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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.9.2009
SEC(2009) 1309 final

COMMISSION STAFF WORKING DOCUMENT

**Promoting effective financing for the environment in regions covered by the
enlargement process and the European Neighbourhood Policy**

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1. INTRODUCTION

Environmental problems respect no borders. The Commission is collaborating with the candidate countries¹, potential candidates² and with the European Neighbourhood Policy (ENP) partners³ to address environmental problems. Although European Union (EU) relations and approaches to the regions covered by the enlargement process and the ENP are different, the environmental problems and methods of addressing them are often the same⁴.

The candidate countries and potential candidates are working to align their policies with EU environmental norms and standards in preparing for their future membership of the EU. The ENP promotes the convergence of ENP partner countries environmental policies with the principles and approaches developed in EU legislation and many ENP partners are increasingly interested in the EU approaches to protect the environment.

However, meeting EU environmental standards, or moving towards reaching them, poses a major challenge for the countries, including, *inter alia*, the need to conduct policy reforms, develop appropriate environmental infrastructure, build up administrative capacity, undertake activities to implement all of the objectives of environment sector policy. Significant domestic and foreign financial resources must be mobilised to address these many challenges.

Experience shows that the costs of environmental improvements are significant. For example, it is estimated that in Croatia €10 billion⁵ will be needed to comply with the EU environment *acquis*, with the majority of this financial challenge linked to environmental infrastructure investments. However, the benefits of environmental improvements in monetary terms are much higher than the costs needed to achieve them. This has been shown in a number of studies on the benefits of compliance with the EU environment *acquis* whose conclusions are summarised in Annex 2. For example the total benefits of compliance with the water directives in Bosnia and Herzegovina are estimated to be between €616 and 783 million.

Very often, the benefits of having a clean environment are underestimated and this leads to environmental protection receiving a low priority on government agendas. This in turn leads to limited mobilisation of domestic financial resources for environmental reforms and projects, and does not help to create the conditions that would encourage foreign donors and private investors to focus their financial assistance on the environment.

The recent EU enlargement showed that mobilising financial resources for the environment and their effective allocation are the key elements in meeting the financial challenge of convergence with EU environment *acquis*.

In 2001, the Commission adopted a Communication on *The Challenge of Environmental Financing*⁶ that provides guidance on developing financing plans and identifying sources of finance for environmental infrastructure investments. Since 2001, the geopolitical context has evolved: the EU has consolidated its last enlargement from 15 to 27 Member States, there are

¹ Croatia, former Yugoslav Republic of Macedonia and Turkey

² Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo (under UNSCR 1244/99)

³ Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, the Republic of Moldova, Morocco, the occupied Palestinian territory, Syria, Tunisia and Ukraine

⁴ This document does not specifically address Russia except in the context of relevant regional initiatives. Nevertheless, some of the issues considered may also be relevant in the context of EU-Russia cooperation.

⁵ Croatian estimate

⁶ COM (2001) 304 of 8 June 2001, Commission Communication on The Challenge of Environmental Financing in The Candidate Countries

new partners involved in the enlargement process and the EU has tightened its relations with its other nearby partners through the ENP.

2. OBJECTIVES

The Commission would like to share with its partners the lessons learned from its past efforts. It wants to initiate a discussion with the EU Member States and other stakeholders on a coherent and effective way forward to support partner countries in the endeavour of creating the conditions for mobilising financial resources for the environment.

The present document addresses the broader issue of effective financing for environment, covering all sub sectors of environment, beyond ensuring financial resources for environmental investments. It particularly considers the need for solid strategic approaches, effective coordination of domestic and international financial flows for all aspects of environmental protection through a process involving a broad range of stakeholders.

The document is intended as a basis for an enhanced dialogue with partner countries, International Financing Institutions (IFIs) and donors on how to promote financing of environmental improvements. Its main aim is thus to assist partner countries in developing effective financial flows for environment at the national level. The document should assist partner countries to raise the profile of environmental problems on their governmental agendas and through this, to mobilise sufficient financial resources. It also aims to stimulate a discussion on how to promote the most effective allocation of the European Community's, as well as EU Member States', funding for environment in the partner countries.

Finally, in the light of future reflections on the next Multiannual Financial Framework 2014 - 2021 for the European Community (EC), it is timely to highlight the importance and the need for continued support to our neighbours in meeting the environmental financing challenge.

3. THE ELEMENTS FOR EFFECTIVE ENVIRONMENTAL FINANCING

3.1. NEED FOR A STRATEGIC APPROACH

The development of an environment strategy and the establishment of key policy objectives and priorities is the first phase in ensuring effective financing for the environment. Assessment of the existing situation is the first step of this phase. Environmental problems can be identified as a result of monitoring activities, from hot spot identification or on the basis of information from stakeholders. In many cases, the need to ensure availability of accurate information and data is a challenge in partner countries. In this regard, the role of institutions dealing with the status of environment such as the European Environment Agency (EEA) and the role of Multilateral Environmental Agreements are prominent. Addressing environmental problems should go beyond eliminating sources of pollution. Thus action is needed at the legislative and policy level, to design the necessary institutional frameworks, to build the corresponding administrative capacity, to develop the required infrastructure and to promote enforcement. In fact, capacity building could be required during any phase of the development and implementation of an environment strategy, and in relation to all issues therein, including improving governance or strengthening leadership.

There are different types of environment strategies, for example candidate countries and potential candidates focus on strategies required by the accession process since the EU environmental acquis requires a number of strategies and plans. Strategies can be also be developed as part of international agreements.

In the region covered by this document, there were several environment strategies adopted in the recent years. For example, Croatia adopted in 2007 the National Waste Management Plan, Serbia adopted the National Sustainable Development Strategy in 2008, Moldova adopted the strategy on Water Supply and Sanitation in 2007, and Tunisia adopted the National Strategy and action plan to protect marine ecosystems in 2007. However, the implementation of environment strategies by partner countries remains a challenge in the vast majority of cases.

The strategic approach requires identification of institutional and political reforms as well as specific programmes and specific projects that will form a response to the environmental problems identified. An environment strategy should describe how the objectives will be met, estimate financial resources needed and identify sources of finance. As such the strategy will provide, when necessary, the justification for increasing financial resources. The strategy should be followed by more detailed implementation programmes and plans that identify the actors responsible for individual actions, set out timetables and deadlines and often identify individual projects. In a typical top-down approach, the national authorities determine the location and scope of the projects while in a bottom-up approach, local project proponents are encouraged to submit proposals to national authorities. A combination of the two approaches is probably the best way to ensure that policy targets set at national level match local needs.

As the projects identified cannot all be implemented simultaneously due to constraints in both human and financial resources, there has to be a pipeline of projects at different stages of implementation. Prioritisation⁷ is at the heart of project pipeline management, with the key issue being the application of a transparent process for selecting the priority projects. A transparent prioritisation process that includes financial considerations ensures that the limited financial resources go to those projects that enable the objectives to be achieved in the most efficient way. The environmental priorities identified need to be consistently integrated into all relevant national programmes, in medium and long term national and local financial strategies, and integrated into other sectors policies (e.g. transport, energy). In the context of environmental integration⁸, the role of environmental impact assessment and strategic environmental assessment procedures is prominent.

