



# EAP Task Force

**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*

**Progress in Implementing the EAP Task Force Programme of  
Work on Environmental Finance, January 2004 to March 2005**

*This Progress Report covers the period between February 2004 and March 2005. Participants are invited to discuss progress in different projects and provide guidance for the further implementation of the EAP Task Force Work Programme in the area of Environmental Finance.*

*ACTION REQUIRED: For information and discussion.*

**PROGRESS IN IMPLEMENTING THE EAP TASK FORCE PROGRAMME OF WORK, JANUARY 2004 TO MARCH 2005**

<b>Work Programme Area 2: ENVIRONMENTAL FINANCE</b>					
<b>Project 2.1: Aligning Environmental Expenditures Information Systems with OECD/EUROSTAT Standards</b>					
<b>Task</b>	<b>Status of Implementation</b>	<b>Planned Outputs/ Planned Meetings</b>	<b>Financial Status</b>	<b>Other Information</b>	
<p><b>2.1.1 Demonstration Projects: Aligning Environmental Expenditure Information Systems with OECD/Eurostat Standards</b> <i>Carla Bertuzzi</i></p>	<ul style="list-style-type: none"> <li>- ToR developed and approved by Ukrainian and Kyrgyz Authorities. Consultants identified.</li> <li>- Initiation meetings held in July 2004 in Kiev and Bishkek.</li> <li>- Steering Group meeting held in Bishkek in January 2005 to discuss inception report and result of the preliminary survey of environmental expenditure data in the business sector in the Kyrgyz Republic.</li> <li>- Steering Group meetings held in Kiev in January and in March 2005 to discuss institutional arrangements for the implementation of the project and the inception report.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of existing environmental expenditure information systems in selected EECCA countries</li> <li>• Collection, treatment and analysis of environmental expenditure data</li> <li>• Implementation of strengthened environmental expenditure information systems in the selected EECCA countries</li> <li>• Final report presenting statistics &amp; main findings</li> <li>• Regional workshop in Central Asia to disseminate results and lessons learned</li> </ul>	<p>EC/TACIS grant available since December 2003. Norwegian grant available</p>	<p>This project builds on a similar project that was successfully implemented in Georgia, 2001-03. It is closely linked to Project 2.1.2 and 2.2 and aims to strengthen the basis for decisions about environmental expenditures and finance strategies.</p>	
<p><b>2.1.2 The 2006 update of the Report on the Trends in Environmental Expenditures and International Commitments for Environment</b></p>	<ul style="list-style-type: none"> <li>- The project will start in late 2005, in time for the 2007 "Environment for Europe" Ministerial Conference.</li> </ul>	<ul style="list-style-type: none"> <li>• Database on environmental expenditure in EECCA countries</li> <li>• Report on environmental expenditure and international commitments for the environment</li> </ul>	<p>seed money requested from donors (waiting for a reply)</p>	<p>The project will update and strengthen previous work carried out in this area. It will review data for countries not covered by previous studies (Belarus, Tajikistan) and will aim at improving data quality and their international comparability.</p>	

