

GREENING THE ECONOMY IN EASTERN EUROPE, THE CAUCASUS AND CENTRAL ASIA

June 2016

GREENING THE ECONOMY IN EASTERN EUROPE, THE CAUCASUS AND CENTRAL ASIA: FROM EAP TASK FORCE TO GREEN ACTION TASK FORCE

	Page
The Organisation for Economic Co-operation and Development (OECD)	4
Foreword by the EAP Task Force Co-Chairs	5
1 The EECCA region in transition	8
2 From EAP Task Force to GREEN Action: Forum for Actions beyond Batumi	12
3 Greening finance	17
4 Greening industry	21
5 Managing water resources for green growth	25
6 Measuring green growth	30
Selected Publications	34
Secretariat	36

The Organisation for Economic Co-operation and Development (OECD)

The OECD, which traces its roots to the Marshall Plan, groups 34 member countries committed to democratic government and the market economy. The OECD provides a forum where governments can compare and exchange policy experiences, identify good practices and promote decisions and recommendations. Dialogue, consensus, and peer review and pressure are at the very heart of OECD.

The OECD accession discussions are currently under way with Colombia, Costa Rica, Latvia and Lithuania. In addition, efforts are made to enhance engagement with key partners such as Brazil, China, India, Indonesia and South Africa in environment programmes.

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The OECD is one of the world’s largest and most reliable sources of comparable statistical, economic and social data. It monitors trends, collects data, analyses and forecasts economic development, and investigates evolving patterns in a broad range of public policy areas such as agriculture, development co-operation, education, employment, taxation and trade, science, technology, industry and innovation in addition to environment. The OECD family of organisations also includes the International Energy Agency (IEA), the Nuclear Energy Agency (NEA), and the International Transport Forum (ITF).

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Foreword by the EAP Task Force Co-Chairs

For more than 20 years, the OECD has been supporting the countries of Eastern Europe, the Caucasus and Central Asia (EECCA) to green their economies through the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe, known as the “EAP Task Force”. In line with its mission to “guide improvement of environmental policies by promoting the integration of environmental considerations into the processes of economic, social and political reform”, the EAP Task Force has helped countries achieve tangible results on the ground.

The 8th “Environment for Europe” Ministerial Conference in Batumi, Georgia (8-10 June 2016) provides an occasion to consider the future of the EAP Task Force. Given the increasing emphasis on green growth in the work of the OECD-EAP Task Force in recent years and ‘greening the economy’ as the theme of the Batumi Ministerial Conference, the members of the EAP Task Force have decided to change its name to the “GREEN” Action Task Force. “GREEN” stands for “**G**reen **E**conomy and **EN**vironment”. The OECD will continue to host the Secretariat of the task force for the implementation of the GREEN Action programme, in cooperation with other interested partners.

From



To



While the name and activities evolve, the main thrust of our work will remain the same: to cooperate with the governments and civil societies in EECCA countries to assist them in implementing policies that are economically efficient, environmentally sustainable and socially acceptable. To achieve this goal, we work with OECD and EECCA countries, international organisations and financing institutions to carry out policy analysis, initiate capacity building measures and implement demonstration projects in individual EECCA countries. The results of these activities are shared with other countries, in the form of policy guidance and practical tools that they can apply in



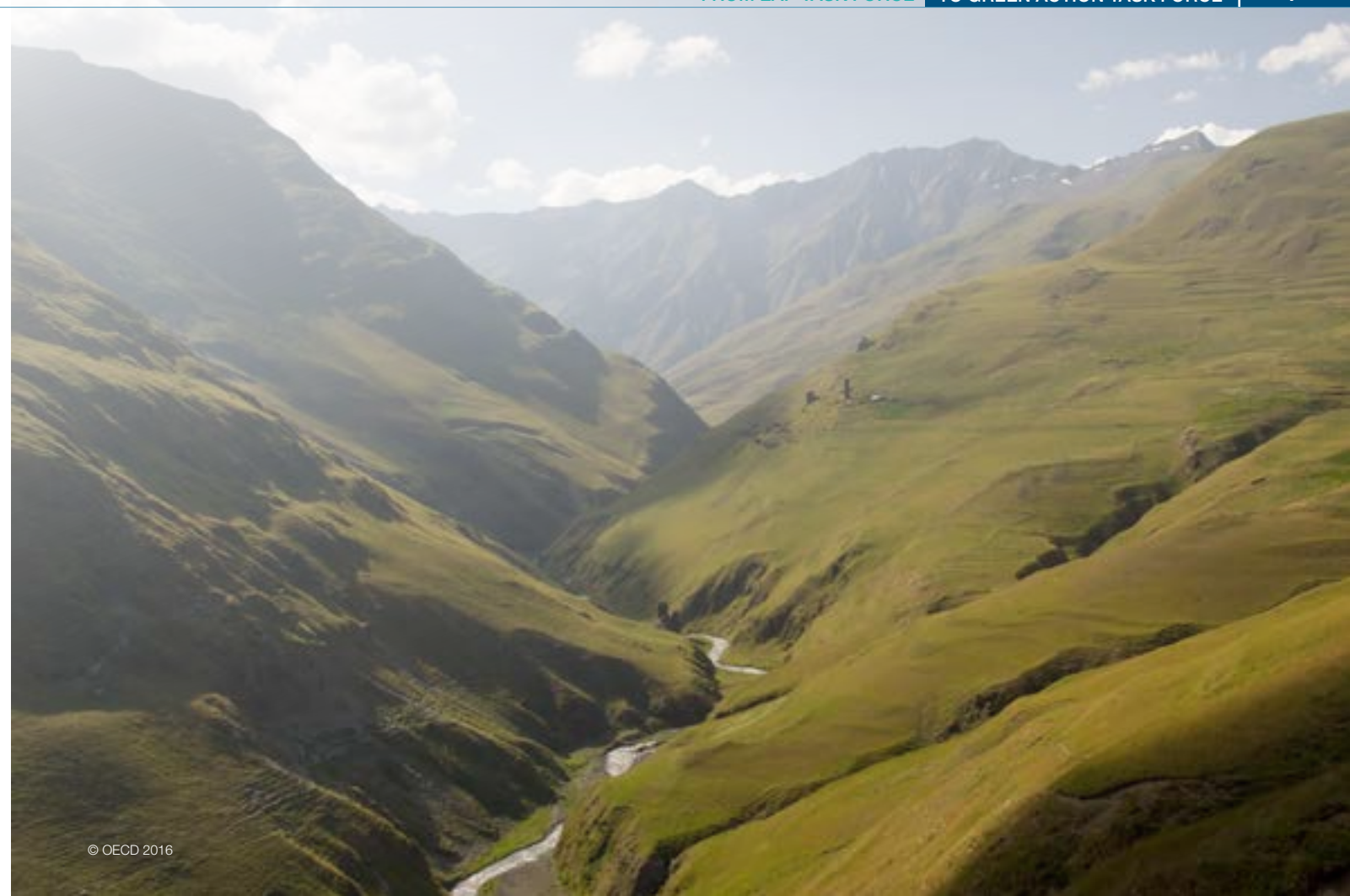
Dr. Teimuraz Murgulia
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their own countries. Going forward, fostering inter-ministerial policy dialogues will also be a focus of the GREEN Action Task Force, in order to facilitate cross-sectoral coordination needed for greening the economy.

Given the challenges that these countries are expected to face in the coming years – climate change, resource efficiency, managing water resources, protecting citizens' health from air pollution and other environmental threats – we are convinced that the work of the GREEN Action Task Force is needed more than ever.



