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ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE

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**Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe, Caucasus and Central Asia
Group of Senior Officials on Urban Water Sector Reform**

SUMMARY RECORD OF THE JOINT MEETING OF THE EU WATER INITIATIVE'S EECCA WORKING GROUP AND THE EAP TASK FORCE WATER NETWORK

Meeting of the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe (EAP Task Force)

23-24 October 2008, Astana (Kazakhstan)

Agenda item: 3i.

The attached document presents the summary record of the Joint Meeting of the EU Water Initiative's EECCA Working Group and the EAP Task Force Water Network held on 12-13 May 2008 in Bucharest, Romania.

Action Required: For information.

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**Summary Record
of the Joint Meeting of the EU Water Initiative's EECCA
Working Group and the EAP Task Force Water Network
12 – 13 May 2008, Bucharest, Romania**

The EU Water Initiative's EECCA working group and the EAP Task Force Group of Senior Officials for Water Supply and Sanitation Sector Reform in EECCA met jointly, on the 12th and 13th of May 2008 in Bucharest, Romania. This was the fourth joint meeting of the two groups.

The meeting was hosted by the Romanian Ministry of Environment and Sustainable Development. It was attended by about 60 participants. The participants included officials from EECCA water and environmental agencies, representatives from OECD environment and development cooperation ministries, experts in the areas of water supply and sanitation (WSS) and integrated water resource management (IWRM), as well as representatives of the NGO community and international organizations (EIB, UNECE, GWP, European Commission, DABLAS Secretariat, CAREC) (see annex).

The objectives of the meeting in Bucharest were:

- To discuss the key trends in integrated water resources management, the role of river basin organizations/councils and how such organizations could help to improve the implementation of sector policies;
- To discuss the challenges on the way towards the improvement of the institutional capacity in the water supply and sanitation sector. One of these challenges is the over-fragmentation of the water sector and how related problems could be overcome;
- To discuss the lessons learned from efforts to improve rural water supply and sanitation in the EECCA region;
- To discuss the issues related to the financing water projects in the EECCA region;
- To report on the progress of work of the EAP Task Force water program and of the EUWI EECCA working group, as well as to discussing proposed work for 2009-2011.

In this context:

Opening and session one: Review and Updating of the EECCA Working Group Activities

The meeting was opened by **Ms. Lucia Ana Varga**, Secretary of State, who welcomed the participants in Bucharest. Ms. Varga expressed the interest of the Romanian Government, currently chairing the EUWI EECCA Working Group, to take an active role in facilitating policy discussions on existing challenges in the EECCA water sector. **Mr. Dumitru Dorogan** from the European Commission welcomed the successful hand-over of the EUWI chairmanship from the EC to Romania and underlined the continued commitment of the EC to the work of the EECCA working group. **Mr. Rainer Enderlein** from UNECE and **Mr Peter Börkey** from OECD EAP TF reminded participants of the respective roles of their institutions as strategic partners of the EUWI in charge of supporting the IWRM and Water Supply and Sanitation agendas respectively. Mr Börkey also pointed to the positive evolution that joint EUWI-EAP Task Force meetings have been going through in the past years and emphasized the fact that the agenda of this meeting was responding to the wide-spread opinion among meeting participants that these meetings should be more policy oriented than in the past.

Mr. Gheorghe Constantin, Director for Water Resources Management, Ministry of Environment and Sustainable Development of Romania, briefly presented the draft agenda of the meeting, which was adopted by participants.

Session 2: Integrated water resources management

The meeting took note of progress in the EUWI National Policy Dialogues supported by the UNECE and the OECD/EAP Task Force.

Mr. Rainer Enderlein, UNECE, informed the participants about the progress with implementation of on-going (Armenia, Moldova) and recently launched (Ukraine) NPDs on IWRM related issues. **Ms. Nataliia Zakorchevna**, State Committee for Water Management of Ukraine, presented the results of the first meeting of the Steering Group under the NPD on IWRM in Ukraine, where the national dialogue should become a specific platform for drawing up and implementing policy packages on adaptation of water management to climate change and safe drinking water supply and adequate sanitation under changing climates.