<i>Carla Bertuzzi</i>				
<b>Project 2.2: Implementing Financing Strategies for Water and Environmental Infrastructure</b>				
<b>Task</b>	<b>Status of Implementation</b>	<b>Planned Outputs/ Planned Meetings</b>	<b>Financial Status</b>	<b>Other Information</b>
2.2.1 Integrating Rural Water and Sanitation Cost Functions into the FEASIBLE model for EECCA countries <i>Alexander Martusevich</i>	<ul style="list-style-type: none"> <li>- Ongoing project.</li> </ul>	<ul style="list-style-type: none"> <li>• Expert workshop to discuss the progress and the design of data-base and cost functions for Rural WSS technologies and of the sub-module on Rural WSS in mid-April</li> <li>• The Module on Rural WSS integrated into FEASIBLE tool</li> <li>• Technical annex to the FEASIBLE User guide by end of June 2005</li> </ul>	<p>UK DEFRA grant available</p>	<p>This activity complements previous work that focussed on the urban water sector. It will enable the scope of finance strategies to be extended to the rural sector. In some EECCA countries it should provide valuable support for efforts to achieve the MDGs. It will also contribute to preparations for the Almaty+5 Conference in 2005.</p>
2.2.2 Implementing Financing Strategies for Water and Environmental Infrastructure <i>Alexander Martusevich</i>	<ul style="list-style-type: none"> <li>- FS for wastewater collection and treatment in Armenia finalised.</li> <li>- FS for Municipal waste (MW) sector in Rostov oblast (Russia) finalised.</li> <li>- Implementing FS for WSS sector in Georgia – ongoing project.</li> <li>- Limited study of municipal solid waste in Armenia launched in Dec. 2004. Local experts were trained in using FEASIBLE (Waste module), and data collection started</li> </ul>	<ul style="list-style-type: none"> <li>• The final report on Armenia (water) published in 3 languages (Armenian, Russian, English).</li> <li>• The final report on Rostov oblast published in Russian and English.</li> <li>• Expert workshops to discuss the interim results of the Georgian case-study (baseline scenario analysis) on 15-16 March 2005.</li> <li>• Some 10 local experts trained in FEASIBLE model (Water module)</li> <li>• The case-study in Armenia (on municipal waste) (end of March 2005)</li> </ul>	<p>German grant available for the Armenian project.</p> <p>EC/TACIS and Norway grants available for the demonstration project in Georgia.</p>	<p>These strategies have had an important policy impact in the previous programme. They were implemented with substantial support from Denmark. A major challenge will be to maintain this highly policy relevant activity following the reduction in Danish support. The scope of work now includes affordability, social impacts assessment and strategies for achieving the water-treated MDGs. Attention will also be given to integrating finance strategies into budgetary processes.</p>

<p><b>2.2.3 Lessons Learnt from Financing Strategies for Municipal Solid Waste (MSW) sector</b> <i>Alexander Martusevich</i></p>	<p>– 6 financing strategies for MSW sector are completed through different international cooperation programs (in Ukraine, and in Novgorod, Yaroslavl, Rostov, Leningrad provinces, and Northern Caucasus Mineral Water region of Russia). A limited case-study is ongoing in Armenia. They will form the empirical basis for a publication.</p>	<ul style="list-style-type: none"> <li>• Publication on financing strategies for municipal solid waste in EECCA countries, subject to donor financing.</li> </ul>	<p>Danish grant supported finalisation of the Rostov FS.</p> <p>Funding sought for preparing the publication</p>	<p>Most of the strategies have had an important policy impact in the previous programme. The main aim of this project is to identify and present key policy “lessons learned” for EECCA countries.</p>
<p><b>2.2.4 Training of EECCA Experts in Strategic Investment and Financial Planning of Large Scale Infrastructure Development (Using FEASIBLE Model)</b> <i>Alexander Martusevich</i></p>	<p>– Ongoing: in 2004 there were 4 trainings in the use FEASIBLE-2 model for Strategic Investment and Financial Planning of large Scale Infrastructure Development in Water and Waste management sectors:</p> <p>– Water module of the FEASIBLE-2 model:</p> <p>a) in Yerevan (Armenia) in March - 8 local officers were trained</p> <p>b) in Kiev on April 20-23 – 12 trainees from Ukraine</p> <p>c) in Moscow on May 26-28 - some 10 trainees from Russia and Moldova</p> <p>– Waste module:</p> <p>d) in Yerevan in Nov. - 12 trainees from Armenia, Georgia, Ukraine and Kyrgyz Republic, see also 2.5.3</p>	<ul style="list-style-type: none"> <li>• 4 trainings held with some 30 EECCA officers and experts trained in Water module of the FEASIBLE model, and some 10 more EECCA officers and experts - in Waste module.</li> <li>• Two packages of Training materials developed for the trainings in Water and Waste modules of the FEASIBLE model</li> <li>• A training session is anticipated in 2005 for Georgian officers and experts (Water module)</li> </ul>	<p>Germany, Denmark, UK DFID and UK DEFRA provided support for the trainings in 2004.</p> <p>Funding sought for trainings in 2005.</p>	<p>These training activities help disseminate and institutionalise the use of this tool by building the capacities of local experts.</p>