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1 The EECCA region in transition

The 12 countries (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan) that emerged from the fall of the Soviet Union in 1991 have endured a turbulent period of change over the last 25 years. Most newly formed states had to adopt constitutions and establish systems of governance. Conflicts within, between and on the borders of some EECCA countries have constrained economic and social development. The transition to market-based, democratic societies has been uneven and suffered reversals. Much more needs to be done for the policies and practices in EECCA countries should they wish to converge with those of the European Union (EU) and OECD countries. This policy and political context creates opportunities and challenges when pursuing environmental and other forms of cooperation within the EECCA region.

The structures of EECCA countries' economies, and the related environmental pressures, have undergone important changes since the dissolution of the Soviet Union. The greater exposure to market forces led to a significant reduction in the energy- and pollution-intensive manufacturing sectors (Figure 1). While this resulted in reductions in emissions of some pollutants, a significant legacy nevertheless persists: for example, some of the

EECCA countries remain among the most carbon-intensive in the world with ageing energy infrastructure. The growth of the service sector - now the largest sector in most countries in terms of share of GDP - has also helped to reduce the overall intensity of environmental pressures. In most countries, although the agricultural sector has declined in terms of share of GDP, it still remains important in some countries and exerts pressure on land and water resources.

Despite the changing economic structures, energy resources and minerals extraction - sectors that generate a range of important environmental impacts - have continued to dominate the economies of the region. The lion's share of the region's economic output is concentrated in six resource-rich countries: Azerbaijan, Kazakhstan, Russian Federation, Turkmenistan, Ukraine and Uzbekistan. The other EECCA countries (Armenia, Belarus, Georgia, Kyrgyz Republic, Moldova and Tajikistan) do not enjoy the same natural endowments. Some of the EECCA countries are highly dependent on agriculture, with the sector's value added as share of GDP (Tajikistan 27%, Armenia 21%, Uzbekistan 19% and Kyrgyzstan 17% in 2013-2014) higher than the average for the EECCA region (13%) and most OECD countries (less than 5%). Remittances from nationals working abroad are an important source of income in Armenia and Moldova; some estimates suggest they account for about one-third of national income in Moldova.

From the perspectives of green growth and sustainable development, one of the main challenges is to transform natural wealth into other forms of capital, and invest in education and infrastructure. The commodity price boom of the 2000s generated large revenues that helped to reduce poverty, re-establish health and social services, and support public investment programmes. However, the collapse of commodity prices in recent years, following the global financial crisis which hit EECCA countries hard, has reversed some of these achievements. The short-term economic outlook for many EECCA countries is challenging. These developments underline the need for the countries of the region to boost the productivity and competitiveness of their economies while supporting green growth.

The EECCA countries that emerged after the dissolution of the Soviet Union shared economic, political and administrative traditions, as well as a common language. But even in 1991, there were major geographical and economic differences, and this diversity has increased over time. There are wide variations in land area, population, the degree of urbanisation, the size and structure of the economy, and income per capita (see map). These factors generate a range of different environmental pressures and pose different challenges for green growth.

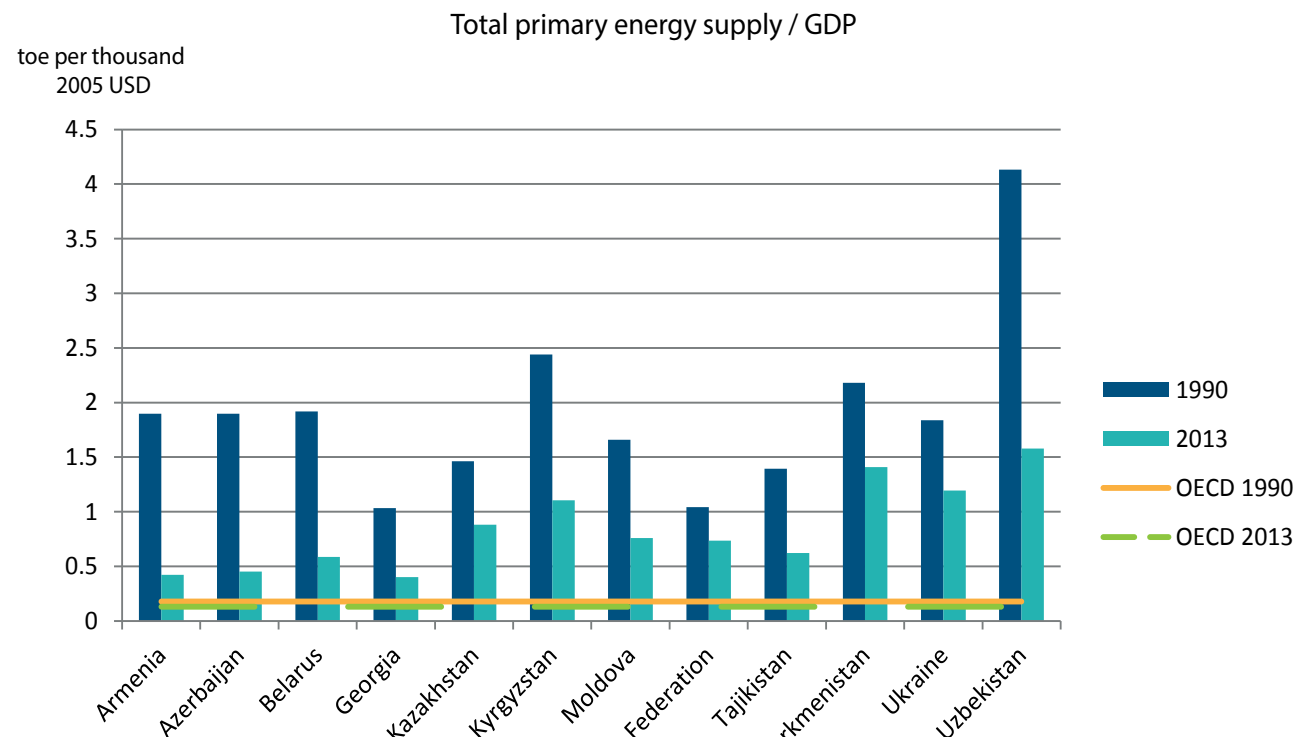
The diverse per capita income levels among EECCA countries affect how they interact with the international community, particularly in terms of their potential access to finance and technical assistance. In recent years, regional economic cooperation has increased and, in some cases, reinforced the divergence among EECCA countries. In 2009, six EECCA countries entered into a Partnership Agreement with the EU intended to "accelerate political association and further economic integration": Belarus, Armenia, Azerbaijan, Georgia, Moldova and Ukraine. In 2014, three of these – Georgia, Moldova and Ukraine – entered into an Association Agreement with the EU to promote further convergence in policies and legislation. At the same time, Belarus, Kazakhstan and the Russian Federation signed a treaty to establish a Eurasian Economic Union (EAEU). In 2015, Armenia and the Kyrgyz Republic acceded to this treaty.

Did you know?

