

Water Regulatory Authority of Albania

# Report on the Performance on the Water Supply and Sewerage Utilities

# 2018

(English short version)



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**ALBANIA**

**ANNUAL PERFORMANCE OF THE WATER SUPPLY AND SANITATION SECTOR**

**YEAR 2018**

**Summary**

***Performance Report as an instrument of analysis, and transparency in the framework of WSS sector reform***

WRA, as an independent institution, has the legal obligation to draft the Annual Performance Report of the WSS Sector and for each licensed water company. WSS Utility Performance Report 2018 compiled by WRA is an information and transparency instrument to the public and all stakeholders involved in the water sector. It provides an overview of the sector comparing to the previous years (benchmarking) and to the performance trend of the entire Albanian water sector.

The report analyzes the causes of the poor WSS sector performance and gives a set of recommendations for improving the technical and economic KPIs of utilities. The utilities see the report the tool to compare their performance with those of other utilities in the WSS sector.

***Central Government Reform in the WSS Sector***

In January 2016 the government initiated the reform in the Water sector by the DCM No. 63, dated 27.01.2016 on the reorganization of the sector in accordance with the new territorial administrative division by the principle 1 municipality - 1 utility, actually is at the end of the process. Nevertheless, all the utilities are operating and providing services in the new service area, many of them have failed to meet the requirements of the new reorganization, namely making the physical inventory of the assets, their estimation and registration in the National Business Center. As a result, by the end of 2018, only 35 Utilities have completed the reorganization process. During 2018, sector reforms had positive effects in terms of eliminating of many illegal connections, increasing the number of installed meters, as well as the overdue debit.

At the end of 2018, in order to accelerate the improvement in the sector, MIE undertook an initiative to draft a new Law on the Sector assuming the unification of all existing and bylaws in the sector into a general law for sector. The law is the subject of discussion by the Working Group Force setup in the end of 2018, of the new approach proposed to improve the financial performance of the utilities. The new approach consists in inserting of a separate structure (Operator of the Last Resort) which has to hand over the management of poorly performing utilities. In regard of the strategy aggregation of the sector, the new approach intends to do it through the establishment of the Common Competent Subjects, in which will participate two or more local governments, the central government for joint management of the services in the new service area of the local governments.

**Small Utilities, lack of capacity** The Utilities, mainly the small ones created by the implementation of the Territorial Reform, have a lack of human capacity mainly of technical managers with the proper graduation. In the other hand, it remains a serious problem for the utilities to obtain the Hygiene-Sanitary Approval Act by the State Health Inspectorate. It needs to clarify the appropriate legal procedures and changes that utilities must comply with the Hygiene-Sanitary Inspection Reports requirements in regard of water supply and sewerage systems components. In support of the shortcomings identified in the above report, is required the financing of appropriate investments to meet them.

**Utilities should have a 5 year Business Plan** Reorganized utilities should prioritize to draft a 5-year Business Plan with relevant action plans to improve performance indicators, including in particular a physical investment program, against the illegal connections, water meters installation, increasing the collection rate, which should be financially supported by municipalities and NWSSA and donors mainly for small utilities, which do not have the necessary capacities and financial means for its realization.

**WSS Performance Sector** The performance of the WSS sector is summarized in the Table 1 based on the Key Performance Indicators that WRA uses to evaluate the performance of the utilities.

**Table 1 - Key Performance Indicators of WSS Sector**

Key Performance Indicators	2017	2018	Performance Trend	WRA Good Performance
Non Revenue Water (%)	65	63	↗	30
OPEX Cost Coverage (%)	109	119	↗	100
Total Cost Coverage (%)	85	92	↗	80
General Collection Rate (%)	92.76	98	↗	82
Current Collection Rate(%)	78.84	79	↗	82
Metering Ratio (%)	68.3	74	↗	85
Staff Efficiency (staff/1000 connections	5.50	5.35	↗	4/6/10
Continuity of Water Supply (hours/day)	12	12.7	↗	18
Wastewater Sewerage Coverage (%)	50.2	52	↗	75
Water Supply Coverage (%)	78.3	77	↘	n/a

Source: NWSSA

Sector Performance Indicators for 2018 generally have a positive tendency compared to the previous year, except for "Water Supply Coverage" which appears a small negative tendency, and "Current Collection Rate" remaining at the same level.

The quality of service provided to customers in terms of water supply time compared to 2018, although improved, remains at unsatisfactory level. Staffing Performance Indicator has slightly improved although overall the sector is over-staffed and its increase was relevant during 2018. Financial indicators of OPEX and Total Cost Coverage have a significant improvement for 2018 respectively by 10% and 7% compared to the previous year.

**Reliability and Accuracy of Data Reported by utilities** Reliability and Accuracy of Data remain a concerning problem in the reporting data process of the utilities to the NWSSA, data of which is referred the Performance Report of 2018. Significant inaccuracies are observed in terms of both economic and in technical data and consequently the calculation of the indicators results is not fully correct. This fact is

confirmed by the WRA during the verification of the Financial Balances and also during the application for tariffs of the utilities. On the other hand, the water balances that utilities submit to the WRA are drafted empirically and superficially for various reasons, but mainly due to the lack of water meters in the source and other key points of the water supply systems. Consequently, the Non-Revenue Water indicator has to be taken with some reserves concerning the accuracy.

According to accuracy and reliability of the above data, the authors of the Report have paid enough attention during the analysis to exclude those that they are completely unreliable which can overthrow the final conclusion about the performance of the sector. WRA has taken the necessary steps in 2019 to build its own independent data system based on a practical Excel platform.

