OECD REPORT ON ENVIRONMENTAL GOVERNANCE AND GREEN GROWTH IN EECCA: DRAFT ANNOTATED OUTLINE, POSSIBLE MESSAGES, AND THE DEVELOPMENT PROCESS

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

14-15 October 2010 (Almaty, Kazakhstan)

Agenda item 9

ACTION REQUIRED: For discussion. Delegates are kindly requested to provide any written comments by 30th October 2010.

Please contact Angela Bularga at phone: +33 1 45 24 98 63 or e-mail: angela.bularga@oecd.org for any additional information.
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1. Objectives of assessment

1. The report “Policies for a Better Environment” prepared by the OECD/EAP Task Force in cooperation with other international organisations for the 2007 Belgrade “Environment for Europe” Ministerial Conference reviewed the success of governments’ action on environmental challenges in Eastern Europe, Caucasus, and Central Asia (EECCA). This assessment revealed many examples of achievements across policy areas and countries, despite generally uneven progress. A follow-up assessment report, possibly called “Environmental governance in EECCA: Trends and outlook from a green growth perspective”, will look at whether changes in the environmental sector in EECCA have continued, in particular, the extent to which governance systems have evolved so that environmental issues are addressed in a coherent way with economic and social policies.

2. Background

2. The OECD secretariat has been monitoring trends in the reform of environmental policies and institutions in EECCA since the beginning of their transition to a market economy in the early 1990s. After the 1993 Ministerial Conference in Lucerne, reports reflecting monitoring findings have supported decisions at every “Environment for Europe” ministerial conference. Such reports helped to focus domestic efforts and external support on priority issues, especially those that need to be solved from a cross-cutting perspective. The content of these reports has been closely related to the mission assigned to the OECD/EAP Task Force to assist countries to: (i) integrate environmental considerations into the process of economic and political reform; (ii) upgrade institutional and human capacities for environmental management; (iii) broaden political support for environmental improvement, and (iv) mobilise and make cost-effective use of financial resources.

3. Given the continuously dynamic and fragile economic, social and governance context in many EECCA countries, as well as the fluctuating political support for environmental action, such independent assessments can help support policy and institutional reform through cross-country comparison, benchmarking, and peer learning and support. Another factor that makes this work relevant is the widening political backing for a “greener” path of growth. The need to speed up transition towards green growth has become evident in many countries after the global economic and financial crises challenged the sustainability of growth aiming at short-term financial gains only.

4. At the same time, the idea of green growth is not new: the integration of environmental and economic objectives has been a focus of the “Environment for Europe” process since its establishment in 1991. A new phenomenon, however, is in the adherence of non-environmental communities to this idea and the recognition of real opportunities to make the environment a positive source of economic development – as opposed to the earlier belief that environment protection is largely a cost. In a longer-term perspective, promoting greener growth can help economic development to become more environmentally sustainable. Within the government, of particular relevance is the emerging attention to this issue of ministries of economy and finance, as well as of such traditionally powerful actors as energy, agriculture, or transport ministries.
3. Target audience

5. Parties directly involved in the “Environment for Europe” process are the primary audience for the proposed report, which aims to be equally useful for governmental and non-governmental stakeholders and address various views and needs. At the same time, to make a difference, major conclusions and recommendations of the intended 2011 assessment report will have to target high-level policy makers beyond the environmental community and be disseminated among such stakeholders as governments’ central offices, parliaments, presidential administrations, central planning ministries (i.e. ministries of finance and economy), and sectoral ministries. A well-designed communication strategy is necessary to this end.

4. Possible structure of the report

6. Similar to “Policies for a Better Environment”, the report may be structured in **two main parts**:

- **“Synthesis of trends and outlook”**, to present cross-country analysis identifying recent changes in environmental policy and governance and opportunities for improvement, particularly in the context of green growth. This part will reflect issues that countries identified as relevant for green growth during a thematic roundtable organised within the framework of the Annual Task Force Meeting in October 2009, as set in the document ENV/EPOC/EAP/M(2009)2;

- **“Country profiles”**, to provide a general picture of recent developments at the national level.

