

POLICY PAPER

COMPREHENSIVE IMPROVEMENT OF THE WATER SERVICE SECTOR IN BOSNIA AND HERZEGOVINA

July 2019

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Summary

In Bosnia and Herzegovina (BiH), water supply and wastewater collection and treatment sector i.e. water service sector is characterised by lack of access to quality services, poor sector performance and questioned sustainability of water service provision.

There is neither clear vision of the BiH water service sector nor water service sector policy. The water service sector is not legally and institutionally regulated, hence lack of clearly defined rights and obligations as well as roles and responsibilities in the sector. Service standards are not defined and monitoring of the sector performance is rather poor. The existing water service legislation is not harmonised with water-related directives of European Union (EU) thus hampering BiH to EU integrations.

Water service infrastructure is fairly old and improperly managed. Losses in water supply systems are high in general and contribute to exceeding exploitation of water resources and high distribution costs. Water quality is also problematic, particularly in water supply systems with high physical water losses where wastewaters and underground water infiltrate through breaks. While poor operational efficiency is largely contributed to by lack of know-how and expertise, no systematic capacity development programs are put in place.

Service providers i.e. public utility companies (PUCs) struggle for financial sustainability. Water service tariffs are not recovering costs and there is a strong political influence to tariff setting aimed at keeping social peace instead of respecting economic criteria. A number of other factors, such as overstaffing and lack of asset management practices, also compromises financial sustainability of PUCs and thus sustainability of water service provision.

Last but not least, water service users are not active stakeholders who are informed and included in planning and decision-making and therefore able to claim their rights as well as to fulfil their obligations. A common understanding of the water services is not built and there are no shared values on how water shall be used and protected.

The sector calls for a systematic and participatory reform to develop and operationalise comprehensive water sector policies, strategies, approaches and sound practices. To facilitate building of consensus of water service stakeholders about the need for the reform and identifying of solutions to the identified shortcomings, the Platform for Dialogue amongst sector stakeholders was launched in April 2017.¹ Intensive consultations through the Platform for Dialogue brought about the Position Paper in November 2018 outlining key findings in the sector and proposals for improvements that are elaborated on in this Policy Paper.²

The aim of the Policy Paper is to serve as an entry point for initiating the reform of the water service sector in BiH.

¹ The Platform for Dialogue is initiated and coordinated by the Association for Water and Environmental Protection Sector in BiH "Aquasan Network in BiH". List of representing institutors and organisations is given in Annex 1

² The Policy Paper was drafted in March 2019 by Aquasan Network in BiH and comprehensively contributed to by the Platform for Dialogue participants.

1. Introduction

Water is a basic human need and, as such, a prime natural resource and a precious national asset. Water cut across administrative boundaries and is one of the most crucial elements in developmental planning. Water is understood to be indefinitely accessible globally; yet, increasing pressures on water resources that result from fast population growth, climate change and pollution make decisions on how to improve current and future water service provision an urgent and oblige countries to improve the way they manage their water resources and associated services i.e. water supply and wastewater collection and treatment.

Therefore, a national water policy needs to be developed to give a framework for proper management of the water services – both water supply and wastewater services – on an integrated and environmentally sound basis in keeping with needs of the population. However, for the water service sector to be managed well for the good of all, policies, laws and regulatory documents must be not only developed but also fully enforced as well as improved based on monitoring of their effects.

Current situation in BiH in terms of legislative and institutional regulation of the water services and implementation of the existing provisions does not reflect importance of the water services and therefore needs to be improved. A vision, political commitment, expertise and stakeholder engagement are key elements of the process.

2. Background

2.1. Vision and Policy

There is no vision on what shall be accomplished in the BiH water service sector in the mid-term or long-term future nor a policy to identify high-level objectives and priorities for delivering and developing the water services. Water supply and wastewater collection and treatment programs have so far focused on expanding water supply and sewage coverage without giving due attention to sustainability i.e. proper management of the water services, proper maintenance of the water infrastructure and conservation of water resources.

In BiH, the water services are addressed through two domains – water domain and communal service domain – and are regulated by several laws adopted at different governance levels with fairly unclear institutional competence for decision-making, enforcement and supervision. Therefore, lack of vision and policy is particularly problematic and leads to *ad hoc* interventions in the sector that neither have sustainable impacts nor contribute to notable improvements in the sector.

Moreover, there is no system for collecting and analysing data in the sector i.e. benchmarking; instead, data is collected through individual projects and studies while assessments and plans are made based on them.

2.2. Legislative and Institutional Framework

The water service legislation in BiH is fragmented and incoherent.

Constitutions. Water and communal services are not expressly noted in the BiH Constitution; therefore, Federation of BiH (FBiH), Republika Srpska (RS) and Brčko District BiH (BD BiH) have legislative competence in these domains.³ FBiH Constitution does not specify legislative competence in the water and communal service domains. In practice, FBiH and cantons share competence in the water domain whilst cantons have competence in the communal service domain.⁴ According to the RS Constitution, RS has legislative competence in water and communal services.