***The financial situation of WSS Sector***

The financial situation of the sector for 2018 compared to the previous year is improved, activity income was increased by about ALL 1,403.6 million while OPEX's and Total costs increased respectively 468 million ALL and 830.7 million ALL. Utilities with significant revenue growth are Tirana with 1,177 million ALL, Durres with 207 million ALL, Korça with 64 million ALL, Kavaja with 64 million ALL and Saranda with 26 million ALL.

There are 17 utilities out of 55 utilities covering the OPEX's costs. Coverage of OPEX costs level has increased significantly for the company of the first group, from 104% in 2017 to 133% for 2018.

The real need for subsidies for 38 utilities that do not cover OPEX costs is estimated ALL 1,041 million (about EUR 8.3 million), while the subsidies granted from the central government for 2018 were at the amount of ALL 1 056 million (about EUR 8.4 million). It is relevant the fact that 52% of the total need for subsidies are granted to utilities such as WSS Vlora (21%), WSS Kavaja (10%), WSS Kurbin (7%), WSS Patos (14%).

The subsidies for some utilities are allocated over the real needs of covering their OPEX costs, while in others are subsidized under their real needs. However, is needed more transparency on how subsidies have to be distributed in the future.

***Utilities are overstaffed***

Although for 2018 this indicator has a positive trend on average (5.35 out of 5.5 staff / 1000 WSS connections), it still remains at the unacceptable level. The improvement was not as a result of the staff reduction, but by the increase of the number of connections and not a reduction in staff. The fact is that in total for the sector the number of employees is increased by 412 persons. The increased number of employees is argued because of new reorganization of the utilities with additional staff required for the joined rural areas systems, as well as the fulfillment of legal obligations about the security of the water supply facilities with guardianship. In order to reduce the labor costs, the last one issue should be resolved by technical means, including the camera of surveillance.

***Aggregation of Utilities***

Aggregation is immediate need for the sector highly fragmented with 57 Utilities operating with very high costs. Aggregation of utilities represents an indispensable solution to increase their efficiency. WRA is proposing the selection of 2-3 possible cases of successful aggregation, applying the criteria of voluntary will of the local governments and with incentives from the central government. These cases will further serve as a champion for a successful aggregation of the entire sector.

**Investment in  
a strategic  
level and  
aggregation**

During 2018, investments in the water supply and sewerage sector were funded by the state budget (35%) and by the foreign donors in the form of grants or loans (65%). The total amount financed for the investments was around € 70 million, which still remains far from real investment needs in the sector.

Table 2 gives the investments made in the sector over the last 3 years, which shows a declining trend over the three last considered years.

**Table 2 - Investments of the Sector, Year 2016, 2017, 2018**

në 000/ ALL				
Funding Source	Description	Year 2016	Year 2017	Year 2018
	Budget State	4,108,555	4,194,097	3,106,825
	Foreign	8,504,013	6,435,508	5,592,681
	Total	12,612,568	10,629,605	8,699,506
Destination	Water supply	4,950,000	5,000,000	4,245,937
	Sewerage	4,712,568	2,900,000	2,224,520
	WWTP	2,950,000	2,729,605	2,224,749

Referring to the planned and allocated investment plans in the sector, it is noticed that by the end of 2018 they are realized on average around 95%, which is considered a very positive performance.

Referring to the Master Plan, the needed investment in the sector are estimated about around 6 billion EUR. i.e. projected up to 2040, the required financing needs count about EUR 270 million per year. This value is far from the real possibilities to finance the sector, which in the last 10 years has been by an average of 50-60 million EUR per year.

There is a need to approve the draft on the document of the National Strategy for Financing of the Water Supply and Sewerage Sector. The model designed in 2016 to cover the financing scheme has identified the costs of achieving the sector's objectives under the three TTTs system, respectively, from Taxes (government budget), Transfers (donors), and Tariffs for the services taking into account the affordability criterion for the customers.

## CONCLUSIONS

- The utilities and municipalities should complete the reform process through asset registration and other necessary bureaucratic steps.
- The utilities should address the issue of the asset management. They have to draft a asset management plan to better manage fixing assets in order to reduce the technical and administrative losses in water supply system.
- Taking into account the financial situation of the sector, and the needs for subsidies, the attention should be focused on the individual problems of the utilities, analyzing their performance, opportunities for improvement and on the correct policy to allocate the subsidies.
- Reduction of Non-Revenue Water remains a serious problem. The utilities should be encouraged and supported by central government to install meters in production points (sources) and into individual households in order to have a real water balances

and action plans to reduce water losses.

- Given the importance of the 5-Year Business Plans for Utilities, WRA should encourage the utilities to have a draft, as a legal prerogative when they have to apply for new tariffs near WRA. NWSSA should plan to allocate some funds for the utilities with the limited financial opportunities to draft a 5 years business plan.
- The new law for the water sector proposed is conceived as one integral document, in which are included the laws and sub laws of the current legislation. This makes it a very heavy document difficult to respond to the different dynamic needs and requirements for some parts of it. It is recommended to maintain separate the current law no. 8102, and what it appears really necessary urgent is the revision respectively, the sub-law regarding the Water Code, and this one of the Hygiene Sanitary Permission issued by the National Sanitary Inspectorate that the utility needs to obtain in order to be equipped with the License for WS and WWS services by the WRA in the service area.
- Considering the new strategy approach to improve the sector performance, it is necessary to analyze all the legal aspects of the basic elements for setup and operating terms of the Last Resort Operator and the Common Competences Subjects.
- WRA is recommended to be involved in the process of setting investment's priorities in the water supply and sewerage sector, as well as in their approval based on economic and technic criteria.
- WRA should assessment the elements of the affordability in cooperation with INSTAT, as the final verification criteria on covering service costs by the customer bill. WRA should evaluate and select the utilities whose financial sustainability requires very high unaffordable tariffs for consumers and which should be continued to be subsidized by central or local government.
- It is necessary to update the WSS Sector National Master Plan in order to include the investment needs of new rural areas that have previously been out of area's service utilities. The changes in the updated version should be reflected in the draft of the National Financing Strategy of the Water Supply and Sewerage Sector.
- The sector is very fragmentized, and the central government should prioritize the beginning of the implementation of the utilities aggregation strategy with one or two pilot projects, where the process is most likely to be successfully implemented, respecting the criteria of owners' voluntary free will and with incentives from the central government. Aggregation strategy should focus mainly on medium size group utilities, case by case and not on block.