In the regions covered by this document, there is a need to strengthen capacities in goal-orientated prioritisation in the field of environment. In many cases, choices of priority projects are often not taking environmental and financial considerations sufficiently into account. In recent years, several mechanisms have been set up to identify and promote projects to address priority environmental problems of regional importance (e.g. in the framework of Danube and Black Sea Task Force (DABLAS)⁹, Horizon 2020 Initiative¹⁰ and the Priority Environmental Investment Programme (PEIP)¹¹).

Monitoring of environmental expenditure is important as it allows national authorities to analyse levels of expenditure, sources of finance and the recipients of assistance. It also provides indicators so policy makers can see how the goals of the environmental strategy are being achieved. In the regions covered by this document, data are often collected by various different national authorities, using different definitions and methodologies. This makes it

⁷ COM (2001) 304 of 8 June 2001, Commission Communication on The Challenge of Environmental Financing in The Candidate Countries, provides an overview of possible criteria for prioritisation of investment projects.

⁸ SEC(2009) 555 of 24 April 2009, Commission staff working document on improving environmental integration in developing cooperation.

⁹ Danube and Black Sea Task Force, COM (2001) 615 of 30 October 2001, Commission Communication on Environmental Cooperation in the Danube- Black Sea Region

¹⁰ Horizon 2020 Initiative, COM (2006) 475 of 5 September 2006, Commission Communication on Establishing an Environmental Strategy in The Mediterranean

¹¹ Priority Environmental Investment Programme, <http://www.rec.org/REC/Programs/REREP/PEIP/default.html>

difficult to compare and analyse comprehensive data sets. Reporting on environmental expenditure is often not regulated¹². In this context, the inclusion of environmental expenditure data in national statistical systems is recommended.

Experience shows that the successful implementation of an environmental strategy depends mainly on the following elements:

- ownership by the leading ministry,
- involvement of other relevant ministries,
- consistency with national development strategies,
- support from the private sector,
- stakeholder involvement in development,
- implementation and monitoring,
- sustainable operation and follow up of projects,
- realistic planning of human resources,
- allocation of funds for strategy priorities and an efficient monitoring mechanism,
- coordination with the donor community,
- a clear legal, institutional and regulatory framework including in relation to permitting systems, land ownership, rights and environmental standards.

The existence of environment strategies also assists in communication with ministries, the general public and the donor community. The absence of strategies has the opposite effect.

An overview of the different types of strategies is presented in Annex 3. An overview of the main environment strategies developed in the region covered by this document is presented in Annex 4.

3.2. IMPORTANCE OF PROJECT PREPARATION

Preparing feasible and attractive projects for funding, from either domestic or foreign resources, is a key element for effective financing of the environment. Well prepared projects, both infrastructure and capacity building, are usually accompanied by a high degree of project ownership and a proactive approach by the project promoter who has (i) identified the risks, (ii) met the submission requirements of the targeted donor institutions and (iii) provided a financing plan detailing all sources of co-financing, as well as clearly defined activities, outputs and results. Projects must also be well anchored in adopted national plans, programmes and strategies.

The preparation of environmental infrastructure projects is especially challenging as it requires specialist skills, knowledge and experience, financial and human resources and the effective coordination of many stakeholders (e.g. national, regional and local authorities, utilities and the private sector, civil society). It requires, *inter alia*, knowledge of environmental legislation, technologies, and procurement rules as well as experience in economic and financial analysis. Preparation of project documents¹³ requires in itself the

¹² ECE/Belgrade.CONF/2007/22 Mobilising Finance for Environmental Priorities: Recommendations for the Future

¹³ For example, documents required for EC co-financing of projects under IPA Component III (see chapter 7) include: feasibility study, cost benefit analysis, calculation of funding gap, affordability analysis, technical designs, information concerning land ownership, operation and maintenance arrangements, budget breakdown, financing plan, procurement plan, implementation arrangements, environmental impact assessment, relevant construction permits and an application form

allocation of significant financial resources. For instance, the cost of preparing water infrastructure projects in the region covered by the Enlargement Process is on average around € 200,000 for each town of 200,000 population and around € 100,000 for each town of 100,000 people¹⁴.

The costs, time and skills needed for preparing environmental infrastructure projects are considerable. In order to assist partner countries in these preparations, the Commission has, over recent years, launched several project preparation facilities or facilities that allow financing of project preparation, for example the Infrastructure Projects Facility (IPF) for the Western Balkans and the Neighbourhood Investment Facility (NIF) for the ENP partners. These have helped to fill the prevailing gap in funding and promoting project preparation, minimising the costs to the beneficiary countries and helping to ensure that investments are linked to environment policy rather than being chosen on an ad-hoc basis. An overview of existing and recently terminated facilities is given in Annex 5.

However given the limited resources available, these EC-financed facilities cannot meet all the needs. They can only address the most pressing environmental problems and transfer project preparation know-how to the partner countries. There remains a need to mobilise additional national and external resources to prepare environmental infrastructure projects. Well prepared, bankable projects not only increase the success of project implementation but also confirm the interest of donors and IFI resources.

3.3. FINANCING ENVIRONMENT PROJECTS

When discussing the financing of environment projects, the different roles of domestic public finance, the private sector and international aid sources have to be taken into account. Even in times of fiscal hardship, domestic public finance plays a key role in financing rehabilitation and capital investments and in overcoming affordability problems related to infrastructure projects. It plays a major role in providing environmental services that bring public benefits, such as water resource management, biodiversity conservation, or better municipal environmental infrastructure. The private sector invests in environmental improvements either alone or as a partner through public-private partnerships.

Assistance from donors plays an important role in capacity building, know-how transfer and co-financing of infrastructure projects. Finally, IFIs play an important catalytic role by co-financing environmental infrastructure investment operations with both private and public partners.

Budgetary support aid is being increasingly used in addition to traditional project-based assistance. The recipient countries may have more flexibility in allocating aid expenditures between sectors. Sectoral budget support must be carefully structured and based on an adopted environment strategy in order to be an effective tool that actually results in increased finance for environment. Therefore the Commission encourages its partners to develop environment strategies as a condition for receiving such finance. For example, the Commission is discussing with Ukraine the National Environment Strategy and related plans for its implementation in the context of sector budgetary support.

Coordination of environment financial flows at national level is essential in order to ensure complementarity in financing and to stimulate cooperation between the relevant ministries, especially including the Ministry of Finance. Coordination must address two main aspects: the

¹⁴

Based on experience of the Environmental Project Preparation Facility (EPPF)

generation of revenue for environmental improvements and the creation of disbursement mechanisms for the resources mobilised.

Economic instruments such as environmental taxes or user charges are essential for influencing the behaviour of polluters and for generating revenues for environment projects. User charges should cover the costs of operation and maintenance of environmental infrastructure and financing capital costs. However the application of the polluter pays principle through user charges such as water, sewage and waste management charges is a challenging task for the regions covered by this document and their affordability by consumers often constrains their use. The OECD/EEA database on instruments used for environmental policy and natural resources management contains selected information on economic instruments used in the candidate and potential candidate countries¹⁵. As for disbursement mechanisms, they can take the form of an environmental fund or an expenditure programme. For example an environmental fund is operational in Croatia¹⁶ and Serbia.¹⁷ Whatever the form, mechanisms need to have a clearly defined long-term objective, transparent procedures for selecting projects and developed schemes for project implementation and monitoring.

