



**ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE
TASK FORCE FOR THE IMPLEMENTATION OF THE ENVIRONMENTAL ACTION
PROGRAMME FOR CENTRAL AND EASTERN EUROPE, CAUCASUS AND CENTRAL ASIA**

Water Supply and Sanitation Sector Reform

**Summary Record
of the Joint Meeting of the EU Water Initiative's EECCA
Working Group and the EAP Task Force Environmental Finance and Water Networks
29 March –1 April 2005, Chisinau, Moldova**

5-6 June 2005

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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, 29 March to 1 April in Chisinau, Moldova. These were the third and the eighth meetings of the Water Network and the Environmental Finance Network respectively.

The meetings were hosted by the Moldovan Ministry of Environment and Natural Resources. They were attended by about 100 participants. The participants included officials from EECCA environmental agencies, Ministries of Economy and Finance, representatives from OECD country environment and development cooperation ministries, experts in the areas of water supply and sanitation and environmental finance. Representatives of the NGO community, the private sector, international organizations (UNECE, UNDP, USAID, WHO, Regional Environmental Centers) and international financing institutions (EBRD/PPC¹) also attended the meetings.

The objectives of the meetings in Chisinau were:

- To discuss preparations of the **“Almaty+5” Conference of Ministers**: to agree on the key issues on the agenda, on the key messages that should be conveyed by the issues papers, and on the practicalities;
- **For EUWI-EECCA Working Group**: to discuss and endorse its work programme and reflect on its contribution to the Almaty+5 Conference and beyond;
- For the EAP Task Force: to report on progress in implementing the water and finance work programmes and discuss possible new activities for the EECCA Environmental Finance Network and the Group of Senior Officials for Reform of the Urban Water Sector;
- To discuss how the **potential synergies** between the EUWI EECCA Working Group, the EAP Task Force and the Project Preparation Committee could be best exploited.

In this context, the meeting:

EU Water Initiative's EECCA Working Group

- 1** Adopted the draft agenda for the meeting
- 2** Endorsed the organizational set-up of the EECCA component of the EU Water Initiative (EUWI) as well as the terms of reference of the working group.

Welcomed and endorsed the proposed approach and approved the work programme. The document will be amended on the basis of comments received during the meeting and of any written comments that would be provided by participants after the meeting, including contributions from UNECE, UNDP and OECD. The report from UNDP on EECCA countries will be taken into consideration by the technical secretariat for the finalisation of the Work Programme.

The second annual meeting of the Working Group is planned to take place back to back with the Stockholm water week; the main aim being to discuss the assessment report to be drafted by the Technical Secretariat further to their visits. The final work programme including the priority actions could then be approved at the High Level Meeting to be organised at the end of the year (the current plan is to organise this HLM back to back to the Almaty+5 Conference).

¹ 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

The proposed visits of the technical secretariat to the various EECCA countries have also been accepted. These visits / consultations should take place in May, June, early July; the aim being to have a first evaluation report available by the end of July.

The proposal from the Moldovan Minister for Environment to set up a Regional Centre for the EUWI could be further developed in the framework of future discussions with Moldova

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

3 Broadly endorsed the progress report on activities taking place within the EAP Task Force water programme. Several participants emphasized the importance they attach to activities in the rural drinking water sector, and highlighted their interest in a workshop that would be held in Tbilisi at the end of April. Several countries, including Ukraine and Moldova, expressed their interest in participating in EAP Task Force projects and announced that they would send letters to this effect.

4 Discussed and broadly endorsed the secretariat's proposal for the organization of the Almaty+5 Ministerial conference, and namely:

