

# 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 5

### **PROGRAMME OF WORK AND BUDGET OF THE EAP TASK FORCE IN 2006**

*Action Required: For information and discussion*

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

## **PROGRAMME OF WORK AND BUDGET OF THE EAP TASK FORCE IN 2006**

### **Introduction**

The EAP Task Force – the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe – was established at the 1993 “Environment for Europe” Ministerial Conference in Lucerne, Switzerland. OECD provides its secretariat. The EAP Task Force’s overall objective is to promote environmental policy and institutional reform, and capacity building, in the region.

Initially, the EAP Task Force provided support for those countries that have now joined the European Union. It served as a model for an environmental reconstruction programme that was established for the countries of the South-Eastern Europe, following the end of conflict in the Balkan region. Since the Aarhus Ministerial Conference in 1998, the main focus of EAP Task Force work has shifted to the countries of Eastern Europe, Caucasus and Central Asia (EECCA). At the 2003 Kiev “Environment for Europe” Conference, the Ministers adopted the EECCA Environment Strategy and invited the EAP Task Force to “lead efforts to facilitate and support the achievement of the objectives of the EECCA Environment Strategy” overall. In 2004, the EECCA Environment Ministers and their Partners met in Tbilisi and discussed how to provide further support and new impetus to this process.

The work programme of the EAP Task Force has responded to the directions provided by the various Ministerial meetings identified above. This document presents the activities of the EAP Task Force for 2006 under the following headings:

1. Urban Water Sector Reform
2. Public Environmental Finance
3. Promoting Effective and Efficient Environmental Policies
4. Facilitating Achievement of EECCA Environment Strategy Objectives Overall
5. EAP Task Force Management and Support.

Increasingly in 2006, the focus of work will shift to finalizing activities and preparing inputs for the 2007 Belgrade “Environment for Europe” Ministerial Conference. This will involve drawing lessons learned from work and developing policy conclusions and recommendations. More emphasis will be given to disseminating the results of work and ensuring the sustainability of activities. One of the main contributions of the EAP Task Force to the Belgrade Conference will be an assessment of progress in achieving the objectives of the EECCA Environment Strategy. (Possible inputs to the Belgrade ministerial conference are presented in another document.) This report will draw on the substantive work of the EAP Task Force, related activities of other international organizations, and the experience of EECCA countries. In 2006, the future of the EAP Task Force after the 2007 Belgrade Conference should be determined.

## **PROGRAMME AREA 1: URBAN WATER SECTOR REFORM**

**Objective:** To support reform of the urban water sector in EECCA countries so that good quality water and sanitation services are delivered reliably, sustainably and at least cost to the population.

**Background:** Work in this area is carried out within the framework of the “Guiding Principles for Water Sector Reforms” adopted at a meeting of EECCA Economic, Finance and Environment Ministers in Almaty 2000. Further guidance has been provided by Ministers at the Yerevan Ministerial Conference on “Financing Water Supply and Sanitation in EECCA countries” in November 2005.

The Task Force’s work in this area takes account of several additional developments

- The goals agreed at WSSD to halve, by 2015, the proportion of people who are unable to reach or to afford safe drinking water or who are without access to basic sanitation;
- The inclusion of water supply and sanitation issues in the EECCA Environment Strategy (objective 2);
- The implementation of water initiatives in the EECCA region by the EU, the US and other donors;
- Discussions in the UNCSD where water and sanitation were priority issues for 2004-05.

A major challenge for work in this area is to build on existing work, ensure that it provides value-added, and develop synergies with related activities while avoiding any duplication of effort.

The work in this programme area is overseen by the Group of Senior Official for Reform of the Water Supply and Sanitation Sector in EECCA countries, which brings together high-level officials with responsibility for this sector; EECCA representatives from Ministries of Communal Affairs, Construction or Infrastructure as well as Environment, donors, IFIs, NGOs and the private sector. Closer cooperation has been established with the EAP Task Force’s Environment Finance Network which is working on related issues. They met together for the first time in 2005. This meeting was also organised back-to-back with a meeting of the EECCA component of the EU Water Initiative. In 2006 and 2007 it is planned that the Group of Senior Officials will meet again back-to-back with the Environmental Finance Network and the EUWI EECCA Working Group.

