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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 LONG-TERM PROGRAMME OF WORK (2012-15)

Meeting of the EAP Task Force Bureau

24 January 2012, Paris

Agenda item: 2.

ACTION REQUIRED: For discussion and endorsement.

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Note by the Secretariat

This document presents the draft programme of work for the EAP Task Force in the period 2012-2015. It builds on discussions in the EAP Task Force and its Bureau. More specifically, this draft reflects the outcomes of the last meetings of the EAP Task Force in Almaty (14-15 October 2010); Berlin (12-13 May 2011) and Chisinau (20-21 October 2011).

The draft programme specifies only activities that would be implemented by the OECD secretariat. At the same time, the document provides the basis for dialogue with EECCA RECs and other partners to establish partnerships and joint actions.

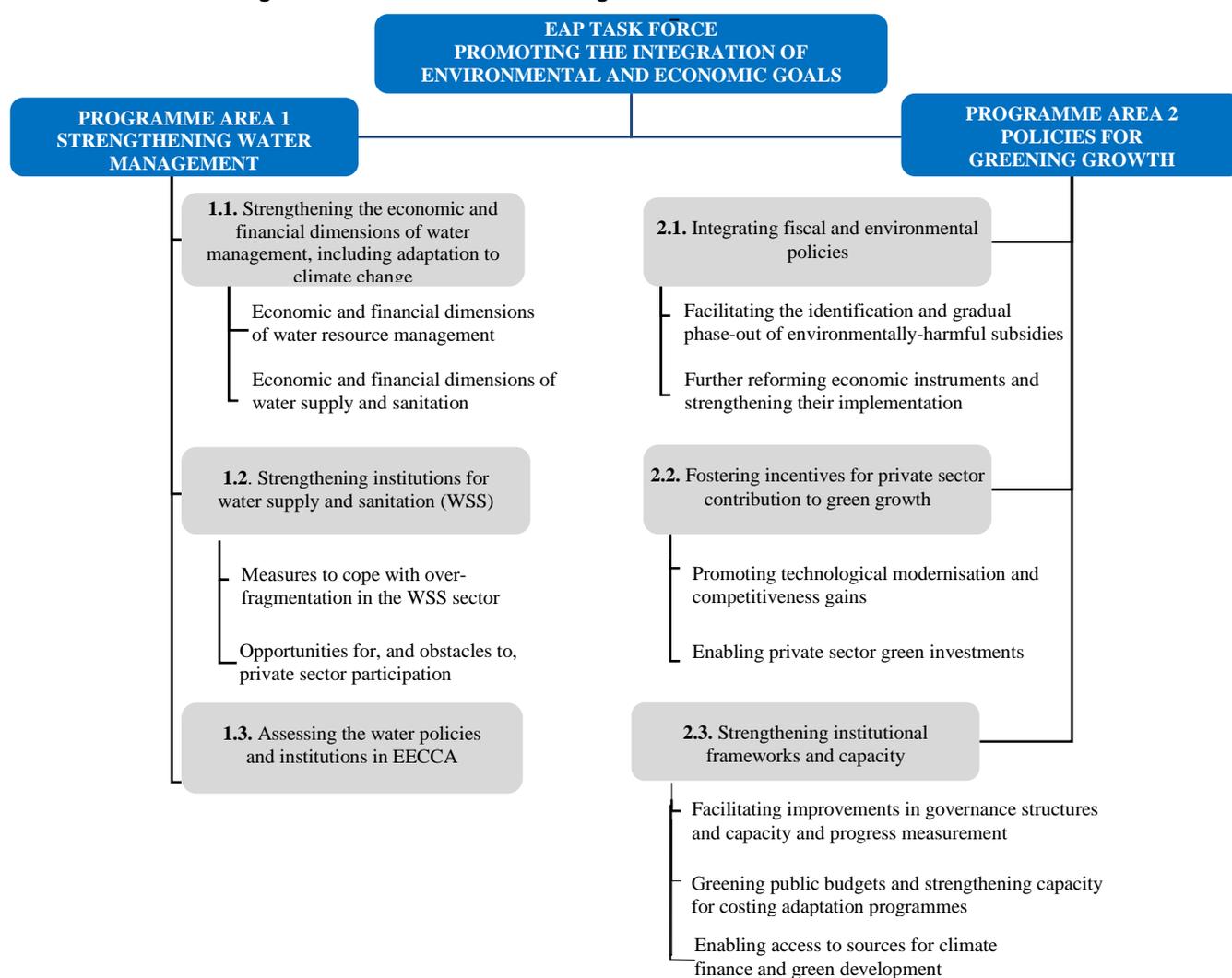
Based on this draft programme for 2012-15, a more detailed programme of work and budget for 2012 is presented in document ENV/EPOC/EAP(2011)5/REV2.

