



# EAP Task Force

**Joint Meeting of the EU Water Initiative's EECCA  
Working Group and the EAP Task Force Environmental Finance  
and Water Networks**  
*26 – 28 April 2006, Almaty, Kazakhstan*

**SUMMARY RECORD**

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**of the Joint Meeting of the EU Water Initiative's EECCA**  
**Working Group and the EAP Task Force Environmental Finance and Water Networks**  
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The EU Water Initiative's EECCA working group, the EAP Task Force Group of Senior Officials for Water Supply and Sanitation Sector Reform in EECCA and the EAP Task Force Environmental Finance Network met jointly, from 26 to 28 April 2006 in Almaty, Kazakhstan. These were the fifth and the ninth meetings of the Water Network and the Environmental Finance Network respectively, and the second joint meeting of the three networks.

The meetings were hosted by the Kazakh Ministry of Environment. They were attended by about 80 participants. The participants included officials from EECCA environmental agencies, Ministries of Economy and Finance, representatives from OECD environment and development cooperation ministries, experts in the areas of water supply and sanitation and environmental finance. Representatives of the NGO community, international organizations (UNECE, UNDP, European Commission, Regional Environmental Centers) and international financing institutions (EBRD and PPC<sup>1</sup>) also attended the meetings (see annex). The objectives of the meetings in Almaty were:

- To agree on the proposed cooperation between the EUWI, the EAP Task Force and UNECE;
- To discuss terms of references for work to be carried-out under the EU Water Initiative EECCA Working Group and the linkage of this work to EAP Task Force activities on water; this would in particular include activities aimed at supporting National Policy Dialogues on water to be carried-out in 2006 and beyond;
- To discuss the conclusions that emerged from the conference of Ministers of Economy/Finance and Environment, held on 17-18<sup>th</sup> of November 2005 in Yerevan, and discuss possible follow-up;
- To report on the implementation of the programme of work and budget of the EAP Task Force on environmental finance and water for 2005, and to seek participants' agreement on the programme of work and budget for 2006-2007;
- To discuss and agree on the main documents which will be prepared for the Belgrade "Environment for Europe" Ministerial that will be held in 2007, and the key messages that they should convey.

In this context, the meeting:

**EAP Task Force Group of Senior Officials for Water Supply and Sanitation Sector Reform in EECCA**

**1**        Adopted the draft agenda for the meeting

**2**        Discussed and broadly endorsed the EAP task Force report "Financing Strategy for the Urban Water Supply and Sanitation Sector of Georgia" (Document 2) that was presented by the Deputy Minister of Economic Development, Mr Genrikh Muradyani. Participants welcomed this case study as illustrating many problems in financing water systems that countries in the region share. An issue that clearly sticks out is the difficult policy choice that politicians in Georgia will have to face, between providing water for some (i.e., rehabilitating in-house tap water connections for a limited number of households) or some water

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<sup>1</sup> PPC stands for Project Preparation Committee, created as part of the "Environment for Europe" process to facilitate match-making between IFIs providing loans to transition economies and donors providing grants for technical assistance as part of the preparation of IFIs investments.

to all (i.e., substitute some in-house connections with access to municipal stand pipes to allow a greater share of the population to gain access to safe drinking water). Participants emphasized the importance of improving cost recovery rates through water tariffs (e.g., Ukraine), but also pointed-out that widespread poverty in many countries in the region would prevent tariffs from reaching full cost recovery levels (operation, maintenance and capital costs) for many years to come (e.g., Moldova). Public budgets will therefore need to play an important role, putting a significant burden on public finances (Kazakhstan and Moldova), as illustrated in the case of Georgia. In moving gradually towards greater levels of cost recovery through tariffs, delegates stressed the importance of managing customer willingness-to-pay by ensuring that increases of tariffs are accompanied by similar levels of improvements of service quality, unless many customers would simply refuse to pay their water bills (Kazakhstan). Finally, several representatives pointed to the positive effects that cost recovery water pricing has on water consumption levels and to the possibilities to better target support to the poor through water metering combined with increasing block tariffs (Uzbekistan).

