

# REFORMING ENVIRONMENTAL POLICIES IN EASTERN EUROPE, CAUCASUS AND CENTRAL ASIA: The Role of the EAP Task Force

## Water Supply and Sanitation



## Environmental Finance



## EECCA Environment Strategy

### Environmental Policy Implementation



# Reforming Environmental Policies in Eastern Europe, Caucasus and Central Asia

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# Foreword

For over fourteen years, the EAP Task Force – the Task Force for the Implementation of the Environmental Action Programme – has supported countries of Central and Eastern Europe, Caucasus and Central Asia in reforming their environmental policies and institutions. Initially, the Task Force focussed on central Europe and was credited with helping to create a good basis for those countries to begin their accession dialogue with the European Union. Since 1998 Aarhus Ministerial Conference, the work of the Task Force shifted to Eastern Europe, Caucasus and Central Asia (EECCA). The three main areas of work are: reform of the urban water sector; environmental finance; and environmental policy reform. At 2003 Kiev “Environment for Europe” Conference, Environment Ministers adopted an Environment Strategy for EECCA countries and asked the EAP Task Force to facilitate and support its implementation. Progress was reviewed at a Ministerial meeting in Tbilisi in 2004 and will be reviewed again at the 2007 Belgrade “Environment for Europe” Ministerial Conference.

We are pleased to introduce this brochure that highlights the main activities carried out by the EAP Task Force in the EECCA region since the last “Environment for Europe” Ministerial Conference in Kiev in 2003. We believe that the work of the Task Force has made a real difference to the way in which environmental policies are being developed and implemented in EECCA countries. We hope that this Brochure will be useful reference document for the next “Environment for Europe” Conference in Belgrade in October 2007.



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# EAP Task Force

The Environmental Action Programme (EAP) was adopted in 1993 by Environment Ministers in Lucerne, Switzerland as part of the “Environment for Europe” process. It emphasized the need to:

- ▶ set clear priorities;
- ▶ develop the best mix of policy, institutional and investment actions to solve environmental problems;
- ▶ use cost-effectiveness as a key criterion in allocating scarce resources; and,
- ▶ develop policies and strategies that build on and reinforce economic and democratic reform.

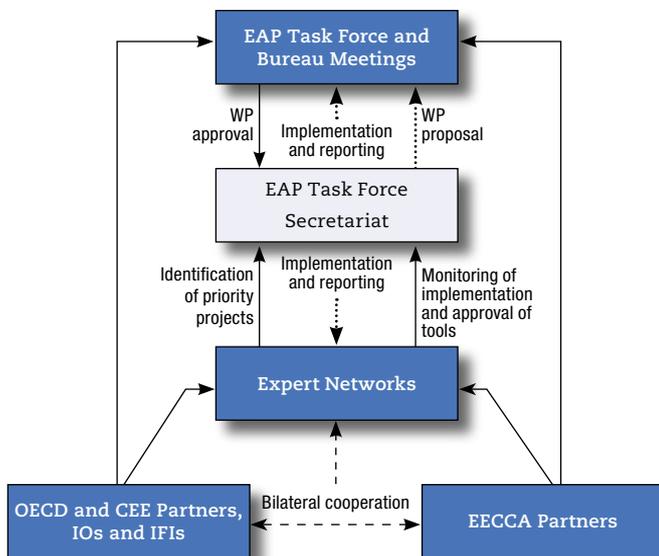
In Lucerne, Ministers established an inter-governmental Task Force to implement the EAP. Since 1998 Aarhus Ministerial Conference, the main mission of the EAP Task Force is to guide reforms of environmental policies in EECCA countries by promoting the integration of environmental considerations into the processes of economic, social and political reform; and by upgrading institutional and human capacities for environmental management. The members of the Task Force comprise the governments of Western, Central and Eastern Europe, North America, the Caucasus and Central

Asia. International organisations and financial institutions, business and civil society, and Regional Environmental Centres (RECs) actively participate in the work of the Task Force. The European Commission co-chairs the Task Force together with an elected country from the region. Since the 2003 Kiev Conference, Kazakhstan has co-chaired the Task Force.