EAP TASK FORCE'S MISSION AND WORK PROGRAMME ARCHITECTURE

1. The mission of the Task Force for the Implementation of the Environmental Action Programme – the EAP Task Force – is to support improvement of environmental policies in transition economies of Eastern Europe, Caucasus, and Central Asia (EECCA) by promoting the integration of environmental considerations into the processes of economic, social and political reform, as well as the upgrading of institutional and human capacities for environmental management.

2. The draft 2012-15 Programme of Work of the EAP Task Force is organised around two mutually-supportive themes: water management and green growth (see Figure 1). Within these themes, and subject to the provision of sufficient resources, the various activities will be implemented by the OECD secretariat in partnership with EECCA Regional Environmental Centres (RECs) and other relevant parties.

Figure 1. The EAP Task Force Programme of Work: Areas and activities



3. As in the past, the governance structure would comprise annual meetings, and a Bureau that will oversee secretariat's work in the period between such meetings.

PROGRAMME AREA 1: STRENGTHENING WATER MANAGEMENT

Objective

4. This programme area aims to support reform of water policies in EECCA countries. 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.

Background

5. The EAP Task Force has been active on water policy reforms in EECCA for more than 10 years. Work in this area has been steered by the “Guiding Principles for Reform of the Urban Water Supply and Sanitation Sector”. The Guiding Principles were adopted at a meeting of EECCA Economic, Finance and Environment Ministers in Almaty in 2000. A follow-up Ministerial Conference in Yerevan in 2005 reviewed their implementation and provided further policy recommendations.

6. The initial focus was on water supply and sanitation and on the development and implementation of financially realistic national strategies in this area. More recently, work has broadened to include water resource management. The main methodology has been to support policy dialogue among the key stakeholders, based on robust analysis.

7. The work programme and projects implementation are conceived in cooperation with UNECE and the European Union’s (EU) Water Initiative. Other organisations active in the region are consulted as appropriate, including international organisations, multilateral and bilateral donors. Work is overseen by the Group of Senior Officials for Reform of the Urban Water Sector in EECCA countries and the EU Water Initiative’s (EUWI) EECCA Working Group which agreed in Almaty in April 2006 to meet jointly, and to effectively merge their activities and pool resources. The joint meetings bring together high-level officials with responsibility for water policies, including EECCA representatives from Ministries of Water, Environment, Communal Affairs, Construction or Infrastructure, donors, International Financial Institutions (IFIs), NGOs and the private sector.

Possible activities

8. Work in this area would comprise three activities.

Activity 1.1: Strengthening the economic and financial dimensions of water management, including adaptation to climate change

9. This activity comprises two sets of policy dialogues: one focused on the economic and financial analysis of water policy reforms and water resources management plans, the other focused on financing strategies for water supply and sanitation.

- ***Economic and financial dimensions of water resource management.*** EECCA countries are confronted with severe water management issues, exacerbated by climate change and increasing competition between water users. When appropriately designed and implemented, economic instruments (e.g. abstraction charges, pollution charges, payment for watershed services) can enhance the environmental effectiveness and economic efficiency of water policies in general, and of water resource management plans in particular. They contribute to financial realism and facilitate implementation of policies and plans. The EAP Task Force will work with water agencies at both national and river basin levels to enhance the economic efficiency and financial realism of water policies. It will do so in the context of national policy dialogues focused on the reform of water policies.

Part of this work entails extending financing strategy methodology beyond water supply and sanitation to water resources management. Building on its experience in financing strategies for water supply and sanitation, the EAP Task Force will develop a methodology to inject financial realism into water management plans. This activity is twofold: i) develop a methodology to cost water management plans; this includes in particular a method to cost adaptation measures to climate change; and ii) develop a process/guidelines to explore how these costs can be reduced and what sources of finance can be used to cover them; a particular attention will be paid to economic instruments. This activity will substantiate policy dialogues on the economic and financial dimensions of water resource management in selected EECCA countries.

