

**Economic and Social Council**Distr.: General
9 August 2013

Original: English

Economic Commission for Europe**Committee on Environmental Policy****Nineteenth session**

Geneva, 22–25 October 2013

Item 6 (f) of the provisional agenda

**The “Environment for Europe” mid-term review
of the Astana Conference main outcomes: work of
the Environmental Action Programme Task Force
and the Regional Environmental Centres****Progress since the Seventh “Environment for Europe”
Ministerial Conference within the framework of the
Environmental Action Programme Task Force:
promoting better policies and tools for water
resources management and green growth****Report by the Environmental Action Programme Task Force***Summary*

Ministers at the Seventh “Environment for Europe” Ministerial Conference (Astana, 21–23 September 2011) welcomed the work of the Organization for Economic Cooperation and Development (OECD) Environmental Action Programme Task Force (EAP Task Force) and invited OECD to continue its work, including on themes of the Conference, in cooperation with the Regional Environmental Centres and other partners (ECE/ASTANA.CONF/2011/2/Add.1, para. 15).

Following a request by the Committee on Environmental Policy (CEP) (ECE/CEP/2012/2, para. 25 (j)), the EAP Task Force secretariat prepared the present document to report on progress made in its activities, especially on water and greening the economy. The document was reviewed by the EAP Task Force’s Bureau members at their meeting in Berlin on 26 April 2013. The document aims to facilitate the discussion by CEP during the “Environment for Europe” mid-term review.

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Introduction

1. The mission of the Environmental Action Programme Task Force (EAP Task Force) is to guide improvement of environmental policies in Eastern Europe, the Caucasus and Central Asia by promoting the integration of environmental considerations into the processes of economic, social and political reform and by upgrading institutional and human capacities for environmental management. The members of the Task Force comprise the Governments of Western, Central and Eastern Europe, North America, the Caucasus and Central Asia. International organizations and financial institutions, business and civil society representatives actively participate in the work of the Task Force. Currently, the Task Force is co-chaired by Germany and Georgia. Major donors that enable the Task Force's work include the European Commission, Finland, Germany, Norway, the Netherlands and Switzerland.

2. In its capacity as the secretariat to the EAP Task Force, the Organization for Economic Cooperation and Development (OECD) provides analytical evidence for policy reforms in Eastern Europe, the Caucasus, and Central Asia and a politically neutral, not-for-profit and non-advocacy platform in support of policy dialogue and cooperation. Since the Task Force's establishment in 1993, OECD has helped countries in Eastern Europe, the Caucasus and Central Asia to accelerate the diffusion of innovative policies and policy tools. It assisted countries in conducting policy reform based, among others, on the outcomes of pilot projects. Some of the tools developed under the EAP Task Force umbrella are presented in an annex to the present document. The Task Force's work has resulted in activities and tools targeted at OECD members in areas such as environmental compliance assurance, financing water supply and sanitation and public environmental expenditure management.

3. The EAP Task Force has traditionally relied on partnerships with national and international stakeholders. Its cooperation with the United Nations Economic Commission for Europe (ECE) in conjunction with the European Union Water Initiative (EUWI) is an example of how this approach takes shape. Since the Seventh "Environment for Europe" Ministerial Conference (Astana, 21–23 September 2011), a new important partnership was forged with the European Commission and three United Nations partners: ECE, the United Nations Industrial Development Organization (UNIDO) and the United Nations Environment Programme (UNEP) in the field of green growth. As of January 2013, OECD and these partners are implementing a comprehensive four-year programme focused on the Eastern Partnership (EaP) countries, "Greening Economies in the Eastern Neighbourhood", also known as the EaP GREEN programme.