Laws on local self-governance. The water services, as communal services, are addressed through entity and cantonal laws on local self-governance, which regulate that communal services fall under competence of local government units (LGUs) i.e. municipality/town/canton⁵ and that LGUs shall ensure the organization, implementation, management, financing, improvement and development of provision of communal services.

Laws on communal services. The water services, as communal services, are addressed through laws on communal services that are adopted at the level of cantons in FBiH, RS and BD BiH. These laws regulate the provision of all communal services (public transport, parking, cemetery, etc.) without elaborating the water services. The laws read that LGUs are responsible to ensure the provision of communal services, but do not regulate how it shall be done. Indeed, these laws do not regulate relations i.e. rights and obligations as well as roles and responsibilities between LGUs and service providers i.e. PUCs nor they establish adequate regulatory framework for tariff setting.

Water laws. As they fall into the water domain, the water services are also addressed through entity water laws and some cantonal water laws, but again without necessary elaboration of how they shall be delivered and developed. Also, there are water district management plans incorporating measures for achieving good water status in water districts, including measures targeting the water services.⁶

Full monitoring/inspection over the enforcement of these laws is missing, which results in lack of improvement measures that should be defined on the basis of supervision outcomes.

Institutional competence over the water services in BiH is also fragmented and exercised by a number of institutions at different government levels.⁷

Roles and responsibilities for the water service sector are not clearly defined and right and duties are not specified. It is not defined what ministry and at what level is responsible for the water

³ The Constitution of Bosnia and Herzegovina, Article III.3c: "All governmental functions and powers not expressly assigned in this Constitution to the institutions of Bosnia and Herzegovina shall be those of the Entities"

⁴ Water services also fall into the water domain, hence the question why legislative competence in communal services is also not shared between the FBiH and cantons

⁵ Sarajevo PUC Canton

⁶ These measures make about 95% of financial estimations of these plans

⁷ Graphs illustrating the organisation of the water service sector in BiH are given in Annex 3

services i.e. for policy and planning, coordination of activities, monitoring and evaluation of performance in the water service sector. In other words, there is no ministry at any of the governance levels in BiH responsible for taking actions to ensure enabling legal and business framework for water service provision.

State level. As said before, water and communal services are not expressly noted in the BiH Constitution; hence, there is no state-level institution that has competence in water and communal services. Only the BiH Ministry of Foreign Trade and Economic Relations implements specific tasks and activities relating to defining policies, core principles, coordination of activities and harmonisation of plans developed by entity bodies and institutions at the international level in, amongst other, environmental protection, development and use of natural resources.

Entity level. At the entity level i.e. in FBiH, RS and BD BiH, two ministries are for the most part competent in the water services: entity ministries for water management have a major competence whilst ministries for environment/ecology have competence in some aspects of water service provision.

In FBiH, the entity Ministry of Agriculture, Water Management and Forestry has competence in the water domain and the Ministry of Environment and Tourism has competence in the communal service domain and environmental protection domain. In other words, both ministries have some competence in terms of the water services, but their roles and responsibilities are not specified. The FBiH Ministry of Justice has competence in supervising the performance of LGUs and, since LGUs are responsible for ensuring water service provision, it brings this Ministry into the equation as well. Water management expertise is provided by two water agencies: Sava and Adriatic Sea Water Agency.

In RS, the entity Ministry for Spatial Planning, Construction and Ecology has competence in the communal service domain and environmental protection domain whilst RS Ministry of Agriculture, Forestry and Water Management has competence in the water domain. Hence, again, both ministries have competence in the water services. The RS Ministry of Local Governance has competence in supervising the performance of LGUs and, analogously to FBiH, makes this Ministry a relevant stakeholder for the water service sector. Water management expertise is provided by RS Water Agency.

In BD BiH, tasks relating to use and protection of water are implemented within the Agriculture, Forestry and Water Management Department whilst tasks relating to communal services are implemented within the Communal Service Department of the BD BiH Government, which, again, makes two different departments having competence in terms of the water services.

Cantonal level. The institutional competence at the FBiH level is reflected in the cantons i.e. none of the cantons have the water services under competence of one ministry only. Otherwise speaking, there are typically two cantonal ministries having competence in the water services.

Local level. According to the entity local self-governance laws, LGUs have a direct competence in organising water service provision at the LGU level. Tasks relating to water and communal services are organised differently within LGU administrations. In most LGUs, these tasks are carried out by

two or more departments thus impeding efficient and effective management and oversight over performance of service providers.

Operationally, water services are provided by PUCs that are typically founded and/or owned by LGUs.

2.3. Operational Efficiency and Financial Sustainability

About 75% of BiH population has access to public water supply service and 41% is covered with public wastewater collection service with only 15% of the entire BiH population being connected to WWTPs.⁸

The quality of water service delivery is declining due to lower quality of drinking water that is a result of increasing pollution and leaks in water supply networks. Average level of non-revenue water⁹ is 49%¹⁰ reaching even above 70% in some water supply systems.¹¹

Water service infrastructure is typically timeworn and outdated thus increasing inefficiency and maintenance costs. Averagely, only half of assets that LGUs entrusted PUCs with management and maintenance is listed and registered. Realistic depreciation for communal infrastructure is typically not calculated. Lack of financial resources for maintaining fixed assets is currently one of the crucial problems for PUC performance. Furthermore, whilst a number of capital infrastructure investments is increasing, sustainability of these investments is increasingly questioned because LGUs do not conduct pre-assessments to explore their affordability and operational costs.

