

EAP Task Force



EUWI
EU WATER INITIATIVE



15th EUWI-EECCA Working Group Meeting

Bucharest, 7-8 November, 2011

DRAFT Summary Record

The EU Water Initiative's EECCA Working Group (EUWI-EECCA Working Group) held its 15th meeting in Bucharest on 7-8 November 2011. The meeting was hosted by the Romanian Ministry of Environment and Forestry with support from the European Commission and had about 40 participants. The participants included officials from the EECCA countries and EU Member States, representatives of NGOs, private sector, IFIs and international organisations (European Commission, OECD, UNECE and UNDP), as well as experts from the water supply and sanitation sector.

The objectives of the meeting were:

- to update delegates on recent developments of relevance for the EUWI-EECCA Component, including
 - key features of the 7th "Environment for Europe" Ministerial Conference in Astana, Kazakhstan, on 21-23 September 2011;
 - progress made with regard to the implementation of National Policy Dialogues (NPD's) to support legal and institutional reform in the water sector in the EECCA region;
 - progress made with regard to the implementation of NPD's to address the prevailing over-fragmentation in the water supply and sanitation sector in the EECCA region;
 - progress made with regard to the development of NPD's on transboundary cooperation;
 - possibilities of applying economic instruments to improve water allocation in the EECCA region;
 - lessons learned in Romania with regard to IWRM;
- to discuss and agree upon major directions of the monitoring of the activities carried out within the EUWI-EECCA Component;
- to discuss progress in implementing the work programme - and to discuss and adopt the work plan of the EUWI-EECCA Component for 2012.

In this context:

1. The Chair of the EUWI-EECCA Working Group, **Mr Gheorghe Constantin, Romanian Ministry of Environment and Forestry**, welcomed the participants to Bucharest and introduced the objective of the EUWI-EECCA Working Group meeting. He emphasized that the EUWI-EECCA Component pays much attention to the specially designed NPDs, which have proven very successful, have increased in numbers and scope in recent year and have produced various highly tangible results in terms of policy documents, new legislation and implementation plans. NPD's are, he mentioned, high-level multi-stakeholder meetings, usually led by the ministry responsible for environment, water or economy.

Today, Mr Constantin said, NPD's are being implemented in 9 countries, namely Armenia, Azerbaijan, Georgia, Moldova, Ukraine and four countries in the Central Asia (Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). He informed that a request for the launch of a NPD on IWRM has recently been received from the Government of Kazakhstan. Hence, it is envisaged that NPD's are soon being carried out in all EECCA countries but Belarus and Russia.

Ms Yesim Oruc, Resident Representative, UNDP Romania, welcomed the participants to Bucharest. She mentioned that UNDP Romania works closely together with Romanian Ministry of Environment and Forestry and also the Romanian Ministry of Foreign Affairs. Furthermore, she emphasized, that the Romanian Government plays an important role in supporting the EECCA countries in reaching their Millennium Development Goals, not least through its support to the EUWI-EECCA Component. Finally, she acknowledged the solid cooperation with the OECD and UNECE

Mr Xavier Leflaive, OECD, in his welcome address emphasized that the meeting constituted the first meeting of the EUWI-EECCA Working Group since the Ministerial Conference in Astana. He expressed the hope that participants would take good stock of its outcomes, hence providing a solid

basis for further discussions on the EUWI-EECCA Component, its objectives and major activities, beyond 2012. Mr Leflaive mentioned that the meeting provides a valuable opportunity to learn about ongoing reforms in the EECCA region, including reforms addressing regional operators. In conclusion he thanked the Romanian Government and UNDP for their active contribution to the EUWI-EECCA Component. With regard to the UNDP, he highlighted the good and growing cooperation that exists at the national and local levels in the EECCA region between the UNDP and OECD.

Ms Gulnara Roll, UNECE, warmly welcomed all participants. She mentioned that it is a true pleasure to the UNECE, acting as Strategic Partner within the EUWI-EECCA Component to support the policy dialogue process on IWRM, to note that the NPD's on IWRM have become very strong. This development she attributed to the support of the UNDP, OECD and, not least, the Romanian Government. With regard to the OECD, acting as Strategic Partner within the EUWI-EECCA Component to support the policy dialogue process on water supply and sanitation and also financing, she emphasised that the OECD and UNECE are working more and more closely together, also on IWRM. Ms Roll stated that the EUWI-EECCA Component is conceived by the UNECE as an important vehicle in its work to incorporate principles of IWRM, as these are reflected in the UNECE Water Convention and EC Water Framework Directive, into the legislation in the EECCA countries. She thanked the many international and national donors supporting the EUWI-EECCA Component.

2. **Session 1 - Overview of the EUWI-EECCA status**

Mr Gheorghe Constantin, Romanian Ministry of Environment and Forestry, provided an overview of the status of the EUWI-EECCA Component, highlighting key features of the Ministerial Conference in Astana. He asked participants to keep in mind that even though significant progress takes place in the EECCA countries challenges are immense, not least due to population growth, urbanisation and climate changes seriously affecting the infrastructure within the water sector. Financing remains a key issue, he said, adding that another key issue is linked with the proper management of international water resources, including transboundary river basins.

