

EAP Task Force



SEVENTH MEETING OF THE EECCA ENVIRONMENTAL FINANCE NETWORK

EXPERTS' WORKSHOP ON FINANCING STRATEGIES FOR URBAN WATER AND ENVIRONMENTAL INFRASTRUCTURE

26 - 28 January 2004

Istanbul, Turkey

SUMMARY RECORD

Seventh Meeting of the EECCA Environmental Finance Network
26 - 27 2004, Istanbul, Turkey

1. The Seventh Meeting of the EECCA Environmental Finance Network¹ was organised under the auspices of the EAP Task Force and held at the OECD Istanbul Center for Private Sector Development. The meeting was opened by Mr. Mustafa Ozturk, Deputy Undersecretary from the Ministry of Environment and Forestry of Turkey.

2. The meeting was attended by over 60 participants from EECCA, OECD and other non-OECD countries. The participants included officials from EECCA environmental agencies, Ministries of Economy and Finance, Committees on Statistics, experts in the area of environmental finance. Representatives of the NGO community, international organisations (Regional Environmental Centre (REC) for CEE, REC for the Russian Federation) and international financing institutions (EBRD/PPC²), bilateral donors (Austria, Czech Republic, Germany, Greece, Italy, Turkey), EECCA local governments as well as private sector consultants, active in the EECCA region, also attended the meeting.

3. This was the first Network meeting after the Kiev Ministerial Conference. The main objectives of the meeting were to:

- Report on the results of the 2001-2003 EAP Task Force Program on Environmental Finance;
- Launch the new 2004-2006 EAP Task Force Work Program on Environmental Finance, in light of the conclusions adopted by Environment Ministers at the 5th “Environment for Europe” Conference, held in Kiev, Ukraine, May 2003;
- Discuss the proposed work program of the Project Preparation Committee (PPC) as well as those activities that might be jointly implemented by the EAP Task Force and the PPC.

The emerging results from the work on environmental finance will be presented to Environmental Ministers at the Kiev+ 1 Ministerial Conference, scheduled to take place in October 2004, in Tbilisi, Georgia.

4. An overview of the major outputs and tools developed over the past years in the 5 areas of work on environmental finance was presented during the meeting. These include:

- Environmental expenditure information systems – a methodology and tools for collecting environmental expenditure data in line with OECD/Eurostat standards;
- Financing strategies for water and environmental infrastructure – a methodology supported by a computer-aided tool (FEASIBLE);
- Toolkit for developing multi-year investment plans (MYIP) for EECCA municipalities that strengthen investment and borrowing capacity of local governments;
- Good Practices for Public Environmental Expenditure Management (PEEM) and a Handbook for Appraisal of Environmental Projects Financed from Public Funds;
- Framework for facilitating dialogue on opportunities and risks of debt for environment swaps – including pre-feasibility studies and identification of project pipelines.

¹ Meetings of the Network (previously known as the NIS Environmental Funds Network, NIS Environmental Finance Network) were previously held in Almaty, Kazakhstan in November 1996, in Kiev, Ukraine in December 1997, in Moscow, Russian Federation, in April 1999, in Tashkent, Uzbekistan in March, 2000, in Yerevan, Armenia in May, 2001 and in Warsaw, Poland, in July 2002.

² 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.

All these tools and outputs have been developed and tested in the field through a series of demonstration projects in different EECCA countries.

6. The main findings, conclusions and recommendations emerging from the work in each of these areas were presented by the Secretariat and discussed in detail during the meeting. The discussion was supported by lessons learned from specific EECCA demonstration projects and case-studies.

7. Network members expressed their appreciation for the work of the Secretariat until 2003 and endorsed all major tools developed as part of the 2001 – 2003 work program on environmental finance. More specifically:

- General consensus was reached on the need to improve and strengthen EECCA environmental expenditure systems in line with international standards, such as those of OECD and Eurostat. More work will be done in Ukraine and Kyrgyzstan in 2004 - 2006;
- It was recognised that environmental financing strategies provide governments with a practical strategic planning tool for checking financial realism and affordability of medium to long-term environmental infrastructure investment programs. Additional financing strategies and implementation plans will be developed in both the urban and rural water supply and sanitation sector as well as the municipal solid waste sector;
- Agreement was reached that mid term, rolling multi-year investment plans (MYIPs) are important and practical tools for EECCA municipalities to enhance their investments in environmental infrastructure and to improve their access to finance. Additional dissemination and training in MYIP will be done in 2004 – 2006. Additional demonstration projects, linked to prospective IFI loans, are possible subject to additional funding;
- Both the Good Practices of PEEM and the Handbook for Appraisal of Environmental Projects Financed from Public Funds were approved as tools for evaluating and improving performance of public environmental expenditure programs. It was acknowledged that they could help improve access of EECCA environmental agencies to additional finance. More systematic performance measurement and international benchmarking were recommended. Harmonizing performance evaluation with credit rating issued by private agencies was identified as an interesting area for future work;
- Participants expressed their interest in the results of the analysis conducted by the EAP Task Force in cooperation with the Georgian Government in preparing a pre-feasibility study and identifying specific project pipelines for potential debt-for-environment swaps in Georgia. Similar work is now getting underway in Kyrgyzstan.

8. The new 2004 – 2006 work program on environmental finance was presented and discussed. It was developed in light of the conclusions adopted by Environment Ministers at the 5th “Environment for Europe” Conference, held in Kiev, Ukraine, May 2003 and with the aim of supporting the implementation of the 5th objective of the EECCA Environment Strategy that deals with public environmental finance. The new work program on environmental finance was endorsed by the members of the Network and its implementation is already underway.

9. The new work program focuses on dissemination activities as well as implementation and practical application of the tools developed until 2003. While most of the activities in the new program are a continuation from the previous one, there is one completely new component which deals with facilitating access of environmental projects to local capital and financial markets. This new element is related to the need to better understand emerging opportunities for using local currency debt to finance local water and environmental infrastructure investments in EECCA.

10. The EAP Task Force and the PPC Secretariats, mandated by Environmental Ministers at Kiev to work more closely together due to converging objectives, presented possible ideas and opportunities for a joint work program in the area of environmental finance. Participants agreed that enhanced cooperation between the two bodies could mutually benefit members of the EAP Task Force and the PPC and endorsed the program. Joint activities (meetings, training workshops, etc.) are already being planned as part of the new work program.

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11. In addition, on 28 January 2004, a small experts' workshop was organised to present selected EECCA countries' experience with developing financing strategies for the water and environmental infrastructure sectors to Turkish government officials, involved in financial planning for urban infrastructure. The meeting was also linked to the implementation of an EU-supported project on Environmental Heavy Cost Investment Planning in Turkey.

12. Development of financing strategies was of particular interest to our Turkish colleagues. They wanted to learn more about their practical use and application particularly in light of the country's ambition to join the European Union and the need to eventually implement EU Environmental Directives. Financing strategies for environmental infrastructure could be very useful in the negotiation process with the EU as a tool for setting realistic targets for the implementation of the directives and reaching agreements on respective transition periods.

13. The Turkish officials expressed interest in further cooperation in this area within the EAP Task Force framework. Armenian representatives invited Turkish colleagues to attend a workshop in Yerevan where the final report on the financing strategy for urban wastewater collection and treatment in Armenia would be presented.