## General

Albanian Water Regulatory Authority is a public independent institution, responsible for regulation and monitoring of the water sector in Albania. Drafting the annual report performance for the WSS and each licensed utility in the sector constitutes a legal obligation of WRA.

Annually Performance Report of 2018 for Utilities is an informative and transparency instrument for the public and all stakeholders. It provides an overview of the sector compared to previous years (benchmarking) and the performance trend of the entire Albanian water and wastewater sector.

The report is based on technical and economic data of WSS sector for 2018 provided by Benchmarking and Monitoring Unit near NWSSA not early than middle of May 2019

Given the importance of the analysis, conclusions and recommendations given in the WSS Sector Performance Improvement Report, has made every effort to publish the report not later than end of June 2019 giving to the utilities the minimum possible time during the year to implement the report recommendations to improve the performance of the sector.

The report analyses the causes of the low performance of utilities and gives recommendation to improve technical economic indicators of the utilities. The utilities can utilize this Report for benchmark purposes to compare their performance with other similar utilities in the sector.

The performance indicators of 2018 compared to the previous year generally had a positive trend except for the indicator "Coverage with water supply" for which the trend is negative, while the indicator "Current Collection Rate" remained the same as in 2017.

Improving the performance of the sector is argued by a growing commitment of utilities' staff in implementation of the reform undertaken by the central government.

The further improvement of the WSS sector performance is mainly linked the problems which the utilities have to face during the reorganization according to the reform requirements for including in their new service area part of the rural areas administered before by the former communes.

The inclusion of new rural areas in the Utilities area service constitutes an additional financial burden for the utilities because mainly those areas were operated by the former communes applying very low tariffs for the customers, as well by a very low level of collection rate.

Past accumulated issues in the sector dictated the urgent need for the reform the sector to reconsider in a more realistic and effective basis the implementation of emergency measures within a three-month period mainly to eliminate illegal connections, as well the objectives to be achieved by the end of 2018.

In 2018, the central government aimed the sustainability of the utilities continued with the campaign to eliminate the illegal connections. At the same time, it was proceeded by signing the performance contracts between MIE represented by NWSSA and Municipalities, based on forfeit performance indicators objectives with the same values for all utilities because of shortage of necessary time to evaluate the indicators for every single utility. In fact, the real achievement value of the objective's setup in the Performance Contract by at the end of the year would serve as a starting point for setting objectives for the company to achieve in the following year (2019).



As a result of the reform, the sector had a positive tendency in eliminating illegal connections, as a result of the serious commitment of Utilities in raising consumer awareness which has led in increasing the number of clients, the number of metered household customers, as well, increase the collection of the old debts.

It is evident the fact that the reorganized Utilities have urgent need to draft a 5 Year Business Plans to scan the situation, identify the management problems and investment needs.

The 5 Year Business Plans of the utilities should be considered as a necessity or legal prerogative, not only as an instrument for company management, but also as a key argument when applying for new tariffs near to WRA.

Business Plans, Asset Management Plans, Illegal connections Programs are some of the key guiding tools to improve the financial sustainability of the utilities including the planning of the investment needs.

In conclusion, performance improvement of the whole sector should be closely linked to a comprehensive commitment of all stakeholders in the sector, namely Utilities, the local and central government.

## **1 - The Reform on the Sector and the Need for Aggregation**

The reform on the water sector started on January 2016 with the CMD no 63, presupposed the reorganization of utilities according to the principle 1 company =1 municipality and was supposed to be finished by the end of 2016, process which has not finished yet. Actually, the Utilities operate and offer service according the new territorial division, but they still are not operation in compliance with the legal requirements of the reorganization for the staff capacity, having a full evaluated inventory of the assets in the new service, including their registration in the ownership of the Municipalities. The reform presented a lot of difficulties concerning the new organization of the utilities, consequently till the end of 2018, only 35 of 58 Utilities had finished their reorganization.

The low performance of the sector during the hole transition phase in the financial aspects and the quality of the services offered, has made the sector a continuous heavy financial burden for the budget to subsidize the O&M expenses and the physical investments.

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The contract was accompanied by incentives such as subventions and/or physical investments the Utilities had to benefit for the good performance achieved. It should be stressed the importance of the drafting terms of the performance contracts between NWSSA and the municipalities, where certainly it is required the collaboration with WRA in order to determine properly the basic Performance Indicators of each contract and the weight of each indicator case by case. The degree of indicators achieved done by WRA, as an independent institution, would better serve to a proper evaluation of the performance of each utility.

The year 2018, as a result of the reform initiated by the central government, had a positive progress in the sector towards:

- Elimination of illegal connections, resulting from the action undertaken on national level, which had an impact in increasing the clients number and revenues;
- Increasing the number of the water meters installed and reduction of water wastage, i.e. of appearing losses.
- Collection of old debts by increasing civic responsibility, and by applying individual contract with the debtors to liquidate the debt amount by rates instead of immediate total payment.