These issues were, he continued, dealt with in Astana within the side event "Implementation of IWRM principles at national level through the EU Water Initiative National Policy Dialogues and other programmes", organised by the Romanian Government, OECD, UNECE and European Commission in cooperation. Mr Constantin informed that high level representatives of the EECCA countries participated in the side event, acknowledging the need for water sector reforms - and also that progress made till date were presented and thoroughly discussed. Furthermore, he emphasized that the new draft strategy for the EUWI for the period until 2025 was presented. It will, he said, involve the European Parliament and European Council in addition to the European Commission, pay attention to communication and dissemination, and look at the links between growth and development on one side and water on the other side. With regard to the last mentioned links, Mr Constantin expressed the point of view that the new strategy will pay even more attention than hitherto to transboundary cooperation and health.

The side event in Astana demonstrated, he said, that the EUWI-EECCA Component plays an important role in facilitating the water sector reforms in the EECCA countries, that the NPD's constitute a powerful instrument within the EUWI-EECCA Component, and that commitment of the EECCA countries has been and is the key to success of the EUWI-EECCA Component and the NPD's.

Then, Mr Constantin gave the floor to selected representatives of the EECCA countries, who briefly informed about progress made in the water sector in recent years.

Mr Naira Kacyants, Ministry of Nature Protection, Armenia, informed that a NPD has been implemented in Armenia since 2006 in cooperation with the OECD and UNECE. At first, the NPD concentrated upon financing and IWRM. With regard to IWRM the focus was on river basins. Since then, it has gradually evolved to cover other issues. Currently, the focus is on climate changes. Among major results of the NPD till date are the development and implementation of PPP mechanisms and a river basin management model covering various rivers in the country.

Mr Mohan Reddy Junna, International Water Management Institute, Azerbaijan, who although he is not a government official had been entrusted to represent the Government of Azerbaijan, mentioned that the NPD in Azerbaijan was launched in 2010. It focuses on IWRM principles in management and irrigation schemes. Currently, technical, institutional and other interventions at the river basin level are being developed to make improvements in agricultural production, thereby addressing food security.

Mr Grigol Kakauridze, Ministry of Economy and Sustainable Development, Georgia, expressed his sincere gratitude to OECD for the NPD launched in 2007. It has concentrated upon the development of a financing strategy for the water supply and sanitation sector and a comprehensive institutional reform of the water sector. As a result one well-managed water company now exists in Georgia.

Mr Serik Akhmetov, Ministry of Environmental Protection, Kazakhstan, emphasized that the Government of Kazakhstan seriously wants to embark on a water reform process, which will address policy framework and legislation. No doubt, he said, the EUWI-EECCA Component may contribute to this process. It is planned that a NPD concentrating upon transboundary cooperation, including international and bilateral agreements, will be launched in 2012 in cooperation with the UNECE. Till date, no NPD has been implemented in Kazakhstan.

Mr Gheorghe Salaru, Minister, Ministry of Environment, Moldova, mentioned that the three pillars of the EUWI-EECCA Component (water supply and sanitation, financing and IWRM) are all very important to Moldova - and also that the NPD implemented in Moldova has contributed significantly to the water reform process in the country. The NPD was launched in 2006. It has concentrated upon financing of the water supply and sanitation sector, wastewater discharges from municipal sources and river basin management. Among the results are a Government Decision on the targets under the Protocol on Water and Health adopted on 20 October 2010. It is hoped that the NPD will evolve further to cover monitoring of the established targets under the Protocol on Water and Health, transboundary water cooperation and development of a viable business model for sanitation systems in small towns and villages.

Mr Sergey Sivaev, Institute for Urban Economics, Russia, informed that there is a water programme in to be implemented at the municipal level. However, many problems are yet unsolved in the water sector in Russia. It may affect the implementation of the water programme.

Ms Natalia Oleynik, Ministry of Housing and Communal Economy, Ukraine, informed that a water sector reform is high on the agenda in Ukraine. A reform programme has been developed. Currently, an action plan to ensure its proper implementation is under preparation under the auspices of the President. Water sector reform areas include legal framework, institutional set-up, monitoring and financing. The NPD launched in 2008 has successfully addressed all of these areas.

In sum, commitment to water sector reforms seems high throughout the EECCA region, **Mr Gheorghe Constantin, Romanian Ministry of Environment and Forestry**, concluded. Furthermore, he added, it is a fact that NDP's have been supported by an increasing number of donors.

3. **Session 2 - Implementation of National Policy Dialogues to support legal and institutional reform in the water sector**

Mr Oytur Anarbekov, International Water Management Institute, in his presentation provided an overview of the current status of introducing IWRM principles in Central Asia on regional, national and local levels. Developments in water use in Aral Sea Basin were highlighted. Among the major challenges of Central Asia with regard to IWRM he mentioned: increasing water deficit due to population growth and economic development; change in the system of organization and governance of agricultural and water sectors, the property rights, land and water use rights; insufficient awareness of the public about the water-related situation; competition of different sectors over the use of water resources; insufficient financing of off-farm and on-farm water resource management; dramatic decline in investments in the water sector; climate changes; and water scarcity. There is, he said, a great potential for an increase in water use efficiency, not least within on-farm management. IWRM may, he concluded, act as a solid vehicle for such an increase.

