

SOURCEBOOK ON ENVIRONMENTAL FUNDS IN ECONOMIES IN TRANSITION

A Regional Overview and Surveys of Selected Environmental Funds
in Central and Eastern Europe and the New Independent States

Edited by:

Patrick Francis
Jürg Klarer
Nelly Petkova

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to Article 1 of the Convention signed in Paris on 14th December 1960, and which came into force on 30th of September 1961, the organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in the Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April 1964), Finland (28th January 1969), Australia (7th June 1971), New Zealand (29th May 1973), Mexico (18th May 1994), the Czech Republic (21st December 1995), Hungary (7th May 1996), Poland (22nd November 1996), and the Republic of Korea (12th December 1996). The Commission of the European Communities takes part in the work of the OECD (Article 13 of the OECD Convention).

OECD CENTRE FOR CO-OPERATION WITH NON-MEMBERS

The OECD Centre for Co-operation with Non-Members (CCNM) was established in January 1998 when the OECD's Centre for Co-operation with the Economies in Transition (CCET) was merged with the Liaison and Co-ordination unit (LCU). The CCNM, in combining the functions of these two entities, serves as the focal point for the development and pursuit of co-operation between the OECD and non-member economies.

The CCNM manages thematic and country programmes. The thematic programmes, which are multi-country in focus, are linked to the core generic work areas of the Organisation (such as trade and investment, taxation, labour market and social policies, environment). The Emerging Market Economy Forum (EMEF) and the Transition Economy Programme (TEP) provide the framework for activities under the thematic programmes. The EMEF is a flexible forum in which non-members are invited to participate depending on the theme under discussion. The TEP is focused exclusively on transition economies. Regional/Country programmes, providing more focused dialogue and assistance, are now in place in the Baltic countries, Brazil, Bulgaria, China, Romania, Russia, the Slovak Republic (a candidate for accession to the OECD), and Slovenia.

© OECD 1999

Permission to reproduce a portion of this work for non-commercial purposes or classroom use should be obtained through the Centre français d'exploitation du droit de copie (CFC), 20, rue des Grands-Augustins, 75006 Paris, France. Tel. (33-1) 44 07 47 70, Fax (33-1) 46 34 67 19, for every country except the United States. In the United States permission should be obtained through the Copyright Clearance Centre, Customer Service, (508) 750-8400, 222 Rosewood Drive, Danvers, MA 01923 USA, or CCC Online: <http://www.copyright.com/>. All other applications for permission to reproduce or translate all or part of this book should be made to OECD Publications, 2 rue André-Pascal, 75775 Paris Cedex 16, France.

THE PHARE PROGRAMME

The Phare Programme is currently the main channel for the European Union's financial and technical cooperation with the countries of central Europe (CECs). Set up in 1989 to support the sweeping reforms behind economic and political transition, Phare had by 1996 been extended to include 13 partner countries from the region. Originally allocated EURO 4.2 billion for the 1990-1999 period, the Phare budget was increased to EURO 6.693 billion for the 1995-1999 period.

Since the Essen European Council of December 1994, Phare has become the financial instrument for the ten associated CEC's, supporting them in their preparation for accession to the EU. In addition, for the non-associated countries in the region, Albania, the Former Yugoslav Republic of Macedonia (FYROM) and Bosnia-Herzegovina, Phare provides support in their transition to democracy and a market economy.

Phare's assistance takes the form of grants rather than loans, and its work has grown to encompass a wide range of activities. Throughout the 1989-1996 period, Phare has shown a continuing flexibility in adapting to the changing priorities and limitations of the reform process in each of its partner countries. The most recent period, 1994-1996, has been characterised by a large increase in support for the legislative framework and administrative structures, as well as projects promoting democratisation and civil society, and investment in infrastructure, including cross-border cooperation.

As Phare's objectives evolved, it became necessary to adopt new orientations for the Programme so as to redirect support towards the preparation of candidate countries for accession. Phare's activities now concentrate on two main types of horizontal need.