**3** Discussed and broadly endorsed a tool to support multi-year financial planning in water utilities in EECCA that the secretariat had developed in a demonstration project jointly implemented with Bishkek Vodokanal in Kyrgyz Republic. Participants welcomed the tool as a useful contribution to efforts to improve financial planning capacity at the local level and to provide utilities, municipalities, as well as other possible regulatory bodies with a better basis for tariff negotiations. It was recommended that the tool be disseminated widely in the EECCA region and the secretariat's plans to develop additional demonstration projects was welcomed.

**4** Discussed and endorsed the secretariat's methodological approach to report and collect additional and more up-to date data monitoring on the status and evolution of the water supply and sanitation sector in EECCA as inputs into a report for the next "Environment for Europe" Conference in Belgrade in 2007. Data would be collected directly from water utilities in four EECCA countries (i.e., possibly the Russian Federation, Kazakhstan, Kyrgyz Republic and Tajikistan), three or four other EECCA countries being covered by the World Bank. To complement this, data would also be collected through a questionnaire to be sent to members of the EU Water Initiative EECCA Working Group and the EAP task Force Group of Senior Officials for Water Supply and Sanitation sector Reform that belong to State Water Committees, Ministries for Construction, Housing and Communal Services and their equivalents. Some delegates raised their concerns, however, about the difficulties that they may encounter in collecting this data and recommended that an official letter requesting their support to collect this data be sent to them. It was agreed that delegations would have until the 19<sup>th</sup> of May to provide the secretariat with any written comments on the questionnaire and the approach to collect and report the data.

**5** Discussed and endorsed the water-related activities in the EAP Task Force work programme for 2006 and 2007, which are designed in continuity to the work that the Group agreed on carrying-out following the Kiev "Environment for Europe" Conference in 2003. Ukraine specifically expressed its interest in cooperating with the EAP Task Force secretariat in those activities that are aimed at strengthening financial planning capacity at the local level in municipalities and utilities, and namely in supporting the implementation of a demonstration project for the Financial Planning Tool for Water Utilities, work to support the improvement of performance-based contracts between utilities and municipalities, and a train-the-trainer programme to strengthen financial planning capacity at the local level.

#### **EU Water Initiative's EECCA Working Group**

**6** Discussed and endorsed the proposal for the EUWI-EECCA Working Group and the EAP Task Force Group of Senior Officials for Water Supply and Sanitation sector Reform in EECCA to continue to meet jointly and to develop a common work programme on water supply and sanitation. The joint meetings

will develop, oversee and coordinate the implementation of the EUWI EECCA work programme and of the EAP Task Force water programme with the involvement, where appropriate, of UNECE on issues related to Integrated Water Resource Management.

7 Discussed and endorsed the EUWI EECCA Component Work Programme for 2006. The key objective of the Work Programme for 2006 is to initiate at least two National Policy Dialogues (henceforth: NPDs) addressing water supply and sanitation (WSS) and Financing and / or IWRM aspects; NPDs establishing a linkage between WSS and IWRM both would be favoured. The need to develop indicators to monitor the implementation of the EU Water Initiative work programme was raised and should be further discussed in the future.

8 Discussed and endorsed the document describing the National Policy Dialogues (NPD) and welcomed a strong role for the UNECE and the OECD/EAP Task Force in supporting the implementation of these. NPD is a model which the EUWI has successfully launched in Africa. However, it was stressed that the model has been adapted to the situation in the EECCA region. The OECD/EAP Task Force emphasised that the NPDs can provide additional inputs to ongoing activities. Furthermore, it expressed its general interest in linking WSS and IWRM activities - possibly, through financing activities such as costing, tariff policies and affordability and willingness to pay analyses. The UNECE also expressed its interest in linking WSS and IWRM activities. Furthermore, it underlined the need for national IWRM plans. The following common understanding was reached among the participants: NPDs should constitute an important instrument of the EUWI-EECCA Component. They should aim at bringing together the relevant stakeholders from WSS, Financing and IWRM in a country within the framework of the EUWI-EECCA Component. The objective would be to identify priorities for activities to be undertaken, taking into account and building on ongoing activities and using available resources more efficiently with the view to support the achievement of the MDGs and IWRM targets.

During the discussion all EECCA countries present (all EECCA countries but Russia) stated that there is a need for NPDs as outlined in the NPD document. Furthermore, they noted that the NPDs may promote the necessary dialogue between ministries within a country and also the dialogue between key stakeholders, including government bodies, public utilities and NGOs, at national and local levels within a country. Some EECCA countries stressed the importance of building upon ongoing activities in the countries.