<p><b>2.2.5 (optional) Developing District Heating (DH) Component in Feasible Model</b></p> <p><i>Alexander Martusevich</i></p>	<ul style="list-style-type: none"> <li>– Implementation depends on availability of human resources and donor support.</li> </ul>	<ul style="list-style-type: none"> <li>• DH module complementary to or integrated into FEASIBLE model.</li> </ul>	<p>No financing available</p>	<p>Development of this module could only proceed if substantial new and additional financial resources are provided. The new module would be integrated into the FEASIBLE model and enable Ministries of Environment to develop comprehensive strategies for the major components of public environmental finance.</p>
<p><b>Project 2.3: Improving Management of Public Environmental Expenditures</b></p>				
<p><b>Task</b></p>	<p><b>Status of Implementation</b></p>	<p><b>Planned Outputs/Planned Meetings</b></p>	<p><b>Financial Status</b></p>	<p><b>Other Information</b></p>
<p><b>2.3.1 Performance Rating of Public Environmental Expenditure Programs</b></p> <p><i>Nelly Petkova</i></p>	<ul style="list-style-type: none"> <li>– The performance evaluation methodology based on the OECD Good Practices of PEEM and the credit rating methodology applied by Fitch Ratings harmonised; agreement, in principle, to work with Fitch Ratings on a performance rating project in a selected EECCA.</li> <li>– The Ukrainian National Environmental Fund has expressed its willingness to participate in the project and be audited in accordance with the above methodology of performance rating. The review is tentatively scheduled for the end of May – beginning of June 2005. This could support implementation of a World Bank project.</li> <li>– The Good Practices of PEEM are being considered for adoption as an OECD Council Recommendation. The next round of discussion among OECD countries scheduled for mid-June 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• A rating system supported by national and multi-national stakeholders.</li> <li>• Publicly available and updated performance rating of 1-2 EECCA public environmental expenditure programs by end of 2005.</li> </ul>	<p>Financing available from Switzerland and the Netherlands, more is sought</p>	<p>Independent assessments of public environmental expenditure programmes can help them to improve their performance, enhance their credibility and attract additional resources. Work with rating agencies complements earlier work of good practices of public environmental expenditure management.</p>

<p><b>2.3.2 Demo Project(s): Improving Performance of Public Environmental Financing Institutions</b> <i>Nelly Petkova</i></p>	<ul style="list-style-type: none"> <li>- Interest expressed by Moldova, the Volgograd Oblast of the Russian Federation, Kazakhstan and Ukraine for demonstration projects.</li> <li>- Draft ToR have been prepared and endorsed by the Moldovan environmental authorities.</li> </ul>	<ul style="list-style-type: none"> <li>• New institutional structure, transparent management practices, and operational tools.</li> <li>• Pipeline of priority water and environmental projects.</li> <li>• Staff trained in good practices of project cycle management.</li> <li>• Dissemination workshop.</li> </ul>	<p>Financing sought</p>	<p>These projects would use the Good Practices of Public Environmental Expenditure Management as a guide for the review and reform of public environmental expenditure programmes, in keeping with the recommendations of the Kiev Ministerial declaration.</p>
<p><b>2.3.3 Training in Appraisal of Environmental Projects Financed from Public Funds (Using the Handbook Prepared as Part of the Previous Work Program)</b> <i>Nelly Petkova</i></p>	<ul style="list-style-type: none"> <li>- Environmental fund managers and experts from CEE identified as trainers.</li> <li>- Expression of interest by EECCA countries to participate in training. Discussions with new RECs to co-organise joint training.</li> <li>- First pilot training scheduled tentatively in Moldova in October – November 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• Training curricula and materials, including practical examples and case studies in financial appraisal and cost-effectiveness analysis.</li> <li>• Up to 30 managers trained in programming and project cycle management.</li> </ul>	<p>Some financing available from the UK.</p>	<p>The project will be effectively launched in the second half of 2005.</p>

Project 2.4: Facilitating Access of Environmental Projects to Local Capital and Financial Markets				
Task	Status of Implementation	Planned Outputs/ Planned Meetings	Financial Status	Other Information
<p><b>2.4.1 Analysis of Opportunities for Harnessing Local Capital and Financial markets to Support Water and Environmental Infrastructure Investments in EECCA Countries</b> <i>Xavier Leflaive</i></p>	<ul style="list-style-type: none"> <li>- Country studies on municipal water and environment credit in China, Russia, Ukraine and Kazakhstan finalised.</li> <li>- Final report with country case studies and recommendations under preparation</li> </ul>	<ul style="list-style-type: none"> <li>• Translation and publication of the report in Russian</li> <li>• Presentation at the 8<sup>th</sup> network meeting</li> </ul>	<p>Some funding available from OECD.</p>	<p>The goal of this project is to examine opportunities beyond the public sector for financing water and other environmental infrastructure. Specifically opportunities for accessing savings through private financial and capital markets will be examined. Encouraging experience has been gained in other regions with such approaches.</p>
<p><b>2.4.2 Demo Project(s): Capacity Building in Using Public Funds to Leverage Debt Financing of Water and Environmental Infrastructure Investments</b> <i>Xavier Leflaive</i></p>	<ul style="list-style-type: none"> <li>- Location and scope of this project will depend on recommendations developed under 2.4.1.</li> </ul>	<ul style="list-style-type: none"> <li>• Feasibility analysis of using public funds to leverage debt financing of environmental projects.</li> <li>• Pipeline of projects co-financed by public funds and banks.</li> <li>• Templates for co-financing contracts, appraisal and reporting documents.</li> </ul>	<p>No financing available.</p>	<p>The project will start after the report from project 2.4.1 is completed. The aim would be to implement a demonstration project using public funds to leverage private resources for investment in the water sector.</p>