**Activities: PROJECT 1.1 MONITORING WATER SECTOR REFORM**

This activity aims at providing a firm empirical basis to support urban water sector reform and to monitor progress in this regard, including monitoring progress in achieving the water-related Millennium Development Goals.

- *Collecting water utilities performance data.* Building on current activities, work in 2006 will focus on updating data sets for the Russian Federation, Kazakhstan, Kyrgyzstan and Tajikistan. Data for the Ukraine, Moldova, Georgia, Armenia and Azerbaijan has been, or will likely be, collected by the World Bank. All these data sets will be consolidated on the World Bank's global water utility benchmarking website ([www.ib-net.org](http://www.ib-net.org)). This activity will lay the basis for preparing a report assessing the state of water supply and sanitation in EECCA countries for the 2007 Belgrade Ministerial Conference.

**PROJECT 1.2 LEGAL AND INSTITUTIONAL REFORMS**

- *Guidelines for Performance-Based Contracts.* Guidelines were finalised in 2005 analysing key elements that need to be addressed when utilities and municipalities conclude contracts to achieve agreed levels of water service provision. To disseminate the Guidelines, they will be presented in several workshops and conferences in EECCA. Other means of disseminating the Guidelines will also be developed including through links to influential EECCA websites (e.g., water utility associations, NGOs etc). Furthermore, it is planned to provide assistance to several municipalities in EECCA in assessing existing performance contracts and developing recommendations on how to improve them. This work would result in an update of the Guidelines in Q4 2006.
- *Assessing opportunities for, and obstacles to, private sector participation.* In recent years, a series of workshops have been organised with the World Bank to examine opportunities for, and obstacles to, private participation in the water sector in EECCA countries. In late 2006 or early 2007 a workshop will be organised to review the situation with the participation of the domestic private sector in water supply and sanitation. There have been some dramatic recent developments in this area, but questions have been raised about their sustainability.

**PROJECT 1.3 PROMOTING FINANCIAL REFORM AND MANAGING THEIR SOCIAL IMPACTS**

- *Promoting financial reforms in utilities.* This project seeks to link capital investment planning in utilities with investment planning in municipalities. An investment planning tool has been prepared through a demonstration project in Bishkek. It addresses issues such as asset evaluation and accounting as well as investment planning. In 2006, this tool will be applied in water utilities in Armenia and another EECCA country with a view to ensuring its applicability in a range of EECCA utilities and further demonstrating how it can improve financial planning in water utilities.
- *Developing water sector financing strategies to achieve the water related MDGs and assessing the social impacts of financial reform in the water sector.* This project will assess how potentially adverse impacts of tariff increases on the poorer sections of communities could be mitigated as part of strategies for achieving water-related policy goals, including the MDGs. It will be carried out in conjunction with work on environmental financing strategies conducted by the environmental finance team, and build on previous EAP Task Force work on the social aspects of urban water sector reform. Most recently such studies have been conducted for Armenia and Georgia, and a project is currently being prepared in Moldova. It is planned to do one more project in another EECCA country in 2007.

## PROGRAMME AREA 2: PUBLIC ENVIRONMENTAL FINANCING

**Objective:** To assist EECCA to strengthen the capacity of public sector institutions to increase the volume, and improve the efficiency, of public environmental expenditures.

**Background:** The proposed activities in this programme area will support EECCA countries to achieve objective No 5 of the EECCA Environment Strategy: “Mechanisms for Mobilizing and Allocating Financial Resources to Achieve Environmental Objectives, including Debt for Environment Swaps”.

EECCA countries have made uneven progress in mobilizing sustainable and efficient financing in support of environmental policies. However, in recent years, some EECCA countries have been successful in strengthening the fiscal position of their public sectors, and renewed economic growth has strengthened the financial situation of public budgets, households and enterprises.

In 2006, work will continue to support the broader and deeper application of financial management tools for elaborating realistic public expenditure programs in the environmental sector. These activities support and complement the more investment-oriented approach of the PPC. In addition, increasing attention will be given to drawing lessons learned from work in recent years and to establishing a firm empirical base for policy discussions on finance issues at the 2007 Belgrade Ministerial Conference.