Mr. Peter Börkey, OECD EAP TF, presented the status of the four on-going NPDs on financing water supply and sanitation in Armenia, Georgia, Moldova and Kyrgyzstan. He pointed to the fact that, due to the specific institutional set-ups in each of the countries, these dialogue processes are lead by a range of different government bodies, including Ministries of Economic Development (Kyrgyzstan, Georgia), Water Infrastructure Ministries (Armenia) and Ministries for Local Development (Moldova).. The EAP TF is discussing the launch of a fifth NPD on WSS with the Ukrainian Ministry of municipal housing economy.

Session 3: Improvement of the institutional capacity in water supply and sanitation. Tackling the problem of over-fragmentation

Took note of and welcomed the presentation of **Mr. Gheorghe Constantin**, Director for Water Resources Management, Ministry of Environment and Sustainable Development, highlighting the role of the river basin committees in implementation of the river basin management plans, which are being elaborated by Romania in line with the provisions of the Water Framework Directive.

Took note of the presentation of **Mr. Arnaud Courtecuisse** from Agence de l'Eau Artois-Picardie. The participants acknowledged the role played by the French water agencies in the Water Framework Directive implementation in France.

The participants supported the reforms of water resources management in Ukraine and acknowledged the progress achieved and presented by **Mr. Nikolai Babich**, Deputy Chairman of the State Committee for Water Management of Ukraine. Delegates agreed that the environmental NGOs should be presented in river basin committees. The experience of Moldova, presented by **Mr. Ilya Trombitsky**, Eco-TIRAS NGO, provided some suggestions on how to improve public participation in river basin organizations.

Mr. Vladimir Narimanyan, Deputy Head, Water Resources Management Agency of the Ministry of Nature Protection of Armenia, presented the status of river basin management in Armenia. The participants supported the initiative of the EUWI EECCA Component to develop an example of river basin management plan (Megri and Marmarik rivers) in the framework of the NPD on IWRM in Armenia.

The discussion that followed these presentations stressed a number of points, including the importance of proper water resource planning as a precondition for safe and secure water supply; the importance of linking water supply and sanitation and IWRM with the financing thereof; in particular,

many river basin management plans may not be financially sustainable and organizational frameworks suggested may not be easily financed by the countries. Thus, there is an obvious need to work towards a more integrated discussion of WSS and IWRM financing.

Session 4: Experience concerning Rural Water Supply and Sanitation

Took note of and discussed the presentation of **Mr. Vladimir Rudoy**, Head of Water Supply and Sanitation Department, Ministry of Municipal and Housing Economy of Ukraine, identified some of the challenges linked to over-fragmentation of the water supply and waste water sector in Ukraine. The process of decentralization that was carried-out in the early 1990's in the Ukrainian water sector resulted in 365 water utilities currently operating in the country. A number of challenges have emerged as a consequence of decentralization, e.g. lack of investment attractiveness and capacity constraints to maintain and rehabilitate the water infrastructure. Organizational and financial constraints are most severely affecting small and medium sized water systems. Mr. Rudoy then pointed to some of the measures that his government has taken to help overcome these issues; in particular the regionalization of small water companies is one of the important areas of water reforms in Ukraine. To overcome the crisis, a first regional water company was set up in the Lugansk Oblast in 2004. After a year, the company's losses fell by half, electricity consumption went down considerably, and, as a consequence, the company is now in a better position to attract investors.

Took note of the presentation of **Mr. Daniel Wiltschnigg**, KommunalKredit Public Consulting on behalf of Austrian Development Cooperation, on inter-municipal cooperation in the water supply and sanitation sector of Austria, and provided quantitative data on economies of scale that motivate this cooperation. Several different options of inter-municipal cooperation are in use, including water associations jointly using plants, sharing water resources; country wide or national associations of utilities providing joint procurement systems, trainings, lobbying; and finally, inter-municipal service provision based on contracts e.g. operation, maintenance.

Took note of and welcomed the presentation of **Ms. Venera Vlad**, Director, Ministry of Environment and Sustainable Development of Romania. Ms. Vlad shared with the participants the experience of Romania in reducing over-fragmentation and improving capacity of the water and sanitation sector. Access to EU funds is a strong incentive to move from a large number of weak services providers to a more limited number of large operators, capable to provide services at affordable tariff levels, ensuring full cost recovery and loan reimbursement for local authorities. Ms Vlad pointed-out that her government is using EC subsidies to incentivize water utilities and municipalities to form larger, regional operators.