Mr Leif Iversen, Grontmij, informed about the NPD on IWRM in Tajikistan, which was launched in 2011. It entails a mapping of donors, legal framework and institutional set-up within the water sector. Recommendations for interventions are prepared. An IWRM Working Group has been established to discuss and decide upon recommendations prepared. Policy packages to be developed include: water sector reform strategy development; establishment of Water User Associations; creating River Basin Organizations; creation of the IWRM Agency and the IWRM National Council; improving water legislation; and creating a database and information management system. It is foreseen, Mr Iversen said, that the OECD is to be involved in the NPD in addition to the UNECE.

Mr Serik Akhmetov, Ministry of Environmental Protection, Kazakhstan, expressed the hope that a NPD will be launched in Kazakhstan during the first half of 2012. Possible areas to be addressed by the NPD include: EC Water Framework Directive since IWRM is high on the agenda in Kazakhstan; strengthening of the 8 river basin councils established under the Water Code; improvement of interdepartmental cooperation regarding dams' security; assistance in implementing the Protocol on Water and Health, including development of a financing plan; and transboundary waters. Most important is, he said, to get started. Over time the NPD may evolve to cover more areas.

Mr Gheorghe Salaru, Minister, Ministry of Environment, Moldova, mentioned that Moldova would like the NPD to pay particular attention to the successful implementation of the Protocol on Water and Health. A procedure consisting of 9 steps has been developed to ensure this. Currently, Moldova has completed 6 of these steps. Furthermore, Moldova would like the NPD to address water management and institutional set-up, foremost transboundary water cooperation and development of a viable business model for sanitation systems in small towns and villages.

Mr George Dzamukashvili, Global Water Partnership, Georgia, informed that a Memorandum of Understanding on the further development of the NPD in Georgia was signed on 19 October 2011 with the UNECE. It concentrates upon IWRM. It is foreseen that it will consist of activities in three areas: approximation of Georgian legislation to selected EC Directives, foremost the EC Water Framework Directive; implementation of the Protocol on Water and Health, including target setting; and transboundary cooperation with Azerbaijan. Eight ministries are involved. The Ministry of Environmental Protection is the key stakeholder. Global Water Partnership, Georgia, has been entrusted the assignment of facilitating the NPD in cooperation with the UNECE.

Ms Gulnara Roll, UNECE, provided information about the recently launched NPD in Turkmenistan. 2011 has, she said, been a fairly intensive year with regard to the NPD in Turkmenistan. A Steering Committee consisting of high level representatives of 22 ministries has been established. It has been agreed that the NPD will concentrate on the UNECE Water Convention. The Government of Turkmenistan has stated that it is a policy goal to become a Party to the UNECE Water Convention.

Participants took good note of these presentations. A few questions for clarifications were asked.

4. **Session 3 - Implementation of National Policy Dialogues: over-fragmentation in the water supply and sanitation sector**

Ms Natalia Oleynik, Ministry of Housing and Communal Economy, Ukraine, and Mr Ashot Baghdasaryan, COWI, presented the preliminary findings of a study on regionalisation of water services launched by the OECD within the framework of the NPD in Ukraine. It addresses the many problems connected with the prevailing over-fragmentation in the water supply and sanitation sector (poor operational efficiency and high unit costs, limited access to investment capital and sub-optimal utilisation of water resources of small water companies). The study builds upon data from water companies in two regions (Cherkassy and Kiev regions). Key preliminary findings are: all companies are loss making; physical water losses, excluding commercial water losses, are high (35% or more); energy consumption is high; operation and maintenance costs are high (0.46 EUR/m³); they are excessively overstaffed (1 employee / 200 connections; usually 1 employee / 750-1000 connections); and infrastructure is worn out (50% fully depreciated). Most companies are very similar in this regard. Nevertheless, tariffs differ a lot. Consequently, affordability data differs a lot (from 0.3 to 4.2%). In conclusion, Ms Natalia Oleynik and Ashot Baghdasaryan said that regionalisation of water services - preventing water sector from collapse and serious service deterioration - seems urgent in Ukraine.

Mr Vakhtang Razmadze, United Water Supply Company, Georgia, informed about the management and operation of one of the three water companies in Georgia (the two others provide services in Tbilisi and Adjara region). It services about 60% of the population in Georgia (269,894 households and 6,767 commercial customers). The company was established by the Government of Georgia in January 2010. The Ministry of Economy and Sustainable Development is the owner of its assets, whereas the Ministry of Regional Development and Infrastructure manages the company (a management contract between the Ministry of Economy and Sustainable Development and the Ministry of Regional Development and Infrastructure has been concluded subject to an Order of the President). It consists of a Head Office, six regional branches and 53 service centers. Its staff totals 2380 employees. Before its establishment, 56 water utilities provided the services; these were operated by municipalities. No central management existed, investments were virtually nil, and strategic planning was absent. Infrastructure suffered from serious deterioration, water losses were high, energy consumption was also high, and service levels were low. Against this background a process of agglomeration was launched. Improvements have been made with regard to all key performance indicators. Various IFI's and donors have provided valuable support, including EBRD and ADB.