In the recent EU enlargement, the majority of resources for environmental improvements required by EU membership were generated from national revenues and only a portion of the resources needed came from donors and IFIs. The assistance provided by the EC was mainly aimed at building the legal and institutional frameworks for EU accession (providing capacity building and institutional strengthening), stimulating regional cooperation and co-financing infrastructure projects. It was estimated in 2001¹⁸ that, on average, the then candidate countries needed to increase their environmental expenditure up to 2-3 percent of their Gross Domestic Product (GDP) in order to comply with the requirements of the EU environment *acquis*. One can assume that this figure would be broadly the same for the current candidate countries and potential candidates. Recent analyses¹⁹ show that environmental expenditures have increased in all candidate countries and potential candidates, however, the level of spending is still low, ranging between 0.17 percent of GDP in Albania for the public sector to 1.6 percent of GDP in Croatia in 2005 for both public and private sector. In ENPI countries, the trend is not uniform.

Under the present EC financial framework (2007-2013), most of the EC assistance for environment for the countries covered by this document comes from the Instrument for Pre-accession Assistance (IPA) and the European Neighbourhood and Partnership Instrument (ENPI). For example under IPA Component I, €122 million were allocated to environment projects in 2007 and 2008, while under IPA Component III approximately €280 million have been allocated to environment for 2007–2009. Under the NIF, €23 million were allocated to environmental projects in 2008. The total investment volume generated by this €23 million will be about €1.2 billion.

The Mid-Term Review of strategy documents for programming of ENPI assistance in the 2007-2013 period entails a reassessment of the priorities defined in 2007 as well as the definition of financial allocations for the 2011-2013 period. How to address environment concerns in the 2011-2013 period is part of this review. Particular attention will

¹⁵ <http://www2.oecd.org/ecoinst/queries/index.htm>

¹⁶ <http://www.fzoeu.hr/hrv/index.asp>

¹⁷ <http://www.sepf.sr.gov.yu/>

¹⁸ COM (2001) 304 of 8 June 2001, Commission Communication on The Challenge of Environmental Financing in The Candidate Countries

¹⁹ REC 2007 Environmental Financing Trends in South Eastern Europe 2001-2005.

be paid to the integration of climate change considerations into relevant areas of support. An overview of the EC instruments to finance environment is presented in Annex 6.

Mechanisms driven by climate change policy, such as a clean development mechanism, might become a source of financing of green house gases reduction projects for the eligible countries.

Examples of economic instruments and the main types of disbursement mechanisms are presented in Annex 7.

3.4. THE ROLE OF REGIONAL INITIATIVES

Because of their transboundary nature, environmental problems of regional importance can be tackled more effectively in the framework of regional (multi-national) initiatives rather than through isolated national efforts, even if implementation will in most cases require national action. Moreover, regional initiatives can promote effective financing for the environment by facilitating the exchange of experience and best practices between the EU and partner countries and between countries in the regions covered by this document. Regional initiatives can be a forum for introducing methodologies for project identification and prioritisation, sharing experience of flagship/pilot projects, and transferring know-how on project preparation. By setting common goals and priorities, regional initiatives can also provide a platform for coordination of donor assistance.

In recent years, a number of new regional initiatives have become operational in the territories covered by this document, including several initiatives supported by the EC²⁰. While offering valuable opportunities for addressing regional challenges, care needs to be taken to ensure coherence and complementarity. In particular, with the extension of the Union for the Mediterranean²¹ (UfM) and the Horizon 2020 Initiative to cover the maritime Western Balkan countries, special attention has to be paid to ensuring consistency and complementarity with the activities of the other regional initiatives such as DABLAS and the EU Water Initiative.

As regards Eastern ENP partners, there have been efforts to help countries tackle the challenge of financing water sector improvements through DABLAS and the EU Water Initiative.²² The Black Sea Synergy²³ and the Eastern Partnership²⁴, which have environment dimensions, will promote further coordination on environmental issues in the region. As for the Southern ENP partners, Horizon 2020 remains the key Euro-Mediterranean environmental initiative and is coordinated with activities under the umbrella of the Barcelona Convention and the recently launched initiative to develop a Mediterranean Water Strategy.

Regional initiatives are more effective if anchored into overarching political processes, for example the Regional Environmental Network for Accession (RENA) will be linked to the Accession Process. Moreover, the proactive involvement of the participating countries in shaping regional initiatives is one of the keys to success. Initiatives in which the partner countries are involved in developing work plans, setting priorities and implementing complementary activities from national resources generally prove to be more successful. For example the Regional Environmental Reconstruction Programme is a successful example of

²⁰ Examples of EC supported newly created initiatives are the Western Balkan Investment Framework, still under development and the Regional Environmental network for Accession (RENA), which will be operational soon.

²¹ COM (2008)319/4 of 20 May 2008, Commission Communication on Barcelona Process: Union for the Mediterranean
²² www.euwi.net

²³ COM (2007) 160 of 11 April 2007, Commission Communication on Black Sea Synergy- A New Regional Cooperative

²⁴ COM (2008) 823 of 3 December 2008, Commission Communication on Eastern Partnership

an regional initiative with high ownership of beneficiary countries which actively participate in setting priorities and channelling assistance.

An overview of regional initiatives that include a focus on environment is presented in Annex 8.

3.5. COORDINATION OF EFFORTS

It is a well known principle that aid is most effective when the beneficiary country leads the process of donor coordination at national level. Furthermore, in the territories covered by this document, support from bilateral donors and IFIs is most effective when it takes into account national strategic aims to converge with EU policies and standards.

Many of the countries covered by this document have committed themselves to the five dimensions of the Paris Declaration on Aid Effectiveness²⁵ and its latest incarnation, the Accra Agenda for Action²⁶, which call for ownership, alignment, harmonisation, managing for results and mutual accountability. According to these principles, beneficiary countries should take effective leadership in developing and implementing strategies including the co-ordination of external aid; donors should align their assistance programmes with the country's priorities and use the beneficiary's systems for aid delivery. Harmonisation aims at simplifying procedures and establishing common arrangements for aid delivery. 'Managing for results' highlights the need for results-oriented reporting and mutual accountability so that donors and aid recipients are accountable to each other for development results. The EU Code of Conduct on Complementarity and the Division of Labour in Development Policies²⁷ also guides cooperation among EU donors.

At present, however, most countries covered by this document are not coordinating their respective donors; instead coordination is to a large extent left in the hands of the donors themselves and is not always conducted on a regular basis. Therefore there is a need to strengthen donor coordination mechanisms led by the beneficiary countries as an element of effective financing for the environment. The authorities responsible for the overall coordination of donors need to ensure active involvement of all relevant ministries, including ministries responsible for the environment, which should take a prominent role in sector coordination. The beneficiaries should aim at guiding the donors and IFIs towards aligning their assistance strategies with national environment strategies and priorities.

The Commission cooperates with bilateral donors in the framework of regional environmental initiatives, but further action is needed. Recently the Commission has worked to stimulate increased donor coordination in candidate countries and potential candidates through regional meetings. In the ENP region, the Neighbourhood Investment Facility promotes coordination and cooperation between the Commission, IFIs and EU Member States.

