

## IMPACT STORIES

# PPIAF Support to the Regulatory Framework in the Water Sector in Bulgaria



PPIAF support in Bulgaria has prepared the groundwork for increased private sector participation in the water sector. In 2000 PPIAF provided assistance to design a new regulatory framework in the water sector aimed at encouraging increased private sector participation in the sector. The Government of Bulgaria accepted the report's recommendations, leading to a second request to help finalize legislation for the establishment of a new regulator for the sector. PPIAF support led to the promulgation of the Water Supply and Sewerage Services Regulation Act in February 2005, which led to the establishment of the State Energy and Water Regulatory Commission, responsible for regulating water supply and sewerage services, with a view to opening the sector to increased private sector participation.

In 2000 there were 48 water and wastewater companies in Bulgaria, of which 13 were fully state-owned, 16 jointly owned (51% state and 49% municipalities), and the remainder fully municipally-owned. The sector was fragmented and suffered from insufficient resources, heavy political interference, and low quality of service. Water and wastewater companies were generally inefficient, characterized by over-employment, high levels of non-revenue water, and poor collection rates. Urgent reform of the sector was motivated by: i) the need for good quality water and wastewater services, which would require improved efficiency to generate sufficient resources for operations and maintenance of existing assets, and investment in new assets; ii) the necessity to improve water and wastewater quality to meet European Union accession guidelines.

The Government of Bulgaria initiated a reform program to improve the operational efficiency of the water companies with the aim of introducing private sector participation to the sector. As part of this reform process, the government bid out a 25-year concession for the Sofia water system, which was awarded to SofiyskaVoda in October 2000 (supported through a \$29.2 million loan from the European Bank for Reconstruction and Development). However, the regulatory framework for the sector remained inadequate, and the Government of Bulgaria requested two PPIAF grants to help establish an independent regulator to ensure good quality service and affordable tariffs for citizens.

### **PPIAF SUPPORT**

The first PPIAF-funded report reviewed current sector performance and the legal and regulatory framework for private sector participation in the water sector. In particular, the report focused on the establishment and role of a proposed water regulatory body, and provided recommendations on the design of a new regulator to: encourage the development of efficient, effective, and financially sustainable water service provision; issue water and wastewater licenses; develop performance standards for water and wastewater companies; and communicate a national water policy and strategy with regards to private participation in the sector.

The report recommended that the water regulatory body should be established at a national level, formed as a commission under the Council of Ministers to give maximum independence from government

interference and from water company influence. In addition, it was suggested that a new Water Services Act (or revisions to the existing Water Act) should be drafted as the mechanism for establishing the water regulatory body, and to reflect the government's water sector strategy on encouraging private sector participation in the sector.

Following the acceptance of the recommendations from the first PPIAF activity, further PPIAF assistance was requested in November 2002 by the government to review and finalize draft legislation for the creation of the water regulatory body. A decision was also taken to place the regulator as part of the already existing State Energy Regulation Committee.

## OUTCOMES

In February 2002, following the completion of the first PPIAF activity, the Government of Bulgaria took the decision to establish a water regulatory body as a state commission under the Council of Ministers, as recommended within the PPIAF report. The Government of Bulgaria decided to enact a new law for the establishment of the water regulatory body, with the new legislation detailing the powers and duties of the water regulatory body.

In July 2002 the Government of Bulgaria also began drafting a new water sector strategy focused on the introduction of the private sector as a means to improve operational efficiency and integrated management of water resources in the context of the European Union Water Framework Directive. The development of a national water strategy was a specific recommendation of the PPIAF-funded report. The National Strategy for Management and Development of the Water Sector (2004–2015) was subsequently approved by the Council of Ministers in 2004.

In September 2004 parliament passed a bill on water services regulation. The bill put the proposed State Energy and Water Regulatory Commission in charge of regulating water supply and sewerage services. The regulation applied to all water companies regardless of the ownership and form of management. The Water Supply and Sewerage Services Regulation Act was promulgated on February 25, 2005. As a result of the law's promulgation, the State Energy and Water Regulatory Commission was established, effectively adding responsibility for regulation of the water sector to the remit of what was previously the State Energy Regulatory Commission. The State Energy and Water Regulatory Commission assumed responsibility for tariff setting, licensing,

and quality of services of enterprises in the gas, electric, district heating, and water supply and sewerage sectors.

In 2010, with non-revenue water in Bulgaria averaging 60% and an estimated €3.5–4.0 billion of investment required to replace and upgrade the water supply and sewerage network, the Ministry of Regional Development and Public Works announced plans to revolutionize the water sector in Bulgaria through 48 concessions modeled on the Sofia concession. The plans include the transfer of current utilities' assets from municipalities to new water associations, which would manage the infrastructure.

## DONOR COORDINATION

In addition to the PPIAF support, several other donors also provided assistance to the Bulgarian water sector. The European Union's water quality requirements and environmental guidelines were used to help Bulgaria meet European Union accession requirements. The World Bank and European Investment Bank managed technical assistance to help introduce private sector participation in multiple water utilities across Bulgaria. The European Bank for Reconstruction and Development provided technical assistance and financing for the 25-year concession for the Sofia water system, awarded to SofiyskaVoda in October 2000. Finally, the International Finance Corporation is supporting the concession of the Pleven Regional Water Company.

## IMPACTS

In 2006 the government engaged the International Finance Corporation PPP Transaction Advisory team to implement a concession for the Pleven Regional Water Company. The mandate is still ongoing, but preliminary findings suggest that the concession, once implemented, will mobilize \$225 million of private investment, improving water service for 280,000 people.

### RELATED PPIAF ACTIVITIES IN BULGARIA

- 2000: Water and Sewerage Regulatory Framework, **\$350,000**
- 2002: Drafting of Legislation to Establish a Water Sector Regulator, **\$75,000**