Mr Sergey Sivaev, Institute for Urban Economics, Russia, mentioned that Russia has embarked on an agglomeration process, as well. Small water companies may cooperate, thereby addressing problems related to management, skills and financing. Much attention is paid to increasing horizontal links, not vertical. Furthermore, privatization, which is possible, is seen as a way out by some small water companies. The agglomeration process is not linked with a river basin approach

Mr Vasile Ciomos, Romanian Water Association, and Mr Aurel Presura, RAJA Constanta, in their presentation provided an overview of the development in Romania from fragmentation in the water supply and sanitation sector in 1990 to over-fragmentation in 2000 followed by a regionalisation

process. In 1990, the number of water utilities amounted to 42. In 2000, it amounted to 800. With the Water Act in 2001 a regionalisation process was launched. This process was completed in 2005. The Water Act established criteria for grouping of utilities, identified key stakeholders and provided overall guidance for the regionalisation process. Much attention was paid to the need to ensure that each new so-called regional operator embracing a number of water utilities operated in a certain river basin (or catchment area) under the overall responsibility of the Association of Municipalities; all assets of the regional operators are owned by the municipalities. As a result all key performance indicators of the water utilities, including operational performance indicators, have improved considerably in Romania. Today, there are 42 regional operators. One of these is RAJA Constanta. Its shareholders are the local councils in the 5 counties in which it operates. Management contracts exist for all its water utilities; virtually all of these have a duration of 25 years. Each management contract has been concluded between the relevant local utility assisted by the Association of Municipalities and the water utility assisted by RAJA Constanta. Currently, RAJA Constanta is moving towards a uniform tariff structure for its water utilities. Investments are increasing. A major challenge is to ensure that repayments on loans are affordable to the budget.

Ms Dana Graciunescu, EBRD, informed that the EBRD has issued three loans to RAJA Constanta (first loan in 1997, second loan in 2000 and third loan in 2010; the second loan provided co-financing to ISPA, whereas the third loan provided co-financing to the Cohesion Fund). She emphasized the importance of the management contract since it constitutes, in fact, a key for the loan decision of the EBRD. The management contract is considered a guarantee. Furthermore, she mentioned that the EBRD in Romania gradually is shifting from multi-utility projects to sector specific utility projects, such as water utility projects, that it pays more and more attention to public service contracts, and that there are clear similarities between Romania and Moldova in the point of view of the EBRD.

Mr Paul Reiter, International Water Association, in his presentation highlighted the need to identify new solutions in the water sector by bridging people from different regions, thereby facilitating and exchange of ideas and best practices. Hence, he very much acknowledged the contribution made by the EUWI-EECCA Component to water sector reforms in the EECCA region. At the same time, he expressed the point of view that decision makers and practitioners in the EECCA region may learn from countries outside the EECCA region and also outside the EU. Mr Paul Reiter stated that the International Water Association is prepared to contribute to the EUWI-EECCA Component. The International Water Association has a worldwide global and regional network of water utilities. In different ways it connects these utilities at all levels (national, regional, continental and global levels). It runs groups and programs, organises events and issues publications. At the national and regional levels it has substantial experience in developing customised plans for each country to meet its established water supply and sanitation targets, organising country twinning and establishing water operator partnerships. The International water Association pays, he said, much attention to an increase in water use efficiency within selected sectors, such as agriculture, fishery and energy. However, the exact content of its activities depends upon the needs of its partners.

Participants made various comments to the presentations. Among these were the following:

- Over-fragmentation in the water supply and sanitation sector constitutes a major problem in the EECCA countries. Hence, it is paramount to overcome this through a regionalisation process. The Romanian experience is most interesting. This comment was made by several participants.
- **Mr Grigol Kakauridze, Ministry of Economy and Sustainable Development, Georgia**, emphasized that a river basin approach should be applied in connection with the regionalisation process.

- **Mr Gheorghe Constantin, Romanian Ministry of Environment and Forestry**, mentioned that it is the experience of Romania that there is a demand from the side of the European Commission to do agglomeration, thereby ensuring that water companies are financially viable - and also to ensure a uniform tariff setting taking into account affordability issues.
- **Mr Xavier Leflaive, OECD**, expressed his gratitude to Mr Paul Reiter for his statement that the International Water Association is prepared to contribute to the EUWI-EECCA Component - not least, because the International Water Association brings in a very strong utility perspective. He suggested that the EUWI-EECCA Working Group seriously consider how to make the best use of international experience to overcome over-fragmentation in the EECCA countries. Furthermore, he raised the question about pros and cons of unbundling water supply and sanitation as part of a regionalisation process, since the scales for water supply and sanitation differ. In reply, Mr Paul Reiter and Mr Ashot Baghdasaryan expressed the point of view that, even though unbundling may be appropriate at a later stage, it will entail additional costs, administrative challenges and weakening of control of the water supply and sanitation sector if it takes place at the current stage.

