and Charges / Final Reports Phase 1](#).

We want to thank the authors of these country-specific documents for their professional care and personal devotion to the Tariffs and Effluent Charges Project. It has been a pleasure to work with, and learn from, them throughout the course of the Project.

One purpose of the Tariffs and Effluent Charges Project was to promote a structured discussion that would encourage further consideration, testing, and adoption of various tariff and effluent charge reform proposals. As leaders and coordinators of the Project, the interested reader is welcome to contact either of us with questions or suggestions regarding the discussion and proposals included in either volume of the Project reports. We will forward questions or issues better addressed by the authors of these country-specific documents directly to them.

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## **Overview of Issues and Proposed Tariff and Charge Reforms: Bulgaria**

On its way to European Union accession Bulgaria is facing numerous challenges and is undergoing significant reforms. The changes that take place in water services sector could not be viewed separately from the general changes in regard to environmental protection and regional development policies. It is more than clear that achieving progress in one area and neglecting another would not lead to much success in practice. Moreover, due to the inherited from the past integration of public services, it is not easy to address changes in one area without considering the necessity for change in the whole sector. In that sense when we are discussing reforms related to pollution reduction, we need to examine closer the present situation of the water service sector, the sustainability of operations and potential future developments. That could be the starting point or the basis, which determines the particular framework for reforms consideration and proposals selection.

Speaking about privatization or any other ownership reform for example would be meaningless if not thinking how to prepare the ground for such a change and bring in line all stakeholders' interests and efforts. Local circumstances and conditions could be an obstacle or a benefit for any policy we are trying to promote. That is why when developing the Bulgarian National Profile and Case Study, one of our prime objectives was to be more practical in addressing pressing local (regional) problems. To achieve our goal and implement effective nutrient reduction reforms, we have to prepare the ground for them. First by starting with stabilizing the existing water service system and ensuring its sustainability not just one year from now but also in the future.

The need to assess areas for potential improvements and unutilized resources is vital for the water sector in Bulgaria. In its efforts to reach EU standards and requirements, our country is trying to implement reforms that might not always be effective given the local conditions. For example, the transition from centrally planned economy to a market oriented one requires the transfer of authority related to local policy decisions to municipal governments. However, if we couple that need with the fact that existing infrastructure was built in large national scale not taking much into account any smaller administrative divisions than we have a problem. Adding the state of amortization of that infrastructure and the government budget constraints we have already a big problem.

Bulgarian water supply and sewage companies need investments and government support to handle issues like replacement of outdated equipment, building new WWTPs, increasing the number and coverage of sewage connection, etc. However, if the central budget is limited and there might be obstacles to transfer state resources into private hands what other options are there? One possibility is to try to utilize the available resources. On larger scale, Bulgaria has knowledgeable experts, committed to reforms government and already built though not in ideal shape infrastructure. What we do not have is functioning effluent charges system, effective incentive schemes for industries to commit themselves to pollution reduction and society well aware and active in issues related to environmental protection and resource savings. There are, however, additional, unutilized resources on water companies and government levels that could positively change the present situation.

In the report to follow we will try to show that there are substantial areas for improvement that can be utilized to address the existing problems that Bulgarian water sector is facing. Furthermore, with cooperation, accurate data, and disciplined decision making on the part of policy makers and water units management solutions could be found that reduce water pollution from municipal water systems at a reasonable cost. In addition the current steps taken towards better strategic government planning and vision for the future of the sector as outlined in the National Priority Programs, cooperation projects between Ministry of Regional Development and Public Works and Ministry of Environment and Waters, give signals for positive developments in that direction. The envisaged involvement of the private sector participation in the operation and management of the water companies could also contribute for the resolution of the problems arising in the case of state acting as both owner and regulator trying to protect socially disadvantaged groups of the population.

The unutilized resources and areas for improvement in question could be divided in several streams. One of them is related to the possible reassessment of existing tariffs and charges design mechanism

so that they reflect real costs of production. The present practice is that only water billed to consumers is taken into account and expenses that are related to investment and water losses above 25% are not considered. Another area for improvement is related to the cross subsidizing among service users. Industrial users pay in general higher water and waste water tariffs than budget entities and households. Though aimed to protect social interests, such a redistribution create few incentives for water saving and its efficient use. It could also very well erode profits for water companies as industry has better options to shift to alternative sources (its own) of water supply. In addition the current practice of pollution fines encourages in some cases firms to pay and pollute instead of build WWTPs or take other measures to prevent pollution.

Yet third stream of unutilized resources comes from the shift in management and organizational practices towards pro-service and cost-reducing decision-making. The use of these is aimed to make good, transparent choices about investments and increase the collection efficiency of outstanding debt that most of the water companies carry for more than a year. The need for good, long term investment decisions is more and more pressing as the equipment and distribution network are depreciating further and have to be replaced. The potential dilemma, in case the objective is met, would be how any net-revenues from higher tariffs are to be invested so that to have practical beneficial effect.

Recently much hope is laid on the positive effects of private sector participation in the water sector. Apart from additional capital to increase investment opportunities, the interest-driven efficiency gains in daily operations could be more than the when the water company was state controlled. However, where some people see benefits other see danger. The usual concern is that private owners would not care about the socially disadvantaged part of the community and would probably exploit the company equipment and infrastructure with the objective to obtain short-term economic profits. That would threaten the long run sustainability and availability of water services or at least face community with substantial costs to repair the damages.

The possible areas for improvement and unutilized resources have their costs and each carry some potential risks. It will be our goal not only to address them but also to render their use meaningful through practical implementation in concrete reform proposals. In this sense, a major task throughout the National Profile and the Case Study analysis will be not only to present a detailed overview of the local conditions with existing problems and possible areas for improvement but also to try to develop a basis for selection among potential reform proposals. For the purpose of the present study we will attempt to recommend those that have relevance to ensuring the sustainability of the system and resulting in possible upgrades related to the efficiency of operations and closely linked to water pollution reduction and service quality.