## Value added of the EAP Task Force

- ▶ Builds local ownership and consensus on policy principles and good practices through analytical work and dialogue within regional networks
- ▶ Facilitates access to best practices and tools for effective environmental management
- ▶ Implements in-country pilot projects to demonstrate how policies and tools can be applied in practice
- ▶ Facilitates dialogue and co-operation between donor and partner countries

## Major elements of the EAP Task Force workflow



The Task Force secretariat is located at the Organisation for Economic Co-operation and Development (OECD). This location enables the EAP Task Force Secretariat to draw upon the policy analysis and recommendations prepared within OECD directorates and committees dealing not only

with Environment but also Financial and Enterprise Affairs, Public Management, Economics, Regulatory Reform and others. The Task Force works in conjunction with the Project Preparation Committee (PPC), a network of International Financial Institutions and donors, that aims to accelerate environmental investments.

Since the Kiev Ministerial Conference, the EAP Task Force worked with EECCA Governments to support the achievement of three EECCA Environment Strategy objectives: for water supply and sanitation; environmental finance; and environmental policy reform. Work was conducted through Task Force networks of EECCA experts in these three fields with an active participation of RECs, NGOs, industry and the donor community.

The annual budget of the Task Force is about 2 million EUR. The major donors are: Austria, Czech Republic, European Commission, Germany, Netherlands, Norway, Poland, Sweden, Switzerland, and United Kingdom.

### DID YOU KNOW

... that since the 2003 Kiev Conference, the Task Force has organised over 120 meetings, trained some 1000 experts and produced over 14 tools and guidelines in both English and Russian ?

# Water Supply and Sanitation

## Achieving the water-related Millennium Development Goals (MDGs)

### Challenges

80% of the urban population in EECCA region are connected to water supply, and more than 60% have access to sewerage systems. However, the infrastructure is rapidly deteriorating, resulting in low service quality (see graph) and increased risks to public health and the environment. The worst situation exists in rural areas, where only 10 to 15% of the population have access to centralised water supply. Improving the situation will require EECCA governments to reform the policies and institutions governing the water sector. Estimates suggest that financial expenditures in the sector would need to roughly double to achieve the water-related MDG which call for a reduction by half of those without access to safe water and basic sanitation services by 2015. On present trends these targets will not be met. This and related challenges were the subject of a meeting between Economics, Finance and Environment/Water Ministers in Yerevan in November 2005.

**DID YOU KNOW** ... that water is good investment with every dollar invested in improved water supply and sanitation yielding up to 13 in health benefits ?

### EAP Task Force Activities

- ▶ **Finance strategies to achieve the Millennium Development Goals on water supply and sanitation** have been prepared in a number of EECCA countries. They have helped identify some of the difficult trade-offs that EECCA countries face and underlined the fundamental role that (national) public budgets and increased water tariffs will play in raising the necessary finance. This work has also identified the need for better targeting of social support measures to ensure that poor sections of the community continue to have access to basic water services as tariffs increase. More recently, work has also concentrated on extending the analysis to include rural as well as urban areas.
- ▶ **Performance indicators and contracts.** Projects have been implemented in 9 EECCA countries to collect indicators on the performance of water utilities. Data collection is now starting to be institutionalised in some of these countries, to provide policy makers with an objective basis for assessing, benchmarking and developing strategies for upgrading the performance of utilities. All data is

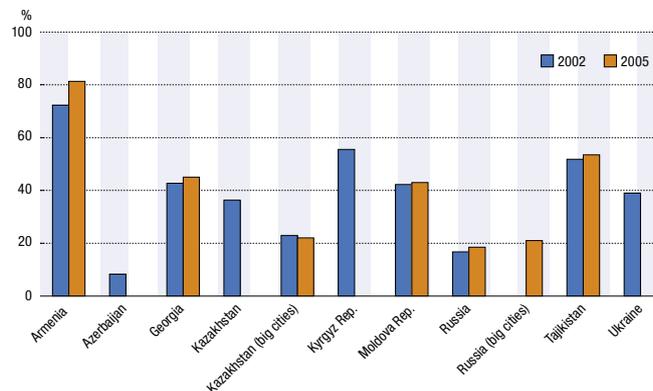
published on the World Bank's International Benchmarking Network (IB-Net) web-site. A Guidebook on performance-based contracts has also been published recently to help water utilities and municipalities to clarify their relative roles and responsibilities in delivering water services, and assistance is being provided to a number of municipalities and utilities on this basis.