5. **Session 4 - Transboundary cooperation: a role of National Policy Dialogues in the EECCA, challenges and opportunities**

By way of introduction the Chair gave the floor to **Ms Caroline Milow, Office of the EU Special Representative of Central Asia, European External Action Service**, for a welcome address. Ms Milow thanked the Romanian Government, OECD and UNECE for their valuable contributions to the EUWI-EECCA Component, expressed her confidence that the EUWI-EECCA Component has developed into a most solid vehicle for water sector reforms in the EECCA region, and stated that the EU and EU Member States find themselves in a good position to share its experience with regard to the implementation of the EC Water Framework Directive and other EC Directives with the EECCA countries. Currently, the European Commission is in the process of reviewing the EUWI and also its Central Asia strategy. She noted that the meeting offered an excellent opportunity to her to receiving inputs, suggestions and views to the CA strategy.

Consequently, Session 4 was briefly introduced by the Chair. He highlighted the fact that transboundary cooperation has become more and more urgent in the EECCA countries.

Ms Gulnara Roll, UNECE, presented the key findings of the Second Assessment of transboundary rivers, lakes and groundwaters prepared by the UNECE. However, she asked participants to consider her presentation an announcement since the Second Assessment is very comprehensive (it is available on www.unece.org). It provides an overview of the status of transboundary waters in the European and Asian parts of the UNECE region. The First Assessment was published in 2007. The Second Assessment was presented in Astana. In comparison with the First Assessment the Second Assessment focus more on institutional and socio-economic aspects. Furthermore, there is a stronger sub-regional focus. Key findings with regard to the Caucasus are the following: the lack of solid transboundary cooperation in the Kura River Basin constitutes a major challenge; the principles of IWRM are only applied to a limited extent, even though positive developments in approximation to the EC Water Framework Directive WFD and other international frameworks exist; and there is a serious risk of water scarcity downstream. Key findings with regard to the Central Asia are the following: parts of the legal framework are outdated; an effective regional framework for transboundary cooperation is almost absent, although positive developments exist (monitoring and enforcement constitute major problems); economic interests dominate over environmental concerns; application of the principles of is uneven (sectoral policies are as a rule not integrated and sometimes conflicting); and information and data about impacts of climate changes are rarely available at the basin level. In conclusion, Ms Roll informed that the Third Assessment is due in 8-10 years. But the UNECE will prepare a special

edition in 4 years time. It will focus on a specific theme (for instance, hydropower vs. agriculture/irrigation), a cross cutting theme (for instance, climate changes and extreme events) and a response measure (for instance, monitoring and assessment system).

Mr Murat Bekniyazov, Executive Committee of the International Fund for Saving the Aral Sea (EC IFAS), in his presentation highlighted the current status of the Aral Sea, water related challenges and threats to the sustainable development of Central Asia and, especially, the Action Programme on providing assistance to the countries of the Aral Sea Basin for the period 2011-2015 (ASBP-3). Since 1960, the surface area of the Aral Sea has been reduced by as much as 88%. Currently, water scarcity and accompanying degradation of water and land resources in the Aral Sea Basin constitutes a major challenge due to a drastically decline in water availability (m^3 /capita/year). This decline has been taken place for 50 years. The expected climate changes and their impacts, including already ongoing meltdown of glaciers, will, together with population growth, only make bad worse in the Aral Sea Basin. IFAS is determined to mitigate or, at least, slow down this development. To this end the ASBP-3 was adopted in 2009 with the support of IFIs and donors active in the region, including GIZ. Mr Bekniyazov provided various examples on implemented and ongoing projects launched under the framework of the ASBP-3. The Northern Aral Sea Project was highlighted.

Mr Bakhrom Gafarov, Tajik Branch of the Scientific Information Centre of ICWC, briefly informed about transboundary water cooperation with Afghanistan within the framework of the current NPD on IWRM in Tajikistan. He assessed the cooperation most successful. Till date, attention has been paid to the legal framework, water flows and collection and exchange of information and data.

Mr George Dzamukashvili, Global Water Partnership, Georgia, informed about water cooperation activities between Georgia and Azerbaijan in the Kura River Basin. There are a total of 9500 rivers in Armenia, 17,500 rivers in Azerbaijan, and 26,000 in Georgia. The legal framework is in focus. EU, OECD, UNDP, UNECE, USAID and SIDA have, in different ways, provided valuable support to these activities.

Participants made various comments to the presentations. Among these were the following:

- **Mr Serik Akhmetov, Ministry of Environmental Protection, Kazakhstan**, congratulated the UNECE with its Second Assessment. It is a most solid, objective and useful report, he said. It provides detailed analyses and assessments of a broad range of themes. However, information and data on groundwater are fairly limited. It was acknowledged by **Ms Gulnara Roll, UNECE**. She mentioned that further analysis is needed in this respect.
- A few participants informed about a recent regional meeting in Almaty comprising high-level representatives of the 5 Central Asian countries. It was devoted to transboundary water issues. Participants agreed to take further steps in the implementation of the Protocol on Water and Health, the UNECE Water Convention and also international and bilateral agreements already concluded.
- **Mr Jesper Karup Pedersen, Technical Secretariat**, informed that the EC IFAS has recently launched a project aimed at developing a model to compare the economic value of water uses by riparian countries (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) across 5 sectors (agriculture, energy, industry, domestic and nature). It is aimed to facilitate the policy dialogue on water allocation in the Aral Sea Basin.
- **Ms Caroline Milow, Office of the EU Special Representative of Central Asia, European External Action Service**, mentioned that it makes sense to integrate Afghanistan and also

Iran in NPD's being carried out within the EUWI-EECCA Component since they are upstream countries in the Aral Sea Basin. In particular, Afghanistan contributes to water inflow.

