

EAP Task Force



JOINT MEETING OF

THE EAP TASK FORCE'S GROUP OF SENIOR OFFICIALS ON THE REFORMS OF THE WATER SUPPLY AND SANITATION SECTOR IN EASTERN EUROPE, CAUCASUS AND CENTRAL ASIA

THE EAP TASK FORCE'S ENVIRONMENTAL FINANCE NETWORK

THE EU WATER INITIATIVE'S EECCA WORKING GROUP

DOCUMENT 13

TERMS OF REFERENCE

PROJECT: TRENDS IN ENVIRONMENTAL EXPENDITURE AND FINANCE IN EECCA, 2000-2005

Action Required: : For information and discussion

The meeting is jointly organised by the EAP Task Force secretariat (OECD) and the European Commission.

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Background

Since 1993 the OECD serves as a Secretariat for the Task Force for the Implementation of the Environmental Action Programme (EAP) in countries of Eastern Europe, Caucasus and Central Asia (EECCA). This programme was adopted by the Environment Ministers within the framework of the "Environment for Europe" process and is aimed at promoting environmental policy and institutional reform, and capacity building, in the EECCA region.

The main results and lessons learned from the work carried out by the EAP Task Force and its relevance for the decision making process will be presented at the 6th "Environment for Europe" Ministerial Conference to be held in Belgrade in 2007.

Among other domains, the EAP TF works in the area of public environmental finance, where it strives to strengthen the capacity of public sector institutions to mobilize and make cost-effective use of the financial resources available for the environment. In that context, policy making, for both EECCA governments and their partners in OECD countries, crucially depends on the availability of reliable and internationally comparable information on environmental expenditure: where does the money go and, eventually, where does it come from?

The EAP Task Force assists EECCA governments in collecting and disseminating sound and reliable information on environmental expenditure. It does so in two ways. First, it assists the countries which express their interest in implementing the OECD/Eurostat methodology to monitor environmental expenditure. Second, it produces a report on Trends in environmental expenditure, which presents the most recent data on expenditure, be they funded on domestic resources or international development aid; the previous report was published in 2003; the new one should be published at the end of 2006.

Objectives of the project

The main objectives of the project are to:

- collect reliable data on environmental financing trends (environmental expenditure, official development assistance (ODA/OA), others financing mechanisms);
- analyse recent trends in domestic and international finance.

These findings will provide a factual basis for a review of environmental financing trends in the EECCA region to be drafted by the EAP Task Force Secretariat drawing upon other analytical reports undertaken since the Kiev Conference in 2003. The review will also look into innovative financial mechanisms to support environmental investments in the EECCA region and will make

recommendations on the use of economic instruments. The review will be submitted to the environment Ministers at the Belgrade conference in 2007 to support the discussion on actions needed to improve the level and the effectiveness of environmental financing.

Methodological framework

Definitions: The EAP Task Force will provide all the relevant information on the classification and methodologies for the collection of environmental protection expenditure, including the joint OECD/Eurostat questionnaire in English and Russian, as well as questionnaires and instruction guidelines already developed in the framework of previous projects aimed at collecting environmental expenditure data in EECCA countries. According to these definitions, the data collection will focus on recurrent expenditure and investment expenditure undertaken both by the private and public sector in relation to the main environmental domains (air and climate; waste water; waste; soil and groundwater; biodiversity; research and development; others).

Time frame: data should be collected for the 2000-05 period.

Geographic coverage: 12 EECCA countries, namely: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

The data collection will be undertaken in close cooperation with national administrations (Ministries of Environment, National Statistical Offices, etc.).

Scope of Work

The scope of the work of the consultant will be limited to collecting, and analysing data on environmental expenditure in EECCA countries, and to drafting the corresponding section of the Trends report. The consultant will coordinate the work of local experts in the EECCA countries.