- ***Economic and financial dimensions of water supply and sanitation.*** Financing remains a crucial challenge for water supply and sanitation services in EECCA. Despite some progress in the last decades, water supply and sanitation development plans often are unrealistic from a financial perspective; a more strategic approach is needed to tailor investment to financing resources, and vice-versa. Building on its experience on the development and implementation of financing strategies for the sector, the EAP Task Force will support policy dialogues in this area, and put them in the context of wider water resource management and adaptation to climate change.

Activity 1.2: Strengthening institutions for water supply and sanitation

10. This activity would aim to make institutions in the water sector work more effective and efficient. National Policy Dialogues will continue to serve as the main mechanism for achieving this objective. The policy dialogues will focus on selected institutional issues where the EAP Task Force has a comparative advantage: private sector participation, overcoming excessive fragmentation of water supply and sanitation systems.

- ***Measures to cope with over-fragmentation in the water supply and sanitation sector.*** Decentralisation of responsibilities for water supply and sanitation in some EECCA countries has made it difficult for utilities and municipalities to fully exploit economies of scale and scope. Over-fragmentation also makes it difficult to retain and develop adequate capacity to run the sector, and to generate the necessary resources to finance capital investments. With this activity, the EAP Task Force will help governments determine the appropriate level of (de)centralisation for water supply and sanitation in different contexts and identify measures to reach that level (e.g. inter-municipal cooperation, the establishment of regional water utilities). The work will build on an earlier project in Ukraine on the aggregation of water systems, as well as broader international experience. Lessons from country work will be shared at regional level.
- ***Opportunities for, and obstacles to, private sector participation.*** The role of private and public actors in the provision of water services and in water management presents opportunities and risks. OECD has developed a Checklist for assessing both, and for helping public authorities to develop their policies in this area. This project does not advocate that governments should establish public private partnerships, but is intended to provide support if they do so. This work would build on a policy dialogue on this issue that the EAP Task Force organised in Russia,

as well as several regional workshops that the EAP Task Force organised with the World Bank. Lessons learned from country policy dialogues, particularly the policy and institutional reforms required, would be shared at regional level. Cooperation with other partners such as the World Bank, EBRD and local PPP Centres would be an important feature of this activity.

Activity 1.3: Assessing the water policies and institutions in EECCA

11. Building on activities 1.1 and 1.2, this activity would monitor trends in reforming water policies and institutions. It would cover both water supply and sanitation, and water resource management. Particular attention would be placed on identifying and sharing best practices with the goal of enhancing the efficiency and effectiveness of water policies and institutions of EECCA countries, both individually and collectively. A series of reports on specific issues would be prepared, including progress in achieving the water-related Millennium Development Goals, and progress in the use of economic instruments for water resource management. These would be synthesised, together with other analyses, and presented to the next “Environment for Europe” Ministerial meeting.

PROGRAMME AREA 2: POLICIES FOR GREENING GROWTH

Overall objective

12. Work under this programme area aims to enable a more rapid shift towards greener, environmentally-sustainable growth in transition economies of EECCA. Project proposals focus on market incentives and policy reforms that are needed to facilitate such a transformation.

Background

13. The green growth agenda in EECCA is not yet as prominent as in OECD countries. First, the costs of environmental policies continue to receive greater emphasis than the benefits. Second, the transition process started in the 1990s is still ongoing, and there are many unresolved economic and governance challenges that have led governments to assign a relatively low priority to environment compared with many OECD countries. Third, many EECCA countries follow the discredited model of “grow first, clean up later”, not recognising the critical role of natural assets in underpinning sustainable growth. There is insufficient recognition of the opportunities for addressing at least some development problems by shifting towards a greener growth model. Opportunities include addressing inefficient production, decayed infrastructure, insecure energy supplies, unemployment, and the inefficient use and depletion of natural resources. Realising such opportunities requires mobilising market incentives, improving the design and implementation of environmental and framework policies, including fiscal, investment, labour, and innovation policies, and building the necessary knowledge bases, effective governance, and capacity.

14. The OECD/EAP Task Force Secretariat has a long-standing experience in supporting EECCA governments to improve and implement policies benefiting both the environment and economic development. Thus, it is relatively well placed to support renewed efforts in this field. Future activities can continue to draw on relevant projects carried out within the OECD’s core programme of work, including the recent development of the OECD Green Growth Strategy.