- ▶ **Strengthening financial planning at the local level.** Although central governments continue to have an important role to play in EECCA countries, water service provision is fundamentally a local issue. To support reform in this direction, a tool to assist EECCA municipalities to strengthen their financial planning capacity was developed through two pilot studies in Russia and Ukraine. More recently, a complementary tool for water utilities was developed and pilot tested in three EECCA utilities. Training in the use of the tools is being organised for EECCA representatives and experts.
- ▶ **The potential role of private sector participation in the EECCA water sector.** Four roundtable discussions involving public and private actors active in the water sector in the EECCA region have been organised, together with the World Bank, to analyse the key opportunities and obstacles to private sector participation. The rapid increase in the

number of domestic private operators in the Russian Federation has been a particular focus of analysis.

- ▶ **Co-operation with the EU Water Initiative.** Since 2005 the EAP Task Force's Water Network and the EUWI EECCA Working Group are meeting jointly and oversee a common work programme. In addition, the EAP Task Force is supporting several National Policy Dialogues that have been launched by the EUWI in the EECCA region.

**Water losses**, unaccounted for water as % of total produced water



Source: EAP Task Force Water Utility Performance Indicator Database.

# Environmental Finance

## Ensuring sustainable financing of environmental public goods

### Challenges

Most countries in the EECCA region face serious financial difficulties in achieving national environmental objectives. EECCA countries must make difficult decisions about priorities within the limits of what households, firms and public budgets can afford.

Environment departments and local governments need to improve their performance in investment planning and financial management in order to be recognized as reliable partners by Finance and Economy Ministries.

They also need to use available public resources efficiently and creatively, to better leverage additional finance from donors, IFIs and the private sector. New approaches are needed to mobilise additional financing.

**DID YOU KNOW** ... the share of environment-related assistance in total donor assistance for EECCA has decreased? It is now below 10%, the lowest percentage among all world regions.

### EAP Task Force Activities

- ▶ **Aligning environmental expenditure information systems with international standards.** Projects in Georgia, Ukraine and the Kyrgyz Republic have demonstrated how environment ministries and statistical services can use OECD/Eurostat standards to establish national systems for collecting environmental expenditure data. This is being used to strengthen the collection of environmental expenditure data throughout the region and to promote policy discussions on how financial resources can be best used to achieve environmental policy objectives.
- ▶ **Feasible national and regional environmental financing strategies.** The 'FEASIBLE' model was developed in cooperation with Denmark, to assist EECCA governments to design realistic investment and financial plans for environmental infrastructure (urban and rural water, sanitation, municipal waste). Application of this tool has yielded practical results in Armenia, Georgia, Kazakhstan, Moldova and Ukraine and six regions (Kaliningrad, Novgorod, Pskov, Rostov and Yaroslavl in Russia, as well

as eastern Kazakhstan). The emphasis now is on the implementation of these strategies through checking their affordability and facilitating the incorporation of their results in medium term public budgets.

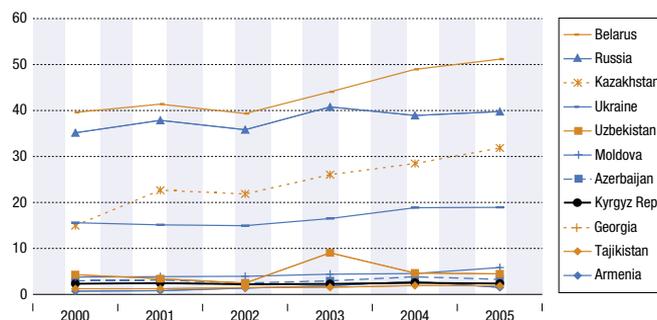
- ▶ **Improving the management of public environmental expenditures.** Two guidance documents have been developed to help improve the management of environmental expenditure programmes and to mainstream environment in public finance. Development of these tools has helped Ukraine, Kazakhstan, Moldova and countries in Central Europe in reforming their laws and public environmental financial institutions.