- **Ms Tatiana Efimova, OECD**, informed that Iran has been invited to participate in NPD's in the Caucasus as an observer. The same could be applicable to Afghanistan.

6. **Session 5 - Use of economic instruments for better water allocation**

Mr Xavier Leflaive, OECD, provided an overview of economic instruments for water allocation, highlighting their rationale, their potential as a driver for green growth and the associated policy issues. Better water allocation has become paramount in many regions of the world, including the EECCA region. Projections for water demand over the next 40 years (to 2050) show that water demand will increase by more than 50%; the growth will come from various sectors (especially, domestic use, livestock, manufacturing and electricity). Data on water stress by river basins show that the EECCA region is already faced with a high degree of water stress. In particular, Uzbekistan, Azerbaijan, Armenia and Turkmenistan are faced with water stress; Belarus and, especially, Russia are, however, faced with very limited water stress. Hence, competition for water across sectors will increase drastically in coming years, unless decisive actions to promote water use efficiency are taken. Inevitably, this will affect agriculture. Data on freshwater use in the EECCA countries by sectors (agriculture, industry and domestic use) reveal that agriculture accounts for an overwhelming share in several EECCA countries (more than 70% in the Kyrgyz Republic, Uzbekistan, Turkmenistan and Tajikistan). Mr Leflaive emphasized that a conflict between economic development and environmental concerns does not necessarily have to exist. In fact, water may be perceived as driver for green growth (e.g. from supply augmentation to demand management and allocation). This is exactly where economic instruments can help. They may ensure that the principles for economic management of water resources are adhered to. These principles are: 1) efficiency; 2) productivity; 3) equity; and 4) flexibility. He emphasized the need of flexibility in the design and use of economic instruments for water management to face uncertainty. Policy issues associated with economic instruments for water allocation include: abstraction charges and efficient water prices (how to ensure that they reflect scarcity of the water, how to ensure they properly facilitate an increase in efficiency and productivity, how to ensure that they are affordable); subsidies (how to phase out water harmful subsidies); tradable water rights (would it be an idea to introduce the system applied in Canada); pollution charges (how to improve enforcement; and emission trading. In conclusion Mr Leflaive highlighted the need to combine economic instruments with command-and-control measures enhancing the efficiency of economic instruments and also stakeholder engagement and regular assessments.

Mr Pierre Strosser, ACTeon, in his presentation highlighted a study on water management and economic instruments currently applied in the Debed River Basin in Armenia, mentioned a number of new economic instruments that possibly could be introduced in the Debed River Basin and, finally, provided two examples on research projects that may serve as a source of inspiration for decision makers and practitioners interested in widening the scope of economic instruments. Only two economic instruments are currently applied in the Debed River Basin - namely, tariffs for water services and water resource fee (abstraction charge and pollution charge). Revenues from these are insufficient to recover operation and maintenance costs for each of the services provided. Most important is that they do not provide sufficiently strong incentives to the users to change behaviour. Among the new economic instruments that possibly could be introduced are: extension of abstraction tax to hydropower; increase in land tax for houses nearby valuable water bodies; and allocation of the tourism tax to water protection. However, impacts of these new economic instruments have not yet been analysed. Mr Strosser urged participants to make good use of the many relevant research projects in the field of economic instruments. He provided two examples of such projects, that may be of interest to the EECCA region - namely, the CAP&Trade research project, which has analysed tradable

permits (see www.capandtrade.acteon-environment.eu), and the EPI-Water research project, which investigates a wide range of economic instruments (see www.feem-project.net/epiwater).

Mr Benyamin Zakaryan, Geoinfo, presented the preliminary findings of a study investigating the possibilities of introducing Payment for Ecosystem Services (PES) in Upper Hrazdan Pilot River Basin in Armenia. The study is carried out within the NPD in Armenia. Currently, there are problems linked with water quality, water quantity, erosion, deforestation and land degradation. A PES scheme has been proposed to address these problems, thereby developing tourism in the area. Key features of this PES scheme is that tourism industry through a special tax will finance the reconstruction of a wastewater treatment plant. The next step within the study consists of the development of a draft law "On Payment for Ecosystem Services", providing a legal framework for PES schemes in Armenia.