Most of PUCs exercise improper employment policies. As such, most of PUCs are on the one hand overstaffed and on the other hand short of skilful and knowledgeable workforce to run business thus contributing to poor PUC performance.

Almost 40% of PUCs in BiH¹² have operating cost recovery¹³ lower than 100% meaning that operating revenues are not sufficient to cover operating expenditures¹⁴. Even more, expenditures are not identified as they are not separated per functions and cost centres. Additional financial problem for PUCs is billing collection rate of 84% in average.¹⁵ A number of PUCs have declared bankruptcy because of financial payment inability and 60-70% are estimated to be at risk of bankruptcy.

⁸ Source of information: Project “Water Supply and Wastewater Collection and Treatment – Review of BiH Water Service Sector Institutional Framework”, World Bank, 2017

⁹ Non-revenue water (NRW) is a difference between water volumes imported into water supply system and water volumes billed to service users

¹⁰ Source of information: *State of Sector – Regional Report 2018*, World Bank, 2019

¹¹ Source of information: Project “Municipal Environmental and Economic Governance (MEG Project)”

¹² Source of information: Project “Water Supply and Wastewater Collection and Treatment – Review of BiH Water Service Sector Institutional Framework”, World Bank, 2017

¹³ Indicator of operating cost recovery ratio measures PUC’s success in terms of costs coverage and sustainability of its operations

¹⁴ It should nevertheless be noted that PUCs often do not include sufficient investment and current maintenance, namely regular replacement and repair of infrastructure, thereby significantly reducing operating expenditures

¹⁵ Source of information: *State of Sector – Regional Report 2018*, World Bank, 2019

Scarce funds for operation and maintenance as well as for new investments result in deterioration of existing water service infrastructure and therefore in lower quality of water service delivery, which affects the willingness of service users to pay and, consequently, increasingly questions the financial sustainability of service providers. Lack of sustainability of service providers brings up the question of sustainability of the water services.

2.4. Capacity Development

The sector largely suffers from lack of individual, organisational and institutional capacities. Lack of capacities is particularly evident in preparing and implementing capital infrastructure investments as well as operating and maintaining new investments. Yet, systematic programs for training and certification of employees are not put in place and investments in developing individual/human capacities are insufficient. The sector is additionally faced with a hefty “brain-drain”, which makes the sector rely on international experts and hence brings into question the sustainability of project interventions and proper level of water service provision in general.

2.5. Public Awareness and Involvement

There is no participatory approach to planning and decision-making in the water service sector and majority of the population is not sensitised on the strategic importance of water saving and water conservation. Explaining water service-related issues and providing knowledge for citizens so that they understand, value and support changes in policies and technologies, but also in their behavior, which are necessary to ensure sustainable water services, does not take place.

At the same time, level of satisfaction of citizens with the water services is explored sporadically at the local level only. Therefore, there are no data that could be aggregated at the national and entity level to show common understanding of BiH citizens about the water services, level of trust in public service providers and their awareness about problems associated with delivery and development of water services as well as potential solutions.

3. Policy Options

Water supply and wastewater collection and treatment services in BiH shall be delivered and developed in line with needs of citizens/service users and in fair and cost-effective manner while keeping with public health protection and environmental protection principles as well as EU directives and best practices.

Hence, the water service sector in BiH needs to be reformed through improvements of the strategic, legal and institutional framework, increasing operational efficiency and financial sustainability of service providers, developing capacities in the sector and creating understanding and shared values about the water services. Also, as most PUCs are in the possession of LGUs, the reform shall ensure that a new integrated and inclusive water service sector is well-incorporated in the overall system of provision of services at the LGU level.

The water service sector reform shall integrate the following aspects:

Determining water service vision and policy. BiH outlooks on key aspects of water service provision and development are formulated and communicated and priorities and objectives to be pursued when framing water service provision are set out.

Improving legislative and institutional framework for water service delivery. Roles and responsibilities as well as rights and obligations in the water service sector are specified thus creating a new supporting legal and business environment for water service delivery.

Increasing operational efficiency and financial sustainability of service providers. Access to and quality of water service is improved and sustainability of the water services and of water service providers is increased including their increased creditworthiness of PUCs and sustainability of capital investments.

Systemic approach to capacity development. Implementation of regular and targeted capacity development measures enables acquiring knowledge and skills on new approaches, methodologies and procedures that are applied in practice and thus contribute to the improved performance, ensure good preparation and implementation of new capital investments and sustainability of these investments, create in-house expertise and motivate staff to be committed and result-oriented.

Awareness raising and sector promotion. Understanding about the strategic importance of the water services is built and dialogue on key aspects in the sector is initiated for participatory planning and decision-making to take place.