7. It is suggested that the synthesis part include the following **nine chapters**:

- **Chapter 1 - Major environmental and development challenges**: Over the last two decades, EECCA countries have been exposed to an extremely dynamic context, marked by intensive institution building, deep economic and social transformation, and rapid integration into international processes. In order to better understand this context and related opportunities for adopting a greener path of development, Chapter I will provide a brief overview of the major environmental and development challenges in EECCA countries, taking account of the diversity that exists among these countries and revealing the newest development opportunities that are offered by the European, Asian, and global processes;

- **Chapter 2 - Demand for a new model of development**: This chapter will scrutinise recent changes in the larger, government-wide development objectives, as well as in the private sector’s business strategies in EECCA countries in order to understand the degree of their alignment with the principle of green growth. Focus will be put on whether further “greening” of national development planning has happened in EECCA and what the remaining barriers are to integrating environmental objectives into economic, social, and sectoral policies. Depending on information availability, trade, innovation, territorial development, and employment policies may be discussed. Attention will also be paid to infrastructure improvement policies, especially in the light of low-carbon and resource efficient development. The report will aim to present evidence of changing private households’ behaviour, although such evidence is very scarce in EECCA. Furthermore, the environment-related elements of anti-crisis (or, where available, economic recovery) packages will be discussed.

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2 The OECD/EAP Task Force Secretariat will compile draft country profiles by the Annual meeting of the EAP Task Force in Almaty (14-15 October 2010) and will circulate them for comments from countries.

3 A brief overview of the environmental components of these packages was made in a background paper produced in support of discussions during the 2009 Annual meeting of the EAP Task Force. This overview was further enriched with new evidence and presented in a more recent paper (see ENV/EPOC/EAP(2010)3).
Against the background of an increasing “environmental maturity” of the national-level planning, the report will summarise progress updating environmental strategies (e.g. the adoption of new National Environmental Action Plans or issue-specific strategies) and will try to judge their consistency with the national development strategies (e.g. poverty reduction papers). The degree of fragmentation of environmental objectives and mechanisms adopted to limit it, such as “institutional development plans” used, for instance, in Moldova and Kazakhstan, will also be assessed.

Finally, the experience of preparing national strategies specifically dealing with transition to low-carbon, resource efficient economies will be summarised in this chapter;

- **Chapter 3 - Policy instruments for greening the economy:** This chapter will look at how individual instruments of environmental policy and other relevant policies and their mixes have evolved, and whether their design corresponds to the green growth challenge and international good practice. Previous OECD work in EECCA recommended further reform of policy instruments based on careful analysis of the incentive framework faced by various actors. In this context, the report will look at approaches that may help to achieve policy objectives more effectively. While addressing both direct and indirect regulation, including information-based instruments, the report will put a particular accent on assessing the success of environmental fiscal reforms and product policies, which are of utmost importance for greening the economy;

- **Chapter 4 - Sectoral perspectives:** This chapter will discuss the evolution of sectors that were identified by EECCA countries as priorities in terms of environmental mainstreaming, including energy, transport, agriculture, and forestry. Importantly, this discussion will touch upon the coherence between environment and sectoral policies, particularly by addressing the issue of price signals and environmentally-harmful subsidies;

- **Chapter 5 - Access to finance:** Drawing from a complementary OECD report, this chapter will discuss the trends in the mobilisation and management of environmental finance in EECCA. Traditionally, environmental expenditure in EECCA has been relatively low (though there are nuances, with important variations among countries and sectors), and both national and local-level environmental programmes face chronic underfunding. The report will try to reveal whether access to domestic, but also foreign (including donor) financing has improved or worsened and what factors determined the latest developments in this area. The availability and use of various financing mechanisms, including carbon finance mechanisms, will be reviewed. If possible, the effectiveness of donor support will be assessed;

- **Chapter 6 - Governance structure and partnerships:** This chapter will take stock of major national and local-level stakeholders involved in environmental management, their mandate and actual role and impact. There is a clear understanding that stakeholder roles, including those of donors and international cooperation in general, are further evolving in EECCA. Based on consultations with EAP Task Force members and their non-governmental partners, the report will suggest how the governance structure could be improved and how result-oriented partnerships could be extended in EECCA;

- **Chapter 7 - The “rule of law” challenge:** Poor environmental compliance is one of the major concerns for environmental authorities in transition and emerging economies. Given that green growth strategies in EECCA are likely to rely on “top-down” incentives set by the governments, the “rule of law” challenge will need to remain an important preoccupation if countries want to see progress towards green growth;
• **Chapter 8 - Knowledge base in support to green growth:** EECCA countries entered the transition with a high level of technical knowledge, but this human capital has been eroding. This chapter will discuss whether the existing research and development base, the progress on innovation and technology transfer and the human capital more generally are sufficient to ensure a smooth transition towards greener development;

• **Chapter 9 - Conclusions and recommendations:** The report will provide policy advice on how the environmental governance framework could be adjusted to become a more effective “agent of change” in the process of greening the economies in EECCA. The report will also discuss how international cooperation could catalyse and support this process by facilitating the diffusion of innovative policies, knowledge sharing and technology transfer, etc. Chapter 9 could give rise to a work programme after the Astana Ministerial Conference, for which some initial ideas are exposed in the paper ENV/EPOC/EAP/(2010)3.