Fiscal transfers between central and local authorities for the water sector have also been analysed in selected EECCA countries, to identify good practice.

- ▶ **Possible new sources of finance.** In Georgia and the Kyrgyz Republic, pilot projects have been prepared, demonstrating the opportunities and feasibility of swapping external debt for domestic environmental expenditure. This work provides a potential model for indebted countries from EECCA and other regions to mobilize additional finance for environmental purposes.

An analysis has also been made of the opportunities and obstacles for local governments to access local capital and financial markets to finance investments in environmental infrastructure.

**Environmental protection expenditure per capita, constant 2003 USD**



Note: Data for Georgia refer to 2001 only.

Source: EECCA countries' responses to EAP Task Force environmental expenditure questionnaire.

#### DID YOU KNOW

... that in a majority of EECCA countries, except in Central Asia, wastewater receives the highest share of environmental expenditure? Air attracts a significant share of the total mainly in industrialised economies and also in Uzbekistan, Armenia and Belarus. Waste attracts relatively little attention.

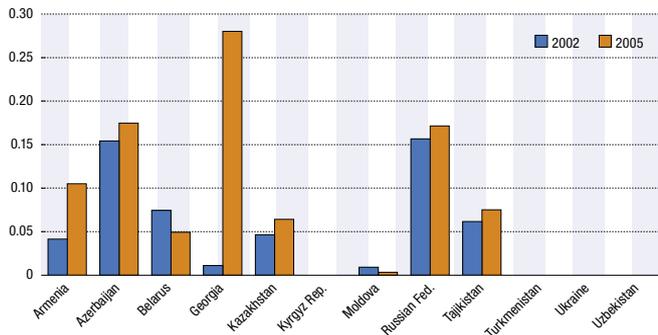
# Environmental Policies and Institutions

## Improving their effectiveness and efficiency

### Challenges

Despite developing many laws and strategies, EECCA countries still need to redesign policy instruments and strengthen institutions in order to improve environmental effectiveness and economic efficiency of policy interventions, thus striking a better balance between private and public interests.

### Budget of the Ministry of Environment, as % of GDP



Note: Data not available for Turkmenistan, Ukraine and Uzbekistan.  
Source: EECCA countries' responses to EAP Task Force questionnaire.

### EAP Task Force Activities

Work in this area has been implemented through the **Regulatory Environmental Programme Implementation Network** which provides EECCA policy makers and practitioners with a platform to exchange experience and build partnerships with their peers from OECD countries, Central and Eastern Europe, as well as with NGOs and the private sector.

- **Environmental policy instruments.** “Integrated Environmental Permitting Guidelines” were developed and used as a blueprint for the design of legal and institutional changes in Belarus, Georgia, Kazakhstan, Kyrgyzstan, and Ukraine. On the basis of this experience, Guiding Principles were prepared to generate political support for reform in this area. Support for related donor activities and extensive training involving permitting officials from all EECCA countries were also provided. The reforms of economic instruments and surface water quality standards were also addressed in several countries, including Armenia, Moldova and Russia.

- ▶ **Compliance assurance strategies.** The EAP Task Force has promoted tools of non-compliance prevention and social pressure on polluters. In Kazakhstan, policy recommendations and technical guidance on compliance monitoring by industrial operators were developed within a pilot project. The use and dissemination of these tools resulted in legal changes in Kazakhstan, Kyrgyzstan and Ukraine. The feasibility of industry performance rating was assessed in Ukraine; subsequently, such schemes were also adopted in Kazakhstan and Russia. NGOs were educated about their role as indirect enforcers. These activities contributed to an evolution of attitudes, e.g. increased use of environmental management systems.
- ▶ **Performance of environmental enforcement authorities.** Using the Guiding Principles for Reform of Environmental Enforcement Authorities as a reference, the inspectorates in Armenia and Kyrgyzstan were reviewed by peers from OECD and EECCA countries. Similarly, expert analyses were conducted in Moldova, Russia, and Ukraine. After establishing inspectorates, Kazakhstan and Georgia received support to adopt modern work methods in line with international benchmarks.

Training events involved some 300 inspectors from nine EECCA countries. For this purpose, a Toolkit was developed in order to transfer to partners in EECCA best international practice of inspectorate organisation, management, and daily operation.