The water service sector reform shall be guided by the following principles:

- **Social sustainability.** All citizens have equitable access to adequate and affordable water services to meet their health and livelihood requirements and play a meaningful role in decision-making;
- **Environmental sustainability.** Water service delivery and development do not compromise biodiversity, functioning of habitats and essential ecological and hydrological processes;
- **Legal sustainability.** Strong regulatory and oversight framework to enable sustainable water service delivery and development is put in place and practice;
- **Economic sustainability.** Water service delivery is affordable and cost-effective;
- **Financial sustainability.** Well-aligned incentive structure linking financing of PUC to improved performance and accountability is introduced;
- **Institutional sustainability.** Combined and coordinated efforts are taken by state, entity, cantonal and LGU governments to put in place and practice a robust system for improving performance of sector institutions and PUC and institutions tasked with water service management and delivery have sufficient resources to do so over the long term.

4. Policy Elements

A vision for the water service sector needs to be formulated bearing in mind the purpose of water service provision and results-oriented state of affairs of how the sector shall look like when this purpose is fulfilled. The water service policy shall set out a systemic approach to water services and framework as to how water service provision and development should take place i.e. guidelines for day-to-day behaviour and decision-making.

The legislative and institutional improvements imply either amendments to the existing communal services laws, water laws and local self-governance laws¹⁶ or development and adoption of a new entity water service laws that will systemically regulate water supply and wastewater collection and treatment services only. Transposition of the EU directives into BiH legislation needs to be taken account of throughout the process in order to fulfil EU integration requirements. Once these legislative and institutional improvements are developed and adopted, water service-related provisions of other laws i.e. laws on local self-governance, entity water laws and communal services laws as well as other relevant laws need to be harmonised. Also, accompanying by-laws e.g. decrees, rulebooks, decisions, etc. to make the legislative and institutional improvements operative need to be put in place and practice including the monitoring of the sector performance through benchmarking.

It should be nevertheless noted that new laws and regulations alone will not make the enabling environment. Technical and financial support for the oversight/monitoring function will be required as well as for the service provision function in line with legal requirements.

Mandatory business planning through setting up realistic PUC performance objectives and institutionalising PUC performance indicators (benchmarking) needs to be introduced. Improvement of water service quality can be done by setting incentives for LGUs and PUCs to comply with regulations and by monitoring the compliance. Quality of water services needs to be improved by introducing a continuous regular monitoring of drinking water quality particularly at water sources that are prone to raw water quality changes. Investments in new and in rehabilitation of existing infrastructure can increase level of quality of water services as well. It is necessary to introduce regular energy efficiency and NRW management practices through developing and adopting energy efficiency and NRW action. Following experience and practice from Western Europe countries, current PUC organisational structures need to be optimised, number of employees rationalised and their qualification improved.¹⁷ PUCs need to identify and determine, in close cooperation with their LGUs, value of assets they manage and register these assets in line with law. Detailed analyses to determine whether loans are needed and are affordable shall be conducted before decisions on taking loans are made. Cost accounting needs to be introduced, cost centres need to be established and cost accounting linked with financial accounting in order to enable better cost management, division of responsibilities, proper planning and real cost-based pricing.

¹⁶ FBiH Water Law has been already amended significantly; hence, any further amending will require the adoption of a new law

¹⁷ Recommended number of PUCs employees in developing countries such as BiH is 1.0 – 1.2 employees per 1,000 service users

The water service sector reform cannot be conducted without continuous capacity development of sector decision-makers and employees. Implementation of capacity development measures will improve performance of sector stakeholders, LGUs and PUCs in particular, increase quality of water service provision, enable the implementation of the EU directives and water district management plans at the local level and contribute to the water information system development. Notably, capacities of environmental, water and financial institutions and organisations at all BiH government levels for project programming and implementation need to be developed to ensure faster absorption of resources and sustainable impacts of finalised projects.

5. Beneficiaries / Target Groups

Benefits resulting from the water service sector reform are listed per stakeholders:

- **Service users** will be provided with increased access to and quality of water supply and wastewater collection and treatment services according to clearly defined and affordable tariffs that are calculated in line with the adopted tariff methodology.
- **Water service providers** i.e. PUCs will be provided with preconditions for long-term efficient and sustainable operational and financial performance based on cost covering tariff through clear definition of roles and responsibilities, definition of how funding sources will be allocated for water service delivery and development, full implementation of tariff methodology and signing of public service agreements (PSAs).
- **Local Government Units** will have efficient and sustainable water service providers and will be able to ensure quality service for their citizens and thereby to successfully fulfil their responsibilities relating to the organisation of water service provision.
- **Entity and cantonal ministries** as well as water agencies and environmental funds will have competences clearly defined and available mechanisms for implementing regulations, programming and coordination of projects and activities including monitoring and evaluation of enforcement of regulations and PUC performance.
- **BiH Ministry of Foreign Trade and Economic Relations** will have an open space for better programming and attraction of sector-related investments through the clear legal and institutional regulation of the water service sector in BiH.
- **Private sector** i.e. consultancies, suppliers and contractors will have a growing and sustainable market for offering their services thus contributing to economic development in the country.

In view of that, the water service sector as a whole will benefit from having the strategic framework formulated, common understanding of the sector importance built and shared values for the sector created as well as capacitated sector experts and practitioners.

