

Belgrade Ministerial Conference

Agenda item 6b: Partnerships: Environmental Finance

Intervention by

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Reliable data are a prerequisite for sound policy making. If you can't measure and monitor something, you can't manage it. In other words, you will not be able to set quantitative targets and/or measure progress in achieving them.

The OECD has considerable experience in the field of monitoring environmental expenditure data: we have developed a methodology (in cooperation with Eurostat) to organise data collection on environmental finance. In addition, the OECD Development Assistance Committee (DAC) maintains an Aid Activity Database which monitors bilateral aid flows, including environmental aid flows.

These methodologies were used by the secretariat of the EAP Task Force, based at OECD, to prepare the report on *Trends in environmental finance in EECCA countries*.

In collecting these data, we have also sought to build the capacity of EECCA countries to systematise the collection of environmental finance data, including through three demonstration projects in Georgia, the Kyrgyz Republic and Ukraine.

Allow me to highlight a few of the main findings of the *Trends* report:

In the bigger economies in the EECCA region (the Russian Federation, Kazakhstan, Ukraine) and in Belarus, environmental expenditure has increased to levels which compare with some Central and Eastern European countries. However, the levels of environmental expenditure in these countries have increased more slowly than economic growth, suggesting that there is scope to increase environmental expenditures further.

In the smaller economies (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Uzbekistan and Tajikistan), environmental expenditure is very low in absolute and in relative terms. While decision-makers may be inclined to wait for higher income levels before allocating more resources for environmental purposes, such expenditures could have positive effects on economic development and public health. For example, other documentation we have prepared for this conference illustrates the high rate of return for investments in the water sector.

In fact, in the majority of EECCA countries, except in Central Asia, wastewater receives the highest share of environmental expenditure: between 36 and 67% of the total amount. Air attracts a significant share of the total mainly in the industrialised EECCA economies. Waste attracts relatively little finance.

Generally domestic financial account for the lion's share of environmental expenditure. However bilateral and multilateral assistance can have an important catalytic effect, and for some poorer

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countries can account for a significant source of finance for environmental expenditures. For achieving global environmental goals and the environmentally-related MDGs, external support will be essential.

Our analysis shows that environmental assistance to EECCA has witnessed a structural change since 2001.

Multilateral assistance - loans from IFIs that generally have to be repaid - has doubled to reach 1,829 million USD over the period 2001-05, although it started from a low level after the financial crisis at the turn of the century.

In contrast, bilateral environmental assistance - generally in the form of grants - in 2005 has fallen below the level of 2001 to less than USD100m, and has declined by half as a share of overall bilateral assistance. Some donors have exited the region and the European Commission has emerged as the single largest donor. EECCA receives the lowest share of environmentally-related assistance compared to other regions of the world.

[[Concerning the content of the assistance:

- In absolute terms, environmental assistance (loans and grants combined) is concentrated in commodity-rich countries, such as Russia, Kazakhstan and Azerbaijan;
- The poorer countries receive much less, with the notable exception of Armenia which has been successful in attracting external assistance;
- External assistance is mostly concentrated on the water sector; biodiversity and solid waste management receive the lowest allocations;
- Donors give a relatively higher priority to regional projects involving several countries; whereas IFIs focus on projects within countries;
- Bilateral donors have allocated 28% of their resources to support environmental policy and institutional development, a domain which is not directly addressed in IFIs loans.]]

In conclusion, one of the major challenges for EECCA and many other countries is to convince Finance and other Ministries that environment should be a priority within national policies and budgets. As donors increasingly align their assistance with priorities set by partner countries, and as they change from sector-specific support for individual projects to general budget support, environmental development cooperation seems to have declined globally. Ministries of Finance need convincing Social Cost Benefit Analysis to be persuaded that investments in the environment will give a better return than in other sectors. I know because I worked for 12 years in a Ministry of Finance. Within OECD, the Environment and Development Cooperation communities are working on these issues and expect to be able to share our findings with you by 2009.