Despite the slight improvement of the financial situation of the sector, utilities have reached the reform expectations towards the loss reduction by the illegal connections. In support of the reform a loss reduction study has been made with foreign assistance for eight biggest utilities in the country, financed by GIZ, which covers with services for about 70% of the population, in order to design an action plan for loss reduction.

At the end of 2018, in order to accelerate and improve the situation in the sector, MEI compiled an approach, which is still under discussion with all the stakeholders in the sector before being formalized for implementation. The approach proposes that for the utilities with continuous bad performance, their management to be handover by the Operator of the Last Resort, which has the required management skills and mechanism to improve the poor performance of the utilities. On the other hand, it is important to create a Aggregation Strategy to be implemented by the Subject of Common Competencies, an institutional interaction between the central and local government.

The approach is still in the process of discussion concerning the details of its realizations in practice of both subjects. However, the need for aggregation is immediate because a fragmented sector such as ours with 57 utilities suffers from the lack of economics of scale and operates with very high costs.

Our country nearly expects opening of the negotiations to join European Union. With the opening of the negotiations, it is expected EU to allocate considerable funds for the water sector in fulfillment of the standards of Water Framework Directive of EU. A fragmented sector has very limited capacities to absorb those funds. From the previous experience of other countries with a fragmented sector, absorbing these funds was achieved with difficulty. In the end the works build from them resulted with very high O&M costs, i.e. economically unjustified.

The aggregation of utilities having the advantage of the economics of scale, has been proposed as a solution and a necessary instrument which makes it possible not only the fast absorption in quantity of these funds, but further, the works realized by them have an O&M cost are more economically efficient.

Referring to the above analysis, ERRU has recommended:

- To continue the process of evaluation of the performance indicators and analysis for each of the Utilities, as a very important process in determining the appropriate instruments for their financial improvement;
- Reevaluation of the performance contracts with the participation of WRA for the evaluation of the main performance indicators and objectives together with NWSSA.
- It is important in parallel to initiate the process of aggregation of the utilities according to the principle of “on voluntary will basis and with incentives from the central government”. The process has to be conducted for 2-3 successful aggregation., which will serve as a feasibility template or champion to follow further for the aggregation of whole sector in medium terms.

## 2 - General Performance of the Sector, Tendency

### 2.1 Issue of Data Reliability and the Accuracy

The report of the performance of Utilities and the sector for the year 2018 is drafted based on the data provided by NWSSA and from the financial balances that all the Utilities have handed over to the WRA

It is relevant the fact that there are considerable inaccuracies regarding the technical and economic data, consequently the calculation or evaluation of the indicators contain not negligible accuracies. This is more relevant in the water balance sheets that the utilities submit near ERRU, mainly because of the lack of bulk meters in the key points of the water supply system. The consequence is that the main indicator of the performance, Non-Revenue Water, is calculated with a high degree of inaccuracy.

Taking into consideration the above-mentioned factors concerning the accuracy and the reliability of the data, the authors of the report have been extremely careful during data analyzing to avoid those unjustified which can lead in incorrect evaluations of the sector performance in general and for each utility in particular.

### 2.2 Analysis of the Key Performance Indicators of the Sector

The general performance of WSS sector for the year 2018 is presented in the Table 3 by 10 Key Performance Indicators. It presents also the tendency of the performance compared to the achievements of 2017, and also to the objectives of “The best Performance” determined by WRA

**Table 3 - Key Performance Indicators of WSS Sector**

Key Performance Indicators	2017	2018	Performance trend	Good Performance benchmark (ERRU)
Non-Revenue Water (NRW) (%)		63	↗	30
O&M cost coverage (%)	109	119	↗	100
Total Cost Coverage (%)	85	92	↗	80
General Collection Rate (%)	92.76	98	↗	82
Current Collection Rate (%)	78.84	79	↗	82
Metering Ratio (%)	68.3	74	↗	85
Staff Efficiency (staff/1000 connections)	5.5	5.35	↗	4/6/10
Continuity of Water Supply (hours/day)	12	12.7	↗	18
Wastewater Sewerage Coverage (%)	50.2	52	↗	75
Water Supply Coverage (%)	78.3	77	↘	n/a

Source NWSSA

WSS sector Performance indicators for 2018 compared to 2017 show a positive tendency. Only Continuity of Water Supply indicator has a negative tendency, while the Collection Rate remains the same as 2017.

The quality of the service offered to the consumers regarding the continuity of the water supply (on the average 12,7 hours/day) and NRW (63%) compared to 2017, even though slightly improved, still remain at unacceptable levels. The indicator of Staff Efficiency (5,35 staff/connection) has a slight improvement coming by the new connections in the system. The sector in general is overpopulated with staff, and in total the number of staff is increases even during 2018.

The indicators O&M cost coverage and Total cost Coverage present a significant improvement compared to the previous year, which needs a deeper analysis about the accuracy of the data used for calculation of those indicators. WRA along with the revision of the tariff setting methodology has also revised the new data base for the Key Performance Indicators for benchmarking of the sector in general and each WSS company in particular.

### **2.2.1 Coverage with Water Supply and Sanitation Services**

The indicator "Water Supply Coverage" for the third consecutive year results in a decline, whereas the indicator "Wastewater Sewerage Coverage " for the year 2018 has improved with 1.8% compared to the year 2017.

