ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE
TASK FORCE FOR THE IMPLEMENTATION OF THE ENVIRONMENTAL ACTION
PROGRAMME FOR CENTRAL AND EASTERN EUROPE, CAUCASUS AND CENTRAL ASIA

DRAFT OECD/EAP TASK FORCE PROGRAMME OF WORK AND BUDGET FOR 2012

Annual Meeting of the EAP Task Force

20-21 October 2011 (Chisinau, Moldova)

Agenda item: 7.

ACTION REQUIRED: For discussion and endorsement.

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DRAFT OECD/EAP TASK FORCE PROGRAMME OF WORK AND BUDGET FOR 2012

This document presents the Draft Programme of Work and Budget for 2012 of the OECD secretariat for its activity under the umbrella of the Task Force for the implementation of Environmental Action Programme (EAP Task Force). It is based on the Draft Long-term Programme of Work for 2012-15 [ENV/EPOC/EAP(2011)4/REV1].

Projects identified for implementation in 2012 are described in Table 1. They are organised around two main themes:

- **Strengthening water management**: Work under this theme aims to support reform of water policies in Eastern Europe, Caucasus, and Central Asia (EECCA). The objective is twofold: (i) contribute to achieving the Millennium Development Goals on water and sanitation, so that good quality water and sanitation services are delivered reliably, sustainably and at least cost to the population; and (ii) support economically, financially and environmentally sound management of water resources, including adaptation to climate change. Three clusters of projects are proposed:
  - Strengthening the economic and financial dimensions of water management, including adaptation to climate change;
  - Strengthening institutions for water supply and sanitation;
  - Assessing the water policies and institutions in EECCA.

- **Policies for greening growth**: Work in this area aims to enable a more rapid shift towards greener, environmentally-oriented growth in transition economies of EECCA. Project proposals focus on market incentives and policy reforms that are needed to facilitate such a transformation. To do so, three clusters of activities are suggested:
  - Integrating fiscal and environmental policies;
  - Fostering incentives for private sector contribution to green growth;
  - Strengthening institutional frameworks and capacity.

The total indicative budget for 2012 is EUR 1 947K. The Netherlands contributed to this budget the amount of EUR 50K and there is some carry-over from grants provided previously contributions from Finland and the European Commission. Thus the finance currently available to implement the 2012 programme is about EUR 480K, leaving a need to raise EUR 1467K.
### Table 1. EAP Task Force projects planned for 2012: Objectives, outputs, and budget

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Outcomes</th>
<th>Activities and outputs planned in 2012</th>
<th>Budget, thousand Euros</th>
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<tr>
<td><strong>PROGRAMME AREA 1: STRENGTHENING WATER MANAGEMENT</strong></td>
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<td><strong>Activity 1.1: Strengthening the economic and financial dimensions of water management, including adaptation to climate change</strong></td>
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<td>Developing reports (and organising 6 National Policy Dialogue meetings) on the economic and financial dimensions of IWRM with a focus on strengthening the use of economic instruments in water policies at the national and/or basin levels, in: Armenia, Caucasus (Kura river), Kyrgyzstan and Kazakhstan, and Azerbaijan.</td>
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| Project 1.1.1: Economic and financial dimensions of water resource management | - Better understanding of the extent to which economic and financial dimensions are considered in IWRM policies in selected EECCA countries and ways to improve the use of economic instruments as part of these policies.  
- Incentives created for more efficient water use and financial realism of water-related policy papers and action plans;  
- Identification of opportunities to cut costs and generate additional revenues for IWRM;  
- Increased local capacity for the economic and financial analysis of water policies and water resource management plans in EECCA. | - Developing reports (and organising 6 National Policy Dialogue meetings) on the economic and financial dimensions of IWRM with a focus on strengthening the use of economic instruments in water policies at the national and/or basin levels, in: Armenia, Caucasus (Kura river), Kyrgyzstan and Kazakhstan, and Azerbaijan. | 80 80 120 120 220 60 60 |
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| Project 1.1.2: Economic and financial dimensions of water supply and sanitation | - Optimised use of available water and financial resources;  
- A better understanding of water demand management and water use efficiency; thus reduced need for additional infrastructure and expenditure;  
- Strengthened financial realism of water-related national strategies, making sure that investment plans are tailored to the economic and financial capacity of the country;  
- Identification of policy packages that are economically robust and financially sustainable;  
- Increased local capacity for assessing financial realism of national strategies and investment plans for WSS. | - Developing a financially feasible adaptation strategy for the WSS sector in Moldova, to make the sector more resilient to climate change (including one National Policy Dialogue meeting).  
- Developing a financing strategy for urban and rural water supply and sanitation in Azerbaijan. Building on a methodology used extensively in the region, the OECD will explore policy options to meet policy objectives for WSS in a financially sustainable way (with probable completion in 2013 if financial resources to support such work can be found) (including one National Policy Dialogue meeting) | Required: 100  
Available: 100  
Still needed: 200 |
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<td>Required</td>
<td>Available</td>
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<td><strong>Activity 1.2: Strengthening institutions for water supply and sanitation</strong></td>
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<td>Project 1.2.1: Measures to cope with over-fragmentation in the water supply and sanitation sector</td>
<td>• More effective sharing of lessons learned in different regions</td>
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<td>• Understanding within countries of alternative options to encourage inter-municipal cooperation on water supply and sanitation, taking account of administrative, operational, economic, and political dimensions</td>
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<td>• Identification, given specific country conditions, of viable business model(s) for sanitation systems in small towns and villages</td>
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<td>• Increased capacity within local authorities to cope with over-fragmentation in WSS in EECCA</td>
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| Project 1.2.2: Opportunities for, and obstacles to, private sector participation (PSP) in the water supply and sanitation sector | • A more effective use of PSP in the water supply and sanitation (WSS) sector in those EECCA countries interested in pursuing this option, and taking account of affordability constraints;  
• Increased capacity in EECCA to establish effective public-private partnerships in WSS.                                                                                                                                                                                      | • Application in one-two countries of the OECD Checklist for public action on private sector participation in water infrastructure;  
• Developing recommendations on a viable business model for PPP involving several urban and rural municipalities in one oblast of the Russian Federation  
• One regional workshop on PSP in WSS in EECCA, involving governments, local Centers for public-private partnerships (PPP), and other stakeholders.                                                                                           | Required: 50 Available: 20 Still needed: 50 |
| Activity 1.3: Assessing the water policies and institutions in EECCA |                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                   | EUR 1010 K EUR 430 K EUR 580 K |
| 1.3.1. Progress monitoring                                                                                                                                                                                                                                                                                                                                                                                                         | • A firm empirical basis to support water sector policy-making and reforms as well as to monitor progress in this regard.  
• Preparing monitoring reports to document progress in two-three countries.                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                   | Sub-total for projects under Programme Area 1 |