IFIs provide capital mainly in the form of loans to environment infrastructure projects, although in recent years IFIs have also become active in capacity building, and in assistance in related fields such as energy efficiency, renewable energy and climate change. The Commission cooperates with the IFIs in the framework of several Memoranda of Understanding (MoU) and agreements which have been used, among other purposes, to stimulate cooperation in the field of environment. There is, for example, a working group on the environment established under the IFIs' Advisory Group, covering South East Europe. In the Neighbourhood region, the coordination between the IFIs, bilateral European public

²⁵ Paris Declaration: http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html

²⁶ Accra Agenda for Action: <http://www.oecd.org/dataoecd/58/16/41202012.pdf>

²⁷ COM(2007)72 EU Code of Conduct on Complementarity and the Division of Labour in Development Policies

finance institutions and the Commission regarding project pipelines and project co-financing is being stimulated through the NIF. However, there is ample margin for improving further cooperation on the environment in the framework of the relevant MoU, especially in the ENP region. This improved cooperation should include the harmonisation of priorities and better dialogue on country strategies.

The Commission supports the European Principles for the Environment (EPE),²⁸ an initiative launched by several IFIs in a drive for increased harmonisation of environment principles, practices and standards associated with the financing of projects. The Principles which the signatory IFIs pledge to implement include the guiding environment principles in the EC Treaty and the practices and standards incorporated in EU secondary environment legislation. Projects implemented by signatories located in the EU Member States and enlargement countries *need* to comply with the environmental *acquis*. Projects located in the EU Neighbouring countries *should* comply with the environmental *acquis*, subject to local conditions.²⁹ There is a need to encourage other banks and bilateral donors, operating in the countries covered by this document, to become EPE signatories.³⁰ The Sourcebook on EU Environment Law,³¹ recently published by the EPE signatories, provides useful guidance on the application of the environmental requirements of the EU *acquis* in the context of project development.

Annex 9 presents the list of the existing MoU established between the Commission and IFIs.

4. CONCLUSIONS - THE WAY FORWARD

The main ingredients for success in effective financing for the environment in the countries covered by this document have been analysed in the previous sections. They include *inter alia* the adoption of environment strategies followed by transparent mechanisms for moving from identified environmental problems to implemented projects; bankability of projects, effective national coordination of financial flows for environment; optimized use of regional initiatives and country-led donor coordination. From the analysis presented above, the following elements emerge as priority issues for an enhanced dialogue between the Commission and partner countries, IFIs and bilateral donors aimed at ensuring effective financing for the environment:

(A) Better communication of the benefits of environmental improvements. Effective financing for the environment relies on a better understanding of the benefits of environmental improvements. Better communication of these benefits would raise the chances of mobilising finance for such improvements. There is a need to make better use of the results and conclusions of existing benefits studies. It should be generally recognized that the benefits of environmental improvements go beyond direct benefits in the environment sector per se. They contribute to improvements in health and economic wellbeing and therefore in creating attractive places to live and work. Dialogue with non-environment authorities in partner countries is needed to highlight these facts.

(B) Assistance in developing and implementing environment strategies. Partner countries need encouragement and assistance in developing environment strategies. The Commission

²⁸ EPE website: <http://www.eib.org/infocentre/epe/index.htm>

²⁹ In practical terms, it is often a challenge to interpret the application of the EPE principles in countries outside the EU, for example, in the ENP countries

³⁰ The EPE principles have currently been signed by only five European banks; The Council of Europe Development Bank, The European Bank for Reconstruction and Development, The European Investment Bank, The Nordic Environment Finance Corporation and The Nordic Investment Bank .

³¹ <http://www.eib.org/about/publications/sourcebook-on-eu-environmental-law.htm>

and other donors must also reflect on how to assist partner countries in the implementation of environment strategies and in monitoring of expenditure. Know-how on project prioritisation must be transferred to partner countries. There is also a need to discuss with partners how to increase dialogue with non-environment national authorities, with the aim of appropriately reflecting environment priorities in broader national programmes and strategies.

(C) Improving infrastructure project preparation. Partner countries need continued assistance in preparing projects, mainly through project preparation facilities. The Commission and other donors should engage with partner countries to determine how they can best mobilise resources for project preparation.

(D) Ensuring financial flows for the environment. Coordination of financial flows is a task for national authorities. However the partner countries covered by this document need support on how to do this in practice. The Commission and donors should consider the most efficient ways to transfer know-how on the coordination of financial flows for the environment, especially using the experience of the EU Member States.

(E) Financing capacity building. The regions covered by this document need continued support for capacity building, for example on the implementation and enforcement side. The magnitude of this challenge goes far beyond what can be provided by EC assistance. The Regional Environmental Centres in the ENPI countries have an important role to play in increasing capacities and awareness.

(F) Ensuring coordination of regional initiatives. Given the important role of regional initiatives (see section 3.4), there is a need for continued monitoring and adjustment of regional initiatives to ensure their relevance with a special focus on ensuring complementarity. Extension of the UfM and Horizon 2020 to the relevant enlargement countries will require enhanced coordination with activities under the new RENA network. The experience of DABLAS and the EU Water Initiative should be analysed for possible application to other environmental sectors. For the ENP Southern partners, the Commission will discuss with partners how best to ensure the effective coordination of financial flows for the environment going beyond the sectors addressed under Horizon 2020. There is also a need to analyse how to proceed with initiatives such as DABLAS, which are currently not anchored to EU political frameworks. Finally, there is a need to ensure that financial resources for regional initiatives are properly considered in the next EC Multiannual Financial Framework.

(G) Donor coordination led by partner countries. The Commission and other donors should discuss with partner countries how the latter can be assisted in strengthening their role as leaders of donor coordination at the national level. The Paris Declaration on Aid Effectiveness gives guidance on how to coordinate donors. Experiences of stimulating increased donor coordination in candidate countries and potential candidates could be transferred by the Commission to the ENP partners.

(H) Improving Commission cooperation with donors and IFIs. More effective use of the existing MoUs between the Commission and IFIs and of mechanisms under Community Instruments will strengthen dialogue, especially in the ENP region. There is a need to develop closer links with EU and non-EU bilateral donors and to analyse the ways in which this cooperation can be strengthened. Given the usefulness of the EPE, the Commission services will launch discussions with partner IFIs on EPE application in practice. They will also launch a discussion on how other non signatory IFIs could adopt the EPE principles or mirror them in their own methodological frameworks.

(I) Preparing for the next EC Multiannual Financial Framework. The Commission will soon be starting preparation for the next financial framework going beyond 2013, which will

set the main directions of the Community's financial assistance for the following seven years. Work is needed to ensure that the next multiannual financial framework is well aligned with other donors' assistance in the environment sector, taking into account the vast needs for financing for the environment in the regions covered by this document.