6. Decision Making Process

The reform needs to be initiated by BiH Ministry of Foreign Trade and Economic Relations in close cooperation with the entity ministries for agriculture, water management and forestry and

respective BD BiH department. The respective ministries/department shall use the Policy Paper as an input document to be presented to the RS, FBiH and BD BiH Governments. The RS, FBiH and BD BiH Governments shall make a decision to launch the reform and accordingly task the respective ministries/department to implement the reform. To do so, the respective ministries/department shall, amongst others, embark upon a project programming for the water service sector reform in cooperation with international financial institutions (IFIs) and donors, and, as needed, engage experts/consultants for issues relating to legal and institutional framework improvements, systemic capacity development and certification solutions as well as designing and implementing awareness raising campaigns and building public profile of the water service sector.

Institutions and individuals responsible for carrying out reform activities need to be clearly identified. Capacities of all stakeholders involved in implementing the proposed changes, LGUs and PUCs in particular, should be strengthened. Technical and financial support should be provided in that regard.

Ultimately, the water service policy will be a political statement of how the water service sector in BiH will be regulated and how public funds will be spent to deliver and develop water services. Hence, the development and implementation of the water service policy will require both technical expertise and political will. It is therefore important that political leaders are fully briefed about the need for determining the water service policy and consequences of lack of thereof. Once the water service vision and policy are determined, strategies on how to implement the policy need to be developed.¹⁸

Awareness raising and communication actions to familiarize all stakeholders i.e. policy-makers, academia, NGOs and citizens about the state of the sector and water service delivery process is needed to ensure the understanding about the need and demand for the reform to take place.

In developing the water service policy, it should be taken into consideration that a number of other policy issues, such as economic development, energy, agriculture, etc., have bearing on the water services and therefore the water service policy must be interlinked and cohered with them. Also, a detailed analysis should pave the way towards a comprehensive public service delivery strategy which should serve as a framework for action of all BiH institutions supported by the main donors and lenders in a coordinated way.

7. Conclusions and Recommendations

The reform of the water service sector in BiH is indispensable and needs to be initiated promptly and concurrently in both entities and BD BiH.

By defining and clarifying roles and responsibilities, the reform shall enable better water service management and shall improve quality and quantity of water service delivery, improve water infrastructure through asset rehabilitation, investments and modernization of water services,

¹⁸ The water service sector policy should not be mixed up with legislation. Once the water service policy is developed and adopted, legislation need to be reviewed to identify what needs to be amended or newly adopted so that the policy can be implemented

increase operational efficiency and financial sustainability of PUCs, facilitate the absorption of available domestic and international financial resources for communal infrastructure construction and upgrading and prepare BiH for fulfilling requirements of the EU directives and integration process.

The water service sector reform in BiH incorporates a number of concrete interventions:

1. Determining a water service vision and policy incorporating internationally-accepted principles and standards as well as socio-economic context in BiH:

- User pay principle: service user bears costs of service;
- Polluter pay principle: polluter bears costs of pollution reduction measures according to the extent of damage or exceeding of acceptable level of pollution;
- Economic efficiency principle: all costs associated with water service delivery and development are optimised;
- Full cost-recovery principle: all costs associated with the water service and development are included in water service price (operational costs, depreciation costs, investment costs);
- Affordability principle: highest possible tariff that an average family can monthly pay and average consumption per person is introduced (service bill not exceeding 4% of total monthly income per family and for consumption up to 10 m³ for three family members);
- Equity and equality principle: water services are provided under equal conditions for the entire population;
- Conservation of natural resources principle: regular and special water charges are introduced to stimulate rational use of services and thus preserve existing resources from excessive exploitation;
- Clear distinguish between strategic and operational level for water service management.

2. Amendments to the existing legislation or adoption of a new law on water services including accompanying by-laws:

- Clear and precise definition of legal and institutional competences in the water service sector i.e. clear and precise definition of rights and obligations as well as roles and responsibilities;
- Identifying a ministry responsible for monitoring and evaluating PUC performance and taking improvement measures/actions to improve legal and business framework in which PUCs operate as well as measures to improve PUCs operational efficiency and financial sustainability;
- Establishment of a regulating body for the water service;
- Definition of (co)relations between the existing water laws and communal service laws with regard to the provision and development of the water services;
- Definition of sources for funding the creation of conditions for delivery and development of the water services, particularly at the LGU level;
- Definition of who and for what water service activities will be taking loans formally and who and under what conditions will be returning loans i.e. definition of LGUs' position in the credit-taking process and criteria for loans for financing infrastructure investments;
- Introduction and implementation of a single tariff methodology;

- Definition of conditions under which LGUs entrust PUCs with management and maintenance of water service infrastructure;
- Introduction of the obligation for PUCs to develop and implement mid-term strategic and operational business plans and water services master plans and monitoring their implementation;
- Introduction of obligatory capacity development;
- Definition of schemes to subsidize socially vulnerable categories.
- Organisational transformation of LGUs and their PUCs through implementing a long-term program for optimising number and improving structure of employees;
- Transposition of the EU directives into BiH legislation in order to fulfil EU integration requirements.