- its *duration* starting with a Ministerial dinner on November 16th and ending with lunch on the 18th;
- the *main agenda* items:
 - Assessing progress in implementing the Almaty Guiding Principles and the water-related millennium development goals (MDGs); the meeting recommended that this agenda item should include the possibility for a discussion of the challenges in the rural water supply and sanitation sector;
 - The role of different sources of finance, including tariffs and social aspects of water sector reforms, including the specific problems in rural areas;
 - The role of central governments in setting the framework for the water sector; following the discussions at the meeting it was recommended that this agenda item should include the role of central governments in establishing the financial and institutional frameworks for water service provision at the local level, setting-up appropriate mechanisms to manage water resources in an integrated manner, as well as the related issue of adequate water quality standards ;
 - Reforming relations between local governments and water utilities;
- the *main* background papers to support the main agenda items on the following issues:
 - Progress in implementing the Almaty Guiding Principles for the Reform of the Urban Water Supply and Sanitation Sector in EECCA;
 - Meeting the MDG Drinking Water and Sanitation Target in the EECCA region;
 - ;
 - The role of central governments in facilitating sub national levels of governments' provision of environmental services;
 - Reforms of the municipal services sector in EECCA
The meeting recommended that the paper cover private sector participation, the issue of strengthening financial capacity of municipalities and utilities, as well as contractual relations between utilities and municipalities and how well-defined relations can enhance utility efficiency;
 - Financing strategies for the water supply and sanitation sector in EECCA
The meeting recommended that this paper include tariff reform (including the tariff setting process) as well as social protection aspects;

- the preparation by the EAP Task Force secretariat of an *issues paper and a draft declaration* to be presented and discussed at the next preparatory meeting . The meeting recommended that these papers should address the heterogeneity of EECCA, and confirm the relevance of the Guiding Principles to the reform of the water sector in EECCA countries. The documentation for the conference should emphasize the importance of having a consistent strategy and the importance of institutional cooperation.

The meeting furthermore welcomed the proposals from the following stakeholders to contribute to, or prepare inputs for the Ministerial conference:

- the international *private sector*, coordinated by Severn Trent, to prepare a position paper in consultation with other private sector actors; in this connection the meeting also asked the secretariat to explore the possibilities for preparing an input from the domestic (EECCA) private sector;
- the *World Health Organisation*, to prepare a background document on health-water infrastructure linkages;
- the *NGOs*, to organize one or more regional preparatory meetings of NGOs from the EECCA region with a view to submitting an NGO input to the Ministerial conference; a written statement to that effect was given to the secretariat (see annex);the meeting also recognized that the NGOs would need financial support to prepare their input and the EAP Task Force secretariat offered to help identify potential donors;
- the *UNDP*, to support the secretariat where appropriate, in particular with inputs related to MDGs and IWRM;

Finally the meeting approved the procedure to further prepare the Ministerial meeting that was presented by the EAP Task Force secretariat, including a second preparatory meeting to be held in Paris on 5th and 6th June, and a possible private sector roundtable to take place immediately prior to the Ministerial conference on Wednesday 16th November.

EAP Task Force Environmental Finance Network

5 Discussed and broadly endorsed the progress made in the implementation of the work programme of the Finance Team. Interactions between the speakers and the delegates provided insights on priorities, and a number of countries/oblasts expressed interest for cooperation in several projects: the secretariat is expecting at least five letters of interest and project concepts (see below). Delegates confirmed that the network is an active and useful tool to share experience, learn from best practices, and energize the reform processes in their countries.

In particular, the meeting discussed the following projects:

- *Improving Environmental expenditure Systems in EECCA. Harmonising Environmental Expenditure Information System of the Kyrgyz Republic with the OECD/Eurostat Standards.* A presentation was made on the basis of the Kyrgyz project, which focused particularly on the need for institutional cooperation between environmental and statistical services. The meeting welcomed a seminar that will be organised in the fall 2005, to exchange experience related to three pilot projects (Georgia, Ukraine, and Kyrgyzstan) and to reflect on further action. Moldova voiced its interest in a similar project;
- *Strengthening Realism and Affordability of Environmental Financing Strategies forMunicipal Waste Management in EECCA.* Delegates noted the work done to adapt the FEASIBLE methodology to the Municipal Waste Management sector; the discussion particularly focused on the importance of developing appropriate policy packages for waste management, and on analysing the value chain (industrial structure of the industry). Delegates recommended that the experience accumulated in six studies should be synthesised with a view to learning lessons. They

also recommended that the FEASIBLE model should be examined from the perspective of adapting it to better reflect the situation in the municipal waste sector.