Participants made various comments to the presentations. Among these were the following:

- **Ms Tatiana Efimova, OECD**, asked participants whether there might be a perspective in addressing any existing or potential conflicts between upstream and downstream countries through the NPD's. **Mr Bakhrom Gafarov, Tajik Branch of the Scientific Information Centre of ICWC**, in response welcomed such an initiative.
- Several participants mentioned that they very much agree with Mr Pierre Strosser in the need to make good use of the many relevant research projects in the field of economic instruments.
- **Mr Mohan Reddy Junna, International Water Management Institute, Azerbaijan**, asked why the presentations on economic instruments provided examples from Armenia only. **Mr Xavier Leflaive, OECD**, replied that it is new territory to the EUWI-EECCA Component. Furthermore, he mentioned that the OECD is open to all types of cooperation with the EECCA countries regarding economic instruments. Currently, a project on economic instruments is in pipeline the Kyrgyz Republic. Moldova, Ukraine and Tajikistan have expressed a wish to enter in a discussion about the launch of such a project.
- **Mr Serik Akhmetov, Ministry of Environmental Protection, Kazakhstan**, praised the organizers for the inclusion of this session. It is important, he added, to ensure that such studies, projects and analyses become part of the NPD's. Other participants agreed.

7. **Session 6 - Integrating Water Uses or a Wise Water Resources Management**

Mr Dragos Zachia, HIDROELECTRICA, provided an overview of the impacts of the EC Water Framework Directive on hydropower generation. Romania is committed to implement the EC Water Framework Directive by 2018. In 2010, the company, HIDROELECTRICA, produced about 20,000 GWh, representing 33% of total electricity generation in Romania. About 20% of the company's production originates from nuclear power. A potential for a further increase in hydropower exists. However, environmental restrictions also exist. In order to comply with the EC Water Framework Directive HIDROELECTRICA, among others, has to provide a minimum flow of water downstream. Furthermore, it has to introduce special management arrangements related to river stretches where there are birds and habitat protection areas, including 2000 NATURE protected sites. In sum, the impact of the EC Water Framework Directive is a decrease in hydropower generation and an increase in costs. The EU Floods Directive also affects hydropower generation (for instance, it establishes certain requirements to the potential water intake in the reservoirs). However, the company acknowledges the need to ensure alignment with EC Directives.

Mr Ovidiu Gabor, Apele Romane, informed about water management in Romania. Apele Romane is not, he emphasised, a company, but a state institution working as a company. It is overall responsible

for water management in Romania, including operation of the water companies. Water management in Romania is based on 8 guiding principles: 1) water is a finite and vulnerable resource; 2) water management is organized at river basin level; 3) integrated management for quality and quantity exists; 4) river basin solidarity; 5) polluter pays principle is adhered to; 6) end-user pays for services provided; 7) water creates an economic value; and 8) end-users have equal rights for water resources. Apele Romane has 11 branch offices. Each of these has a basin committee consisting of 15 members. Major fields of activities of Apele Romane and its branch offices are: 1) river basin management; 2) investment planning; 3) financial management; 4) implementation of international agreements with neighbouring countries; and 5) implementation and monitoring of EC Directives. Romania is not abundant with water. There are increasingly problems with drought in the south and south-east. Fortunately, it has proven possible to reduce water demand by more than 50% since 1990 - especially, due to the successful introduction of demand management measures. Efforts to create more revenues with less water - or, at least, to ensure that revenues do not decline due to the decline in water demand and, hence, water sold - are many. Till date, these efforts have been successful.

Participants made various comments to the presentations. Among these were the following:

- **Mr Alexandre Martoussevitch, OECD**, asked whether the current economic situation makes it realistic to implement the EC Water Framework Directive by 2018. **Mr Gheorghe Constantin, Romanian Ministry of Environment and Forestry**, answered that this is the deadline.
- **Mr Xavier Leflaive, OECD**, asked the two speakers how they work together. **Mr Dragos Zachia, HIDROELECTRICA**, mentioned that HIDROELECTRICA is a commercial company, in which the state holds 80% of the shares, and that it cooperates closely with Apele Romane. **Mr Ovidiu Gabor, Apele Romane**, elaborated on this by informing that Apele Romane on a monthly basis issues a programme on the operation of dams, which it shares with HIDROELECTRICA. The two companies have cooperated closely for more than 20 years.

8. Session 7 - EUWI-EECCA Working Group Programme of Work and Budget for 2012 and beyond

Mr Jesper Karup Pedersen, Technical Secretariat, briefly presented a proposal prepared by the Technical Secretariat on monitoring of the EUWI-EECCA Component activities. He emphasized that progress monitoring reports have been prepared since 2005 but that there is room for improvement. The objective of the proposed monitoring system is to monitor progress made within the EUW-EECCA Component and its actual impact on (or contribution to) the development of the water supply and sanitation sector and IWRM in the EECCA countries, thereby providing a basis for an assessment of the extent to which objectives of the EUWI-EECCA Component are met. The envisaged output is a consolidated annual monitoring report to be presented at the Multi Stakeholder Forum in Stockholm. The proposed structure and content of the report was presented. Furthermore, the different types of data required were highlighted. The Technical Secretariat, he said, may, in cooperation with the OECD and UNECE, collect most of the data. However, some assistance from representatives of the EECCA countries will be requested. In conclusion, he asked for advice on how to identify these representatives.