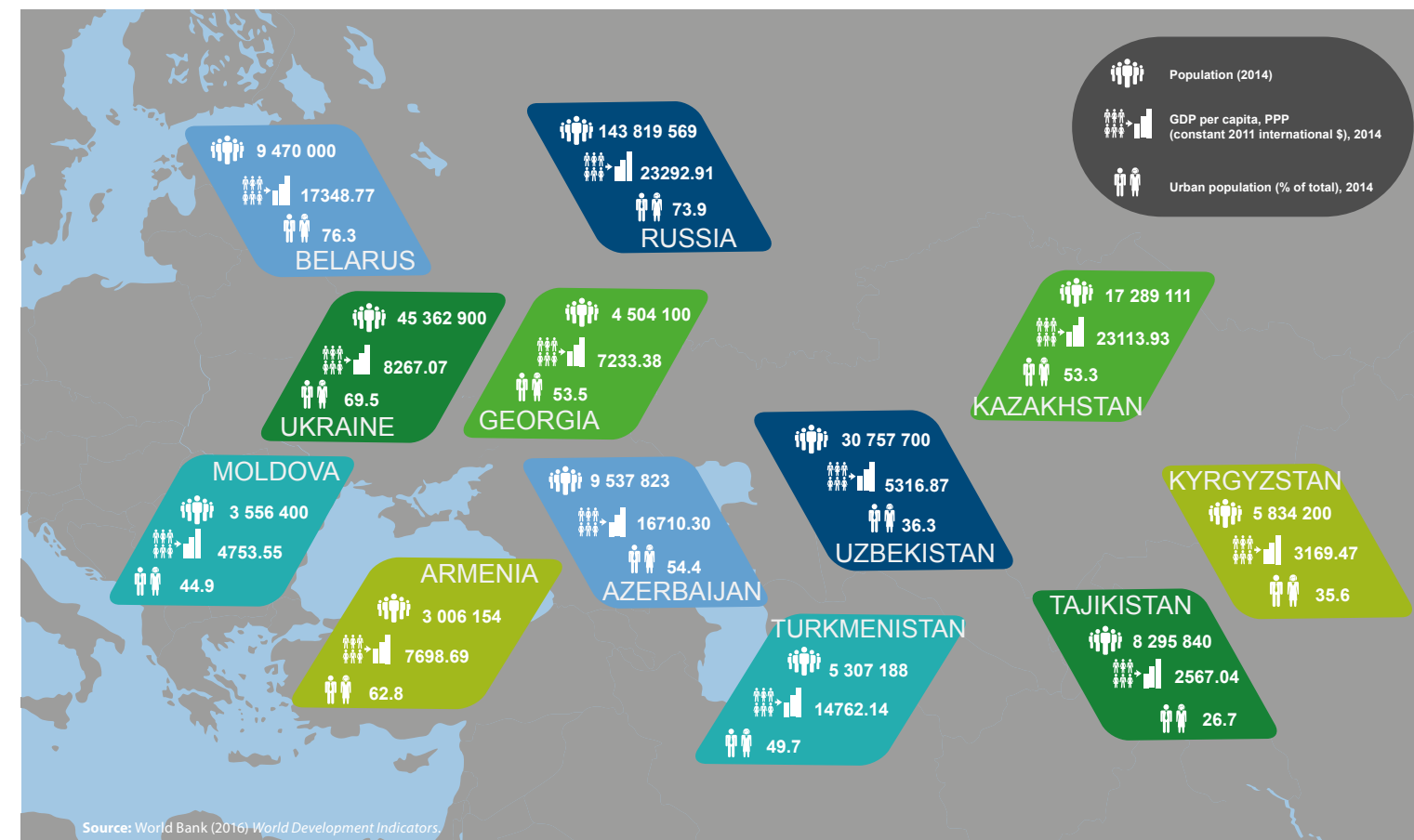
...that about 85% of the economic output of the EECCA region is concentrated in the six resource-rich countries (Azerbaijan, Kazakhstan, Russian Federation, Turkmenistan, Ukraine and Uzbekistan), and 85% of the region's exports are linked to energy and metals.



Figure 1. Energy intensity in EECCA countries (1990-2013)



Source: IEA (2016), "World Indicators", IEA World Energy Statistics and Balances (database).

DOI: <http://dx.doi.org/10.1787/data-00514-en>

2 From EAP Task Force to GREEN Action: Forum for Actions beyond Batumi

History

The EAP Task Force – the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe – was established in 1993 following the Environment for Europe Ministerial meeting in Lucerne, Switzerland. Its main task was to assist the countries of the region to address the heavy environmental burden they inherited from the Soviet era by providing a strategic framework. The environmental challenges in these countries were similar and had their origins in dysfunctional economic and environmental policies. The Environmental Action Programme recommended ways to integrate environmental policies into the economic and democratic reforms that were underway, to prioritise environmental policies on the most pressing problems, to resolve these problems using the most cost-effective policy instruments, and to help build the necessary capacities to achieve these goals.

While these broad objectives have continued to guide the work of the EAP Task Force, the geographical and thematic focus has evolved considerably over the last 20 years.

By the late 1990s, some Central European countries were joining the EU and the OECD. Indeed, their participation in the Task Force was considered to have been a good preparation for them to take on the environmental obligations associated with membership of these institutions. In light of these developments, from 1998, the 12 EECCA countries became the main geographic focus of the Task Force's work.

Main areas of work: spotlight on the economy-environment interface

Since its establishment, the EAP Task Force has supported the core policy work of Environment Ministries. Its work has focused on issues with a high potential to simultaneously contribute to environmental improvements, economic development, and the rule of law. These include work on reforming regulatory and economic instruments used in environmental policies, strengthening environmental enforcement and compliance promotion. Mobilising domestic finance and leveraging international sources for urgent environmental investments

have also been key elements of the Task Force's work throughout its history. Water became a priority when the main geographical focus shifted from Central and Eastern Europe to EECCA. In recent years, green growth has increasingly provided the organising framework for the Task Force's work (Box 1). Emphasis is placed on reforming economic instruments for managing environmentally harmful products, greening small and medium-sized enterprises, reforming environmentally harmful subsidies, and developing a framework for measuring progress towards green growth.

The thematic focus of the 'Environment for Europe' Ministerial Conference in Batumi (8-10 June 2016) on green economy provides an opportunity to highlight the work of the OECD-EAP Task Force on green growth, in particular its economics and financing orientation. The Batumi Ministerial Conference also provides an opportunity to re-brand the EAP Task Force as GREEN (Green Economy and ENvironment) Action Task Force to reflect its work supporting countries in the region to green their economy.

The GREEN Action Task Force is to take account of recent developments, including: the increasing diversification within the region; the adoption of the Paris Agreement on climate change and the Sustainable Development Goals (SDGs); and the priorities identified at the Batumi Conference. Some of the main areas of work include:

- **Accelerating green policy reforms.** This includes devising regulatory and economic instruments and strengthening the rule of law and compliance with environmental requirements (e.g. air quality and waste management). The EU *acquis communautaire* and OECD standards will serve as references. Activities will focus on greening industry (e.g. small and medium-sized enterprises, state-owned enterprises, extractive sectors), and supporting the development of policy-relevant indicators, including for the SDGs.
- **Leveraging and diversifying financing for infrastructure development,** especially to address climate change mitigation and adaptation. Working with international finance institutions and local banks to enable private-sector green investments could enhance the countries' readiness to access finance at various levels (e.g. national and sub-national governments, financiers and local implementing entities).
- **Guiding the reform of water policies for inclusive green growth.** Where appropriate, this could involve supporting convergence with the principles of the EU Water Framework Directive and other related EU directives as well as OECD recommendations on water. The activities could help to mobilise financial support to achieve realistic policy objectives and establish more robust institutional frameworks for water management. Special emphasis could be placed on managing the water-energy-food-ecosystems nexus and trans-boundary water co-operation.

Box 1 - Green growth at the OECD and the EECCA region

The OECD Green Growth Strategy (2011) provides a practical framework for governments in developed and developing countries to seize opportunities that arise when the economy and the environment work together. The key message of the Green Growth Strategy is that the environment and the economy can no longer be considered in isolation, but that environmental considerations need to be an inherent part of economic policymaking and development planning. The OECD Green Growth Strategy package also include guidance on policy tools for delivering green growth, and a framework for measuring progress that towards green growth (see Section 6).