Furthermore, delegations raised the following points:

- ◆ NPDs should not be limited to national water issues, but should also address transboundary water issues;
- ◆ NPDs may help to support convergence with EU regulations and standards, in particular the Water Framework Directive;
- ◆ NPDs should be multi-stakeholder processes and include all relevant stakeholders;
- ◆ NPDs should build upon existing activities and where appropriate involve other international organisations, such as UNDP and GWP;
- ◆ NPDs should also serve as a mechanism to facilitate donor coordination and cooperation;
- ◆ A high level commitment from all key stakeholders is going to be crucial for the success of NPDs.

9 Discussed and endorsed plans to provide support to an ongoing policy dialogue in Armenia. OECD/EAP Task Force has developed a financing strategy for urban water supply and sanitation in Armenia. An extension of this work to also cover rural WSS sector has been requested by the State Water Committee of Armenia. Against this background it is proposed to develop a financing strategy for the rural water supply and sanitation sector in Armenia to support an NPD on this topic. This will include setting up a steering group, collecting data, updating the financing strategy, developing financing scenarios for rural

water supply and, on this basis, develop recommendations for policy actions on rural water. The need to integrate the financing strategy into the budgeting process was highlighted.

**10** Discussed and endorsed UNECE's proposed approach to NDPs for IWRM. It is foreseen to establish a country steering group for the policy dialogue to meet twice a year with approximately 10 people representing key stakeholders supported by a multistakeholder group which should meet less frequently. The work would be supported by an IWRM senior expert from UNECE or contracted by UNECE. The following steps were foreseen by UNECE: development and agreement of the national baseline, development of a roadmap and common goals for reform, development of policy packages, follow up and updating roadmap. Outputs would be agreed baselines, roadmaps, implemented policy packages on IWRM. The tasks would be agreed upon in terms of references for the role of UNECE in supporting the NDPs on IWRM.

**11** Took note of a UNDP project providing support to Kazakhstan in developing an IWRM Plan. The project was launched in 2005 and has a duration of two years. The project, which is supported by the UNDP, GEF, Norway and DFID, has the following objectives: 1) development of IWRM plan; 2) development and testing of river basin management organisations; and 3) support to achieving the MDGs. The following steps have been undertaken: establishment of a Working Group, development of a concept for IWRM Plan, establishment of an Inter-ministerial Working group and a stakeholder forum and implementation of a public awareness campaign. UNDP informed that it is preparing for a new project to support Kyrgyz Republic and Tajikistan to develop IWRM plans based upon the experiences from the project in Kazakhstan. They also expressed their openness to join the proposed partnership between EUWI, OECD and UNECE

**12** Took note of the status of IWRM planning in EECCA based on recent updates from the World Water Forum in Mexico in March 2006, which was presented by the technical secretariat. It was shown that the EECCA region has progressed more than the global average but is lacking behind EU-25. Furthermore, while progress had been made on policies and legislation, institutional development and implementation was less developed. The importance of linking WSS, Financing and IWRM was stressed. In particular, many IWRM plans may not be financially sustainable and also IWRM frameworks suggested may not be easily financed by the countries. Thus, Financing constitutes an obvious link between WSS and IWRM. A precondition for safe and secure water supply is that a proper water resource planning is undertaken.

**13** Took note of the announcement by the chair that an Advisory Group meeting (EU DG Environment as Chair, OECD/EAP Task Force, UNECE and EU-25) will be organised as soon as possible to present the results of the 7<sup>th</sup> meeting of the EUWI-EECCA Component Working Group. After this Advisory Group meeting bilateral meetings with interested EECCA countries will be planned and held in order to launch the first NDPs.

### **EAP Task Force Environmental Finance Network**

**14** Took note and endorsed the case study on municipal solid waste in two Armenian districts. In particular, delegates agreed that solid waste management deserves renewed attention. They noted the discrepancy between consumption patterns which tend to come close to Western standards, and the waste management infrastructure which lags behind. Participants commented the need for enforcement tools and control over who pays for the service (Kyrgyz Republic), in order to avoid free riders (who benefit from the service without paying for it). Questions rose about the implementation of selective collection of waste (Moldova). The Secretariat was asked to complete the synthesis publication on lessons learnt from this and similar case studies undertaken under the auspices of the EAP Task Force; it was noted that this publication will be the only input of the Task Force on waste management at Belgrade.