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http://ec.europa.eu/environment/enlarg/short_convergence.htm

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ANNEX

ANNEX 1: GLOSSARY OF ACRONYMS USED IN THE DOCUMENT

CBC – cross border cooperation

DABLAS – Danube and Black Sea Task Force

DSIFP – Directive Specific Implementation and Financing Plans

EaP – Eastern Partnership

EC – European Community

EEA – European Environmental Agency

ENP – The European Neighbourhood Policy

ENPI – European Neighbourhood and Partnership Instrument

ENRTP - Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy

EPE – European Principles for the Environment

EU – European Union

EUWI - EU Water Initiative

GDP – Gross Domestic Product

GEEREF - Global Energy Efficiency and Renewable Energy Fund

IFIs – International Financing Institutions

IPA – Instrument for Pre-accession Assistance

IPF – Infrastructure Projects Facility

Horizon 2020 – Horizon 2020 Initiative

MIPD – Multi-annual indicative Programming document

MoU – Memoranda of Understanding

NEAP – National Environmental Action Plan

NBSAPs – National Biodiversity Strategies and Action Plans

NDEP – Northern Dimension Environmental Partnership

NES – National Environmental Strategy

NIF – Neighbourhood Investment Facility

NPAA – National programme for the adoption of the *acquis*

OECD – Organisation for Economic Cooperation and Development

OP – Operational Programme

PEIP – Priority Environmental Investment Programme

PPIF - Project Preparation and Investment Facility

RBMP – River Basin Management Plans

RENA – Regional Environmental Network for Accession

REReP – Regional Environmental Reconstruction Programme

SBS – Sector Budgetary Support

TAIEX - Technical Assistance and Information Exchange Instrument

UfM – Union for the Mediterranean

ANNEX 2: Benefits and costs of compliance with the environment acquis

The main benefits of convergence with EU environment standards are benefits for health (reduction in illnesses), social benefits (safeguarding cultural heritage and recreational opportunities), economic benefits (such as eco-efficiency gains and attracting investment), and benefits for ecosystems and natural resources.

The table below presents estimates of benefits of compliance with the water related directives.³²

	Annual Benefits		Total Discounted Benefits	
	<i>Low Estimate</i>	<i>High Estimate</i>	<i>Low Estimate</i>	<i>High Estimate</i>
Million euros of 1999				
Albania	60.5	103.6	495	847
Bosnia-Herzegovina	75.3	95.8	616	783
Croatia	60.6	378.6	610.0	3 810.9
Former Yugoslav Republic of Macedonia	66.7	80.5	546	658
Montenegro	66.2	71.8	541	587
Kosovo under UNSCR 1244	14.3	21.1	117	172
Serbia	467	521	3 818	4 260
Total	811	1.272	6 743	11 118

Note: It illustrates monetised value of the annual benefits upon full compliance with the water directives and the total discounted benefits over 20 years of compliance with the water directives in the respective countries.

The first estimates of environmental financing needs are available for Candidate countries and potential candidates.

Albania	€ 238 million will be needed for water sanitation and environment investments between 2007 and 2013 ³³
Croatia	€10 billion will be needed to comply with the EU environment acquis ³⁴
the former Yugoslav Republic of Macedonia	€2.4 billion will be needed to comply with the EU environment acquis ³⁵

³² Based on Benefits studies see reference documents

³³ National Strategy for Development and Integration

³⁴ Croatian estimate

Serbia	€4 billion are needed for compliance ³⁶
Turkey	The investment cost of compliance is €59 billion between 2007 and 2023 ³⁷

³⁵ CARDS 2005 Developing National Strategy for Environmental Approximation
³⁶ National Environmental Strategy
³⁷ EU Integrated Environmental Approximation Strategy

ANNEX 3: OVERVIEW OF TYPES OF ENVIRONMENT STRATEGIES

Overall environment strategies	
National Environment Strategy (NES)	It provides a basis for defining national environment policy objectives. Actions identified in National Environmental Action Plans (NEAP) originate from NES.
National Environment Action Plan (NEAP)	It aims at identification of short and long-term priority actions and measures providing the basis for preparation of a long-term environment protection strategy in accordance with the economic, social and political situation. It is a document which sets out concrete activities in the improvement of environmental management and sustainable use of natural resources. As it focuses on a specific time period it is amended regularly.
Strategies which are part of EU accession process	
National programme for the adoption of the <i>acquis</i> (NPAA)	NPAA is required by the Accession Process. It is a focal point for the overall coordination of approximation activities. It is supported by specific implementation plans. In its environmental chapter, and for each environment sector and each individual legal instrument, it sets out the current situation, short and medium term priorities in line with the accession partnership, institution building needs and estimates of financial needs.
National Environmental Approximation strategy	It is recommended by the Commission, as it provides details of plans for the transposition and implementation of the environment <i>acquis</i> and improving the institutional framework for the adoption and implementation of environment legislation. As it focuses on one sector, it is easier to amend it than NPAA.
Environmental investment programme/ environment financing strategies.	It identifies the projects needed to achieve compliance with the specific directives. They are especially important for directives which require significant investment costs. It assesses the overall level of investment needed as well as cost estimates for typical or specific projects. It considers affordability issues and it proposes a credible time frame for implementation. They are recommended to be developed.

Directive Specific Implementation and Financing Plans (DSIFP)	Candidate countries are required to prepare DSIFP for all directives for which they are seeking transition periods in their accession negotiations. DSIFP are negotiated with the Commission.
Strategies required by environment acquis	
Waste Management Plans (national, regional, local)	<p>Waste management planning is the cornerstone of any national, regional or local policy on waste management. The establishment of a plan allows, taking stock of the existing situation, definition of the objectives that need to be met in the future, to formulate appropriate strategies and identify the necessary implementation means.</p> <p>EU legislation on waste management requires countries to draw up waste management plans. They are an essential tool in ensuring that the capacity of waste management infrastructure corresponds to the actual volume of waste, that there is a sufficient network of safe and legal waste disposal and recovery facilities. In practice, the plan should consist of two components: a strategy for managing wastes (an overall framework that stipulates what actions will be taken and by when) and a plan for implementing the strategy (containing details of how these actions will be undertaken and by whom). The national plan which specifies targets to be achieved on national level should be developed first and followed by regional³⁸ and local plans. The Commission has published a guidance note on waste management plans³⁹</p>
River Basin Management Plans (RBMP)	<p>Required by the Water Framework Directive. It records the current status of water bodies within the river basin district; sets out the measures planned to meet objectives and acts as the main reporting mechanisms to the Commission and the public. It takes into account cost-efficiency. The planning, implementation and evaluation of the programme of measures is an iterative process.</p> <p>River basin management plans serve as an indispensable element for technical and financial planning, not least in negotiations with the EU and IFIs.</p>
Technical and financial programme	Waste water infrastructure (collecting systems; treatment plants) rank amongst the most costly elements of environmental obligations. Adequate implementation plans for their step-by-step realisation are therefore an indispensable element for

³⁸ Regional and local plans follow the country administrative structure.