15. The Regulatory Environmental Programme Implementation Network (REPIN), established in 1999, could continue to provide EECCA environmental policy makers and practitioners with a platform to exchange experience as part of “learning by doing” and build partnerships on issues of common interest. Any work on green growth, however, implies the need of broadening the stakeholder base of the EAP Task Force. Along with the continued work with the environment ministries, it would be necessary to engage more systematically the ministries of economy and finance, as well as, occasionally, some sectoral ministries (*e.g.* energy, agriculture), depending on the issue. The work would also require much greater involvement of the business sector. Sustained participation of the NGO and academic communities is also envisaged. Closer links would be forged with other multilateral initiatives in EECCA, *e.g.* the UNESCAP’s “Seoul Initiative” or various UNEP and UNDP initiatives. Particular attention will be given to making the EAP Task Force work synergistic with political processes involving EECCA and the European Union.

Possible programme activities

16. In order to support the transition towards greener growth in EECCA, three clusters of activities are proposed:

Activity 2.1: Integrating fiscal and environmental policies

17. Addressing market failures is an essential element of green growth strategies. In EECCA, recurrent attempts to correct market signals and make them work in support of an environmentally-oriented pattern of development have been made over the twenty-year period of transition. But progress in countries has been slow, and many economic instruments still suffer from important design flaws. The OECD could help address these flaws based on its previous experience in the region and its leading role in this area internationally. Future projects may focus on:

- ***Facilitating the identification and gradual phase-out of environmentally-harmful subsidies (EHS).*** The OECD has developed a methodology for the identification of EHS and their impacts, as well as of the consequences of their removal. In 2007, this methodology was adapted to the EU context. Work in EECCA could consist of further adapting and applying the OECD methodology in selected countries of the region. The scope of analysis would cover the use of environmentally-harmful subsidies in several key sectors, *e.g.* energy, agriculture, or fisheries. Particular attention will be paid to the social and political obstacles to reforming harmful subsidies, and how these could be addressed. A framework will be developed to identify key issues that need to be addressed to implement reform successfully, and approaches to be used for follow-up country-level work. Eventual EAP Task Force projects in this area would also draw on recent OECD work on this issue, including work on fossil fuel subsidies for the G20.
- ***Further reforming economic instruments and strengthening their implementation:*** The OECD could assist EECCA countries to reform existing market-based instruments to make them more environmentally effective and economically efficient. This work would consist of analysis, regional policy dialogue involving ministries of environment, finance, and economic affairs, and follow-up work to shape reforms in selected countries. This may also cover the design of economic instruments for both pollution prevention and control and natural resource management¹. The enforcement of economic instruments would be addressed, including the design of monetary penalties and environmental liability. In the latter case, work would be implemented through country-level projects. This activity would build on OECD's extensive analysis of economic instruments. Additional work may be carried out to lay the basis for introducing new instruments, such as product charges, trading schemes, payments for ecosystem services, and tax differentiation for environmentally harmful products. A regional survey and a stakeholder consultation would be conducted to assess the extent to which there are common challenges related to specific instruments and related opportunities and barriers. This may lead to the subsequent development of regional recommendations on the design and implementation of selected instruments.

¹ Economic instruments related to water resources would be covered by Activity 1.2.

Activity 2.2: Fostering incentives for private sector contribution to green growth

18. Work in this area will help EECCA countries to leverage further changes in corporate strategies. It will build on previous EAP Task Force's regional and country-level work on setting regulatory incentives and promoting environmental compliance among large industry, as a means for facilitating technological change and energy efficiency. In particular, activities may focus on:

- **Promoting technological modernisation and competitiveness gains.** This project will help EECCA countries to better use the full array of instruments, including regulatory and financial incentives, as well as information-based tools, to stimulate the adoption of environmentally friendly technologies and good corporate environmental behaviour more generally. It would focus in particular on small and medium-sized enterprises (SMEs). The objective would be to identify opportunities for turning this large and diverse part of the private sector into a driver of green growth and innovation in the region. A second component to this work would be to facilitate technology cooperation and foster markets for green products and services. This would proceed by assessing potential synergies between environment, trade, and investment policies. The project would involve cross-country analysis, preceded by the development of an analytical framework using relevant OECD experience, and consensus-building through regional policy dialogue. This analysis would lead to the development of policy recommendations with follow up assistance in establishing the necessary policy framework in several EECCA countries. This activity would be complementary to the work under relevant EU-financed projects in the Eastern Partnership countries and Central Asia that target improved environmental management in the industrial sector. Finally, a review of EECCA countries experience with technology cooperation mechanisms in support to green growth will be conducted, including in comparison with international practices, and possible improvements suggested.
- **Enabling private sector green investments** Most financing for investments in green growth, particularly in wealthier EECCA countries will have to come from private sources. IFIs, such as the World Bank and the EBRD, are already supporting the region with earmarked credit lines, for example, to improve energy efficiency and promote the use of renewable sources of energy. Such credit lines are disbursed through domestic banks. The sustainability of such financing models rests on the assumption that cooperation with IFIs will transfer due diligence skills to domestic banks and demonstrate the viability of green financing as an attractive business model. However, local banks require reassurance that sufficient incentives exists for local enterprises to implement green projects before they provide them with loans or other forms of support. Establishing such incentives is crucial for scaling up low carbon investments in the enterprise, residential and municipal sectors. The current incentive structure in selected EECCA countries could be examined using experience from Central and/or South-Eastern Europe as a benchmark. This would involve: (i) a series of case studies examining the framework conditions necessary for stimulating domestic credit for green investments; (ii) a regional policy paper that would integrate lessons learned from EECCA with those from other countries, and would put forward recommendations to the governments for removing barriers and improving the incentive framework for the banking sector to expand lending to low carbon projects. In addition, as part of the incentive structure, the analysis will consider existing financing mechanisms that support climate-friendly development and the diffusion of green technologies in the case study countries. An international conference, involving the banking sector, IFIs, and government authorities would be conducted to present the project's findings and conclusions.

Activity 2.3: Strengthening institutional frameworks and capacity

19. Work in this area will help EECCA countries to make more tangible and verifiable progress in strengthening institutional frameworks and capacity that would enable transition to green growth. In particular, activities may focus on:

- ***Facilitating improvements in governance structures and capacity and progress measurement:*** Under this project, country-specific work is envisaged to help governments, at least in low-income countries, to “walk the talk” of governance improvement and institutional capacity development. This would be done by looking at the governance arrangements to promote green growth and helping EECCA countries to establish specific targets for capacity development in cooperation with non-government actors and the donor community, as well as a simple monitoring framework to measure and show progress. This work would be based on the OECD work on green growth indicators, multi-level governance, and efforts to identify benchmarks for a functional system of environmental management that, among others, included benchmarks for environmental policy integration. Work under this project could be closely related to the European Union’s Eastern Partnership that foresees important investments in the administrative capacity of partner countries. The number of countries benefiting from this project would be increased through region-wide experience sharing, with possible involvement of countries from the Asia-Pacific region as part of the Green Bridge Initiative. More generally, this work may be also relevant in light of Rio+20 follow-up.
- ***Greening public budgets and strengthening capacity for costing adaptation programmes:*** This work will build on the experience in Kazakhstan where the EAP Task Force is developing and pilot testing a methodology for designing and costing (including modelling work) multi-year environmental expenditure programmes. This experience can be replicated in other interested countries, and the model can be further adjusted and refined to reflect each country’s specific strategic and budgetary requirements. The Ministry of Environment of Moldova has already expressed interest in participating in such a project. Good practices and lessons learned from these countries’ experience will be prepared within the region. This project could also address costing of adaptation measures in the water sector to climate change (Activity 1.2). It could also examine linkages to carbon finance mechanisms as they are likely to rely to a great extent on country-based systems for programme and project identification and implementation. Those countries that develop the necessary skills to prepare sound public expenditure programmes and identify cost-effective projects will be more competitive and will stand better chances of benefiting from international support.
- ***Enabling access to sources for climate finance and green development:*** The climate finance architecture is becoming increasingly complex, and, unlike other regions, the EECCA countries, so far, have not been particularly successful in tapping into the carbon market sources. This project could analyse the major lessons from the experience of selected EECCA countries with using international climate finance sources and identify challenges to and opportunities, as well as best practices, for accessing such mechanisms. In particular, the project could consider the role of Designated National Agencies, their institutional structure, their procedures for identification, evaluation and approval of projects financed from such sources in the context of a country’s Nationally Appropriate Mitigation Actions, where these exist. In addition, this work could also analyse domestic sources of finance which can provide significant financing for low-carbon development. These could include national development banks and state-owned Sovereign Wealth Funds, which exist in the resource-rich EECCA countries. This work would aim to identify opportunities for financing green development in the countries with a focus on environmentally-related climate-resilient infrastructure.