The discussion that followed identified the following issues: the decentralisation of responsibilities for water supply and sanitation, that took place in many EECCA countries, made it more difficult for utilities and municipalities to efficiently and effectively provide water services. Participants identified some typical issues related to strongly fragmented water infrastructure: the loss of economies of scale, the retention of adequate human and organisational capacity and access to finance from public budgets and financial markets. A consequence of this is a lack of resources and capacity to support adequate levels of maintenance, reconstruction and expansion of water systems.

Countries are addressing these issues in different ways, including different forms of inter-municipal cooperation: the establishment of regional operators might be an effective mechanism of service provision to small communities. The delegate from Moldova mentioned that some steps have been already undertaken in the country, e.g. a water association was created few years ago to support water utilities in their dialogue with local authorities.

Participants acknowledged that one of the possible solutions is within inter-communal cooperation, though there is little information available about the institutional arrangements in use. Furthermore,

although there are strong indications that inter-municipal cooperation is not always successful, what determines success or failure is to a large extent unknown.

Delegates agreed that a number of prerequisites should be in place to overcome the crisis, including: the putting in place of a system of strategic planning at the regional level and the creation of national regulatory authorities to ensure a proper procedure for tariff setting. The Georgian delegate informed the participants that the Regulatory Commission on energy, water supply and sanitation of Georgia just received an extended mandate to set tariffs for both electricity and WSS.

In this connection, the OECD/EAP Task Force proposal to launch work exploring good practices in overcoming fragmentation was broadly supported. The work would involve the preparation of a report, identifying best practices in EU and non-EU countries, as well as identifying needs for further work in this area and ideas for the type of assistance that would be needed to effectively support EECCA governments in overcoming this problem.

Session 5: Projects Financing in the Water Sector

Took note of and welcomed the presentation of the rural development policy in the post accession period in Romania. Access to EU funds allowed Romania to launch an investment program on village renewal and development, improving basic services for rural populations. The focus of the programme is on the extension and modernization of the water infrastructure for rural settlements with a population of less than 10,000.

Discussed and broadly endorsed the results of the NPD on financing strategy for rural WSS in Armenia. **Mr. Alexander Martoussevitch**, OECD EAP TF, presented the financing scenarios identifying the needed expenditures, available financing and the policy packages to close the financing gap. A key finding of this work is that expenditure needs for rural water and sanitation are quite affordable, even if the government adopted more ambitious coverage and water service targets than those implied in the MDGs. Hence, the implementation of the rural financing strategy appears to be more of an institutional and organisational than a financial challenge.

Took note of the experience gained in Ukraine and presented by **Ms. Anna Tsvetkova**, NGO “Mama-86”, regarding the role of NGOs in promoting environmentally friendly, affordable and alternative technologies of water supply and sanitation at the local level.

Took a note of and welcomed the presentation of **Mr. Vasile Ciomos**, President of the Romanian Water Association. Mr. Ciomos highlighted the role of tariff policy evolution from different tariffs for each type of customers to the affordability principle of setting tariffs to achieve financial and operational sustainability in the WSS of Romania. Participants agreed that a political support and professional management are the key elements of successful implementation of water reforms in the country.

Took note of the outcomes of DABLAS Task Force Secretariat cooperation with IFIs and donors on facilitation of financing for water investment projects in the Danube and Black sea region, presented by **Ms. Sabine Hoefnagel**, DABLAS Task Force Secretariat. Among the key outcomes there is the improved preparation of key water and wastewater investment projects and a framework developed for investors and donors to use when making financial decisions. The latest developments ensured provision of direct investment support for projects in Romania, Bulgaria, Croatia and Turkey, placed in an IWRM context where possible. Future work will be also focused on provisions of methodological guidance on cost-benefit analysis and regionalization of investments.

Took note of the presentation of **Mr Peter Börkey**, OECD EAP TF, discussing affordability aspects of financing water infrastructure in the EECCA region. While there is some room to increase

water tariffs, the scope for this is limited. Especially in the poorest parts of the region, the capital costs of water services will need to be co-financed from public budgets for the foreseeable future.