³⁹ Guidance note is available at <http://ec.europa.eu/environment/waste/plans/index.htm>

for implementation of the Urban Waste Water Treatment Directive	<p>technical, financial and political decisions, inter alia in negotiations with the EU and IFIs.</p> <p>Such implementation plans are required under article 17 of the Urban Waste Water Treatment Directive.</p>
Flood Mapping and Flood Risk Management Plan	<p>Floods have increasingly caused casualties as well as large-scale damage to infrastructure, public and private property. Flood risk management under the Floods Directive provides for 3 steps (preliminary risk assessment, flood mapping and flood risk management plans). In particular flood mapping will provide a sound and long-term information basis for all involved (authorities, municipalities, citizens and businesses) to prevent future damage through proper choice of location for housing areas, commercial activities areas and public infrastructure.</p>
Marine Strategy Framework Directive	<p>Coordination and cooperation in shared marine areas (Baltic Sea, Black Sea, and Mediterranean Sea) will, similar to cooperation in shared river basins under the Water Framework Directive, allow for the choice of cost-beneficial solutions for all involved. Environment assessment and development of a programme of measures are obligations under the Marine Strategy Framework Directive. They will also be a useful basis for negotiations with the EU.</p>
Action Plan for Nitrate-Vulnerable Zones under the Nitrates Directive	<p>Where ground waters and/or surface waters suffer under elevated concentrations of nitrates due to pollution from agriculture, frequently posing serious problems for drinking water supply and/or for the environmental status of waters, management measures within agriculture are required. The necessary action plans (manure storage capacities, restrictions for manure spreading in terms of time and location) serve as a basis for authorities as well as farmers how to avoid future water pollution by nitrates from agriculture. Thus they allow best use of limited resources as well as of external financial support (e.g. from the EU or IFIs).</p>
Bathing water monitoring	<p>Ensuring clean water at beaches serves public health interests and promotes tourism. Bathing waters quality standards are set out under the EU Bathing Water Directive; regularly monitoring such quality provides not only information to bathers, but is also a basis for targeted action in the case of pollution of beaches.</p>
Strategies recommended to facilitate implementation of the environment acquis and environmental policy	

Sustainable development strategy	The EU Sustainable Development Strategy ⁴⁰ , renewed in 2006, aims at continuous improvement of quality of life both for current and for future generations without exceeding the earth's capacity. The strategy has four main objectives: environmental protection, social equity and cohesion, economic prosperity, meeting international responsibilities and aims at integrating all these objectives into policy making. It is focused on 7 key challenges: climate change and clean energy; sustainable transport; sustainable consumption and production; conservation and management of natural resources; public health; social inclusion, demography and migration; global poverty. EU Member States have their own national sustainable development strategies. It is recommended by the Commission that the EU Neighbouring countries would follow the same approach.
Selected strategies required or recommended by international conventions	
National Biodiversity Strategies and Action Plans (NBSAPs)	Article 6. of the Convention on Biological Diversity ⁴¹ requests that each Contracting Party shall, in accordance with its particular conditions and capabilities: (a) Develop national strategies, plans or programmes for the conservation and sustainable use of biological diversity or adapt for this purpose existing strategies, plans or programmes which shall reflect, inter alia, the measures set out in this Convention relevant to the Contracting Party concerned; and (b) Integrate, as far as possible and as appropriate, the conservation and sustainable use of biological diversity into relevant sectoral or cross-sectoral plans, programmes and policies.
Climate strategy	European Community is a Party to the UNFCCC, therefore Member States are recommended to develop this strategy as part of implementation of the Convention. The Convention obliges all Parties to formulate, implement, publish and regularly update national, and where appropriate regional programmes containing measures to mitigate climate change addressing anthropogenic emissions by sources and removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, and measures to facilitate adequate adaptation to climate change.
Strategy on	European Community is a Party to the UNFCCC, therefore Member States are recommended to develop this strategy as

⁴⁰

<http://register.consilium.europa.eu/pdf/en/06/st10/st10917.en06.pdf>

⁴¹

<http://www.cbd.int/convention/articles.shtml?a=cbd-06>

adaptation to climate change	<p>part of implementation of the Convention.</p> <p>The Convention obliges all Parties to develop and elaborate appropriate and integrated plans for coastal zone management, water resources and agriculture, and for the protection and rehabilitation of areas, particularly countries affected by drought and desertification, as well as floods.</p>
Action Plan to fulfil obligation of the Convention of the Transboundary Effects of Industrial Accidents	<p>Action Plans are developed in the frame of the Convention of the Transboundary Effects of Industrial Accidents on a voluntary basis. The Commission encourages development of these plans. They can be integrated into overall environmental strategies. The Commission supports the Assistance Programme⁴² to enhance countries of Eastern Europe, Caucasus and Central Asia (EECCA) and South-Eastern Europe (SEE) in implementing the Convention.</p>

⁴²

<http://www.unece.org/env/teia/assistprog/welcome-assistance.htm>

ANNEX 4: OVERVIEW OF THE MAIN ENVIRONMENT STRATEGIES IN THE REGIONS COVERED BY THIS DOCUMENT

Candidate countries	
Croatia	<ul style="list-style-type: none"> • National Environmental Strategy and National Environmental Action Plan (2002) • National waste management strategy (2005) • National Programme for the Adoption of the Acquis (2006) • National waste management plan (2007) • Air quality protection and improvement plan for the period 2008 - 2011 (2008) • Water management strategy (2008) • Biological and landscape diversity strategy and action plan (2008) • National chemicals Strategy (2008) • Plan for Setting up necessary administrative capacities at regional and local level and required financial resources for implementing the environmental acquis (2008) • National Strategy for Sustainable Development (2009)
Former Yugoslav Republic of Macedonia	<ul style="list-style-type: none"> • National Environmental Action Plan (2006) • National Environmental Approximation Strategy (2008) • National Programme for the Adoption of the Acquis (2005) • National Strategy for waste management (2008) • National Waste Management Plan (2008) • Biodiversity Strategy and Action Plan (2004) • Plan for institutional development for strengthening the capacities for environmental management on central and local

	<p>(2009)</p> <ul style="list-style-type: none"> • National Strategy for Environmental Investments (2009)
Turkey	<ul style="list-style-type: none"> • National Environmental Action Plan (1998) • EU Integrated Environmental Approximation Strategy (2007) • Environmental Approximation Strategy (2008) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (2005)
Potential candidates	
Albania	<ul style="list-style-type: none"> • Environment Sector and Cross-cutting Strategy (2007) • Biodiversity Strategy and Action Plan (1999)
Bosnia and Herzegovina	<ul style="list-style-type: none"> • National Environment Action Plan (2003) • Solid Waste Management Strategy (2000)
Montenegro	<ul style="list-style-type: none"> • National Environmental Policy: a document which defines framework policy of general priorities and establishes overall aims in the field of environment. (2008) • Strategic Master Plan for Waste Management (2005) • Waste Management Plan for the period 2008 – 2012 (2007) • Draft of the Biodiversity Strategy with the Action Plan (2008)
Serbia	<ul style="list-style-type: none"> • National Strategy for Waste Management with EU Accession Programme (2003) • National Sustainable Development Strategy (2008) • Strategy for Introducing Cleaner Production in the Republic of Serbia (2009)

Kosovo under UN SCR1244	<ul style="list-style-type: none"> • Environmental Protection and Sustainable Strategy (2004) • Environmental Action Plan 2006-2010(2006) • Kosovo environmental action plan for approximation with EU standards (2007)
Eastern Neighbours	
Armenia	<ul style="list-style-type: none"> • National Environmental Action Plan– 2 (NEAP-2) for 2008-2012 (2008) • Sustainable Development Programme(2008)
Azerbaijan	<ul style="list-style-type: none"> • National Environment Action Plan (1998) • Complex Strategy including measures to improve environmental situation 2006 – 2010 (2005) • National programme for sustainable development (2002) • Programme on poverty reduction and sustainable development of Azerbaijan (2008-2015) (2008)
Georgia	<ul style="list-style-type: none"> • National Environmental Action Plan (2000)
Moldova	<ul style="list-style-type: none"> • National Programme for gradual phase-out of ozone depleting substances” (1999) • National Concept on Organic Farming, Production and Marketing of Organic and Genetically Unmodified Products (2000) • National Action Programme for Combating Desertification (2000) • National Programme on Management of Industrial and Domestic Waste for 2001-2005 (2000) • National Environmental Policy Concept (2001) • National Action Plan on Environmental Health (2001) • National Strategy and Action Plan for Protection of Biodiversity (2001)