3. Financing infrastructure investments:

- Establishment of a sector financing framework designed to promote the improved sector performance and sustainability and taking into consideration current financing mechanisms for LGUs and PUCs;
- Setting incentives for LGUs and PUCs to comply with regulations and monitor compliance based on their performance;
- Ensuring public sector financing to support oversight and monitoring functions at the entity and cantonal levels as well as for the implementation of actions at the local level;
- Support PUCs to further improve their financial efficiency towards their creditworthiness and access to commercial financing.

4. Establishing capacity development system and certification programs:

- Development of capacity development products in line with real needs and demands of the water services sector;
- Continuous delivery of capacity development products following specified quality standards;
- Establishment of certification schemes for sector employees.

5. Raising awareness and public profile of the water service sector:

- Active engagement of LGUs and their associations in the water service sector reform, particularly in the lobbying and advocacy for necessary improvements;
- Involvement of public and service users in planning and decision-making;
- Establishment of conditions for sound horizontal and vertical cooperation, communication, coordination and complementary of ideas, initiatives and proposals amongst all actors in the water service sector;
- Implementation of measures that will bring about quality systemic changes in behaviour of all sector stakeholders.

The solutions proposed in the Policy Paper and outcomes thereof correspond and contribute to the General Development Principles (GDP) set forth in the Strategic Framework for BiH adopted by the BiH Council of Ministers. In particular, the sustainable growth principle, as one of the GDPs, governs the “improvement of environmental management and development of environmental infrastructure while increasing resilience to climate changes”. Also, the proposed solutions and outcomes correspond to the FBiH and RS Water Management Strategies.

It is notable that each positive impact of the water service sector reform will “spill over” to other communal services and the environmental sector as a whole, as it is incorporated through the Environmental Approximation Strategy for BiH (EAS BiH).¹⁹ The water service sector reform is one of the key factors for the environmental sector development, which is currently facing serious challenges both in terms of level of implementation of domestic legislation and in terms of harmonisation with the EU legislation and best international practices. Also, given the crucial impact of the water services to economic growth, the improved framework and practices in the sector will significantly foster the local development as well as development of BiH as a whole.

¹⁹ The Strategy was adopted in 2017 in a package with action plans for its implementation at the entity level and BD BiH, but its implementation has not started yet.

8. Communication and Advocacy Plan

No.	Step / Activity	Timeframe	Responsible	Resources
1.	4 th meeting of the Platform for Dialogue to discuss the draft Policy Paper	April 2019	Aquasan Network in BiH	RCDN Project
2.	Development of the final Policy Paper in line with participants' feedback and comments	July 2019	Aquasan Network in BiH	RCDN Project
3.	5 th meeting of the Platform for Dialogue to agree upon the Action Plan	October 2019	Aquasan Network in BiH	RCDN Project
4.	Relevant state, entity and cantonal ministers are briefed about and familiarised with the Policy Paper	October 2019	PfD participants representing respective ministries	N/A
5.	Management of water agencies and environmental funds are briefed about and familiarised with the Policy Paper	October 2019	PfD participants representing water agencies and funds	N/A
6.	LGAs and APUCs management bodies are briefed about and familiarised with the Policy Paper	October 2019	PfD participants representing LGAs and APUCs	N/A
7.	Management of international development cooperation agencies and development banks and funds are briefed about and familiarised with the Policy Paper	October 2019	Respective PfD participants	N/A
8.	Promotion of the Policy Paper and its rationale and recommendations at relevant events	October 2019 and onwards	All PfD participants	N/A

Annex 1. List of Platform for Dialogue participants

- BiH institutions and organizations from the state, entity, cantonal and municipal level (relevant ministries, agencies and funds),
- Associations of local government units (LGAs) and associations of public utility companies (APUCs) from both BiH entities and their regional networks i.e. Network of Associations of Local Authorities of South-East Europe (NALAS) and International Association of Water Supply Companies in the Danube River Catchment Area (IAWD),
- International development cooperation agencies and development banks and funds including the Delegation of the European Union in BiH.

Annex 2. Necessary engagement of stakeholder and their cooperation

State Level:

- ✓ Adoption of the Policy Paper promoting the needs and advocating for the water service sector reform in BiH;
- ✓ Identification and implementation of policies and core principles of work of the BiH Ministry of Foreign Trade and Economic Relations in the water service sector;
- ✓ Ensure the implementation of the adopted strategic-planning documents relating to the environmental sector (EAS BiH) and, in cooperation with the entities and BD BiH, adoption of implementation plans (DSIP and APID) for implementing the EU directives on drinking water and urban wastewaters as well as development and adoption of entity environmental protection strategies and BiH strategy including reporting on levels of their implementation;
- ✓ Define the role of the BiH Ministry of Foreign Trade and Economic Relations in the water service sector;
- ✓ Incorporate the Policy Paper in annual work plans of the Ministry;
- ✓ Make prioritization of projects, applications for EU funds and other IFIs and report accordingly.