The population in the jurisdiction area for the year 2018 is reported around 4.1 million inhabitants compared to 3.8 million on 2017, thus with an increase of 300 thousand inhabitants. It is found that the reorganization of the utilities year after year is approaching the population to that of the civil status offices. The population served with water supply compared to the year 2017 is reported to be increased with 208 thousand inhabitants, while that with sewerage is increased with 233 thousand inhabitants, or in percentage represent respectively, 69% and 78% compared with the increased population (300 thousand) in the service area of the utilities. However, these data are have to be taken with reserves because it is known that the resident population in our country is significantly reduced. With the new census of the population that Institute of Statistics will soon organize , we will have more accurate figures that will be taken into consideration in calculation of the performance indicators, and also in the real demand for water.

Actually, the urban area it is supplied with drinkable water at the level 93.2%, while for the rural areas this indicator is at the level of 58.5%. It is stressed the fact that sewerage service in the rural area is still in low levels about 15% towards 79.8% in urban area. The sewerage collecting system is missing in the most part of the rural area, and the discharge of waste water is resolved by the individual system through septic tanks.

Given the population the rare density of consumers in the rural area, individual solutions make sense economically, but they can consider environmentally acceptable only when are respected the technical conditions in design and construction of them. This is a challenge for the future because in general the above technical conditions are nor respected for the most part of the rural area.

### **2.2.2 Coverage of Direct O&M and Total Cost**

The year 2018 compared to the year 2017, has marked an improvement of the indicators Coverage of O&M costs and Total Cost respectively with 10% and 7%. This improvement has come from because

the income from the activity of the WSS sector are increased by 1,403.6 million ALL, while the O&M costs are increased only with 468 million ALL, and Total Cost with 830.7 million ALL.

Table 4 presents in details O&M Cost and Total Cost for the years 2017 and 2018 and the differences for each of them in absolute value and in percentage.

**Table 4 - O&M cost & Total Cost for 2017 and 2018 (in 000 ALL)**

No	Expenditures/Costs	Year 2017	Year 2018	Difference (2018-2017)	Increased Costs % (2018/2017)
1	Labor	3,367,455	3,760,301	392,846	11.6%
2	Energy	2,516,869	2,365,574	(151,295)	(6%)
3	Maintenance	705,816	545,576	(160,240)	(22.7%)
4	Subcontracted Services	638,394	779,886	141,492	22%
5	Materials and Chemicals	162,998	216,069	53,071	32.5%
6	Other Costs	337,400	559,484	222,084	66%
	<b>O&amp;M Costs</b>	<b>7,728,932</b>	<b>8,226,890</b>	<b>+497,958</b>	<b>6.4%</b>
7	Depreciation Costs	1,657,834	1,897,345	239,511	14.4%
8	Financial Cost, taxes	462,613	555,886	93,273	20%
	<b>Capital Costs</b>	<b>2,120,447</b>	<b>2,453,231</b>	<b>332,784</b>	<b>15.7%</b>
	<b>Total Costs</b>	<b>9,849,379</b>	<b>10,680,121</b>	<b>830,742</b>	<b>8.5%</b>

For the year 2018 the O&M Costs are increased with 6.4%. A considerable increase had the item “Labor Cost” and “Subcontracted Services”, for the total 66% of the increased of O&M costs.

Significant increase compared with 2017 had the voice “Other Costs”.

The analysis of each one of the voices presented in Table 4 is presented as following:

**Labor Costs** During 2018 the sector has performed its activity with a total staff of 7,124 employees or 374 employees more than those reported in 2017.

The utilities that have increased considerably the number of the employees are the UK Kurbin with 55 employees, UK Vorë with 52, UK Maliq with 28, and UK Lushnjë with 20 employees.

The effects of the reorganization of the utilities is continuing to affect the increase of the utilities staff. The utilities argue that the increase of the number of the employees is the result of their reorganization according to the reform that includes many additional employees in the systems of rural areas that were administered before by the ex-communes themselves, or the additional employees required to manage the components of the water supply systems constructed lastly by different projects.

In general, the sector is overloaded with unjustified staff. According to this indicator, an in-depth analysis is required for each company regarding the number of employees and the positions in the organigram and the work description for each of them. In total, the reported increase of the staff number has brought an increase of the Labor Costs with approximately 392.8 million ALL per year.

**Subcontracted Services Costs** In the entire WSS sector there are 8 utilities that are performing the guardianship service by subcontracting them to the third parties. For the year 2018 the number of the

employees from the subcontractors has increased with 56 employees, which has affected the increase of the costs of this service in total for the sector with 141 million ALL per year.

UK Tiranë has increased the costs of the subcontracted services considerably counting about 65% of the above total. Considerable increase of the number of employees and costs present also the UK Vlorë and UK Shkodër.

By the management staff of the utilities, this increase of the employees number is justified with the increase of the guard posts number as a consequence of the increase of the water supply components (reservoirs, pumping stations, wells etc) after the reorganization of the utilities, which are considered by law as objects with a strategic importance for the health security of the population. As stressed in the previous reports, the legislation for this point should be reviewed in order to guarantee the security of those objects by alternatives technical and/or logistic solution.

**Other Costs** This voice has increased with 222 million ALL of the total increase of the costs.

The utilities insert the costs for regulatory payments and overdue payments to WRA, Administrative Counsels, extraction fees toward the Administrative Basins Offices, authorized accountants etc. These costs result high because a part of those items until the end of the first nine months of 2017 are reported as part of other synthetic items, and only after this period they are reported in the item “Other Costs”, as suggested by NWSSA.

A considerable increase compared to 2017 had the utilities of UK Tiranë with 60 million ALL, UK Durrës with 54.3 million ALL, UK Korçë with 10.3 million ALL, UK Vlorë with 27.7 million ALL. The others utilities represent lower increase values than above, while some utilities had a decrease of these expenses, as UK Kavajë, UK Kurbin, UK Shkodër and UK Delvinë.