Session 6: Review and Updating of the EECCA Working Group Activities

8. Discussed and endorsed the water-related activities in the EAP Task Force work programme for 2009-2011, which are in strong continuity with the previous work programme. The work programme proposal includes the following activity areas:

- Monitoring progress in implementing water-related MDGs by means of monitoring the financing of WSS and institutional reforms in EECCA;
- Managing the water sector more effectively and efficiently through supporting policy dialogue on private sector participation and developing financial planning capacity in municipalities and water utilities. Further exploring the opportunities to cope with over-fragmentation in the water supply and sanitation sector;
- National policy dialogue on more efficient financial management of the water sector: to continue the initiated National Policy Dialogues addressing the financing of water supply and sanitation (WSS) and to extend financing strategy methodology beyond water supply and sanitation to issues of water resources management

In preparation of the meeting, EECCA delegates responsible for WSS had been asked to prioritize the activities proposed under the new work programme. The results of this exercise were presented at the meeting. They indicate high levels of support for all the activities in the work programme proposal. The EAP Task Force support for EUWI National Policy Dialogues received particularly strong support from delegates and indicates that this is now a well established and appreciated activity area. A summary of the discussions and the result of the prioritization exercise will be reported to the next meeting of the EAP Task Force in October 2008 and support deliberations about the 2009-2011 EAP Task Force work programme.

ANNEX 1. AGENDA

JOINT MEETING OF
THE EU WATER INITIATIVE'S EECCA WORKING GROUP
THE OECD EAP TASK FORCE'S GROUP OF SENIOR OFFICIALS FOR WATER SECTOR REFORM
IN EECCA

Bucharest, 12 – 13 May 2008

Venue: Phoenicia Grand Hotel
Address: Alexandru Serbanescu Blv. Nr. 87,
sector 1 Bucharest.

Monday, 12 May 2008	
08.30 - 9.00	Registration
09.00 - 09.30	OPENING REMARKS
	<p>Opening remarks</p> <ul style="list-style-type: none"> - Lucia Ana Varga, Secretary of State, Romania - Peter Borkey, OECD/EAP Task Force - Rainer Enderlein, UNECE - Dumitru Dorogan, European Commission
SESSION 1	SESSION 1 – REVIEW AND UPDATING OF THE EECCA WORKING GROUP ACTIVITIES
09.30 - 10.30	<ul style="list-style-type: none"> - Ongoing National Policies Dialogues (OECD/UNECE) - Monitoring (EUWI – EECCA Technical Secretariat) - Joint Process with the EU Water Framework Directive (EUWI – EECCA Technical Secretariat)
10.30- 11.00	COFFEE BREAK
SESSION 2	INTEGRATED WATER RESOURCES MANAGEMENT
11.00 - 11.20	<p>The principles of integrated water resources management are increasingly recognized as the basis for water sector policy making. However, the implementation of these principles is still hampered by a number of obstacles, of which institutional weaknesses is an important one.</p> <p>This session would look into the role of river basin organizations and river basin councils and how such organizations/councils could help to improve the implementation of sector policies.</p> <p>Integrated Water Resources Management in Romania. Role of the River Basin Committees – Mr. Gheorghe Constantin, Director for Water Resources Management, Ministry of Environment and Sustainable Development</p>
11.20 - 11.40	<p>Role played by the “Agences de L’Eau” in France</p> <p>– Mr. Arnaud Courtecuisse, Agence de l’Eau Artois-Picardie</p> <p>(International Commission for the Protection of the Danube River a successful Experience on transboundary water management - Philip Weller , Executive Secretary ICPDR)</p>

