Social Assessment Prioritizes Urban Water and Wastewater Problems in Russia

Russia’s transition to a market economy has had profound effects on its municipal water and wastewater sector. The country’s overall economic downturn and severe fiscal constraints have deprived the municipal water and wastewater companies (Vodokanals) and local governments of the large subsidies they used to receive from the national budget. The scarcity of local resources has prevented new investment, and many Vodokanals need help to keep their systems functioning and maintain even the minimum service quality necessary for public health. As a result, people suffer from inadequate water supply and have few opportunities outside these agencies to meet their needs.

The objective of the proposed Bank-financed project on Russia Municipal Water and Wastewater is to improve the water services people receive by supporting water sector reforms, especially in small and medium-sized cities—provided that the water utilities opt for reform. Reform would be achieved through a series of measures including capacity building, policy development, improved maintenance, operations and investments, and expanded consumer involvement.

People are the most important factor in all water supply and sanitation activities. The sustainability of policies, institutional development efforts, and system investments depends on an adequate assessment of people’s needs and expectations and the availability of adequate information to different groups of people to ensure support for sector reforms. In preparing a water supply and wastewater project, it is important to give priority to the needs of the poor and otherwise vulnerable groups, without adversely affecting other social groups. Therefore, the needs of key stakeholders,
including different types of households, industries, and commercial and tourism enterprises all require consideration.

Social Assessment

The social assessment (SA) for the Russia Municipal Water and Wastewater Project sought to: (a) identify key relevant social development and participation issues; (b) formulate a project preparation and implementation process that would ensure stakeholder participation; (c) design measures to remove institutional constraints to participation of the poor and vulnerable among project beneficiaries; and (d) define monitoring indicators to evaluate project development effectiveness. An important objective of the SA was to identify the problems faced by water users and the strategies they use to cope with an unreliable water supply and the views of different stakeholder groups. The SA also drew attention to potential social impacts of alternative policies, and considered whether project objectives and incentives for change, including cost recovery measures, were appropriate and acceptable to all beneficiaries, including low-income groups. Another specific focus of the SA was the potential for cost recovery.

Stakeholders and Institutional Issues

The key stakeholders identified by the SA are the actual and potential users of municipal water and wastewater services, including households living in apartment buildings and in single-family houses and industrial and institutional consumers. Special groups exempt from water payments constitute yet another important stakeholder group. Each of these groups has its own demands and expectations from the water supply utilities and differing capacity and willingness to pay for the services received.

As the pressure on water agencies for cost recovery increases and central/local government sources of finance dry up, citizens will be the single most important potential source of finance for water companies—whether as payers of user fees or investors in bonds and stocks. This is especially true since these companies will have to substantially enhance their cost-recovery potential before they can be considered creditworthy by commercial banks. Understanding the special needs and demands of local people is critical: both because it is important to respond to their needs, and because doing so is the only mechanism of finance for the water companies. Suppliers of water, including vendors, bottled water producers and distributors, and well drillers were also considered to be stakeholders, and their views were solicited.

Local governments are currently the main source of finance for water agencies, but they have lost their ability to provide such support. Thus they have a major stake in ensuring the financial autonomy of the water companies. Local enterprises have traditionally cross-subsidized the household sector, but are no longer able or willing to do so. Most enterprises do not pay cash for the water they use; instead, most payments are made either through account clearance with Vodokanals or bartering. In the end, Vodokanals effectively subsidize the household water system, but do not obtain the necessary funds from industrial consumers. The most critical institutional issue relates to the restructuring of municipal water agencies. From the perspective of people, especially those who are needy and vulnerable, the distribution of subsidies provided through these agencies is yet another key institutional concern.
Social Assessment Findings

Research into the social conditions in Gagarin, a small-sized city close to Moscow and Oriol, a medium-sized city and a regional center, revealed valuable information on the social fabric and composition of these cities, which may have implications for the proposed project. Residents of both cities are well educated and have diverse capabilities, ranging from industrial to administrative work; however, unemployment is high in both cities. The cities are aging; more than half of all households include at least one pensioner. Income- and employment-related problems constitute a concern for most, and wage arrears and unemployment affect the majority of households. The SA found that people who occupy single-family homes and the elderly are disproportionately poorer than average. Water supply, sanitation, and health concerns constitute the next level of priority for residents, following income concerns.