Stage 1. Organisation of the data collection

Identify local experts, data sources on environmental expenditure, in the 12 EECCA countries

Adapt questionnaires provided by the OECD

Set the time schedule and detailed programme of work on a country basis

Stage 2. Collect data

Coordinate the work of local experts to collect the data, on the basis of the questionnaire. The consultant should aim at collecting the most reliable data and the most recent ones (2005)

Stage 3. Data quality check

Check the reliability of collected data (order of magnitude, benchmark)

Identify missing information

Liaise with local experts to collect complementary data, and provide additional information (on scope, definitions, etc.) when needed

Stage 4. Identify trends in environmental expenditure in EECCA countries

Analyse data for the 12 countries; confront them with alternative national data sources

Identify trends in environmental expenditure

Discuss the hypotheses and results with EAP Task Force secretariat

Stage 5. Draft final report

Report on data quality and relevance of additional work to harmonize information systems on environmental expenditure with OECD/Eurostat methodology

Identify additional work programme to update data or to improve data quality (if necessary)

Outputs

Set of data on environmental expenditure for the 12 EECCA countries, for 2000-05, based on OECD/Eurostat definitions

Analysis of the data (identify and discuss trends in environmental expenditure in the 12 countries)

Identification of main data gaps, methodological caveats, recommendations on upgrading information systems

Project management and implementation

Organisation of the project

The project will be managed by the OECD, specifically the Non-Member Countries Division of the Environment Directorate, which serves as the Secretariat of the EAP Task Force. The project manager will:

- facilitate the overall implementation of the project;
- provide methodological and substantial inputs based on previous experience
- support the consultant in identifying local experts.

The consultant will work together with individual experts from all EECCA countries, hired directly by the consultant, following a consultation with the EAP Task Force Secretariat. Substantial input from local experts is anticipated. The consultant will be responsible for overall project management in the field. The consultant will report to the OECD.

Reporting

The consultant will liaise with the OECD on a monthly basis (by phone or e-mail), to report informally on project implementation, achievements and problems met.

Outputs identified in the section above will be presented electronically in both English and Russian. The statistical data will be provided in Excel worksheets.

The consultant will meet with the project manager at least three times

- During the meeting of the Environmental Finance Network in Almaty, 26-28 April 2006
- During a working session in Moscow, 1-2 June, 2006
- During a working session in September 2006.

All costs (travel, accommodation) related to these meetings will be covered by the EAP Task Force and are not included in the budget.

Time Frame

The table below sets a tentative timeframe. Based on this estimate, the project could start in April 2006, and be finalised in October 2006.

	M1	M2	M3	M4	M5	M6	M7
Stage 1. Organisation of the data collection							
Stage 2. Collect data							
Stage 3. Data quality check							
Stage 4. Identify trends in environmental expenditure							
Stage 5. Draft final report							

KEY MESSAGES FOR THE REPORT ON TRENDS IN ENVIRONMENTAL EXPENDITURE AND FINANCE IN EECCA

- Despite significant efforts from domestic and foreign stakeholders, financial resources remain insufficient to achieve priority environmental objectives (international commitments, such as the MDGs, the EECCA environment strategy; and national policies). This is confirmed by World Bank and COWI reports on the costs of meeting the MDGs, by a number of financing strategies in the water supply and sanitation and municipal solid waste management sectors. In addition, the increase in expenditure would not allow mitigating additional pressures on air pollution (from mobile sources).
- In some countries, money is available, but environmental projects have failed to attract it, and procedures have not been able to channel it to concrete projects.
- Total ODA is picking up, and the ODA for the environment sector is increasing. Multilateral ODA accounts for most of that growth. Bilateral ODA seems to be impacted by the donors' fatigue which was expressed in Chisinau. The vehicles are changing, as loans (not grants) represent the largest share of ODA. ODA is unevenly spread among countries and sectors. Water receives half of the total ODA.
- Domestic resources remain the major source of finance and are expected to have increased. Countries have poor experience with using different financial instruments (grants, loans, interest rate subsidies, equity). Economic growth generates new opportunities to allocate additional resources and to mobilise innovative instruments (DFES, CDM). Lessons from initial experiences have still to be learnt, to make sure that these instruments are used efficiently, and that best practices are scaled up. In particular, there is a need to improve the quality of the institutional and policy framework required to make these instruments efficient. There is also a need to develop incentives, knowledge and capacity for commercial banks to finance environmental projects.
- Progress in the management of public expenditure has remained slow. Result-oriented budgeting and medium term expenditure frameworks are being implemented in some countries. Extra budgetary environmental funds have been merged with general budget, allowing control from the Treasury; they are still earmarked for environmental projects. However, despite recent progress in managing public budgets made in certain EECCA countries, still a lot needs to be done to improve the procedures in line with best international practices.
- The situation is dire as regards the quality of project selection and financing and programme design; some progress has been made, on a case by case basis, often at the oblast level.