8. The report will be as focused and empirical as possible, present examples of successful action and analyse the roots of failures where policy interventions did not achieve their objectives. Each chapter will indicate key bibliographical sources for further reading.

5. **Possible key messages: Elements of a strategy for promoting green growth in EECCA**

9. Based on the initial analysis, conducted by the OECD/EAP Task Force Secretariat, it is clear that the green growth agenda in EECCA is not yet as prominent as in most OECD countries. First of all, the costs of environmental policies continue to receive greater emphasis than the benefits. Secondly, the transition process, started in the 1990s, is still going on, and there are many unresolved economic and governance challenges.

10. As in all countries, the green growth agenda will have to be very strongly linked to top-priority immediate development objectives such as increased productivity and competitiveness, upgrading municipal services, maintaining or extending export potential, diversification of the economic structure, energy security, job creation, etc. Many countries may be interested in the positive impact of environmental fiscal reform and the removal environmentally harmful subsidies on the state of public finances.

11. Overall, the weakness of price signals and the deeply entrenched idea that the richness of EECCA countries in natural resources is *quasi* unlimited must be addressed, and the full value of natural capital recognised. The role of governments will remain crucial in these regards, and in removing barriers and managing the transition to green growth.

12. Besides improving the governance practices and the investment environment, some more tailored policy interventions to promote green growth may include:

   • **Collect and make public the evidence that would enable a shift towards green growth:** Environmental ministries, particularly in partnership with ministries of economy, can catalyse a policy shift by demonstrating the costs of policy inaction on key environmental challenges, as well as the savings and revenue generation potential of improved production and consumer policies and infrastructure modernisation. Besides the traditional valuation of costs and benefits of environmental policies and laws, this can include the valuation of ecosystem services under different management scenarios. Experience shows that economic evidence does have a role in attracting political and popular support to action: valuation studies carried out in Moldova in the mid 1990s propelled the improvement of water supply and sanitation to the very top of the government’s and donors’ agenda;

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4 These policy messages have been developed in support to the discussion by the EAP Task Force members and will be further elaborated (and, where needed, amended) based on the empirical analysis that will be conducted by the OECD Secretariat as part of report development. They will also be aligned with recommendations arising from green growth related work carried out by OECD and UNEP.
• Adjust price signals, with due consideration of social impacts: Price signals are evolving but still weak in EECCA and, consequently, greener growth requires some government action to redress this situation. Although the adjustment of price signals is a much needed step, it is extremely sensitive from the political and social points of view: a raise in tariffs has led in several instances to social unrest, the recent example of the Kyrgyz Republic being the most eloquent. Identifying and eliminating environmentally harmful subsidies and streamlining environmental taxes should become a key part of a green growth strategy. Such measures can help fiscal consolidation, provide incentives for energy efficiency and the development of cleaner technologies, and support energy security;

• Improve natural resources management in order to maintain the export potential: In many countries, a positive balance of trade is maintained due to the export of natural resources or derivative (but still low value added) products. Some of this trade may be affected by environmental requirements in importing countries. The wider use of labelling for forestry products is just one example. Furthermore, there are green growth-related branches, such as organic agriculture, where the export potential is not yet fully exploited;

• Facilitate the “greening” of public and private spending through better application of such tools as, for instance, Strategic Environmental Assessment, including regular assessment of medium-term expenditure frameworks and budget laws, or improvement of public procurement rules. Countries also need to find ways to tap into global climate-related funds. There are few examples of the latter, notably Ukraine’s energy efficiency fund that includes, among other sources, revenues from selling emission rights under the Clean Development Mechanism. The role of foreign direct investment also needs to be boosted by removing possible barriers to green FDI flows;

• Seize opportunities for building “smarter” infrastructure: The effectiveness and efficiency of environmental services, as well as the degree of climate change adaptation, are largely dependent upon the quality of the infrastructure. Once in place, the infrastructure will determine these for a long period that may span 25-30 years. Today’s poorly designed and maintained Soviet-era infrastructure is ill-suited to cope with, or protect people from, extremes like heat waves and floods. Many EECCA countries have included infrastructure projects in their anti-crisis/recovery programmes. At the same time, massive upfront investments are hardly affordable even in oil-rich EECCA countries and continued support from development banks and donors is needed. Under these circumstances, governments may want to further improve the enabling conditions (e.g. establishing sound sectoral policies and regulatory frameworks, improving tariff policy) and facilitate private sector participation that may bring both the complementary capital investments and management experience;