4. Since 2009, OECD has been a major player in promoting green growth internationally. The goal of the OECD work on green growth is to bring different policy communities — and sometimes competing perspectives — closer. Following the delivery of the green-growth strategy in May 2011,¹ green growth is being integrated into OECD analytical work to provide concrete, targeted advice as member and partner countries advance with the design and implementation of green-growth strategies. Water is an essential element of that work: while water-related risks can hinder growth, water can be managed so that it contributes to green growth. Innovation and investment are essential parts of managing water for green growth; they can foster efficiency and ensure that water allocation reflects development policy priorities. Besides, sectoral aspects are addressed, e.g., vis-à-vis the energy, manufacturing or agricultural sectors. Another key part of the

¹ *Towards Green Growth*, available from <http://www.oecd.org/greengrowth/towardsgreengrowth.htm>.

green growth agenda is to find better ways of measuring progress. OECD is therefore developing a set of green growth indicators. Moreover, a “Green Growth Knowledge Platform” has been established in partnership between the Global Green Growth Institute, OECD, UNEP and the World Bank.

I. Progress since Astana

5. Immediately after the Astana Conference, the EAP Task Force members gathered to discuss priorities under the new cycle of work, which was focused on two pillars: (a) the economic dimensions of water resources management; and (b) policies for greening development. The EAP Task Force Long-term Programme of Work (2012–2015) (ENV/EPOC/EAP(2011)4/REV2) was agreed in October 2011. Under both pillars, work is focused in areas that respond to the priority needs of countries in Eastern Europe, the Caucasus and Central Asia and where OECD has developed experience and established a strong capacity: i.e., the economic case for robust water and environmental policies, the use of economic instruments and market-based mechanisms, access to finance and financial planning and independent monitoring of progress.

6. National-level pilot projects have been and will remain the key mechanism of OECD cooperation with countries in the subregion. Recently completed and ongoing projects include:

(a) **Pilot projects on water:**

- (i) Adapting water infrastructure to climate change in the Republic of Moldova;
- (ii) Strengthening institutions for water supply and sanitation in the Republic of Moldova and Ukraine;
- (iii) Promoting economic instruments for water management at the national level in Armenia, Kyrgyzstan and the Russian Federation and at the transboundary level in Armenia, Azerbaijan and Georgia;
- (iv) New activities are being explored in the Russian Federation and Tajikistan.

(b) **Pilot projects on green growth:**

- (i) Costing of a priority budgetary programme in Kazakhstan;
- (ii) Identification of environmentally harmful subsidies in Kazakhstan and the Republic of Moldova;
- (iii) Progress measurement towards green growth in Kyrgyzstan;
- (iv) A training workshop on medium-term expenditure planning and management focused on the environmental sector in the Republic of Moldova with the United Nations Development Programme.

7. The analytical and methodological work conducted by the OECD Secretariat has a regional reach:

(a) **On water**, regional meetings of the EUWI Eastern Europe, Caucasus and Central Asia Working Group were held in November 2011 and July 2012, in Bucharest and Geneva, respectively. They offered the opportunity to review progress and exchange experience gained through national-level projects. In addition, a workshop on regional cooperation on water resource management in the Southern Caucasus was held in February 2012 in Tbilisi;

(b) **Work on green growth** resulted in the following documents with a regional outreach: (i) Refocusing economic and other monetary instruments for greater environmental impact: How to unblock reform in Eastern Europe, Caucasus and Central Asia (2012) (ENV/EPOC/EAP(2012)3/FINAL); (ii) Green Growth and Environmental Governance in Eastern Europe, Caucasus and Central Asia (2012);² and (iii) Overview of key methods used to identify and quantify environmentally harmful subsidies with a focus on the energy sector (2013) (ENV/EPOC/EAP(2012)2). Regional thematic meetings were also organized to exchange experience, set priorities, and discuss new policy support tools: (i) on environmental liability and economic instruments, hosted by the Polish Government in early March 2012; (ii) on environmentally harmful subsidies, hosted by OECD at its headquarters in late March 2012; (iii) on green growth indicators, hosted by the Czech Government in March 2013; and (iv) on eco-innovation and technology transfer, as a special session of the EAP Task Force meeting in September 2012, in Oslo.