The first priority will be to help the administrations of the partner countries acquiring the capacity to implement the 'acquis communautaire'. Phare will thus help the national and regional administrations, as well as regulatory and supervisory bodies, in the candidate countries to familiarise themselves with Community objectives and procedures.

The second priority is to help the candidate countries bring their industries and major infrastructure up to Community standards by mobilising the investment required. This effort will be largely devoted to areas where the Community norms are becoming increasingly demanding: environment, transport, industrial plant, quality standards in products, working conditions, etc.

With regard to the non-associated Phare beneficiaries (Albania, FYROM, Bosnia), Phare's new orientations affect neither the programmes under way nor the budgetary allocation programmed up to 1999. Instead, Phare will continue to provide support in their transition to democracy and a market economy.

In July 1997, the Commission presented Agenda 2000, together with its opinions on each of the applications for membership. In a single framework, the Commission outlined the broad perspective for the development of the European Union and its policies beyond the turn of the century; the impact of enlargement on the EU as a whole; and the future financial framework beyond 2000, taking into account the prospect of an enlarged Union. The Agenda 2000 documents offer a clear and coherent vision of the EU as it enters the 21st century.

FOREWORD

A number of conditions in countries undergoing economic transition constrain full application of the *Polluter Pays Principle* and impede the emergence or effective use of financing mechanisms characteristic of more mature market economies. Governments in many Central and Eastern European countries (CEEC) and New Independent States (NIS) are making use of earmarked, public *environmental funds* as a means of meeting or mitigating these challenges. Such funds are typically governmental, or quasi-governmental institutions capitalised by a variety of revenue sources, including environmental charges and fines. They provide financial support, usually in the form of grant or soft loan, to a wide range of environmental protection activities. In many CEEC/NIS, funds have helped speed the pace of environmental improvement, leverage additional finance for environmental investments, and strengthen domestic capacities for project preparation and policy implementation. While environmental funds have been endorsed as *potentially effective transitional mechanisms* for financing environmental protection, a number of concerns remain as to their use of earmarked public revenues, their role vis-à-vis other policy tools, their cost-effectiveness and impact on the development of more market-based financing mechanisms.

The Task Force for the Implementation of the *Environmental Action Programme for Central and Eastern Europe* (EAP), which is composed of senior government officials from CEE, NIS and OECD countries, has led a range of activities focused on examining the funds and strengthening their operations. (The OECD, through its Centre for Co-operation with Non-Members, acts as the secretariat for the Task Force.) In consultation with CEEC/NIS officials, the OECD developed the *St. Petersburg Guidelines on Environmental Funds in the Transition to a Market Economy*. The Guidelines were subsequently endorsed by the EAP Task Force. Environmental funds became a major focus of the Task Force work programme following the 1995 “Environment for Europe” Ministerial Conference in Sofia, where strengthening of the funds was identified as a high priority. Since late 1996, the Task Force’s work with CEE funds has been supported by the *European Union’s Phare Programme*. One element of that work has been to collect and compile basic information about the funds, which is presented in this *Funds Sourcebook*. The Sourcebook also contains a regional overview of trends, issues and institutional strengthening needs facing the funds.

Preparation of this publication would not have been possible without the valuable contributions of CEEC/NIS environmental fund and ministry officials. Their generous co-operation is gratefully acknowledged, as is the assistance of several independent experts and consultants. This *Sourcebook on Environmental Funds in Economies in Transition* was compiled and edited by Patrick Francis, Jürg Klarer and Nelly Petkova, under the guidance of Brendan Gillespie. Halcrow Group (EU Phare Project Preparation Facility) assisted in the preparation of the manuscript for publication. Preparation and publication of the Sourcebook was supported financially by the EU’s Phare Programme and the OECD through its Centre for Cooperation with Non-Members.

The “Sourcebook on Environmental Funds in Economies in Transition” is published under the authority of the Secretary General of the OECD. The views expressed do not necessarily reflect those of the European Union, the European Commission, the OECD, the EAP Task Force or their Member countries.