The EECCA Environmental Finance Network will continue to be an important vehicle for guiding the work program. The tradition of meetings and activities involving both environmental and finance representatives will be strengthened. Greater effort will be made to extend the network to attract local government officials responsible for budgeting infrastructure investments and for the provision of municipal environmental services. The Network will continue to involve officials and experts from OECD and CEE countries in order to facilitate exchange of experience and seek synergies among technical assistance projects.

**Activities:** **PROJECT 2.1** **HARMONIZING ENVIRONMENTAL EXPENDITURES INFORMATION SYSTEMS WITH OECD/EUROSTAT STANDARDS**

This project aims to assist EECCA countries to review and redesign their environmental and water expenditure data collection systems using Eurostat/OECD standards and definitions as a benchmark. This should create a better basis for developing more effective environmental expenditure policies. Work will build on a demonstration projects carried out in Georgia (2002-2003) and Ukraine and the Kyrgyz Republic (2005), as well as regional workshop held in 2005. In 2006, environmental expenditure data will be collected from EECCA countries to support the preparation of a report analysing trends in this area for the 2007 “Environment for Europe” Ministerial Conference.

**PROJECT 2.2** **IMPLEMENTING FINANCING STRATEGIES FOR WATER AND ENVIRONMENTAL INFRASTRUCTURE AND INTEGRATING THEM WITH THE BUDGET PROCESS**

A major pillar of Task Force work in the area of environmental finance has been the development and application of a computer-based model – FEASIBLE - to support

preparation of realistic financing strategies in several EECCA countries. With substantial support from Denmark, the model was applied to the urban water supply and sanitation sectors and, subsequently, to the solid waste management sector. In 2004-05 a module on rural water supply and sanitation was integrated into the model. The following activities will be carried out in 2006:

- Finalise a project in Armenia to integrate the findings of a finance strategy for the wastewater sector into the government's medium-term expenditure framework. Related to this, support will be provided to the State Water Committee to develop an investment plan and to submit a proposed scheme for tariff adjustments to the state regulator that takes account of the evolution of incomes and affordability constraints.
- Prepare a comprehensive finance strategy (together with the water team) in Moldova, for achieving the MDGs in both the urban and rural sectors, taking account of affordability constraints in households and public budgets.
- Transfer know-how and expertise to local EECCA experts, through workshops and hands-on training sessions. Training will be provided in the use of FEASIBLE and the multi-year investment planning tool (MYIP) developed in previous work to assist municipalities to develop realistic financing strategies
- Draw lessons learnt from the experience accumulated in the solid waste management sector, through an expert workshop and publication. A document summarising lessons learned from strategies for financing solid waste management in EECCA countries will be prepared.

### **PROJECT 2.3 IMPROVING MANAGEMENT OF PUBLIC ENVIRONMENTAL EXPENDITURES**

At the Kiev Conference, Ministers welcomed the “*Good Practices of Public Environmental Expenditure Management in Transition Economies*” that had been developed in the EAP Task Force. They encouraged transition economies to use the good practices as a tool to strengthen environmental expenditure programmes. A second tool that provides additional guidance in this area is being finalised, namely the “*Handbook for Appraisal of Environmental Projects Financed from Public Funds*”.

The following activities will be carried out in 2006:

- Further training of environmental expenditure programme managers using the Handbook and training materials developed in 2005;
- Using the Good Practices, a performance assessment will be made of the Ukrainian National Environmental Fund, and recommendations proposed to improve its performance.

### **PROJECT 2.4 FACILITATING POLICY DIALOGUE ON OPPORTUNITIES AND RISKS OF DEBT FOR ENVIRONMENTAL SWAPS**

In previous work, pre-feasibility studies have been prepared in Georgia and the Kyrgyz Republic to evaluate opportunities and institutional options for swapping a portion of sovereign external debt for domestic environment expenditures. At Kiev, Ministers “welcome[d] the recent initiative by Georgia to develop a debt for environment swap”. They also considered that “other poor, indebted countries of the region may want to consider working with their creditors to develop similar initiatives.” In 2006, the lessons learned from these and related experience will be reviewed and recommendations prepared on the relevance and feasibility of debt for environment swaps in the EECCA region and beyond.