II. Contribution to current policy debates on green growth in Eastern Europe, the Caucasus and Central Asia

8. Some of the major policy messages stemming from the OECD/EAP Task Force's post-Astana work on policy analysis in Eastern Europe, the Caucasus and Central Asia include:

(a) **There are opportunities to reform various economic instruments to make them more environmentally effective and to generate more revenue.** Despite progress in improving monetary instruments for pollution prevention and control, the design of these instruments, individually and collectively, remains flawed in the countries of Eastern Europe, the Caucasus and Central Asia. These instruments should be designed to achieve the policy functions for which they are most suited: (i) reducing releases of priority non-hazardous pollutants (pollution taxes or charges); (ii) changing consumption patterns and revenue raising (product taxes); (iii) preventing violations of environmental requirements by removing the economic benefit of non-compliance (fines); and (iv) ensuring that the responsible parties finance the remediation of environmental damage they cause (damage compensation payments). In support of these policy functions, it is important to improve the design of each instrument in order to increase its environmental and fiscal effectiveness. In this regard, Governments in Eastern Europe, the Caucasus and Central Asia should take steps to align policy, legal and institutional frameworks governing the use of economic instruments with good international practice. Specific recommendations were provided to this end. In parallel, Governments should sustain efforts aimed at raising the administrative effectiveness of monetary instruments in Eastern Europe, the Caucasus and Central Asia and their transparency. The latter is particularly important for building public support for further reform. The continued international exchange of relevant experience among countries in the subregion and with their international partners — within the “Environment for Europe” process and beyond — would help to strengthen the administrative and analytical capacity of the environmental authorities in Eastern Europe, the Caucasus and Central Asia and enable them to pursue these reforms. International exchange can also help address concerns of reduced competitiveness, enterprise relocation to other jurisdictions and an unfair playing field for businesses. In addition, international partners can help countries in the subregion assess the

² A preliminary version of this report was issued prior to the Astana Ministerial Conference. The preliminary version was enhanced with new information, for instance on donor assistance to Eastern Europe, the Caucasus and Central Asia. The final report was published in the OECD Green Growth Papers series (available from <http://www.oecd-ilibrary.org/>).

feasibility of introducing new instruments, such as payments for ecosystem services, and can eventually support their implementation;

(b) **Identifying and calculating the size of environmentally harmful energy subsidies (EHS) is a difficult and necessary first step in reforming them. In Eastern Europe, the Caucasus and Central Asia, it will require the concerted efforts of many different parties, as well as strengthening of the related information base and capacity.** Reforming EHS is a fundamental element of green growth strategies and confers a range of environmental, economic and fiscal benefits. If Governments intend to rationalize their energy-subsidy schemes, they first need to have a very good understanding of what these schemes are, how much they cost the public purse and what their economic, social and environmental impacts are. Effective reform strategies in Eastern Europe, the Caucasus and Central Asia will need to identify ways in which the adverse effects of subsidy reform, particularly on poor and vulnerable groups, could be mitigated without undermining the environmental effectiveness of the reforms. Despite existing challenges with subsidy measurement and assessment, subsidy tracking in the countries of the subregion can proceed using available analytical tools. The EAP Task Force has identified such tools and the key steps in a process of EHS identification and removal, which will need to be tailored to the specifics of each country (e.g., countries may be net energy exporters or net energy importers). This work in the Eastern European, Caucasus and Central Asian region is likely to face the problem of lacking data and expertise. Addressing this problem will require support from international partners. Implementing internationally supported pilot projects in these countries wishing to advance EHS reforms may bring benefits for the entire region by raising awareness among policymakers of the potential costs and benefits of subsidy reforms and generating support for the adoption and implementation of reform plans;

(c) **While the private sector actors are the main sponsors and beneficiaries of innovation, government action is essential to shape the overall framework and incentives for the wider use of cleaner technologies. There are opportunities for countries in Eastern Europe, the Caucasus and Central Asia to adapt best international practices in this regard.** The most effective strategy is adopting an integrated approach that: (i) combines within a coherent framework, sectoral, innovation, and environmental policies; (ii) relies on both supply and demand-side instruments; and (iii) includes action at multiple levels of government. Making reforms of framework and sectoral policies in Eastern Europe, the Caucasus and Central Asia coherent with the goal of eco-innovation will require an important communication and coordination effort with non-environmental actors. In this context, eco-innovation applies to either the development of new technologies or the adaptation of existing technologies to new contexts. The issue of eco-innovation financing in the subregion needs further analysis to clarify what mechanisms are already available and their effectiveness, as well as prospects for adopting new mechanisms. Similarly, the potential role of public-private partnerships requires analysis. International support can help in several ways. It can induce the development of more adequate national policies and help these countries enhance their domestic capabilities for designing policies in support to eco-innovation, speed up the diffusion of eco-innovations between countries and help countries raise their absorptive capacity;