**Energy Costs** Energy Costs for 2018 are reported to be about 151.3 million ALL lower than 2017, or by a decreased consumption of about 10.5 million kWh. This decrease of the power consumed while the volume of water production by pumping is almost in the same level of the previous year, is explained by installation of the new pumps with higher efficiency. Another factor is the utilities are paying attention for a correct reading of the power meters with the presence of the OSSH Energy employees, which sometimes in the past was made incorrectly.

There are some utilities having an increase of the energy costs, such as UK Kavajë 87.2 million ALL, UK Shkodër with about 32.7 million ALL or UK Vorë with about 24.7 million ALL, which is justified by the increase of volume of water produce compared to the year 2017.

UK Kavajë reports increased energy costs because from 1 January 2018 they have to cover the energy costs for pumping into Çërma reservoir previously administered by UK Lushnje which covered of the costs of water production to fill it. UK Shkodër has increased the quantity of the water produced with about 2.5 million m<sup>3</sup> because of the extension of the service area, while UK Vorë reports increased costs because during the year 2017 had under administration partly the water supply system, which before was under administration of UK Tiranë.

Most utilities report low costs of this item namely UK Tiranë (119.7 million ALL) UK Durrës (51.6 million ALL), UK Lezhë (9.3 million ALL) and other utilities represent a total a decrease up to 4 million ALL.

Problem for the utilities remain the overdue payments to OSHEE, which at the end of 2018 are reported to be about 6.2 billion ALL or 70% of the payments that WSS sector has towards the third

parties. Almost all utilities have old debts towards OSHEE, but the biggest are appertaining to UK Durrës with about 2 billion ALL or 32% of the entire debt of the sector, followed by UK Vlorë with 790 million ALL, UK Patos with 497 million ALL, UK Tiranë with 569 million ALL and UK Kurbin with 223 million ALL.

**Repair Costs** The repair costs during 2018 compared to 2017 are decreased with about 160 million ALL. The network failures (bursts) for the year 2018 are reported to be about 37,660 failures from 42,700 in the year 2017. The physical investments made in the water supply network have had their positive impact in the reduction of the repair costs.

Big decrease of the repair costs represents the Utilities UK Durrës with 107 million ALL, and UK Tiranë with about 87 million ALL. There are other utilities which have increased the repair costs justifying with the amortized network and the lack of investment for their replacement.

An increase in the repair costs had also the utilities where there have been subject of the investments in the distribution network, but those investments have been oriented mainly in the urban areas, and the increase has been result of the bad conditions of the network taken over from the rural areas after the reorganization of the utilities.

**Capital Costs** Those costs include mainly the costs of the depreciation and loan interests that takes about 23% of the total costs of the sector.

The depreciation costs for 2018 counts about 239.5 million ALL higher than in 2017, derived mainly an reevaluation of the assets from the utilities, and from the new investments commissioned presented in the balance sheet of the utilities.

The sector is far from covering 100% of the Total Cost, because actually only UK Tiranë and UK Kolonjë are able to cover them to the extent of 100%. It is evident that some utilities, such as UK Korçë, UK Lezhë, UK Pogradec, UK Kamëz having a high level of O&M costs coverage varying from 115% up to 200%, cannot cover 100% of the Total Costs because they have a high level of capital costs representing up to 55% of them, and they have heavy charges to pay for the past investments loans.

### **2.2.3 Collection Rate**

Collection Rate is one of the most important of utilities performance indicators, because it is directly related to the financial stability of the company and to its cash flow capacity. The report has taken into consideration two indicators related to the Collection Rate, respectively General Collection Rate (GCR), which include on it the old debts, and Current Collection Rate (CCR) for the volume of water billed in the entire year.

ERRU for the year 2018 finds inaccuracies in the information given to NWSSA about the current and general collection rate. The information has been corrected from ERRU after contacting the utilities which represented notable inaccuracy of data on this subject.

Current Collection Rate reported for the entire sector for the year 2018 was at the level 79 %, i.e. equal with the level of the year 2017. That means about 21% of the amount billed from the Utilities it was not collected within the year 2018.

It is noted a big part of the old debts represent bad debts and practically impossible to collect because the customers are emigrated, entities bankrupted, category of the families with social assistance etc.

The utilities performing with a high Current Collection Rate during 2018 were, UK Maliq, UK Ersekë, UK Berat-Kuçovë , UK Tiranë, UK Lezhë and UK Fushë Arrëz, whereas the utilities operating with a very low current cashing rate were UK Mirditë, UK Gramsh, UK Pustec and UK Lushnje.

General Collection Rate for the year 2018 has marked the level of 98% towards 92.76% that was in the year 2017. This result has been achieved thanks to the commitment of the utilities in response to the government action in the water sector through the assignment of the agreement act with the clients for the old debts liquidation by rates reach the amount of 1.78 billion ALL during the year 2018.

Even though the good performance during 2018, it remains still amount of 14 billion ALL from the old debts to be collected, from which about 11 billion belong to the category of household customers. In the other hand, the utilities have many payments towards the third part, who's for the entire sector at the end of the year 2018 goes up to 9 billion ALL.

#### **2.2.4 Staff Efficiency**

Staff Efficiency represents the number of the company staff for 1000 connections. From the data it is noticed that during the year 2018 the total number of employees in the WSS sector is increased with 412 employees from which 56 additional employees coming from the subcontractors (the indicator takes into consideration both categories of employees).