	<ul style="list-style-type: none"> • National Programme on Energy Conservation for 2003-2010 (2001) • Concept of National Policy in Water Resources for 2003-2010 years (2003) • National Programme on Utilization of New Land and Improvement of Soil Fertility for 2003-1010 (2003) • National Strategy for Elimination of POPs in Moldova (2004) • National Programme on Environmental Security (2007) • Strategy on Water Supply and Sanitation 2007-2025 (2007)
Ukraine	<ul style="list-style-type: none"> • National Programme for the Environmental Rehabilitation of the Dnipro River Basin and Improvement • Main Directions of the National Policy of Ukraine for Environmental Protection, Natural Resource Use and Environmental Safety (1997) • National Programme for the Development of Ukraine's National Ecological Network for 200-2015 (2000) • Programme for Implementing Ukraine's Millennium Development Goals (2003) • Concept of the National Environmental Strategy (2007)
Belarus	<ul style="list-style-type: none"> • National Strategy for Sustainable Development for the period to 2020 (2004) • National Environmental Action Plan (2006)
Mediterranean Neighbours	
Algeria	<ul style="list-style-type: none"> • National Action Plan for Environment and Sustainable Development (2002) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005) • National Action Plan to combat desertification (2003) • Ten year National Environmental Strategy based on the results of the 2003 National Report on the Status of the Environment

Egypt	<ul style="list-style-type: none"> • National Environmental Action Plan • National Plan for the Protection of Water Resources from Pollution 2001-2012 (2001) • Rural Sanitation Strategy (2008) • National Strategy for Integrated Municipal Solid Waste Management (2000) • National Strategy and Action Plan for Biodiversity Conservation (1997) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan)
Israel	<ul style="list-style-type: none"> • Vision of Ministry of Environmental Protection (2008) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
Jordan	<ul style="list-style-type: none"> • Environmental Strategic Plan 2007-2010 (2007) • Sustainable Development Strategy (1999) • National Biodiversity Strategy and Action Plan (2003)
Lebanon	<ul style="list-style-type: none"> • Strategic Plan for the Water Sector • National Biodiversity Strategy and Action Plan (1998) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
Libya	<ul style="list-style-type: none"> • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
Morocco	<ul style="list-style-type: none"> • National Strategy on Environment Protection and Sustainable Development (1995)

	<ul style="list-style-type: none"> • National Action Plan for the Environment • National Programme on Sanitation • National Strategy on Solid Waste Management • Municipal Solid Waste Management Programme (2008) • National Action Plan to Combat Desertification (2001) • Strategy and Action Plan to protect biodiversity (2004) • Reforestation programme • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
Occupied Palestinian Territory	<ul style="list-style-type: none"> • Palestinian Reform and Development Plan (2007) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
Syria	<ul style="list-style-type: none"> • National Environmental Action Plan (2001) • National Environmental Strategy and Action Plan (2003) • National Biodiversity Strategy and Action Plan (1999) • National Action Programme to Combat Desertification (2002) • National Master Plan of Solid Waste Management (2002) • National Action Plan for Protection of the Mediterranean Environment from Land-Based Activities (2005)
Tunisia	<ul style="list-style-type: none"> • Eleventh Economic and Social Development Plan (2007-2011) - the basis for all environmental activities, as well as social and economic actions (2007) • Strategy for the protection of soil and water

	<ul style="list-style-type: none"> • National Plan on Irrigation Efficiency (1995) • Action Plan to Combat Desertification (1998) • Action plans to protect biodiversity in specific areas (2007) • National strategy and action plan to protect marine ecosystems (2007) • National Action Plan adopted under Strategic Action Programme to Address Pollution from Land Based Sources (Mediterranean Action Plan) (2005)
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Notes: Table presents environmental strategies adopted by February 2009. There are national strategies which have environmental component; they are not presented in this table, unless it is the only environmental policy guiding document. There are national strategies which are developed in the frame of international conventions. They are presented only for the Mediterranean countries, highlighting their importance in cooperation with the EU.

ANNEX 5: OVERVIEW OF RECENTLY COMPLETED AND CURRENT PROJECT PREPARATION AND INVESTMENT FACILITIES

Recently completed project preparation facilities

<i>Facility</i>	<i>Countries covered</i>
Danube Investment Support Facility (2004-2007)	Bosnia and Herzegovina, Croatia, Serbia and Montenegro
Black Sea Investment Facility (2004-2006)	Georgia, Moldova, Russia and Ukraine
Water Investment Support Facility (2005 – 2007)	Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan
Environmental Project Preparation Facility (2006-2008)	Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Kosovo ⁴³

Current project preparation and investment facilities

Candidate countries and potential candidates can benefit from the **Infrastructure Projects Facility (IPF)**. The IPF was launched in 2008 and supports project preparation in the energy, environment, social and transport sectors. The facility has since been expanded to include a Municipal Window (MW) aimed at supporting project implementation. In 2008, five environmental projects were selected for support under the IPF TA and four more in 2009. The IPF MW provides grants to leverage IFI loans and facilitate project implementation. Selected projects will be implemented through joint management with IFIs and will receive EC co-financing under the IPF MW. The IPF has now become part of the broader Western Balkan Investment Initiative, which aims at involving the Member States, in addition to the IFIs, beneficiaries and the EC.

The NIF⁴⁴ was officially launched in 2008. It provides grant support for lending operations of European Development Finance institutions in the neighbouring partner countries (see table in Annex 8). Out of the €700 million that the Commission intends to allocate to the NIF for the period 2007-2013, €170 million have been made available so far for financing of eligible projects. Environment is one of the priority sectors covered by the NIF. In 2008 40% of projects approved for financing focussed on environmental issues. NIF operations focus on the countries which have already signed an ENP action plan with the EU. On the case by case basis, other neighbouring countries may also benefit from NIF grant support, in particular in case of projects of cross border or regional nature to which the EU attaches particular interest. EU Member States provide additional funds to the NIF through the NIF Trust Funds. In 2008, €37 million of additional contributions were pledged by 15 Member States. The funds are complemented by contributions from ENP partner countries.

43 Kosovo under UNSCR 1244

44 NIF web site

http://wcmcom-ec-europa-eu-wip.wcmvue.cec.eu.int:8080/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

The Project Preparation and Investment Facility (PPIF), financed by FEMIP,⁴⁵ was launched in 2009 for Mediterranean partners of the ENP. The facility provides grant funding for preparing projects for environmental infrastructure. Projects developed under the facility could be considered for funding under the NIF. The facility aims at achieving the Horizon 2020 goal of de-polluting the Mediterranean Sea by 2020. It promotes integration of sound water management and the sustainable use of water.

⁴⁵ The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) was launched in 2002 to increase the volume of EIB lending in the Mediterranean region. FEMIP supports infrastructure projects, schemes specifically targeting environmental protection and investment in human capital.