Entity and Cantonal Ministries:

- ✓ Adoption of the Policy Paper promoting the needs and advocating for the water service sector reform in BiH and incorporating the Position Paper in annual work plans of entity ministries;
- ✓ Provide links and synergies with other key activities in the water sector (e.g. protection of water quality, protection of water resources, water district management plans, etc.), as well as establish links to new water services provisions with existing water laws at the entity and cantonal levels;
- ✓ Capacity development for programming, prioritization and implementation of projects in the field of environmental and water protection from domestic and international sources within the existing water management institutions, environmental funds, and cantonal institutions and agencies;
- ✓ Improvement of the existing regulations or drafting and adopting new regulations, especially by defining new provisions for the introduction of missing mechanisms: establishment of a regulatory body for water services, the obligation to sign a public water service contract between a LGU and PUC, use of a unique tariff methodology, subsidizing socially vulnerable categories of users of water services, strategic and business planning and water service master planning, obligations to maintain the register of assets, obligation of capacity development, monitor the implementation of regulations and reporting based on indicators, including performance monitoring of PUC (benchmarking), obligations for regular capacity building, defining the competent ministry for water services (monitor and evaluate the work of LGU and PUC), harmonization of regulations with EU directives, i.e. transposition of EU directives into BiH legislation;
- ✓ Institutionalisation of human capacity development in the existing provisions including introduction of the obligation on regular training and certification of trained staff i.e. LGU and PUC employees;
- ✓ Ensuring support from the entity and cantonal budgets for co-financing the construction of water infrastructure and securing guarantees for IFI funds.

Water agencies, environmental funds, cantonal and municipal institutions for planning the construction and development (as per their functions):

- ✓ Allocation of financial resources to support the preparation and implementation of capacity development programs by ensuring co-financing from water fees;
- ✓ Establish and enable capacities for the preparation and implementation of infrastructure projects for water services and measures from water district management plans, programming of own resources and resources from other sources, proposing funding sources for new projects, prioritizing and applying for infrastructure projects, and reporting on progress their realization;
- ✓ Ensure the regular allocation of budget funds to support work of LGAs and APUCs and similar associations according to the results achieved annually for the purpose of establishing a capacity building system for the LGU and the PUC;
- ✓ Provide support to the LGU and the PUC in the preparation and implementation of water services improvement programmes and projects in accordance with water district management plans and requirements from the EU directives;
- ✓ Introducing incentive scheme for capacity development through subsidising participation of LGU and PUC employees in capacity development programs particularly for small-scale LGUs and PUCs.

LGUs and PUCs:

- ✓ Signing contracts between LGUs and PUCs on public water service delivery in order to define rights and obligations, roles and responsibilities and how to carry them out;
- ✓ Develop a cadastre of underground infrastructure in LGU and develop a social map for subsidizing socially vulnerable categories;
- ✓ Develop and implement strategic business plans of the PUC;
- ✓ Develop and implement water services master plans;
- ✓ Regularly maintain registry of assets;
- ✓ Implementation of the tariff methodology and cost-covering tariffs;
- ✓ Regularly and consistently participate in the collection and publication of business indicators including the monitoring of the performance of the PUC (benchmarking);
- ✓ Investments in strengthening LGU and PUC operational and financial indicators in order to increase quality, efficiency and sustainability of the water services and sustainability of PUCs as well as sustainability of capital infrastructure investments;
- ✓ Actively involve LGU in the capacity building process and increase networking with other participants in water services;
- ✓ Establish incentive programs for LGU and PUCs based on their performance.

International Financial Institutions and Donors:

- ✓ Ensure financial support for the development and implementation of training programs particularly those relating to wastewater collection and treatment including financial assistance for implementing key elements of the water service sector reform (legislative and regulative improvements, capacity development, etc.);
- ✓ Ensure support to developing capacities for programming and implementation of projects for the purpose of better preparation of projects for improvement of water services and verification of long-term sustainability of constructed facilities;

- ✓ Subsidising the participation of PUCs in training programs especially for PUCs that are under preparation or implementation of capital infrastructure investments;
- ✓ Ensure financial support for the development of projects aimed to engage young professionals in the water service sector;
- ✓ Investments in construction of a new and rehabilitation of the existing infrastructure;
- ✓ Set capacity development and long-term sustainability of capital infrastructure as core conditions for funding projects in the water service sector;
- ✓ Set incentives for LGUs and PUCs to comply with regulations and monitor compliance based on their performance;
- ✓ Support PUCs to further improve its financial efficiency to achieve creditworthiness and access to commercial financing;
- ✓ Support to political advocacy efforts aimed to introduce changes and reforms in the BiH water service sector.

LGU and PUC associations in cooperation with Aquasan Network in BiH

- ✓ Establishing a system of continuous and regular training of employees of LGUs and PUCs in order to develop their human, organisational and institutional capacities;
- ✓ Promoting and encouraging employment of young professionals in the water service sector, applying and implementing projects that promote this approach;
- ✓ Development of capacity development products and programs in line with realistic needs of LGUs and PUCs including the organisation of their delivery;
- ✓ Involvement of citizens and public in order to raise awareness and increase understanding about the need to reform the water service sector in BiH i.e. RS and FBiH;
- ✓ Organisation of regular stakeholder meetings aimed to promote the BiH water service sector reform;
- ✓ Promote the importance of the water service sector and improvements necessary for sustainable sector development.