The indicator of staff efficiency performance for the year 2018 is on average 5,35 staff/1000 connections, with a slight improvement of (0.15 staff/1000 connections), but still it not at the required level. Nevertheless, the increase of the number of the employees during 2018, the improvement has derived from the increase of the number of connections, respectively, with 64,677 for the water supply, and with 57,077 for the sewerage.

In general, the Utilities operate with a high number of employees, which in many cases is increased artificially with employees that do not correspond to the requirements and needs for operating the utility. Only some utilities such as UK Korçë, fulfill the condition where the staff efficiency is on contemporaneous levels. On the other hand, expansion of the service area that results in the increase of the number of new connections for the areas previously without service, have had its effects towards the increase of the employees' number of Utilities.

In many cases the indicator of Staff Efficiency appears high artificially because some utilities have a big number of individual water supply systems, so in order comply with the legal obligations to ensure the security of these objects with guardianship.

It was stressed even in the reports of the year 2016 and 2017 that this problem should be considered in order to be given a technical solution (with remote surveillance combining with other engineering security measures in order to guarantee the lack of access in these objects) to guarantee the security of these objects in order to reduce the labor costs of the utility.

The improvement of employment policies towards the real number of employees by Utilities is a priority of WRA work when the utilities apply for new tariffs analyzing in details the arguments of organigramme for the number of employees and each position.



### **2.2.5 Non-Revenue Water (NRW)**

The indicator "Non-Revenue Water" for the year 2018 of the sector was in the level 63%, thus it is improved by reducing with 2% compared to the year 2017, but still remains in unacceptable levels. In absolute value the amount of water produced for 2018 in the sector is about 284.7 million m<sup>3</sup> water, or about 1.5 million m<sup>3</sup> water less than in 2017, whereas the amount of water billed is increased with about 5.6 million m<sup>3</sup>. It is the positive tendency of the factors water production and billing that improves this indicator with 2%.

In the last six years the utilities are submitting near WRA the Water Balance Sheet which is an important tool for evaluation of technical and administrative losses and the orientation of the utilities towards the improvement of the indicator "Non-Revenue Water".

The real perception of the sector situation by this indicator is difficult because its calculation in percentages is done for water supply systems under intermittent regime. In the near future ERRU aims the evaluation of this indicator based on administrative and physical losses not in percentages, but in other units used by the contemporaneous experience operating on this regime.

Considering above, the conclusions regarding the evaluation of NRW for the sector and the improvement result by 2% of this indicator in 2018 compared to the year 2017 should be taken with reserves. The challenge of the sector for the improvement of Non-Revenue Water indicator remains the decrease of the administrative and physical losses in order to improve the financial stability of the utility.

It is necessary the evaluation and a good management of the water demand from the source to the last consumer of the distribution network. For this it is necessary the compilation of detailed and reliable balance sheets that requires all the sources and the individual customers to be metered.

On the other hand, the decrease of the losses is directly related with the management and control of the losses mainly in the distribution networks. The distribution networks in the sector are required to be sectioned in metered area (DMA) according to hydraulic models' study that enable a real the evaluation and control of losses and the related measures to reduce them. This should be one of the main priority main to improve the sector in our country.

It is also necessary the utilities to have accurate registers of their assets data, including size, type of material, installation date, which are the basis to draft the Assets Management Plans, that in general are missing in all utilities. The Assets Management Plan indicates the priorities of the assets replacement, as part of the action plan for the technical losses reduction in the transmission lines and the distribution networks.

### **2.2.6 Metering Coverage**

Metering Coverage during the 2018 was 74%, or 5.7% higher compared with the previous year 2017, but still is considered far from WRA objectives. With the reorganization of the utilities none of them have 100 % coverage with meters in the new service area, even some utilities have this indicator in the level of 20%. It is obvious that the customers have to pay for the real volume of water consuming,

because the unmetered customers are billed in flat rate for a fixed consumption norm of 150 liters/day per person, which is 50% higher the average consumption of the metered customers. That's why some utilities have a "financial interest" to bill the customers in flat rate. In the other hand, this often stimulates water overconsumption used for irrigation of the gardens of the private houses in urban and in rural area, especially during the hot season.

The utilities should have as priority to install meters for all households in the service area, but considering the huge amount needed for whole sector, possibly this has to be covered by the central government financing.

In 2018 Utilities have reported the installation in total of 93,000 new meters, but to reach the target of having a 100% metering sector requires the installation of about 225,000 of them.

WSS Tirana is the company that has installed about 25,000 meters or 27% of the total installed for the entire sector. Many other utilities such as UK Durres, UK Fier, UK Vlora, UK Berat Kuçova, UK Himara and UK Mallakstra have performed well in installation of the meters, as well.

Covering 100% of the customers in whole sector with meters has been one of the main objectives of utilities, as a tool which helps for a good management of the water demand and reducing waste and overconsumption in systems.

### **2.2.7 Continuity of Water Supply Service**

The indicator of water continuity supply for the sector in 2018 remained on the average of 12.7 hours/day, which is considered very low for the quality of the services to the customers. There are many utilities providing less than the above average, such as UK Durres, UK Divjaka, UK Roskovec and UK Kurbin having this indicator in the values from 3 to 4 hours a day.

This indicator, besides the aspects of the low level of service provided, is related to the problems of public health risk from the possibility of entering the groundwater pipelines under negative pressure created while the pipelines are empty.

Referring to the 2018 data compared to 2015 (before the start of territorial reform) the population of the rural area served by utilities WSS has increased significantly by about 351,000 inhabitants, but the duration of drinking water supply for these areas is generally low compared to the urban area. This is why many utilities that once provided services over 20 hours a day have dropped this indicator.