Sub-total for projects under Programme Area 1
## PROGRAMME AREA 2: POLICIES FOR GREENING GROWTH

### 2.1: Integrating fiscal and environmental policies

**2.1.1: Facilitating the identification and gradual phase-out of environmentally-harmful subsidies (EHS)**

- Improved understanding of the magnitude and level of EHS and their fiscal consequences in selected EECCA countries
- Enhanced cooperation between ministries of environment and finance and agreement on necessary reforms vis-à-vis EHS
- Opportunities created to reduce the subsidy burden on public budgets (that is as high as some 30% of GDP in Uzbekistan) and reduce greenhouse gases in a cost-effective way

- Introducing the OECD methodology for EHS identification and assessment and launching a regional dialogue on EHS phase out in EECCA
- Adapting the OECD methodology for EHS identification and assessment to the EECCA context, including based on lessons learned from its application in the European Union
- Drafting two country case studies addressing the use of EHS in two-three priority sectors (e.g. agriculture, energy, fisheries)
- Convening national expert meetings to discuss the scope of, and results from, the country analyses

**Required: 236**  
**Available: 0**  
**Still needed: 236**  
(discussions underway with GIZ for 100)

**2.1.2: Further reforming economic instruments and strengthening their implementation**

- Improved design and enhanced environmental impact of economic instruments
- Opportunities for generating additional fiscal revenue, without jeopardizing environmental outcomes and avoiding the creation of perverse incentives for governmental officials and the private sector

- Reviewing latest trends and developing a policy paper on priorities for a holistic reform of economic instruments in EECCA
- Conducting a regional meeting to validate the policy recommendations, to be attended by representatives of both ministries of environment and economy
- One country case study on the use of modern economic instruments

**Required: 140**  
**Available: 50 (NL)**  
**Still needed: 90**
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<tr>
<td>2.2: Fostering incentives for private sector contribution to green growth</td>
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<td>2.2.1: Promoting technological modernization and competitiveness gains</td>
<td>• Providing complementary incentives to the private sector for modernizing production, without incurring a loss of competitiveness</td>
<td>• Developing an analytical framework for a regional review of policy tools and conditions to promote the greening of SMEs</td>
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<td>• Discussing the framework with relevant stakeholders, including the SME community</td>
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<td>• Launching a regional review based on the developed framework</td>
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<td>2.2.2: Working with IFIs and local banks to enable private-sector green investments</td>
<td>• Shared agreement, within selected EECCA governments, on the reforms needed to remove barriers and improve the incentive framework for the banking sector to extend lending to low carbon projects, beyond IFI credit lines</td>
<td>• Re-launching dialogue with IFIs within the EAP Task Force framework</td>
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<td>• Contributing towards increased investments by the private sector</td>
<td>• Conducting an international meeting involving IFIs and local banks that had specific credit lines in support to green investments</td>
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<td>• Producing a synthesis report with a brief overview of existing experience and problems with private sector’s access to credit lines for environmentally-oriented investment</td>
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| 2.3: Strengthening institutional frameworks and capacity                       |                                                                                                                                   | • Ministries of Environment enabled to play the role of a leading "change agent"  
• More effective donor assistance in the field of capacity development                                                          | Required: 110, Available: 0, Still needed: 110 |
| 2.3.1: Facilitating improvements in governance structures and capacity and progress measurement | • Report on intra-government mechanisms and capacity to promote green growth  
• Regional dissemination of the OECD work to monitor progress towards green growth through webinars and pilot application of the methodology by one country |                                                                                                                                   | 166 |
| 2.3.2: Greening public budgets and strengthening capacity for costing adaptation programmes | • Allocation of finance in line with programmatic needs and priorities  
• Increased predictability of funding  
• Leveraging private sector funds | • Adapting and refining the existing costing methodology (including a costing Excel-based model)  
• A national-level demonstration project (request by Moldova available), including expert work and stakeholder consultations to discuss the current costing and programming approaches and identify a climate-related programme to design and cost in line with good international practices  
• Designing and costing a selected climate change programme and proposing it for financing through the regular budget process and donors  
• Developing the report on the demonstration project  
• Regional meeting to disseminate results | 166 |

Sub-total for projects under Programme Area 2: EUR 937 K, EUR 50 K, EUR 887 K