• Increase energy and resource efficiency, thereby enhancing productivity and competitiveness: While most EECCA countries are resource-abundant, a number of recent studies point to eventual scarcities because of wasteful extraction, transport and production methods. Enhanced energy and resource productivity is, therefore, a source of savings and revenue. Similarly to emerging economies such as China, EECCA countries may want to pick the “low-hanging fruit”, i.e. find those opportunities where increased efficiency can save money. Careful identification of sectors and actions with such a potential is necessary, and there is sufficient evidence and good international practice that may inform this process;

• Stimulate the entry of economic agents in sectors with a high potential for green growth: Besides improving the business climate in general, this may require the application of specific regulatory tools, such as the enactment of energy efficiency laws and building standards. A new approach to regulating small and medium-sized enterprises may be needed to unleash this sector’s potential. Extending the use of information-based instruments may help to influence consumer preferences, though they will be in great part affected by affordability considerations. It has to be mentioned that many EECCA economies are fuelled, among others, by workers’ remittances. While currently these remittances stimulate imports and contribute to the distortion of trade balances, they could become a resource for SME creation, as demonstrated in Southeast Asia.
13. Adequate access to finance and scaled up investment are important prerequisites for the greening of business and infrastructure in this region. In parallel, objectives linked to better governance will need to be pursued. For instance, governments will need to curb illicit economic gains and financial flows linked to environmentally harmful behaviour and natural resources use. This will also help replenish public budgets, thereby providing a base for an increased access to finance for green growth projects.

6. Methodology of development and timeline

14. The report will largely rely on information available from the countries. The information will be drawn primarily from national statistical yearbooks, UNSD/UNEP environmental statistics, data provided by EECCA countries through different international processes (such as multilateral environmental agreements), and UNECE Environmental Performance Reviews.

15. In addition, dedicated questionnaires will be developed to collect additional information from different stakeholders and fill in possible information gaps. Such questionnaires, partly available from previous work done by the OECD secretariat, may address:

- The overall design and performance of environmental management systems (to be based on the Belgrade Assessment Questionnaire);
- Incentives faced by staff in the ministries of environment, as well as their technical and management capacity (to be based on questionnaires developed within pilot projects in Armenia, Georgia, and Moldova);
- Opinions on environmental management expressed by staff in sectoral ministries; and
- Industry’s views on environmental management and performance drivers, particularly those expressed by small and medium-sized enterprises (to be based on the questionnaire developed for a pilot project in Georgia).

16. Engaging EECCA governments and other national stakeholders in the design, preparation and review of the report is important if the report is to be accurate and to have impact. Furthermore, the report will be prepared in close co-operation with other international organisations and stakeholders. Specific ways of contributing may include providing input to the outline, helping to design targeted questionnaires, providing early drafts of technical reports, developing case studies, and peer reviewing the report. The report will draw as much as possible on relevant material made available by interested parties.

17. The development process will be organised in several phases, including:

   (i) Scoping (January – October 2010);
   (ii) Information collection (July – December 2010);
   (iii) Data verification and analysis (August – December 2010);
   (iv) Report writing and review (August 2010 – March 2011); and
   (v) Production, launch, and dissemination (May – December 2011).

18. Within this process, expert input and process management will be provided by the OECD/EAP Task Force Secretariat. EECCA RECs and the European Environmental Eco-Forum may play an important role in data collection and stakeholder consultations at the national level, as well as during the dissemination phase.
In order to enable an early and careful review of the draft report, the practice of discussing individual chapters one-by-one, as done for the OECD’s environmental outlooks, will be adopted. The first chapter, on main environmental and development challenges, will be issued shortly after the Almaty meeting. Electronic discussions will benefit from the new OECD portal for on-line consultations “Clear Space”, where a dedicated page was set up by the OECD/EAP Task Force Secretariat for this purpose.

7. Complementary communication products

The hard copy of the report, to be printed in English and Russian, will be complemented by the following communication products:

- A policy brief for non-environmental high-level stakeholders;
- A press release and supporting materials for the launch event(s);
- A CD-ROM containing the e-book in both English and Russian.

8. Required budget

The budget required for this project is in the order of 350-400K Euros (2010-2011). This would cover OECD costs, commissioning of external experts, missions, meeting organisation and report production and dissemination. The implementation of the communication strategy may need additional funding.