- *Strengthening Realism and Affordability of Environmental Financing Strategies for Water and Sanitation in EECCA.* The meeting emphasised the usefulness of this approach. The Ukrainian delegate indicated that the finance strategy developed in his country had helped the Ukrainian government to think strategically and to implement reform of the water sector. The meeting considered that the tool was particularly helpful in countries like Kazakhstan, where a large part of the infrastructure is reaching the end of its operating life. The discussion focused on the distinction between water supply and sanitation, and on the appropriate level of metering (apartment vs building). The main elements of a new Armenian project which aims to implement the results of a Finance Strategy for the water sector by integrating it into budgetary decision making was presented. Supporting materials (including CD-ROMs) were disseminated to participants. Azerbaijan expressed interest in implementing such a project, and is currently working on a draft project concept.
- *Improving Management of Public Environmental Expenditure.* Delegates took note of the experience gained in Moldova with using the Good Practices of Public Environmental Expenditure Management to review its Environmental Fund. The meeting agreed that the Good Practices could and should be used to support institutional strengthening for other environmental finance mechanisms. The meeting took note of a project proposal that the secretariat was developing with the World Bank to use the Good Practices, together with the credit rating methodology employed by Fitch Ratings in Ukraine ;
- *Harnessing Local Financial and Capital Markets to Work for the Environment.* Delegates agreed that, in the long-term, this would be a very important approach. However, they considered that, at this time, the approach should be implemented with prudence, since the risks associated with municipal debt in most EECCA countries are important and real. The discussion explored alternative ways to attract private resources into the environment. EBRD, the Project Preparation Committee (PPC), and USAID offered to provide inputs to the further development of this work.
- The meeting took note of experience in Belarus which has implemented a programme where enterprises can swap taxes against environmentally related investments.
- *Facilitating Dialogue on Opportunities and Risks of Debt for Environment Swaps.* The Meeting took note of a progress report on this project by a representative of the Kyrgyz Ministry of Finance and the EAP Task Force secretariat. The presentation stressed the need for institutional cooperation, and the critical importance of developing credible project pipelines in order to persuade creditors to enter into such swaps. The meeting looked forward to reviewing the experience of Georgia and the Kyrgyz in negotiating with creditors on the basis of the feasibility studies for debt-for-environment swaps that had been prepared within the EAP Task Force, and assessing the replicability of such approaches in other countries.
- *Clean Development Mechanism.* The Meeting took note of a presentation of this issue made by the PPC. Delegates noted the relevance of the subject, and discussed possible bottlenecks in using the CDM mechanism in those parts of the EECCA region that are concerned, including the lack of sponsor money to finance the transaction costs associated with CDM. Delegates agreed that the Task Force provided a useful forum for reviewing the experience of EECCA countries with this mechanism.

6 The meeting took note of the presentation by the PPC and endorsed its work programme.

Delegates expressed their deep gratitude to the Moldovan authorities for the excellent organization of the meeting and for their warm and generous hospitality.

Annex I
NGO Proposals

Chisinau, March 30, 2005

NGO Proposals

We, representatives of the European ECO-Forum (Environmental NGO coalition) in EECCA countries - Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia and Ukraine, participants of the Joint Meeting of the EUWI's EECCA Working Group, the EAP Task Force Group of Senior Officials on the Reforms of the Water Supply and Sanitation in EECCA and the EAP Task Force Finance Network, think that involvement of all stakeholders, development of a dialogue and public participation will contribute to a more effective implementation of the EUWI and Almaty Declaration.

Therefore within the framework of the preparation process for the Moscow Ministerial Meeting we propose:

- to organize an electronic discussion among sector specific NGOs in order to review the progress achieved in the field of Integrated Water Resource Management (including transboundary river basins) and water sector reforms, access to drinking water and realization of the Millennium Development Goals on drinking water and sanitation as well as EUWI implementation in the EECCA region.
- to organize sub-regional NGO consultations on the preparation to the Moscow Meeting 2005 in order to discuss progress in developing the Almaty 2000 process and implementing the EU Water Initiative.
- to initiate a regional preparatory meeting of NGOs from the EECCA countries with a view to work out an NGO resolution to the Moscow Ministerial Meeting.

We also propose to develop a system of indicators on the implementation of the EUWI in the EECCA region to identify the existing achievements and gaps.