Policy recommendations for selected countries and regional guidelines were developed to improve performance measurement systems. In addition, economic and financial aspects of compliance assurance were analysed and key lessons from international practice identified and disseminated.

**DID YOU KNOW** ... that legislation in EECCA often restricts the frequency of environmental inspection to one planned site visit every one or two years, regardless of the environmental risk of facilities ?

# Environment Strategy for Eastern Europe, Caucasus and Central Asia

Since the 2003 Kiev «Environment for Europe» Conference the EECCA Environment Strategy has provided a broad strategic framework for further development and implementation of national environmental policies in EECCA countries. The Strategy is organised around seven environmental objectives. EECCA governments themselves have the main responsibility to implement actions to achieve the Strategy objectives. But achieving the objectives have also required strengthened co-operation between EECCA countries and their donor partners, international organisations, NGOs, other stakeholders. Ministers at the Kiev Conference asked the EAP Task Force to lead the effort to facilitate and support the achievement of the EECCA Environment Strategy objectives overall. This has involved the following activities:

- ▶ **Assessing EECCA country progress.** This activity has focused on monitoring and assessing progress on actions taken by the EECCA governments to achieve the seven objectives of the EECCA Strategy. The report “Environmental Management in EECCA” prepared for the 2004 Tbilisi

Ministerial provided a baseline for the assessment. For the 2007 Belgrade Conference, the new report “Policies for a Better Environment – Progress in Eastern Europe, Caucasus and Central Asia” provides both an assessment of progress under each objective and documents actions taken by each individual country. This report was prepared in close co-operation with UNDP, UNECE, UNEP, WHO, the World Bank, PPC, the REC CEE, the EECCA RECs and the NGO network ECO-Forum. It was coordinated closely with the European Environment Agency’s Belgrade Assessment. EECCA Ministries of Environment and NGOs were actively involved in the design of the report, data collection and analysis.

- ▶ **Policy dialogues on institutional strengthening.** Following the 2004 Tbilisi Meeting of the EECCA Environment ministers and their partners, a new activity was developed to promote institutional strengthening through a policy dialogue with partners. The aim of the Policy Dialogues is to facilitate the efforts of the EECCA Environment Ministries

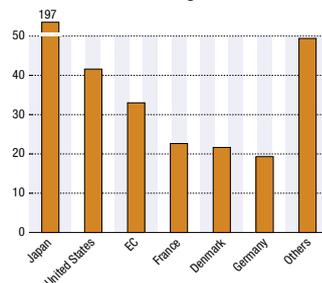
to become more effective and efficient institutions. They focus on identifying weaknesses in corporate functions in EECCA environment ministries (for example, strategic planning, human and financial resources management, communication) and launching targeted initiatives in co-operation with the donors to strengthen those functions. The first policy dialogue was carried out in 2005 in Georgia and the second one is planned to be carried in Armenia in the fall of 2007.

- **Monitoring and facilitating partnerships.** A comprehensive Partnership Database was established to monitor and share information on partnerships that contribute to the EECCA Strategy implementation. The Database, fully functional in English and Russian, is located at [www.eecca.net](http://www.eecca.net). The information collected through the Database has been used to prepare a Report on progress in developing and implementing partnerships in EECCA.

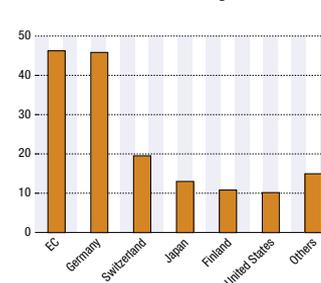
**DID YOU KNOW** ... that the donor community is involved in over 400 partnerships contributing to achieving the objectives of the EECCA Environment Strategy ?