The OECD has been supporting the EECCA countries to promote green growth through the EAP Task Force. There has been some progress in greening the economic development in the region, for example:

- Increasing alternative energy production: Georgia, the Russian Federation, Tajikistan and the Kyrgyz Republic.
- Photovoltaic installations used to improve access to energy in remote areas: Uzbekistan.
- Increasing share of organic farming in agriculture: Armenia, Moldova and Ukraine.
- Improving energy efficiency: Belarus, the Russian Federation and Ukraine.
- Sovereign wealth fund used to finance green projects: Azerbaijan.

However, several factors hinder further advances in most EECCA countries: low priority assigned to environmental issues; limited inter-ministerial cooperation and public participation; command-and-control oriented environmental laws and policy instruments; weak enforcement of environmental requirements; continued under-pricing of resources like energy and water; limited access to finance for investment. At the same time, the basic prerequisites for implementing any green growth strategy include establishing a basic environmental management capacity as well as effective cooperation between environmental and finance/economy ministries.

The structure and working methods

The EAP Task Force has provided a forum for the countries of the region to meet with OECD countries as well as international organisations and financial institutions to oversee a programme of work to better integrate economic and environmental policies in the beneficiary countries. The partnership underlying the Task Force is embodied in two co-Chairs, one from an EECCA country, and the other from an OECD country (Georgia and Germany as of June 2016). Civil society groups, notably NGOs and Regional Environment Centres, also participate actively.

The EAP Task Force has provided fora for sharing good practices and developing policy recommendations, based on policy analysis, capacity building measures and in-country demonstration projects. Often, representatives from ministries of environment as well as other relevant ministries such as finance/economy participate in its activities and meetings in order to build consensus.

Over the past years, the EAP Task Force Secretariat at the OECD has established close working relations with other international bodies working in the region. Since 2002, the work on water has been carried out within the framework of the EU Water Initiative and in strategic partnership with the UNECE. In 2012,

the European Commission asked the OECD to lead a consortium of international organisations, including UNEP, UNIDO and UNECE to implement a programme to promote green growth in six Eastern Partnership (EaP) countries – EaP GREEN (see Box 2). This was the first time that a coordinated programme focused on green economy involving the key international organisations active in the region is implemented.

What has worked well under the EAP Task Force will be sustained and enhanced to ensure impact and continued relevance as the GREEN Action programme. Participating countries consider that a mix of country-level projects and regional sharing of experience to be effective. The GREEN Action programme will also facilitate inter-ministerial platforms for action on greening economy at the national level to build local analytical capacity for implementing policy reforms and investment planning.

The GREEN Action programme will continue to focus on reform priorities of the EECCA countries as well as synergies among international institutions and donors to compare and align approaches and methodologies.



Did you know?

...that in the period 2013-14, EECCA received about 7% of total global climate-related development finance, a bit more than South America..

Box 2 - EaP GREEN

A major impetus for work in support of green growth implementation under the EAP Task Force has come from the EaP GREEN project that the OECD is implementing together with UNEP, UNIDO and UNECE, with funding provided primarily by the European Union. This project supports the six EU Eastern Partnership (EaP) countries: Belarus, Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The EaP GREEN aims to:

- Mainstream sustainable consumption and production (SCP) into national development plans, legislation and regulatory framework with a view of providing a sound legal basis for future policy development, in line with the regional and international agreements and processes and consistent with existing EU acquis in the relevant policy areas;
- Promote the use of the Strategic Environmental Assessment (SEA) and Environmental Impact Assessment (EIA) as essential planning tools for an environmentally sustainable economic development; and
- Achieve a shift to green economy through the adoption of sustainable consumption and production practices in selected economic sectors (manufacturing, agriculture, food production and processing, construction).

The EaP GREEN supports partner countries' commitment to move towards a green economy as stated in the Joint Declaration of the Warsaw Eastern Partnership Summit and in the Declaration of the Seventh "Environment for Europe" Ministerial Conference held in Astana (September 2011). Its objectives are consistent with the vision agreed in the outcome document of the Rio+20 Summit.

Role of the OECD

Since the EAP Task Force's establishment in 1993, the OECD has served as its Secretariat. This has enabled the Secretariat to draw on the policy analysis and recommendations prepared not only within the OECD Environment Directorate but also in other OECD directorates working in related policy areas such as economics, finance, governance, social affairs, science and technology and industry and agriculture. The GREEN Action Task Force will continue to be served by the same Secretariat at the OECD, with close cooperation with and participation of interested partner organisations.

In recent years, the annual budget of the EAP Task Force has been about 2 million EUR, and with financial support by Austria, Czech Republic, European Union, Finland, Germany, Kazakhstan, Netherlands, Norway, Sweden and Switzerland. Continued support is expected for the continuation work as the GREEN Action Task Force

Value-added of the EAP Task Force and the GREEN Action Programme

- Carries out in-country projects to demonstrate how policies and tools can implement green growth in practice.
- Helps build consensus between environmental and economic/sectoral policy-makers within and among EECOA countries on key policy principles and good practices.
- Facilitates dialogue and cooperation between EECOA and OECD countries, and with international partners and donors.

3 Greening finance

Challenges

All EECOA countries face challenges in mobilising finance to provide environmentally-related services (e.g. safe and affordable water, clean and reliable energy, sanitary waste disposal, clean transport) and to enhance the efficient use of energy and other natural resources. Addressing these challenges is particularly difficult in the poorer EECOA countries. The public sector alone cannot meet these challenges.

Sustainable financing of environmental services depends on setting tariffs at a level that covers the costs of operating and maintaining the related infrastructure. Although there has been good progress in some countries, this condition is generally not met in the region as a whole. This is often due to concerns about the affordability of tariffs, a problem that would be better dealt with by providing direct social support to poor households rather than keeping tariffs below cost-recovery levels. The result is a lack of investment in maintenance and deteriorating infrastructure. Low tariffs also limit opportunities to leverage concessional finance from donors and international finance institutions.

According to the Polluter-Pays Principle, private companies should finance the investments needed to comply with environmental requirements. When appropriately established and enforced, such requirements stimulate the demand for green investments (see Greening Industry below). Finance for such investments should come either from within the company (from retained earnings) or via financial and capital markets.

While capital and financial markets have expanded in many EECOA countries, they are still weak and dominated by commercial banks which often lack the capacity to design appropriate instruments and mobilise long-term finance. Borrowers confront risk-averse lenders, high interest rates and low pay-back periods, conditions that are not conducive to green lending. In addition, critical actors on the supply side, such as leasing firms, equity and investment funds that can help leverage debt from banks are only slowly emerging. In such a situation, International Financial Institutions (IFIs) often remain the most important source of long-term wholesale funding in the region.

OECD Support

The EAP Task Force work has assisted in mobilising domestic finance, ultimately the most important source of finance. The scope of this work has been extended to examine how policy barriers to green investment by the private sector could be removed. More attention is also being given to support EECOA countries in accessing international finance, including

climate finance. Areas of activities under the EAP Task Force to be continued or further developed under the GREEN Action programme include:

- **Reforming energy subsidies.** Reforming energy subsidies is one of the most cost-effective ways to promote green growth. These subsidies: contribute to locking countries into carbon-intensive development; are a significant drain on public resources; and benefit the rich rather than the poor. The Task Force is working on shedding light on this issue in the EECCA countries though data and methodological issues make progress challenging. Preliminary results suggest that, in absolute terms, the level of fossil fuel subsidies is high in Azerbaijan, Belarus and Ukraine, but lower in Armenia, Georgia and Moldova.
- **Facilitating access to private finance for green investments.** In order to promote more sustainable and environmental lending, a number of international finance institutions and donors have established environmental credit lines in commercial banks in the EECCA countries. A project is underway to assess this experience. This work aims to better understand the bottlenecks to environmental lending and what governments can do to create more demand for green investments in EECCA.