Annex 3. Organisation of the water service sector in BiH

Figures below illustrate the organisation of the water service sector in BiH²⁰

Figure 1: Water service sector organisation in FBiH

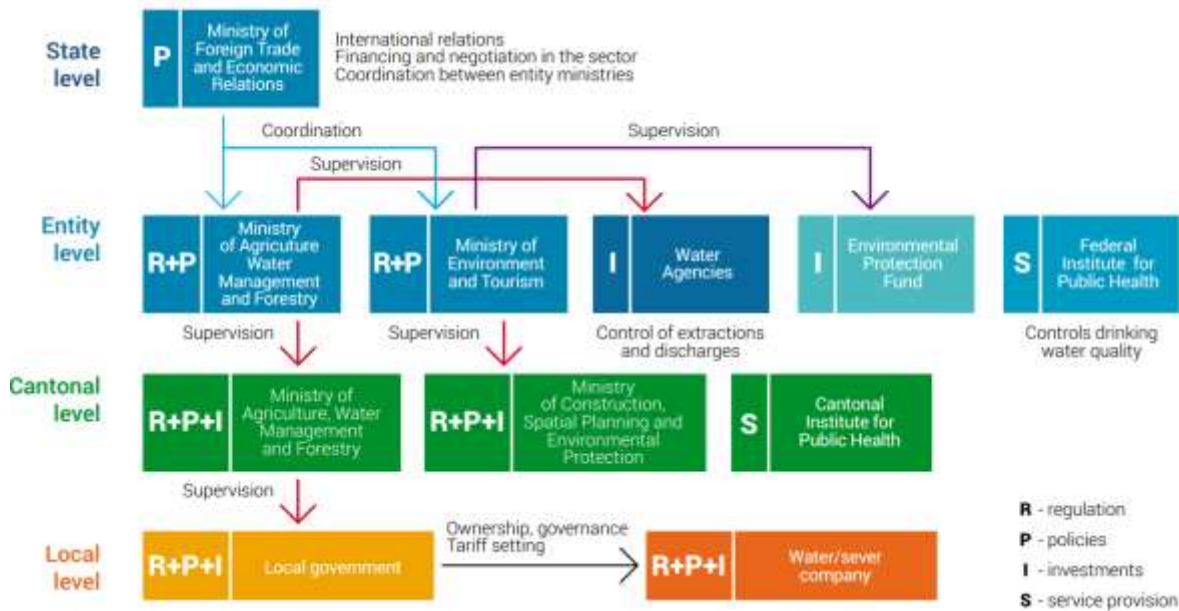
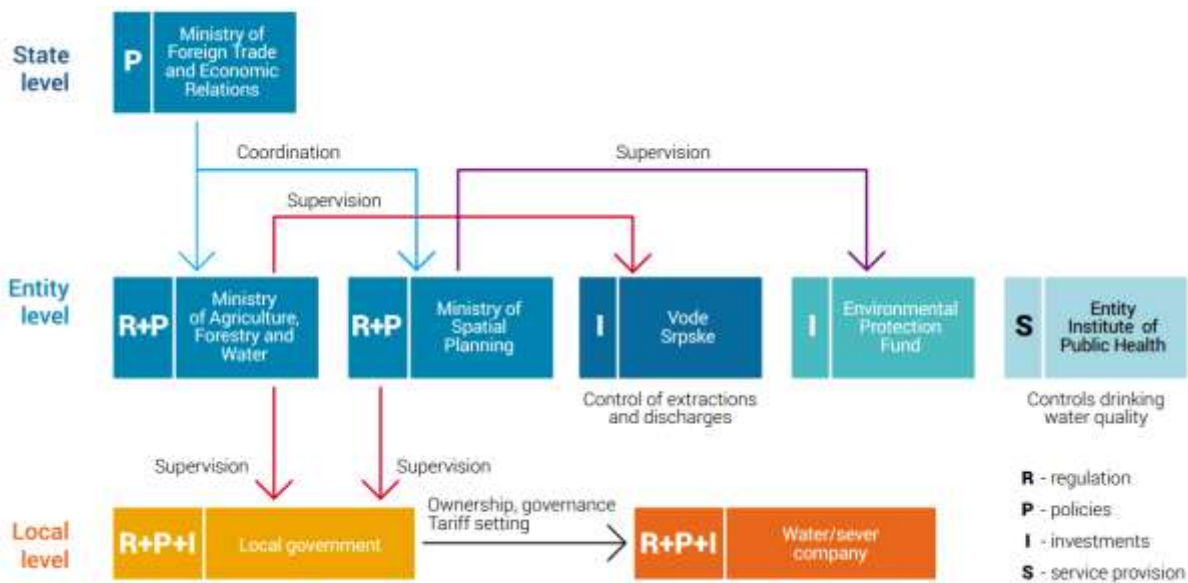


Figure 2: Water service sector organisation in RS



²⁰ Source of information: *State of Sector – Regional Report 2018*, World Bank, 2019