## **3 Sector Financial Results**

### **3.1 Incomes from Activity and Subsidies**

The revenues realized by the utilities during 2018 were at the amount of 9,799.2 million ALL, where 87% of them belong to the first group utilities (13 large utilities) and 13% belong to 44 medium and small utilities.

Compared to the previous year 2017, the revenues from activity (from billing for WSS services and other activity income) increased by about ALL 1,403.6 million. The utilities of the first group have increased their revenues, and the other two groups have declined the revenues.

Utilities with significant revenue growth were UK Tirana with 1,177 million ALL, UK Durres with 207 million ALL, UK Korça with 64 million ALL, UK Kavaja with 64 million ALL, and UK Saranda with 26 million ALL. The most of the medium and small size utilities in total increased the revenues for the amount of 7 million ALL, only 12 utilities from those groups have decreased revenues compared to 2017.

Regarding the O&M costs coverage level during 2018, the analysis finds out only 17 out of 55 reported utilities are covering over 100% O&M costs. The first group utilities have increased significantly this indicator from 104% in 2017 to 133% for 2018, while for the other two group of utilities this level remained the same as in 2017.

Utilities still have to improve significantly their performance in order to cover also the Total Costs without the need to be subsidized by the central government. Only two utilities, respectively UK Tirana and UK Kolonja, can manage to cover total costs.

As mentioned above, there are 38 out of 55 reported utilities that cannot cover O&M costs. They need to be subsidized for the estimated amount of 1,041 million ALL or about 8.3 million Euro. The situation appears worst for the utilities which needs 52% of the total need for subsidies, UK Vlora (21%), UK Kavaja (10%), UK Kurbin (7%), UK Patos (14%).

These utilities have to be subject of a detailed analyzes for the causes of their unsound financial situation, and drafting case by case the appropriate action plans for becoming them financially viable.

The report analyses also the situation evaluation the subsidies needs, their allocation for entire sector and for each utility separately. The sector during 2018 was subsidized for a total amount of 1,056 million ALL, or about EUR 8.4 million, from which 996 million ALL from the state budget, and 59 million ALL by the municipalities. The allocation of subsidies from the state budget was done by dedication respectively, 400 million ALL allocated to cover the difference between costs-tariffs of the utilites, and 596.8 million ALL, as a bonus for the good performance of them.

The distribution of subsidies shows that for some utilities they are allocated over the real needs of covering O&M expenditures, while in others they are allocated less than their real needs. Anyway it needs to show more transparency from the central government on the distribution procedures of subsidies in the future.

### **3.2 The need for Capital Investments and Financing of UTILITIES sector**

During the year 2018, investments in the water supply and sewerage sector have been realized partly by the state budget (35%), whereas the other part (65%) has been realized by the foreign donators in the forms of grants or loans. The total of investments financed during 2018 were about 70 million euro, still remains far from the real needs for investments in the sector.

Table 5 presents the investments realized in the sector during the last three years, divided according to the amount, financing source and destinations, namely water supply systems, sewerage and sewerage treatments plants. The table shows a descending trend of the investment in the sector during these three years.

**Table 5. Investments in the Sector, Years 2016, 2017, 2018**

In 000/ ALL				
	Description	Year 2016	Year 2017	Year 2018
Financing source	Financing from the Budget	4,108,555	4,194,097	3,106,825
	Foreign Financing	8,504,013	6,435,508	5,592,681
	Total	12,612,568	10,629,605	8,699,506
Destination	Water supply	4,950,000	5,000,000	4,245,937
	Sewerage	4,712,568	2,900,000	2,224,520
	ITUN	2,950,000	2,729,605	2,224,749

Source: MIE

The investments in the sector were mainly oriented in the extension of the water supply network by about 205 km pipeline installed, the sewage network about 54 km pipes, and construction of 4 Wastewater Treatment Plants (WWTP).

Implementation of those investments have required additional financing for about 14.5 million euro for engineering services for design, supervision, and other consultancy services for studies etc.

Referring to the planned investments in the sector it is noted that till the end of 2018 those are realized respectively, 98% in the water supply field and 68% in the sewerage network, while the investment foreseen for construction of the WWTP are realized 100%.

The needs for investments in the water supply and sewerage sector projected until the year 2040 the Master Plan has evaluated about 6 billion euro, where the biggest part (about 4 billion) belongs to the sewerage collection system and to the construction of the WWTPs. For the water supply are foreseen 1 billion euro, and the rest of another billion is foreseen for engineering services.

This amount needs a financing demand for about 270 million euro/year. Nevertheless, the Master Plan needs to be updated/revised in the context of the new reality of the water supply and sewerage sector after the new territory administrative reform and reorganization of the water sector.

The financing value is quite high in relation to its real funding opportunities, which in the last 10 years has resulted in around 50-60 million Euros per year including all its funding sources, the state budget and donors.

The new draft of the National Water and Sewerage Sector Financing Strategy includes a sector financing model which identified the costs of achieving the sector's objectives up to the year 2040, and find the most feasible alternative to finance the future investment needs by 3Ts.

The 3Ts approach comprises the financing of the future investment needs in the sector partly by internal utility's resources (Tariffs), from the central government budget (Taxes), and the third part from the donors (Transfers).

The estimation of the amount or percentages to be financed by the customer's tariffs will be made based on the affordability criteria, which by a preliminary estimation can cover up to 30-40% of the total amount of the investment needs. However, depending on the value of the investment need to be determined by the revised National Master Plan, the data in this Strategy should also be updated to be finalized by a Decision of the Council of Ministers.

To ensure for all Albanians  
That water and sewerage  
service producers deliver  
the highest achievable quality  
at a fair price and in a financially  
sustainable manner