(d) **Governments of Eastern Europe, the Caucasus and Central Asia need to strengthen their use of green growth indicators as tools for communicating with policymakers and the public in order to build support for green growth policies.** A first step would be to screen what indicators are already available using the OECD set of Green Growth indicators as a reference. Four groups of green growth indicators will require attention: (i) environmental and resource productivity; (ii) managing the natural asset base; (iii) environmental quality of life; and (iv) policy responses and opportunities, especially the measuring of innovation, technology transfer and financing. Particular attention should be paid to the identification of measures that would lead to the sustainable use of green

growth indicators nationally and their integration into policymaking processes. Possible ways include the development of regular green growth reports, as well as the integration of such indicators into the mandatory “State-of-the-Environment” reports, statistical yearbooks, including sector-specific ones, and other products of statistical agencies (e.g., online databases with time series of specific indicators).

III. Contribution to current policy debates on water resources management in Eastern Europe, the Caucasus and Central Asia

9. The OECD project, *Managing Water for Green Growth* (OECD, forthcoming 2013), argues that water can drive green growth, when properly managed. This informs activities undertaken under the water pillar of the EAP Task Force.

10. Some messages that derive from recent work on water in Eastern Europe, the Caucasus and Central Asia are relevant at the regional level:

(a) **Transboundary water management can generate significant benefits in the region. Economic instruments can help realize these benefits.** The results from a pilot project have illustrated how economic instruments could support transboundary cooperation: (i) a transboundary payments for ecosystem services scheme to address flooding events and erosion problems; and (ii) joint investments to enhance wastewater treatment upstream, which would benefit the country downstream;

(b) **While sound water management contributes to climate-resilient services, specific measures are needed to adapt water infrastructure to climate change in the region.** Adaptation measures would benefit from a stepwise approach: (i) assess the risks associated with climate change on water services and infrastructures; (ii) set acceptable levels of risks, taking into account population acceptance and costs associated with distinct levels of security; and (iii) manage these risks, exploring options to share the risk and to make stakeholders (industries, cities, farmers, households) accountable for the risk they generate. This approach can deliver cost-effective adaptation measures that meet population expectations at the least cost for the community. This framework can be applied to countries in Eastern Europe, the Caucasus and Central Asia where there is a demand;

(c) **The application of economic instruments can help achieve water management objectives efficiently, but they often need to be accompanied by supporting measures.** Economic instruments such as abstraction charges, pollution charges, water tariffs, water rights and allocation mechanisms can be important instruments of water management. Ambitious reforms of such instruments are needed in countries of the subregion where they generally fail to achieve policy objectives. However, reforming such instruments is particularly difficult in the context of fragile democracies, where measures must be taken to generate public, and therefore political, support. The international community can assist Governments in Eastern Europe, the Caucasus and Central Asia by demonstrating the potential efficiency of existing instruments and by sharing experience with reform, in particular on how to address distributional issues;

(d) **Water supply and sanitation services should be organized so as to benefit from economies of scale and scope.** Several countries in Eastern Europe, the Caucasus and Central Asia are confronted with fragmented water supply and sanitation systems, leading to a lack of capacity to operate them and a lack of stable revenues to cover their cost. While top-down, uniform approaches can generate inefficiencies, well-designed incentives, such as fiscal incentives, can trigger aggregation of services at the appropriate scale. Infrastructure development should be planned at that scale, to take advantage of

opportunities for mutualization and cross-subsidies (between a city and its surroundings, or between water and other urban services). This would prevent situations where only bankable projects materialize, leaving parts of the country in a dismal condition.

IV. Challenges for work in the Eastern European, Caucasus and Central Asian subregion

11. Promoting policy reform is a long and often non-linear process in Eastern Europe, the Caucasus and Central Asia because of several factors, including:

- (a) An unstable political and fragile social and economic situation;
- (b) Ongoing administrative reforms and structural difficulties;
- (c) Frequently changing staff at the political and technical level in the countries of the region, thus changing priorities and limiting institutional memory;
- (d) Lack of political will to conduct reforms: environmental protection is usually not among the priorities in the partner countries because of the limited awareness of the possible costs of policy inaction;
- (e) Lack of resources, exacerbated by the current global economic downturn.