Project 2.5: Strengthening Local Governments' Capacity to Invest in Environmentally-Related Infrastructure				
Task	Status of Implementation	Planned Outputs/ Planned Meetings	Financial Status	Other Information
<b>2.5.1 Multi-Year Investment Planning in Russia and Ukraine</b> <i>Xavier Leflaive</i>	<ul style="list-style-type: none"> <li>- Toolkit for multi-year investment planning (MYIP) in Ukraine prepared.</li> <li>- Seminar presenting the MYIP tools, held in Donetsk, Ukraine, in November 2003.</li> <li>- MYIP adopted in Lutsk, Ukraine following application of the investment planning model in that city.</li> <li>- Report on municipal investment plans in Ukrainian mono-functional cities available for publication.</li> <li>- Toolkit for Russian cities on MYIP for environmental infrastructure finalized and CD ROMs produced for dissemination.</li> </ul>	<ul style="list-style-type: none"> <li>• Regional conference promoting municipal investment reforms in EECCA countries.</li> </ul>	<p>Work in Ukraine financed by UK DFID.</p> <p>German grant available for development of a training program for Russian and Ukrainian municipal administration.</p> <p>Funding for other activities sought.</p>	<p>The aim of this project is to support the introduction of modern financial planning techniques into EECCA cities.</p> <p>Extending the planning horizon from one to several years has been an important part of this exercise. Work has been carried forward through demonstration projects in Lutsk and Yekaterinburg. The next phase of work will concentrate on dissemination and training.</p>
<b>2.5.2 Training of consultants and trainers from Russia and Ukraine in Developing Multi-Year Investment Programs</b> <i>Xavier Leflaive</i>	<ul style="list-style-type: none"> <li>- ToR developed, donor support received.</li> <li>- Project prepared for implementation.</li> <li>- 4-day certification training organised in February 2005 in Kiev (24 trainees from EECCA)</li> <li>- Training material and final report available</li> </ul>	<ul style="list-style-type: none"> <li>• Training materials for the workshops prepared.</li> <li>• Case studies with software applications tailored to participants' needs.</li> </ul>	<p>EC/TACIS grant available.</p>	<p>This project will disseminate the experience and tools developed in the first phase of work to other cities in Russian and Ukraine.</p> <p>20-25 consultants will be certified to provide technical assistance to EECCA municipalities interested in budget and investment reforms. Selection of participants for training is coordinated with EECCA RECs.</p>