11.40 - 12.00	Integrated Water Resources Management in Ukraine. Future challenges –Mr. Mikola Babici, Deputy Head of the Ukrainian State Committee for Water Management
12.00 - 12.15	Integrated Water Resources Management in Moldova. Main results of the EECCA project input - Mr. Ruslan Melian, Institute Acvaproiect, Chisinau
12.15 - 12.30	Integrated Water Resources Management in Armenia. Main results of the EECCA project input – Mr. Vladimir Narimanyan, deputy head, Water Resources Management Agency of the Ministry of Nature Protection
12.30 - 13.30	Discussion (Mr. Rainer Enderlein, UNECE)
13.30 - 14.30	LUNCH BREAK
SESSION 3	IMPROVEMENT OF THE INSTITUTIONAL CAPACITY IN WATER SUPPLY AND SANITATION. TACKLING THE PROBLEM OF OVER-FRAGMENTATION
14.30 - 14.45	Identifying the challenges linked to over-fragmentation of the water supply and waste water sector in EECCA countries – Mr. Vladimir Rudoy, head of Water Supply and Sanitation Department, Ministry of Municipal and Housing Economy, Ukraine
14.45 - 15.00	Experience of Romania in reducing over-fragmentation and improving capacity and management dimension of the water and sanitation sector –Ms. Venera Vlad, Director, Ministry of Environment and Sustainable Development
15.00 - 15.15	Inter-municipal cooperation for water supply and sanitation in an EU country (Austria) – Mr. Daniel Wiltschnigg, KommunalKredit Public Consulting on behalf of Austrian Development Cooperation
15.15 – 15.30	Questions for clarification
15.30 – 15.45	COFFEE BREAK
15:45- 17.00	Discussion in groups (in 2-3 groups)
17.00 - 17.30	Presentation of key results from each of the groups
17.30 - 17.45	Closing remarks of the day 1
19.00	COCKTAIL OFFERED BY THE MINISTRY OF ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

<i>Tuesday 13 May 2008</i>	
SESSION 4	EXPERIENCE CONCERNING RURAL WATER SUPPLY AND SANITATION
09.30 - 09.45	Rural Water Supply and Sanitation in Romania.
09.45 - 10.00	National Policy Dialogue on Financing Strategy for Rural Water Supply and Sanitation in Armenia – TBD
10.00 - 10.15	Questions for clarification
10.15 – 10.45	COFFEE BREAK
10.45 - 11.00	Rural Water Supply and Sanitation in Ukraine – Ms. Anna Tsvetkova, NGO “Mama-86”
11.00 - 11.15	Involvement of IFIs in Rural Water Supply, Sanitation and Hygiene Awareness in Kyrgyzstan, - Mr. Jonathan Kamkwala, World Bank
11.15 - 12.30	Discussion
12.30 - 13.30	LUNCH BREAK
SESSION 5	PROJECTS FINANCING IN THE WATER SECTOR
13.30-13.50	Financing and tariff dimension for the development of the water projects for water supply and sanitation in Romania – Mr. Vasile Ciomos, President of the Romanian Water Association
13.50 - 14.10	Water projects bankability in some countries from EECCA region. DABLAS experience – Ms. Sabine Hoefnagel, DABLAS Secretariat
14.10 - 14.30	Financing water infrastructure in the EECCA region- The issue of affordability – Mr Peter Börkey, OECD/EAP Task Force
14.30 - 15.30	Discussions
15.30 - 15.45	COFFEE BREAK

SESSION 6	FUTURE WORK OF THE EU WATER INITIATIVE EECCA WORKING GROUP AND OF THE EAP TASK FORCE
15.45 – 16.15	Progress of Work of the EAP Task Force Water Programme and presentation of proposed work in 2009-2011
16.15 – 16.45	Discussion
16.45 – 17.00	Any other business
17.00 - 17.30	CLOSING REMARKS BY THE CHAIR

ANNEX 2. LIST OF PARTICIPANTS

JOINT MEETING OF
THE EU WATER INITIATIVE'S EECCA WORKING GROUP
THE OECD EAP TASK FORCE'S GROUP OF SENIOR OFFICIALS FOR WATER SECTOR REFORM IN EECCA
12 – 13 MAY 2008

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ANNEX 3

EAP TASK FORCE WATER SECTOR REFORM PROGRAMME OF WORK FOR 2008-11
PRIORITISATION OF WATER SUPPLY AND SANITATION SECTOR REFORM PROJECTS

High – a project should be implemented as a matter of priority.

Medium – a project should be implemented if possible.

Low – a candidate to be dropped if funds for its implementation cannot be raised.