- **Better accessing international climate finance.** Opportunities for the EECCA countries to access scaled-up international climate finance will be assessed. There are still significant needs for investments to reduce greenhouse gas emissions due to the high carbon and energy intensity of the EECCA economies, as well as to enhance resilience to the changing climate. Preliminary analysis suggests that enhancing institutional and human capacities of the EECCA countries will help them better access and use climate finance from various sources to accelerate their priority climate actions.
- **Better financial planning in the public sector.** A project will be implemented to help experts and policy makers in selected EECCA countries to prepare robust and realistic green public investment programmes that can contribute to achieving priority environmental and climate-related objectives. Weaknesses in investment planning appear to be one of the factors that have limited EECCA countries' access to adequate budget support and international climate finance sources.

- **Turning Intended Nationally Determined Contributions (INDCs) into green investment strategies.** Most of the EECCA countries submitted their INDCs, but many of them require further elaboration to be an effective tool for the implementation of the proposed actions on the ground. This area of work would aim to help the countries turn their INDCs into a basis for long-term green investment plans and policies to achieve their proposed climate targets, and broader development agendas, where possible.

Did you know?

...that international finance institutions have established environmental credit lines in about 70 banks in the EECCA region, with a value of approximately EUR 1.3 billion? Negotiations for additional environmental credit lines amounting to EUR 300 million are underway. The EBRD is the largest source of long-term financing for environmental investments in the region.

Latest publications

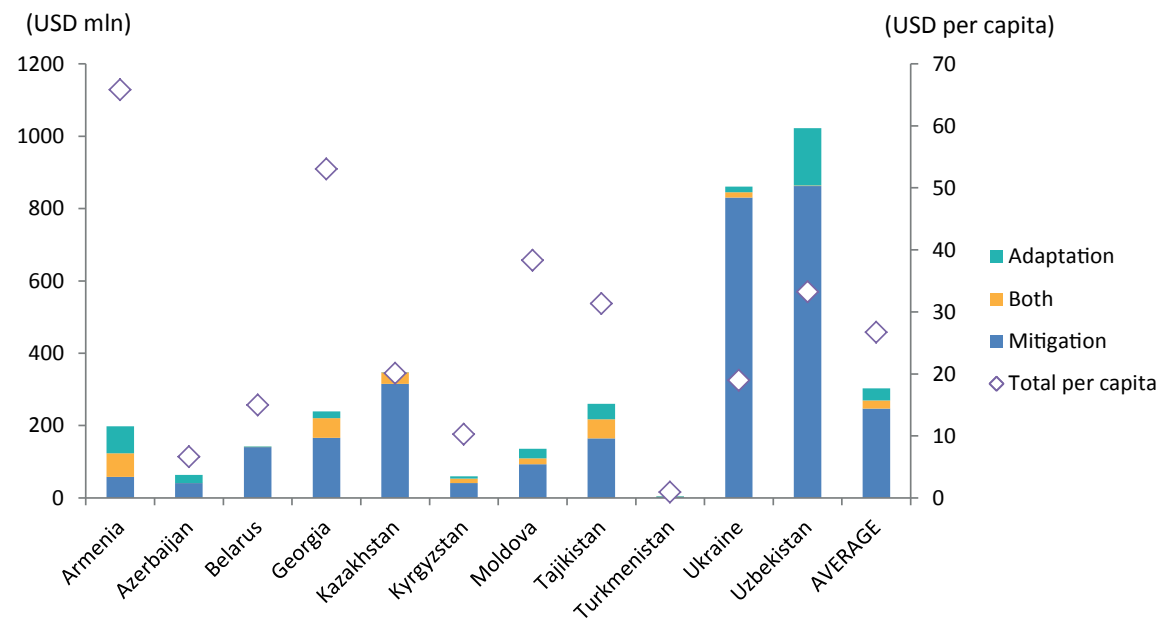


- OECD (2016), *Environmental Lending in EU Eastern Partnership Countries*, Green Finance and Investment, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/9789264252189-en>



- OECD Policy Perspectives (2016), *The evolving landscape of climate finance for EECCA countries*.
https://issuu.com/oecd.publishing/docs/policy_perspective_climate_finance_1

Figure 2. Annual climate-related development finance flows committed for EECCA countries* (US million 2013 price)



Source: OECD (2016), Climate-related development finance, February 2016 version.

Note: *The financial flows are delivered through bilateral and multilateral channels and calculated as a two-year average between 2013 and 2014.

4 Greening industry

Challenges

After 1991, most EECCA countries privatised the industrial sector which, until then, had been state-owned. Today, the private sector accounts for 60-70% of GDP in many EECCA countries. Greater exposure to market forces changed the composition of economic sectors and generally reduced environmental pressures at the macro level. It also led to some industrial sectors concentrating in a few firms. However, today over 90% of registered companies are small- or medium-sized enterprises (SMEs) in most countries of the region.

The environmental authorities in the EECCA countries were confronted by the need to overhaul Soviet environmental laws and policies which were unrealistic, ineffective and not adapted to managing the environmental risks in economies increasingly dominated by privately-owned enterprises. While environmental authorities in EECCA countries have made

important strides, much remains to be done. The design of many policy instruments could be improved to make them more economically efficient and environmentally effective. Policies also could be better targeted in line with the risks posed by different types of enterprises. Ensuring compliance with environmental requirements remains a challenge.

OECD Support

The EAP Task Force has implemented many country-specific and regional activities to support the establishment of more effective environmental management of the industrial sector in EECCA. Activities carried out under the EAP Task Force and to be further developed under the GREEN Action Task Force include:

- **Reforming environmental policy instruments.** Over more than 10 years, substantial efforts have been made to support EECCA countries to establish an effective environmental regulatory framework, in particular to establish environmental permitting systems. More recently, attention has focused on supporting the wider use of market-based approaches: they are often more efficient than other instruments but are not used to the extent that they could be (see Figure 3). Within the framework of the EaP GREEN project, guidance has been prepared on product-related taxes and extended producer responsibility schemes. Pilot projects were implemented in Moldova and Ukraine.

- **Strengthening environmental enforcement and compliance.** The EAP Task Force has worked extensively to support environmental inspectorates in EECCA countries to improve their performance. Several guidance documents were prepared, training provided and country-specific projects implemented. Particular attention was paid to the economic aspects of enforcement and compliance: how to use scarce inspectorate resources most efficiently and effectively; and how to set penalties at a level that will best promote compliance with environmental requirements. Further work under the GREEN Action Task Force will focus on promoting “smart” environmental regulations that account for size, age and other characteristics of facilities.

- **Greening industries.** SMEs pose particular challenges for environmental authorities. On the one hand, they are diverse, numerous and have limited capacity and means to comply with environmental requirements. On the other hand, they have a significant cumulative environmental impact: it is estimated that SMEs account for 60-70 per cent of industrial pollution in the EU. A survey of SMEs was conducted in 4 EECCA countries to gain insights into what was driving their environmental performance (see Figure 4). This has supported the development of a Policy Toolkit for the Greening of SMEs. The toolkit examines how regulatory requirements can be adapted to the situation of SMEs, how information to SMEs could be effectively targeted, and how access to finance could be improved. Further work could

also address other types of industries and sectors such as mining.