Table of Contents

FOREWORD	iv
ACRONYMS AND ABBREVIATIONS	vii
INTRODUCTION	1
REGIONAL OVERVIEW: ENVIRONMENTAL FUNDS IN CEE/NIS - TRENDS, ISSUES AND INSTITUTIONAL STRENGTHENING NEEDS	3
 PART ONE: SELECTED ENVIRONMENTAL FUNDS IN CENTRAL AND EASTERN EUROPE	
<i>Chapter 1</i> <i>Bulgaria: The National Environmental Protection Fund</i>	21
<i>Chapter 2</i> <i>Bulgaria: The National Trust EcoFund</i>	31
<i>Chapter 3</i> <i>Czech Republic: The State Environment Fund</i>	39
<i>Chapter 4</i> <i>Estonia: The Environmental Fund</i>	51
<i>Chapter 5</i> <i>Hungary: The Central Environmental Protection Fund</i>	63
<i>Chapter 6</i> <i>Latvia: The Environmental Investment Fund</i>	77
<i>Chapter 7</i> <i>Lithuania: The Environmental Investment Fund</i>	85
<i>Chapter 8</i> <i>Poland: The National Fund for Environmental Protection and Water Management</i> ...	91
<i>Chapter 9</i> <i>Poland: The EcoFund</i>	107
<i>Chapter 10</i> <i>Poland: The Cracow Provincial Fund for Environmental Protection and Water Management</i>	119
<i>Chapter 11</i> <i>Slovakia: The State Environmental Fund</i>	131
<i>Chapter 12</i> <i>Slovenia: The Environmental Development Fund</i>	139

**PART TWO: SELECTED ENVIRONMENTAL FUNDS IN THE NEW
INDEPENDENT STATES**

Chapter 13	<i>Belarus: The Republican and Regional/Local Environmental Funds.....</i>	151
Chapter 14	<i>Kazakhstan: The National Environmental Protection Fund.....</i>	155
Chapter 15	<i>Kyrgyzstan: The Republican and Local Environmental Funds.....</i>	159
Chapter 16	<i>Moldova: The National and Local Environmental Funds.....</i>	165
Chapter 17	<i>Russia: The Federal Environmental Fund.....</i>	171
Chapter 18	<i>Russia: The National Pollution Abatement Facility.....</i>	185
Chapter 19	<i>Russia: The Novgorod Regional Environmental Fund.....</i>	191
Chapter 20	<i>Ukraine: The State Environmental Protection Fund.....</i>	199
Chapter 21	<i>Uzbekistan: The Republican and Sub-National Environmental Protection Funds.....</i>	205
ANNEX I:	EXCHANGE RATES.....	209
ANNEX II:	STATISTICAL DATA.....	213
ANNEX III:	ENVIRONMENTAL FUNDS IN CENTRAL AND EASTERN EUROPE AND THE NEW INDEPENDENT STATES - CONTACT INFORMATION.....	263

ABBREVIATIONS AND ACRONYMS

Bln	Billion
CEE	Central and Eastern Europe
CEEC	Central and Eastern European countries
CFC	Chloro-flouro carbons
CoM	Council of Ministers
DEPA	Danish Environmental Protection Agency
EAP	Environmental Action Programme for Central and Eastern Europe
EBRD	European Bank for Reconstruction and Development
ECU	European Currency Unit
EIA	Environmental Impact Assessment
EC	European Commission
EU	European Union
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GEF	Global Environment Facility
IFI	International Financial Institution
ISO	International Standards Organisation
IT	Information Technology
Mln	Million
MoE	Ministry of Environment
MoF	Ministry of Finance
NEFCO	The Nordic Environmental Finance Corporation
NES	National Environmental Strategy
NGO	Non-governmental Organisation
NIS	New Independent States
OECD	Organisation for Economic Co-operation and Development
PHARE	EU Technical Assistance Programme for Central and Eastern Europe
PPP	Polluter Pays Principle
R&D	Research and Development
SEP	State Environmental Policy
UNDP	United Nations Development Programme
US EPA	United States Environmental Protection Agency
USA	United States of America
USD	United States Dollars
USSR	Union of Soviet Socialistic Republics
VAT	Value Added Tax
VOC	Volatile Organic Compound
WWTP	Wastewater Treatment Plant