12. This situation makes it all the more important to seek opportunities to align economic and environmental agendas, to define realistic goals and to deploy efficient and effective instruments to achieve them, backed by the support of key stakeholders.

V. Work planned for the next biennium

13. Due to support from the European Union, Germany, Norway, the Netherlands and Switzerland, the OECD EAP Task Force is in the process of expanding its support to the countries of Eastern Europe, the Caucasus and Central Asia. This will include the development of new tools in support of policymaking and implementation in the subregion, and demonstration projects.

14. New tools to be developed include the following:

- (a) **With regard to the economic aspects of water resources management:**
 - (i) Guidance on incentives to organize water supply and sanitation services at the appropriate scale;
 - (ii) Business models for rural sanitation, which are adapted for the Eastern European, Caucasus and Central Asian context;
 - (iii) Accompanying measures that can facilitate the reform of economic instruments for water management;
- (b) **Concerning the promotion of policies supporting green development:**
 - (i) A handbook to support the development and use of green growth indicators;
 - (ii) Guidance tools to prepare reform action plans in relation to EHS;
 - (iii) A toolkit for developing or reforming product-related economic instruments;
 - (iv) A toolkit to support the greening of small and medium-sized enterprises (SMEs).

15. Additional demonstration projects are planned in areas of EHS identification and reform, reform of economic instruments for environmental management, SME greening, progress measurement, etc. Over 30 demonstration projects will be implemented within the current four-year cycle of work.

VI. Questions for discussion

16. The members of the Committee on Environmental Policy are invited to discuss the following questions:

(a) What issues have countries in Eastern Europe, the Caucasus and Central Asia prioritized in their work on national green-growth strategies? How will implementation of green-growth strategies be monitored?;

(b) How are ministries of economy and finance engaged in the efforts to promote green growth nationally and how could this engagement be strengthened? To what extent have the reform of environmentally harmful subsidies and environmentally related taxes and instruments provided a basis for engaging such ministries?

(c) Improved access to safe water and to sanitation services is a major driver for green growth. What lessons have been learned over the past 10 years that can serve to accelerate reform and investment in this area? What is the role of the “Environment for Europe” process in this area?;

(d) How can economic instruments play a more important role in water resources management, including adaptation to climate change? What type of flanking policies are needed to support the use of these instruments?

Annex

Examples of tools developed by the Environmental Action Programme Task Force

Water supply and sanitation

- (a) Financial planning tool for water utilities;
- (b) Toolkit for benchmarking water utility performance;
- (c) Guidelines for the development of performance-based contracts between municipalities and water utilities;
- (d) Recommendations for consumer protection;
- (e) Recommendations for overcoming fragmentation of water supply and sanitation services.

Environmental finance

- (a) Toolkit for aligning environmental expenditure information systems with OECD/Eurostat standards;
- (b) Good practices for public environmental expenditure management;
- (c) Handbook for appraisal of environmental projects financed from public funds;
- (d) Analytical framework to assess debt-for-environment swap opportunities in the poorer countries of Eastern Europe, the Caucasus and Central Asia;
- (e) Training package on medium-term expenditure planning for environmental ministries.

Environmental policy and compliance assurance

- (a) Guiding principles for reform of environmental enforcement authorities in transition economies and the complementary toolkit for building better environmental inspectorates, competence profiles and a training package for the civil servants involved in compliance assurance and the CD-ROM, “Training on environmental compliance assurance”;
- (b) Guiding principles of effective environmental permitting and the complementary guidelines on integrated environmental permitting and environmental self-monitoring by industrial operators, as well as the CD-ROM, “Training on integrated environmental permitting”;
- (c) Performance assessment guidance for environmental enforcement authorities;
- (d) A methodology for the risk-based planning of environmental inspection;
- (e) A methodology for industry’s environmental performance rating;
- (f) A guidance document on the calculation of administrative fines.