### Environment-related Official Development Assistance

million USD, average 2001-03

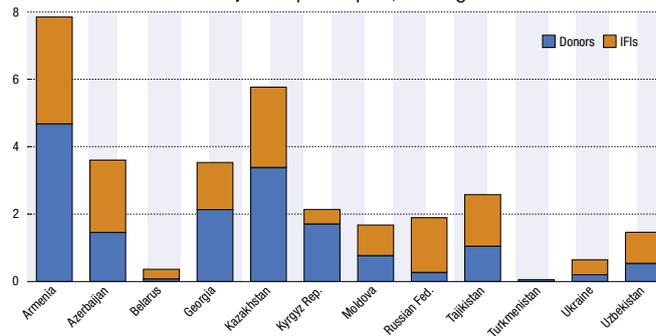


million USD, average 2004-05



Source: OECD Aid Activity database, donors reporting.

### Environment-related assistance by donors and international financial institutions, USD per capita, average 2001-05



Source: OECD Aid Activity database, donors and IFIs reporting.

# EAP Task Force Secretariat

The EAP Task Force Secretariat is a multicultural team, encompassing 18 staff members: economists, policy analysts, statistician and administrative staff. It is based in OECD's Environment Directorate. The management team members are:

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## Selected publications and tools

[www.oecd.org/env/eap](http://www.oecd.org/env/eap)

### Flagship publications (2007-2008)

#### ► Policies for a Better Environment

##### Progress in Eastern Europe, Caucasus and Central Asia (EECCA)

Reviews the progress in achieving the objectives of the EECCA Environment Strategy adopted at the 2003 “Environment for Europe” Ministerial Conference.

#### ► Mobilising Finance for Environmental Priorities

##### Recommendations for the Future

The report, drafted in conjunction with PPC, REC CEE and the World Bank, identifies actions that could be taken by actors in the Environment for Europe process to ensure that adequate levels of finance are available for environmental improvements in EECCA and SEE countries.

### Recent publications

#### ► Water Supply and Sanitation Sector

- Financing water supply and sanitation in EECCA and progress in achieving the water related millennium development goals, 2007

- Financing water supply and sanitation in EECCA - Proceedings from a Conference of EECCA Ministers of Economy/Finance and Environment and their partners, November 2005, Armenia, 2006

#### ► Environmental Finance

- Trends in Environmental Finance in EECCA, 2007
- Local Capital Markets for Environmental Infrastructure: Prospects in China, Kazakhstan, Russian Federation and Ukraine, 2006

#### ► Environmental Policies and Institutions

- Transition to Integrated Permitting in Ukraine (2005), Kyrgyzstan (2005), and Georgia (2006)
- Progress in Modernising Environmental Regulation and Compliance Assurance in EECCA, 2007
- Funding Environmental Compliance Assurance: Lessons from International Experience, 2005

#### ► EECCA Environment Strategy

- Environmental Management in Eastern Europe, Caucasus and Central Asia, 2005

## Selected Tools

### ► Finance and Water

- Financing Strategies: A computer tool (FEASIBLE) that allows the identification of realistic infrastructure development objectives, taking account of available financial resources
- Financial planning tool for utilities
- Toolkit for benchmarking water utility performance
- Guidelines for the development of performance based contracts between municipalities and utilities

### ► Environmental Finance

- Toolkit for aligning environmental expenditure information systems with OECD/Eurostat standards
- Good Practices for public environmental expenditure management
- Handbook for appraisal of environmental projects financed from public funds
- Multi-Year Investment Planning Tool for municipalities (MYIP)

### ► Environmental Policy Instruments and Compliance Assurance

- Guiding Principles of Effective Environmental Permitting Systems

- Integrated Environmental Permitting Guidelines for EECCA Countries
- Guiding Principles for Reform of Environmental Enforcement Authorities in Transition Economies
- Assuring Environmental Compliance: A Toolkit for Building Better Environmental Inspectorates
- Guidelines on Environmental Compliance Self-Monitoring by Industrial Operators in EECCA
- Performance Assessment Guidance for Environmental Enforcement Authorities
- CD-ROM “Training on Integrated Environmental Permitting in EECCA”

### ► EECCA Environment Strategy Partnership Database – [www.eecca.net](http://www.eecca.net)

This database provides access to information on partnerships developed and implemented since 2002 in EECCA countries to support the achievement of the objectives of the EECCA Environment Strategy.

## More information on the OECD's work on environment

The OECD Environment Directorate produces 20-30 titles a year in English and French, with summaries of selected titles translated into other languages (available for free on the OECD on-line bookshop). In addition, many free reports are available on our websites.

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