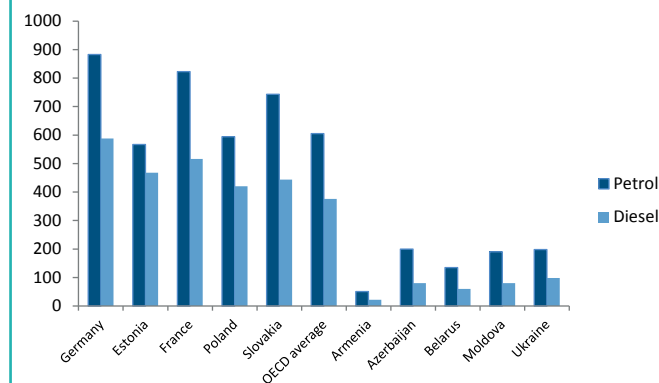
- **Supporting the development of Extended Producer Responsibility (EPR) Systems.** EPR systems motivate the producers to recover certain waste streams and the consumers to return end-of-life products through these systems. Moreover, EPR systems aim to incentivise waste-reducing product innovation and create jobs. Earlier analysis of product-related policy instruments showed that the countries in the EECCA region are increasingly interested in developing EPR systems. New work could assist governments in the region to accelerate and widen the introduction of EPRs through regulatory and economic analysis that can help to specify the scope of EPR systems in terms of the group of products to be covered.

Did you know?

...that in many companies, the expected savings from implementing green measures is ten times the initial outlay, and the pay-back period is relatively short.

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Figure 3. Excise taxes on motor fuels in selected OECD and EaP countries, EUR per tonne

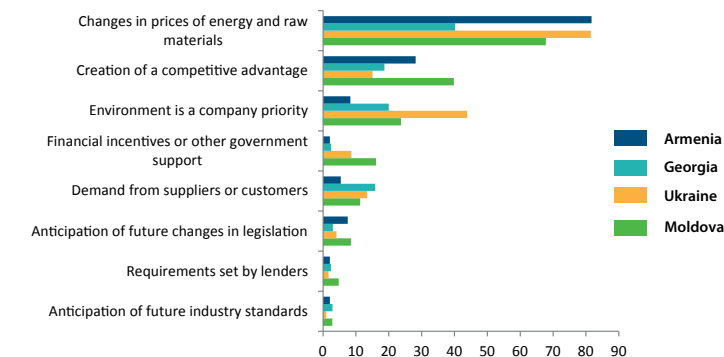


Source: EC (2013)



80% of the SMEs surveyed in Moldova and Armenia indicated that current resource efficiency practices are overwhelmingly driven by increasing prices of energy, water and raw materials. Regulatory and financial incentives remain weak. A significant share of small businesses are starting to realise that green practices can lead to a competitive advantage

Figure 4. Key reasons for implementing resource efficiency measures, percentage of respondents



Source: Based on various OECD (2015) and (2016) publications on pilot projects in Armenia, Georgia, Ukraine and Moldova.

Latest Publications



- OECD (2015), *Creating Incentives for Greener Products: A Policy Manual for Eastern Partnership Countries*, OECD Green Growth Studies, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/9789264244542-en>



- OECD Policy Highlights (2016), *Greening SMEs in the EU Eastern Partnership Countries*.
https://issuu.com/oecd.publishing/docs/greening_smes_in_eu_eastern_partner



5 Managing water resources for green growth

Challenges

Pressures on water resources in EECCA countries have been high due to increasing demands from agriculture, energy generation, industry and urban populations. These pressures are both reducing the quantity of water available and compromising its quality due to pollution of surface water bodies. Climate change is adding to the uncertainty about future water availability and reinforcing the need for more effective management of freshwater resources. A further complication in the EECCA region is the large proportion of water resources that are shared across national boundaries.

Many EECCA countries are still working to upgrade their legal and policy frameworks and to align them with modern water management principles such as those embodied in the EU Water Framework Directive. A key challenge is to find ways to allocate water to uses that create most value for society, while ensuring that the population has access to safe water and adequate sanitation. As in all countries, appropriate governance arrangements are also needed to involve all interested ministries at the national level, but also to make adequate provision for

the management of water resources at the river basin and local levels. The personnel involved in water management need the skills, resources and information required to carry out their tasks.

In the Soviet era, substantial investments were made in water infrastructure, albeit over-sized and of poor quality. As a result, in contrast to some regions, investments are needed not only to develop new, but also to renovate existing infrastructure. Revenues from tariffs have not been sufficient to achieve policy goals, and transfers from national budgets and international sources have not bridged the gap. As a result, much of the water infrastructure in EECCA is in urgent need of renewal.

OECD Support

The EAP Task Force's work has focused on the financial and economic aspects of water management, including adaptation to climate change. Initially the focus was on supporting countries to develop realistic financing strategies for urban water infrastructure. Subsequently the focus broadened to include rural water supply and sanitation and the role of

economic instruments in supporting integrated water resources management, at both national and basin levels. This will continue under the GREEN Action programme.

Since 2002, the EAP Task Force's work on water has been carried out in the framework of the EU Water Initiative. This has involved a close collaboration with the UNECE. The OECD has complemented the UNECE's technical expertise by bringing an economic perspective to work. The main working method has been to support National Policy Dialogues (see Box 3) and to prepare realistic, agreed approaches to water sector reform. The EAP Task Force's current activities to be continued under the GREEN Action Task Force include:

- **Reform of economic instruments for water management.** Economic instruments such as abstraction, pollution and user charges can encourage more efficient use of water resources and generate financial resources for investments in management systems, including infrastructure. However, the design of such instruments is very dependent on environmental, governance and other contextual features. The OECD has examined these issues in Armenia, the Kyrgyz Republic and the Lake Baikal, Russia.
- **Strengthening governance arrangements for water supply and sanitation.** Building on the EAP Task Force's extensive work on finance strategies for water supply and sanitation, the focus has shifted to the closely related issue of

governance. Recent projects have included: analysing the over-fragmentation of water institutions in Ukraine which impeded effective management and investment and developing sustainable business models for managing rural water supply and sanitation in Kazakhstan and Moldova.

- **Economic benefits of trans-boundary water cooperation.** The EAP Task Force supported a policy dialogue between Azerbaijan and Georgia on the economic benefits of cooperating in the management of the Kura water basin. Until this time, cooperation was largely restricted to monitoring water quality. Analysing the economic benefits has helped to identify potential new areas for cooperation and the potentially mutual benefits to be realised.



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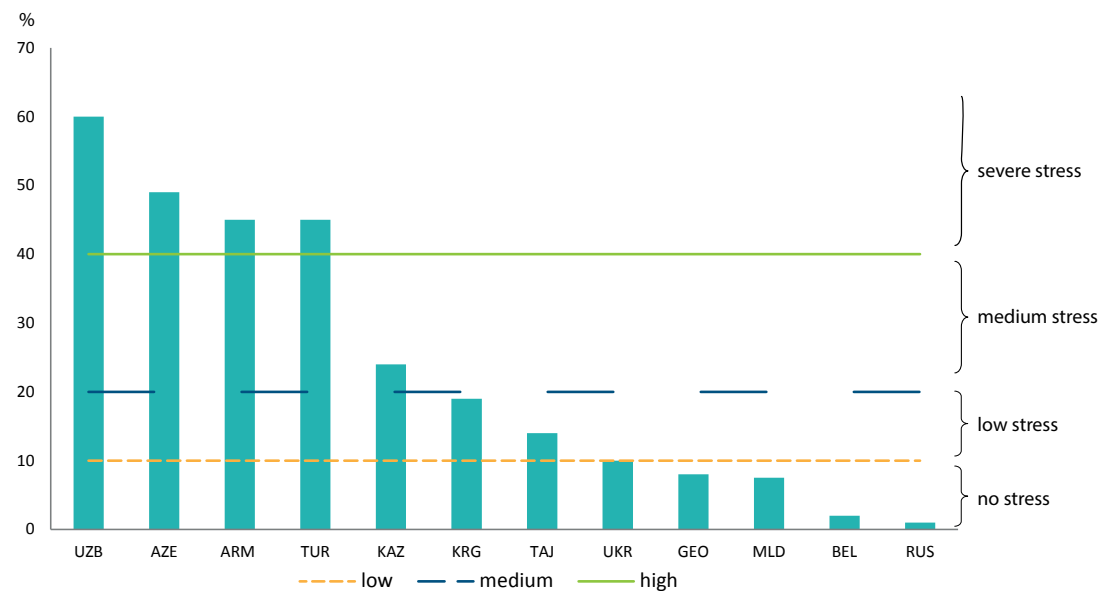
Box 3 - National Policy Dialogues on Water