Citizens of both cities complain about the poor quality, irregularity, and scarcity of the central water supply. Complaints center on suspended solids in the water supply, the poor condition of pipes and taps, and the odor and color of the drinking water. About 18 to 20 percent of the households in each city live in single-family houses that are not connected to the main water pipeline. Among them, pensioner households living in these houses are in a particularly disadvantaged situation. They lack access to central water supply, sewerage or heating, have low capacity and willingness to pay for improvements in water supply services, and are in a particularly vulnerable economic position.

Households. Households connected to the water pipeline tend to have higher incomes and can better afford, and are more willing to make, monthly payments for improvements in water supply services. Such households live mostly in apartment buildings, and their main source of water is the central pipeline. The types of improvements that they demand vary as does willingness to pay; for instance, replacement of inside apartment pipes is important for many residents, and they are willing to pay more for their replacement than for other improvements.

The poor quality of water in Gagarin constitutes a major health hazard. Tests conducted by the state doctor found that the quality of water in the city is poor compared to other regions. Most families use bathtubs and buckets to store water, which aggravates the already poor quality. The sewerage systems in Gagarin and Oriol are old and in poor condition; breaks in the system also pose an important threat to public health.

Industrial Consumers. Industrial enterprises and institutions in Gagarin and Oriol are currently going through transitional problems that include low demand for their products, declining production levels, high taxes, and high fees for power and transportation. These enterprises find current water supply prices unjustifiably high and complain about intermittent and low-quality water supply. Despite this, they would be willing to make higher monthly payments—subject to real improvements in the water supply system and their financial situations. All enterprises are connected to the central water supply system in both Gagarin and Oriol; in addition, some have their own water sources. Their water consumption needs vary depending on the nature of their production and capacity. They also have connections to the central sewerage system, but find the tariffs excessively high.
Social Assessment Recommendations

The SA concluded that when financial resources are limited, targeting unsubsidized improvements to households connected to the water supply system through rehabilitation of the existing water supply and sanitation system is more feasible than connecting households currently lacking access to piped water. It is also crucial to rapidly improve water supply after raising the tariffs, suggesting investments with short implementation periods to consumers who can afford tariff increases.

Subsidies could be targeted to pensioner households living in single houses. Since they are not connected to the main water supply, they will not benefit from existing or new subsidies. Therefore, it is necessary to redirect subsidies to these people and include them in the social safety net.

Although enterprises currently obtain water from the pipeline, they have access to alternative water sources and are dissatisfied with the current practice of subsidizing households at the expense of industrial enterprises. It is thus necessary to revisit the assumption of cross subsidies and, if possible, reduce them gradually while attempting full cost recovery in the water-supply sector.

Investment in rehabilitation of sewerage systems is a priority, and could focus on maintaining and improving the existing system rather than new construction.

A strategy must be devised for the water supply and sanitation sector to gradually eliminate subsidies and achieve full cost recovery. But it is crucial to pay attention to consumers’ capacity to pay for the water they are using. To this end, a continuous social impact monitoring process needs to be put in place to track actual changes in the water supply systems and make necessary changes in project implementation.

Stakeholder participation in the management of local water companies must be enhanced. This may be possible through the establishment of a public relations department mandated to design and implement a comprehensive information/communications strategy to provide timely information on expected problems and solutions and receive feedback from users, financiers, and other stakeholders.

Water company management, including the Bank-financed project, would benefit from regular monitoring and evaluation, including social impact monitoring. This would help in assessing the development effectiveness of water supply and wastewater investments, ensure that health hazards are reduced, and that the needs of users—including the most needy and vulnerable—are met.
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Environmentally and socially sustainable development network

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