Participants made various comments to this presentation. Among these were the following:

- **Mr Xavier Leflaive, OECD**, emphasised that it is of utmost importance to improve existing monitoring system - not only, but also because it is a request of the European Commission. He asked members of the EUWI-EECCA Working Group to take it most seriously. Furthermore, he supported the proposal made, highlighting that the Technical Secretariat will be overall

responsible for data collection but that the OECD, UNECE and representatives of the EECCA countries will contribute. With regard to the representatives of the EECCA countries he proposed to involve the two representatives of each country representing the water supply and sanitation sector and IWRM, respectively.

- **Ms Gulnara Roll, UNECE**, agreed in the necessity to prepare an improved monitoring report for the Multi Stakeholder Forum in Stockholm in August 2012. Furthermore, she recommended concentrating upon progress monitoring of the NPD's. **Ms Tatiana Efimova, OECD**, very much supported this recommendation.

Participants agreed upon the following with regard to the monitoring system:

- An improved monitoring report taking into account comments made by the OECD and UNECE will be prepared and presented at Multi Stakeholder Forum in Stockholm in August 2012, at latest.
- The Technical Secretariat will be overall responsible for the preparation of the report, including data collection. However, the OECD, UNECE and representatives of the EECCA countries will contribute.

Mr Xavier Leflaive, OECD, briefly presented the programme of work of the EUWI-EECCA Component for 2012 and the budget, emphasising that the NPD's and their accompanying projects and studies will continue constituting the major elements of the programme of work, together with the 16th EUWI-EECCA Working Group meeting to be held in Autumn 2012 and the monitoring report. Budget for this is in place. He emphasised that the presentations and consequent discussions at the current meeting indicate that the scope of selected NPD's may be broadened to take into account over-fragmentation in the water supply and sanitation sector, transboundary cooperation and use of economic instruments for better water allocation. He then asked Ms Tatiana Efimova and Mr Alexandre Martoussevitch, both OECD, and Ms Gulnara Roll, UNECE, to present the NPD's in 2012.

Ms Tatiana Efimova and Mr Alexandre Martoussevitch, both OECD, provided an overview of the NPD's in which the OECD will be involved in 2012. The planned activities are the following:

- Armenia. The study on water management and economic instruments currently applied in the Debed River Basin in Armenia will continue; in particular, support to the water resources agency will be provided. Furthermore, a project on the economic and financial dimensions on IWRM with a focus on strengthening the use of economic instruments in water policies will be launched addressing the Kura River Basin (transboundary project).
- Azerbaijan. Subject to availability of finance a project aimed at developing a financing strategy for urban and rural water supply and sanitation will be launched.
- Kyrgyz Republic. A project on economic instruments for water resource management will be finalised in 2012. Together with GIZ and UNDP a project aimed at providing assistance to a transboundary project embracing the Kyrgyz Republic and Tajikistan may be launched.
- Moldova. The investment plan for the water supply and sanitation sector has been completed; some priority actions therein may be picked up by other donors. Focus in 2012 will be on the development of a financially feasible adaptation strategy for the water supply and sanitation sector, thereby making the sector more resilient to climate changes - and a project aimed at identifying a viable business model for sanitation systems in small towns and villages.
- Ukraine. The study on over-fragmentation of the water supply and sanitation sector will be finalised in 2012.

Ms Gulnara Roll, UNECE, provided an overview of the NPD's in which the UNECE will be involved in 2012. The planned activities are the following:

- Armenia. The study investigating the possibilities of introducing Payment for Ecosystem Services in Upper Hrazdan Pilot River Basin in Armenia will continue. Furthermore, assistance regarding the Protocol on Water and Health will be provided.
- Azerbaijan. Assistance will be provided to ensure the official adoption of and implementation of the National Water Strategy.
- Georgia. Projects regarding drafting the national Water Code, transboundary cooperation and the Protocol on Water and Health will be carried out.
- Kazakhstan. It is envisaged that a NPD on IWRM will be launched. A set of policy packages on the legal reform in the water sector (issues of IWRM implementation) will be developed.
- Kyrgyz Republic. Assistance regarding the implementation of the river basin management approach and improvement of transboundary water cooperation will be provided.
- Moldova. The UNECE will provide assistance in carrying out the activities to be launched by the OECD in cooperation with the Government of Moldova.
- Tajikistan. Support to the water sector reform through work of the national expert group on legislation will be provided; selected pilot activities will be launched.
- Turkmenistan. Work on revising the Water Code and other legal acts will be carried out. Furthermore, support to accession to the UNECE Water Convention will be provided.
- Ukraine. Since there was a change in institutional structure for water management in Ukraine and officials have changed, policy packages to be prepared will be renegotiated with the Government.
- Uzbekistan. It is envisaged that a round table and a pilot project on the Protocol on Water and Health will be carried out.

The Chair informed that Romania will continue to chair the EUWI-EECCA Working Group in 2012.

The EUWI-EECCA Work Programme for 2012 was approved.

9. The Chair of the EUWI-EECCA Working Group closed the meeting and expressed his thanks to the participants and OECD, UNECE and the European Commission. He thanked participants for their active participation throughout the meeting. The Chair informed that the next EUWI-EECCA Working Group meeting will be held in <...> in <...> 2012.

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