15 Endorsed the database on technologies for rural water supply and sanitation and associated costs. Participants agreed to further comment on the database, and to provide information to update it and make it a living instrument.

16 Took note of the presentation on Lessons Learnt from Experience with Debt-for-Environment Swaps in Economies in Transition, and endorsed both the structure and the key messages of the draft publication. Participants acknowledged that DFES can be a useful instrument to raise additional resources which may significantly increase the level of available resources for environment projects in selected EECCA countries; clarification was required on the duration of the preparation and negotiation of the DFES (Armenia); they discussed the relevance of DFES to finance transboundary projects (Ukraine). Delegates have asked the Secretariat to finalise this publication.

17 Supported the method and the organization proposed by the Secretariat to undertake the project on Trends in Environmental Expenditure and Finance in EECCA. Delegates agreed that the report could support environment ministers' claims for additional resources (Armenia). They anticipated that some indicators may not be documented (Kyrgyz Republic). Clarifications were given on technical issues (the treatment of VAT, the harmonization of currencies, accounting for inflation). Participants from statistical agencies helped identify the intricacies related to data collection on the subject matter. They accepted to work as local experts, and to facilitate the collection of data (including 2005 data) in the context of this project, even though that might require the coordination of several agencies (Azerbaijan). Delegates have broadly endorsed the tentative messages identified by the Secretariat on the basis of partial information, which may guide the analysis.

18 Took note and endorsed the programme of work which was presented by the Secretariat. New project ideas were floated (Kyrgyz Republic, on environmental expenditure data collection and management). In the perspective of the Belgrade conference in 2007, an important part of the work will deal with drawing lessons from previous empirical work, which are relevant for the region and beyond; another part of the work will focus on collecting data which will inform the report on trends in environmental expenditure and finance and the report on the implementation of the EECCA environment strategy. Delegates supported the idea of having a network meeting in 2007 (possibly in Georgia) to identify the key messages on environmental finance in EECCA which would be conveyed to the Belgrade conference. NGOs insisted on the importance of data reliability on environmental expenditure, and on the need to further improve expenditure management.

### **PPC Session**

14 Took note of and welcomed the presentation of the Project Preparation Committee's (PPC) scope of work and programme of current and proposed activities. This included the PPC's plans to support the strengthening of capacity for project preparation through a series of project financing training workshops. Several delegations, including NGOs, expressed their interest in becoming involved in these training workshops and offered their support in identifying possible trainees in their countries. It was agreed that the PPC would send out letters to relevant Ministries to inform about the workshops and to invite suggestions for possible participants in them.

Finally, the issue of macro economic policies (e.g. IMF borrowing ceilings) constraining borrowing capacities was raised. These policies sometimes limit the amount of new sovereign or sub-sovereign debt that a country can take on. Several EECCA countries are subject to such IMF ceilings. It was suggested that these constraints need to be taken into account at an early stage of project preparation in order to avoid wasted efforts later on, when it becomes clear that a country will not be able to borrow and that the project

concept cannot be realised. The PPC noted these suggestions and agreed to take them into consideration during the planning of the workshops.

### **EECCA REC session**

15 Took note and welcomed the presentations of Central Asia REC, REC Moldova, Russian REC and REC Caucasus, highlighting key activities of these organizations in the water and financing areas and identifying possible areas for future work. EECCA RECs in particular suggested their possible involvement in helping the EU Water Initiative develop national policy dialogues.

Many delegations emphasized the value that they attach to the past work of the EECCA RECs in these areas and encouraged them to develop further activities in the future. Particular emphasis was given to the RECs role in supporting public participation in policy dialogue and decision-making. The EAP Task Force secretariat highlighted that it was currently working with the EECCA RECs to develop a joint work programme for the time after the Belgrade “Environment for Europe” Conference. To support these efforts NGOs suggested that an independent assessment of EECCA RECs’ activities be prepared for review at the Belgrade Conference in 2007, a suggestion which was supported by CAREC.