The main goal of National Policy Dialogues is to build evidence-based consensus among all the key stakeholders in a country, and external partners, on measures to reform specific aspects of water management. This process helps to facilitate a smooth transition from analysis and dialogue to action and implementation. Some recent positive changes to which the NPDs have contributed include:

- **Armenia:** national strategy for rural water supply and sanitation adopted; pilot river basin management plan prepared for Marmarik river that can serve as a model for other river basins; commitment to implement recommendations on the wider use of economic instruments in water management.
- **Azerbaijan:** national water strategy to be adopted by Council of Ministers
- **Georgia:** national water law prepared
- **Kazakhstan:** commitment to the implementation of the State programme for water management to 2040 adopted in 2014.
- **Kyrgyzstan:** inclusion of water supply and sanitation targets in the National Strategy for Sustainable Development and the establishment of a single body responsible for urban and rural water supply and sanitation; adoption of a national sectoral strategy for water supply and sanitation in March 2016.
- **Moldova:** new water law and targets under the Protocol on Water and Health adopted
- **Russian Federation:** commitment to implement recommendations on the wider use of economic instruments in the Lake Baikal Basin.
- **Tajikistan:** water sector reform strategy approved, including legal and institutional reforms.
- **Ukraine:** State programme on water sector development to 2020 approved, including strengthened legal, institutional and managerial measures to adapt to climate change.

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Figure 5. Water stress in EECCA countries



Source: OECD Environmental data.

Latest publications



- OECD (2016), *Sustainable Business Models for Water Supply and Sanitation in Small Towns and Rural Settlements in Kazakhstan*, OECD Studies on Water, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/9789264249400-en>



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- OECD Policy Highlights (2016), *Co-operative water management in the Kura River basin*.
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6 Measuring green growth

Challenges

Policies that promote green growth need to be founded on a good understanding of the determinants of green growth and related trade-offs or synergies between alternative policies and actions. They also need to be supported with appropriate information and indicators to monitor progress and gauge results. Indicators to monitor progress towards green growth need to be embedded in a conceptual framework (Figure 6) and should be selected according to well-specified criteria. Ultimately, they need to be capable of sending clear messages to policy makers and the public at large. When used in international work, they further need to be based on internationally comparable data.

Over the last decade, statistical systems in the EECCA countries have seen significant improvements. These include, for example, a widening coverage of data collection, gradual adoption of international statistical standards and the development of new statistical products, including online databases. But in the EECCA countries, as worldwide, the lack of solid evidence fully revealing the economic consequences of natural capital depletion and

environmental degradation is often a barrier in promoting better use of natural capital in production and consumption.

To improve the situation, many of the European Union (EU) Eastern Partnership (EaP) (Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine) are initiating the production of data on the environment and economy nexus in accordance with the System of Environmental and Economic Accounting (SEEA) framework and are working towards the implementation of a Shared Environmental Information System (SEIS). Environmental ministries, in partnership with ministries of economy and the statistical offices, can catalyse a further shift in development planning by adopting new analytical tools that would permit them to factor the costs of natural capital depletion into their decision-making.

OECD Support

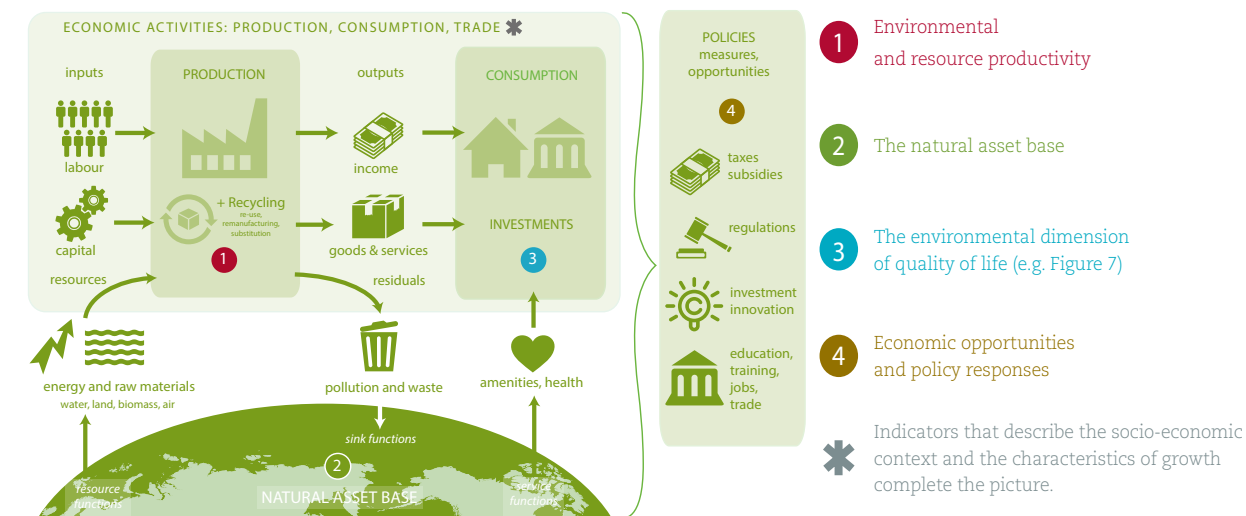
The OECD has supported global efforts to promote and monitor green growth and facilitates the exchange of experience and good practice on developing indicators and applying a coherent and consistent green growth measurement framework.

In the EaP countries, the OECD teamed up with the European Union to implement the EaP GREEN project, which helps these economies to move towards a green economy (see Box 2). Part of this project is devoted to supporting the introduction and practical

application of green growth indicators in individual countries using the OECD set of Green Growth Indicators. The project also promotes public and political debate on progress towards green growth by disseminating reports monitoring green growth. Pilot projects to establish green growth measurement have been launched in Moldova, Ukraine, Armenia and Azerbaijan. Similar work is also been implemented in Kyrgyzstan and Kazakhstan.

Drawing on related work in the OECD, work is carried out to identify “headline” green growth indicators. Under the GREEN Action Programme, the OECD support to the EECCA countries to develop nationally tailored measurement frameworks for assessing progress towards green economy will continue. A regional report is planned to promote policy debates on green growth among key government and non-government stakeholders at the regional and national levels.

