

OECD
EAP Task Force

Tenth Meeting of the EAP Task Force
Environmental Finance Network
22 – 23 February 2007, Paris, France

SUMMARY RECORD

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The tenth meeting of the EECCA Environmental Finance Network¹ was organised under the auspices of the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe (EAP Task Force) and held at the OECD Headquarters in Paris on 22- 23 February 2007. Ms Violeta Ivanov (Moldova), Ms Jipara Bekkulova (Kyrgyz Republic) and Ms Magdalena Banasiak (UK DFID) each chaired a session. The meeting was attended by about 40 participants from Eastern Europe, Caucasus and Central Asia (EECCA) and OECD countries (for more information, please see the attached List of Participants). The participants included officials from EECCA environmental agencies, Ministries of Economy and Finance, of Regional Development, 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, UNECE) and international financing institutions (EBRD/PPC²), bilateral donors (Austria, the Czech Republic, the Netherlands, United Kingdom) as well as private sector consultants, active in the EECCA region, also attended the meeting.

The main objectives of the meeting were to:

1. Review implementation of the 2005-2006 EAP Task Force Programme on Environmental Finance with a focus on lessons learnt from empirical work on different projects which are relevant for the region and beyond; and
2. Discuss and endorse the main messages and conclusions emerging from the work on environmental finance to be conveyed to the Environment Ministers at the 6th “Environment for Europe” Conference in Belgrade in October 2007.

In this context, the delegates:

Took note and endorsed the main conclusions and recommendations that emerged from the survey on the Trends on Environmental Finance in EECCA conducted by the EAP Task Force Secretariat, subject to written comments on the report to be provided by the end of March 2007. The survey looks at both trends in domestic environmental expenditure and financial assistance from donors and IFIs. The survey highlights the sharp dichotomy between richer and poorer EECCA. In richer EECCA, the levels of environmental expenditure have increased and, as a share of GDP, now compare with those in some of the CEE countries. In smaller economies environmental expenditure are very low in both absolute and relative terms. Environmental assistance to EECCA has witnessed a structural change since 2001: multilateral assistance has increased nearly 2 times, while bilateral assistance in 2005 is below the level of 2001.

The conclusions and recommendations of this survey will be conveyed to the Environment Ministers at Belgrade. Participants suggested that the report should be used as an incentive for EECCA environment ministers and decision-makers to seek an increase of expenditure for environment. A few countries expressed interest in obtaining support from the EAP Task Force in bringing their data collection systems in line with OECD standards. Various challenges in collecting environmental expenditure data

¹ Meetings of the Network were previously held in Almaty (1996), Kiev (1997), Moscow (1999), Tashkent (2000), Yerevan (2001), Warsaw (2002), Istanbul (2004), Chisinau (2005) and Almaty (2006).

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.

were discussed. Problems with data reporting by the private sector is a particular issue that needs special attention.

Took note of the presentation on the draft conclusions emerging from a similar survey on Trends in Environmental Finance in South-Eastern Europe (SEE) conducted by the REC for CEE. The presentation highlighted the main similarities and differences between the two regions. A strong message, supported by participants, is the importance of demonstrating how environmental projects can contribute to growth and employment, thus increasing their chances to get financed. Another message was the need for more capacity-building and technical assistance for project preparation which is still a serious barrier to financing in the region. These lessons are relevant to the EECCA region as well.

Discussed and endorsed the structure of and the key messages emerging from a paper on “Mobilising Finance for Environmental Priorities: Recommendations for the Future in SEE and EECCA”. The paper is drafted by the PPC, with contributions by the EAP Task Force, REC CEE and the World Bank, and has been proposed as a “Category I” document for the discussion at the Belgrade Conference. It considers the role of the public, private and international sources of finance and the opportunities these present for supporting environmental improvements in the EECCA and SEE countries. Participants discussed the need for further policy and institutional reforms which will facilitate access to both private and public finance. These include, among others, the introduction of mid-term budget frameworks, legal and institutional changes which will allow countries to take advantages of the Kyoto Protocol financing mechanisms.

Took note of the presentation of the PPC’s programme of current and proposed activities and prospects for its future. This included the PPC’s plans to continue to support the strengthening of countries’ capacity for project preparation through a series of project financing training workshops. In 2007, training workshops are planned in Ukraine, Armenia and Kazakhstan. The Project Concept Data Sheets prepared during these workshops will be presented to IFIs/donors. To respond to the needs in the region, the PPC is deploying more staff in the field. Options for the PPC after Belgrade will be discussed in more detail at the joint EAP Task Force and PPC meeting in March 2007.

Discussed and endorsed the main tools developed as part of the work on improving the management of public environmental expenditure programmes, specifically, the Handbook for Appraisal of Environmental Projects Financed from Public Funds and the Toolkit of Training Materials on Appraisal of Environmental Projects, including a model for calculating the cost-effectiveness of infrastructure investment projects supported with public resources. The case study on the Performance Review of the State Environmental Protection Fund of Ukraine and the training on the Handbook pilot-tested recently in Moldova were used to illustrate some of the major lessons learnt in this area. The EAP Task Force Secretariat is planning additional training on the Handbook in 2007. Countries interested in such training were invited to contact the Secretariat. A particular issue raised by participants is the design of economic instruments as a source of revenue for the expenditure programmes and the need to study more closely the correlation between the level of public expenditure and the environmental effects achieved with these subsidies. The Russian REC expressed particular interest in supporting such a project.

Discussed and endorsed the major conclusions and lessons learnt from the national and sub-national finance strategies in the municipal waste management sector. The analysis shows that in EECCA, service quality for municipal solid waste management and the environmental performance of the service providers are deteriorating. Incomplete sets of environmental standards, poor compliance with service standards, lax enforcement and the lack of capacity to properly plan and implement investment programmes are still major issues in EECCA. The case studies indicate that financing strategies can be effectively used to draw up policy packages at both national/regional and local levels to improve the economic and environmental performance of the sector. The discussion highlighted the relevance of

intermunicipal cooperation, the role carbon funding could play in channeling additional finance, the challenges related to recycling, and the need for planning.

Took note and discussed the latest developments of the methodology for financing strategies and the FEASIBLE model as well as further work in this area. Financing strategies can be instrumental in substantiating policy dialogues on water and waste with regard to the level and quality of services, taking into account affordability issues linked to national and household budgets. The methodology has been adapted to reflect this objective: a module for rural water has been developed; the methodology also now focuses on implementation and seeks to create linkages with national strategies (Poverty Reduction Strategy Papers) and budgetary decision making (mid-term expenditure frameworks). With the purpose of enhancing the relevance of the methodology, the EAP Task Force has been working on refining the tool and accompanying documentation (the User Manual and Methodological Guidelines). In this context, Russia shared its experience with using the Financing Strategy as well as other tools developed by the EAP Task Force in planning work in the housing and communal sector.

Discussed the potential new avenues for work on environmental finance after Belgrade. One option is to integrate the finance work into the programmes on water supply and sanitation and environmental policy reform. This will create better linkages and strengthen the performance-based outputs of the policy formulation. Participants proposed a number of issues that could be included in the future work on environmental finance, such as: environmental expenditure data collection and monitoring; a review of the past work on regulation, economic instruments, and their linkages to environmental funds (including at the local level); performance-based budgeting; mainstreaming environment into broader economic and social programmes, and into sectoral policies (transport, energy); environmental insurance.

Agreed that the Network members should take an active part in promoting the results of the work on environmental finance and from this last meeting, in particular the possible ways forwards, to delegates of the EAP Task Force and the Working Group of Senior Officials in the UNECE, which is preparing the Belgrade Ministerial Conference.