<p><b>2.5.3 Demo Project(s): Developing MYIP in Cities</b> <i>Xavier Leflaive</i></p>	<ul style="list-style-type: none"> <li>- Ongoing. In 2004 there were 3 trainings in MYIP conducted jointly with the trainings in FEASIBLE-2: <ul style="list-style-type: none"> <li>a) in Kiev on April 20-23 - some 20 participants/trainees from Ukraine (MYIP section)</li> <li>b) in Moscow on May 26-28 - some 18 trainees from Russia and Moldova</li> <li>c) in Yerevan in Nov. - 8 trainees from Armenia, Georgia, Ukraine and Kyrgyz Republic, see also 2.2.4 above</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 3 trainings held with some 45 EECCA officers and experts trained</li> <li>• A packages of Training materials developed</li> </ul>	<p>EC/TACIS and UK DEFRA provided support for the trainings. Another 30,000 € is requested from other donors for trainers certification programme.</p>	<p>This project helped disseminate the experience and tools developed in the first phase of work to other cities in Russian and Ukraine. 20-25 consultants/trainers in MYIP will be certified to provide technical assistance to EECCA municipalities interested in budget and investment reforms.</p>
<p><b>Project 2.6: Facilitating Policy Dialogue on Opportunities and Risks of Debt for Environment Swaps</b></p>				
<p><b>Task</b></p>	<p><b>Status of Implementation</b></p>	<p><b>Planned Outputs/Planned Meetings</b></p>	<p><b>Financial Status</b></p>	<p><b>Other Information</b></p>
<p><b>2.6.1 Institutional support to Georgian Debt for Environment Swap</b> <i>Nelly Petkova</i></p>	<ul style="list-style-type: none"> <li>- The scoping phase for the study: "Potential Project Pipelines for the Expenditure Program Financed by a Debt for Environment Swap in Georgia" completed.</li> <li>- Reports from the detailed evaluation of 5 potential project pipelines on biodiversity, biogas, mini-hydropower, solid waste and wastewater treatment being finalised.</li> <li>- Publication of the reports in English, Georgian and Russian under preparation.</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-Feasibility Study, with institutional options and project pipelines opportunities analysis, as well as reports from detailed evaluation of 5 potential project pipelines translated into Georgian and Russian.</li> <li>• Discussions with the World Bank to use the outcomes of the potential project pipelines report with the aim of financing selected pipelines identified through this project.</li> </ul>	<p>Financed through a grant provided by the Netherlands.</p>	<p>There may be new opportunities to negotiate debt-for-environment swaps. However, there are many technical and political obstacles to successfully concluding such initiatives. This project aims to illustrate how such a swap could be implemented in Georgia, and the benefits for creditor countries as well as Georgia.</p>
<p><b>2.6.2 Demonstration Project: Pre-Feasibility Analysis and Support for Debt-for-Environment Swap in the Kyrgyz Republic</b></p>	<ul style="list-style-type: none"> <li>- The project has been officially launched in early November 2004. A Steering Committee, consisting of 10 members from different government institutions, has been established to oversee and guide the work on this project. Consultants selected.</li> <li>- Information and data collection and analysis underway.</li> <li>- Next meeting of the Steering Committee to discuss</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-Feasibility Study, with institutional options and project pipelines opportunities analysis in Kyrgyz and English.</li> <li>• Two more meetings of the Steering Committee scheduled for the end of April 2005 and the end of June 2005.</li> </ul>	<p>EU Tacis grant available</p>	<p>The final recommendations depend on the results of the next round of negotiations between the creditor countries of the Paris Club and the Kyrgyz Government on the treatment of the official government guaranteed external debt of the Kyrgyz</p>

<i>Nelly Petkova</i>	<p>draft analysis and recommendations scheduled for the end of April 2005.</p> <ul style="list-style-type: none"> <li>- First draft of the report on the pre-feasibility study prepared.</li> <li>- Discussions with the UNDP local office on possible further cooperation in providing TA to facilitating potential DFES in the Kyrgyz Republic.</li> <li>-</li> </ul>			Republic scheduled for April 2005.
<b>Project 2.7: Environmental Finance Network Meetings</b>				
<b>Task</b>	<b>Status of Implementation</b>	<b>Planned Outputs/Planned Meetings</b>	<b>Financial Status</b>	<b>Other Information</b>
<b>2.7.1 Meeting of the EECCA Environmental Finance Network</b> <i>Nelly Petkova</i>	<ul style="list-style-type: none"> <li>- The 8th meeting is scheduled for early April 2005. The Moldovan Ministry of Environment and Natural Resources has kindly agreed to host and co-organise the meeting together with the EAP Task Force Secretariat.</li> <li>- A synthesis publication on Financing Water and Environment in EECCA Countries is being finalised.</li> <li>- A Paper on Mechanisms for Managing Public Environmental Expenditures in Selected OECD Countries is being finalised.</li> </ul>	<ul style="list-style-type: none"> <li>• Publication on Financing Water and Environment in EECCA Countries in English available in March 2005.</li> <li>• Paper on Mechanisms for Managing Public Environmental Expenditures in Selected OECD Countries in English and Russian available in March 2005.</li> <li>• Both papers will be presented at the Eighth Network meeting in 2005.</li> </ul>	<p>Financed through a grant provided by Germany.</p> <p>Papers financed respectively through grants from the UK and Denmark.</p>	<p>The Network brings together representatives from Environment, Economics and Finance ministries to oversee the EAP Task Force work on environmental finance. Other stakeholders, including IFIs, donors and local government representatives are also involved.</p>