PROJECTS	SCORE	COMMENTS
Activity 1.1 Monitoring progress in implementing the water-related MDGs		
<ul style="list-style-type: none"> Project 1.1.1: Report on the state and financing of water supply and sanitation in EECCA 	2.25	<p>Moldova: Following the finalization of the development of a Financing Strategy for Moldova and for some other countries, it is necessary to compare all these strategies and identify the best development scenarios.</p> <p>Kazakhstan: The Association 'Kazakhstan Su Anarsy" started working with the World Bank on a database of Kazakh vodokanals (water utilities).</p>
<ul style="list-style-type: none"> Project 1.1.2: Report on water pricing and institutional reforms in EECCA 	2.125	<p>Moldova: Urgent analyses of the reforms implications are required, in order to avoid duplication of mistakes made by countries. It's required to develop recommendations for reforms based on such analyses.</p> <p>Kazakhstan: Tariffs – are the main income item in water utilities' budget. Therefore, the financial viability of an enterprise is dependant on tariffs.</p>

PROJECTS	SCORE	COMMENTS
		Тариф – это основная статья дохода Водоканалов. От того, все ли затраты будут включены в тариф, зависит финансовая состоятельность предприятия.
Activity 1.2 Managing the water sector more effectively and efficiently:		
<ul style="list-style-type: none"> Project 1.2.1: Guidelines for performance based contracts 	2.125	<p>Moldova: This chapter is more important within the context of project 1.2.3 below</p> <p>Kazakhstan: In Kazakhstan, the legislation in force makes it difficult for the private sector to participate in utilities' management.</p>
<ul style="list-style-type: none"> Project 1.2.2: Policy dialogue on opportunities and obstacles for private sector participation 	2.125	<p>Azerbaijan: The dialogue is necessary, however the sector is primarily managed by the Government.</p> <p>Moldova: For Moldova, it is less important, due to small WSS utilities. It will only be necessary if the areas of influence of water utilities increase.</p> <p>Kazakhstan: In Kazakhstan, the legislation in force makes it difficult for the private sector to participate in utilities' management</p> <p>Armenia: We are planning to transfer 3 CJSC under the management of private operators.</p>
<ul style="list-style-type: none"> Project 1.2.3: Development of financial planning capacity in municipalities and water utilities 	2.25	<p>Azerbaijan: An exchange of opinions is useful, but the question is rather particular with significant local specifics.</p> <p>Kazakhstan: Municipalities don't have water specialists. Such training is mutually useful.</p> <p>Moldova: It is important to develop several potential models for</p>

PROJECTS	SCORE	COMMENTS
		enterprises, providing for a possible optimal increase in water utilities' area of influence and to prepare a set of business plans
<ul style="list-style-type: none"> Project 1.2.4: Report on measures to cope with over-fragmentation in the water supply and sanitation sector 	2.125	<p>Azerbaijan: Not highly important in all EECCA countries, but deserves attention.</p> <p>Kazakhstan: This issue is especially important in regions- small towns, rural areas.</p>
Activity 1.3 National policy dialogue on more efficient financial management of the water sector:		Tajikistan: This activity is very important, especially when several state structures, including municipalities, are in charge of WSS.
<ul style="list-style-type: none"> Project 1.3.1: Supporting national policy dialogue on water supply and sanitation through the development of financing strategies to achieve the water-related MDGs 	2.875	<p>Moldova: The development of a strategy cannot be considered as completed without a pilot project aimed at its implementation. For Moldova, after such a strategy has been developed, it is important to get help with the implementation of recommendations developed within the strategy, bearing in mind the realities, what the budget can afford and donor assistance. It is important to train a group of local experts, able to help administrators, at least short-term (2-3 years), in implementing the strategy in an evolving situation.</p> <p>Kazakhstan: In Kazakhstan the sector programme "Drinking Water" (2002-2010) is in place. Big focus on rural water supply. I think that an independent assessment is highly required.</p>
<ul style="list-style-type: none"> Project 1.3.2: Improving FEASIBLE and extending financing strategy methodology beyond water supply and sanitation to issues of water resources management 	2.125	<p>Moldova: It's very important to have local experts, consultants capable to work with the model and make regular updates of the modelling results.</p> <p>Kazakhstan: Water utilities and the water sector should have been under the same state body already since 2008.</p>