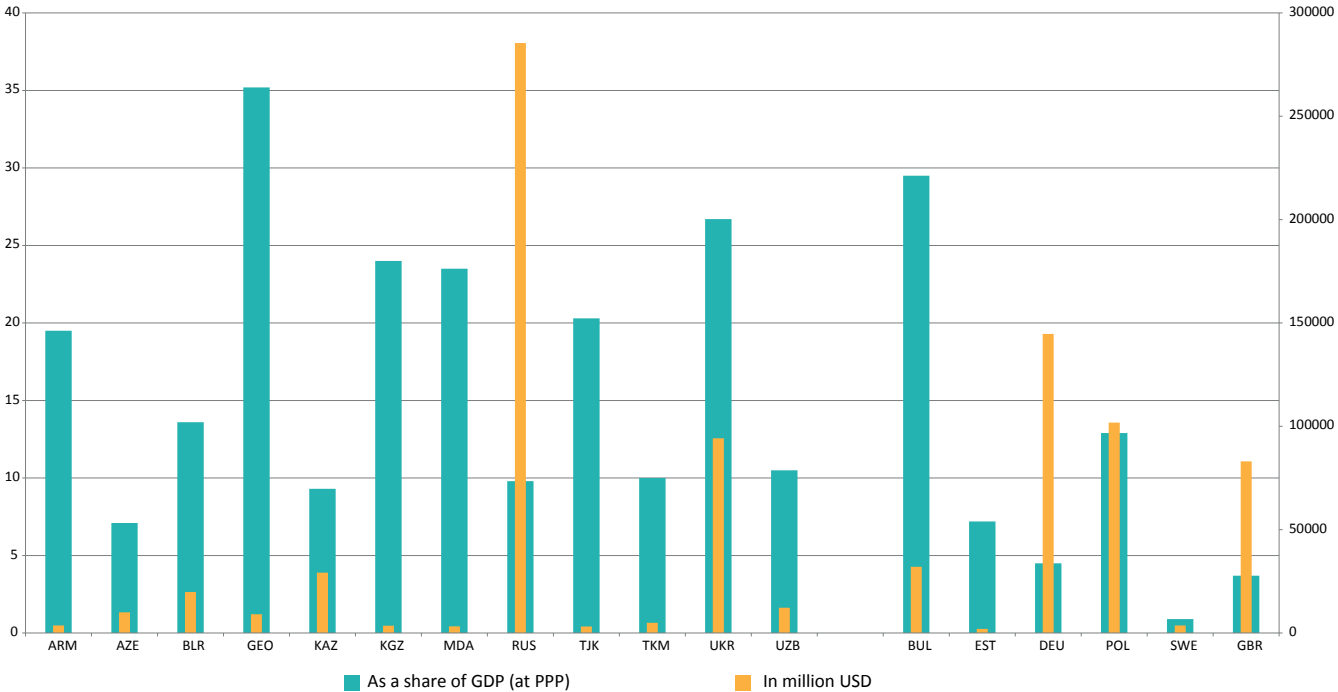
Figure 6. OECD conceptual measurement framework for green growth



Source: OECD (2014), <http://doi.org/4f6>.

Note: The OECD conceptual measurement framework for green growth starts with the consumption, production and trade facets of the economy, then dwells upon the natural asset base on which the economy relies, and on the policy responses and economic opportunities generated.

Figure 7. Economic cost of premature deaths from ambient particulate matter pollution and household air pollution - EECCA countries, 2010



Source: WHO Regional Office for Europe, OECD (2015), *Economic cost of the health impact of air pollution in Europe: Clean air, health and wealth*. Copenhagen: WHO Regional Office for Europe.
http://www.euro.who.int/__data/assets/pdf_file/0004/276772/Economic-cost-health-impact-air-pollution-en.pdf.

Did you know?

...that the OECD has cooperated with the World Health Organization’s European Regional Office (WHO/Euro) to assess the economic costs of the human health impacts – mortality and morbidity – associated with air pollution. The annual average cost of premature deaths and diseases caused by air pollution (outdoor and indoor) in the 53 Member states of the WHO’s European region was calculated by the WHO/Euro and the OECD to be USD 1.6 trillion in 2010. This estimate was based on an estimate of 3.4 million premature deaths attributable to air pollution in 2010. The OECD projects that by 2060 the number of premature deaths from outdoor air pollution could increase even further in the EECCA region, with subsequent economic costs due to increased health expenditures and labour productivity loss.

Latest Publications



- OECD (2014), *Green Growth Indicators 2014*, OECD Green Growth Studies, OECD Publishing, Paris.
DOI: <http://dx.doi.org/10.1787/9789264202030-en>



- OECD Policy Perspectives (2016), *Measuring the transformation of the green economy: green growth indicators*.
https://issuu.com/oecd.publishing/docs/policy_perspective_ggi_final_web

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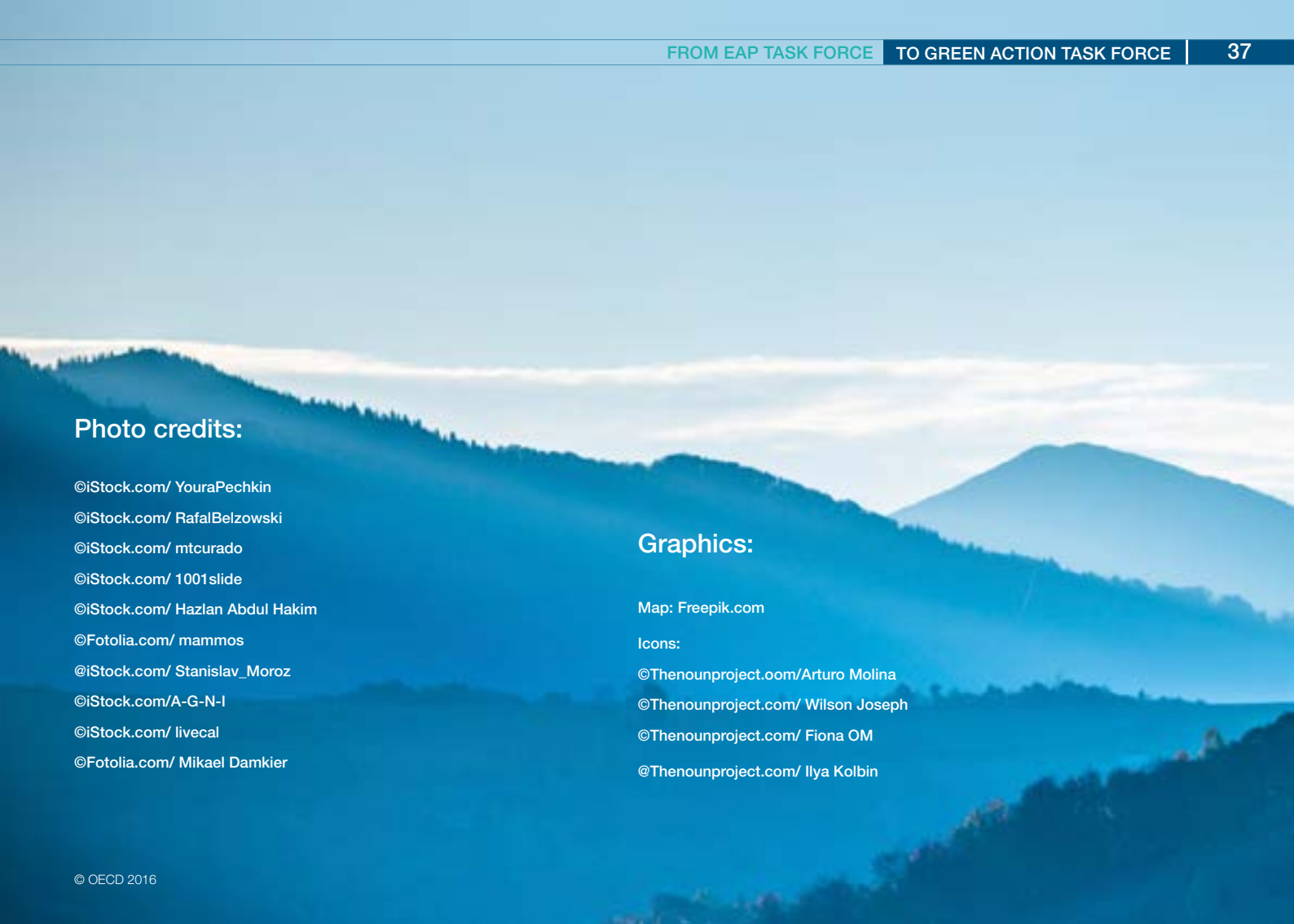


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