ANNEX 6: OVERVIEW OF THE EUROPEAN COMMUNITY INSTRUMENTS TO FINANCE ENVIRONMENT

This annex presents an overview of the main EC instruments which enable co-financing of environmental improvements and assist partner countries to coordinate financial flows for the environment. It has to be noted that many projects which are now under implementation, have been supported by instruments active before 2007, for example CARDS, ISPA or TACIS and therefore they are not covered by this document. Furthermore, environmental improvements are often financed as part of projects in other sectors, for example sustainable transport, municipal infrastructure etc, and therefore the instruments and indicative allocations described below should not be treated as the total of assistance to the environment.

The main instrument to finance environmental projects in the enlargement region since 2007 is the **Instrument for Pre-accession Assistance (IPA)**.⁴⁶ Three of the IPA components are of direct relevance to financing environmental projects: (I) Transition Assistance and Institution Building; (II) Cross-Border Co-operation (with EU Member States and other countries eligible for IPA); and (III) Regional Development⁴⁷ (transport, environment and economic development). Based on multi-annual indicative programming documents (MIPD), annual programmes are developed. In 2007 and 2008 under Component I national programmes, around € 63 million and €9 million were respectively allocated to environment projects, while multi-beneficiary programmes supported a number of environment projects totalling €3.7 million. Under IPA component II, environment projects in eligible cross-border areas are supported in cross-border cooperation programmes. IPA component III, available for the Candidate countries, also focuses via Operational Programmes (OP) on environment. The OPs specify the area of involvement (water management, solid waste management, technical assistance) as well as indicate the investment projects to be supported. For the first three years 2007-2009, approximately 280 million euros have been allocated to environment.

The European Neighbourhood and Partnership Instrument (ENPI) is the main E.C. financial instrument for the European Neighbourhood Policy partners and Russia.⁴⁸ The ENPI targets sustainable development and approximation to EU policies and legislation, and supports cross-border cooperation along the EU's external borders. The ENPI is a "policy driven" instrument that operates in the framework of the existing bilateral agreements between the Community and the neighbouring countries. Legislative approximation, regulatory convergence and institution building are supported through exchange of experience, and mechanisms such as long-term twinning arrangements with Member States or participation in Community programmes and agencies. There are two regional programmes implemented under the ENPI: the Regional Programme for the Euro-Mediterranean Partnership⁴⁹ and the Eastern Regional Programme.⁵⁰ The ENPI operates also through interregional, cross-border-cooperation and national programmes. Around 90% of ENPI funds are used for bilateral actions, i.e. country-specific initiatives and for regional actions involving two or more partner countries. The remaining 10% are reserved for specific new areas of joint activity, namely cross-border co-operation (CBC), and specific initiatives like the Neighbourhood Investment Facility. All CBC programmes addresses the so-called

⁴⁶ IPA web site: http://ec.europa.eu/enlargement/how-does-it-work/financial-assistance/instrument-pre-accession_en.htm

⁴⁷ Component III is open for the Candidate countries.

⁴⁸ ENPI covers Russia which is involved in regional projects for example in the field of climate change and forestry and in cross border cooperation projects.

⁴⁹ http://ec.europa.eu/world/enp/pdf/country/enpi_euromed_rsp_en.pdf

⁵⁰ http://ec.europa.eu/world/enp/pdf/country/enpi_eastern_rsp_en.pdf

"common challenges" of border regions (between EU Member States and ENPI partners), including the sea basins (Baltics, Mediterranean and the Black Sea) and are financing projects related to environmental problems of the regions located on the external border of the EU and in the adjoining territories of the ENPI countries. Out of the 15 ENPI Cross border cooperation programmes for the period 2007-2013, 13 are adopted by the European Commission and operational. They all have environmental objectives.

On a global scale, a Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy⁵¹ (ENRTP, 2007 – 2013) has been established. For 2007 to 2011, a specific allocation of 12.3 million euros has been set aside for biodiversity and climate change in the ENPI region. In 2007, two million euros were allocated to biodiversity in the Mediterranean and in 2008 three million euros were allocated to biodiversity protection in Eastern countries and to climate change in the Mediterranean. In addition, 18.4 million euros on energy and GEEREF, covering mainly environmental improvements, have been allocated to the ENPI region. The ENTPR will finance a 1.3 million euros study for ENPI countries on social and economic benefits of enhanced environment protection. ENPI countries can also apply for global calls under ENRTP.

The Technical Assistance and Information Exchange Instrument (**TAIEX**⁵²) provides for centrally managed short-term technical assistance in the field of approximation, application and enforcement of European Union legislation as well as support for the implementation of the ENP Action Plans. It assists countries covered by the enlargement process and since 2006 ENP countries and Russia have also benefited from its assistance. TAIEX is a demand driven instrument that can be used for developing legislative structures, strategies, human resources and management skills needed to strengthen the partners' institutional capacities including in the field of environment. The main value added of the TAIEX instrument is its flexibility and the capacity to intervene quickly whenever properly justified applications are submitted.

Some of the countries covered by this document can also benefit from participation in the Community Programmes linked to environment for example the Competitiveness and Innovation Programme or the 7th Research Framework Programme.⁵³

51 http://ec.europa.eu/europeaid/where/worldwide/environment/documents/thematic_2007_env_en.pdf ENRTP is implemented under the Development Cooperation Instrument.

52 <http://taieux.ec.europa.eu/> The main forms of assistance are seminars and workshops, expert missions, study visits and assessment missions. Between 2006 and the first quarter of 2009, 142 events were organised in the field of environment in the enlargement countries 14 events were organised in the field of environment in the ENP countries.

53 http://cordis.europa.eu/fp7/who_en.html#countries

ANNEX 7: ECONOMIC INSTRUMENTS AND THE MAIN TYPES OF FUNDS⁵⁴

Examples of economic instruments⁵⁵

Air emissions: air emission charge; air emission non-compliance fee, CO2 tax, emission trading scheme.

Water pollution: water effluent charge; water pollution non-compliance fee and sewage charges.

Waste: municipal waste user charges; waste disposal charges; waste non-compliance fees.

Waste-related product charges: packaging material, batteries/accumulators; tyres, substances/products damaging the ozone layer.

Transport: tax differentiation for leaded and unleaded petrol; product charge on transport fuels; noise/air pollution tax on air travel.

Nature protection and biodiversity: non-compliance fees.

Natural resources and mining: natural resources and mining tax/charges and water extraction charges.

Other: income tax/ VAT allowances for environment technologies.

The mechanisms for disbursement take different organisational forms, have different degrees of independence and provide different forms of assistance. Their structures need to be adapted to the countries' legal, political and organisational structures.

Type	Description
Budgetary fund	Defined budget line in the state budget. Volume of expenditures and origin of funds often fixed. Annual budgeting.
Extra-budgetary fund	Separate institutional set-up. Can be designed as a legal entity. Refinancing capabilities of the fund legally determined
International donors' fund	Money channelled through one institution.
Debt for environment swap	National debt paid to the funds as a source of revenue according to negotiated rules with a donor country

⁵⁴ Based on Establishing an Environmental Fund (2006)

⁵⁵ Based on OECD (1999)

ANNEX 8: OVERVIEW OF REGIONAL INITIATIVES

The Regional Environmental Reconstruction Programme⁵⁶ (REReP) is the main cooperation initiative since 1999 in the Candidate countries and potential candidates. REReP provides a unique framework for environmental priority-setting, coordination and project implementation in South Eastern Europe. The REReP activities are implemented under the programme areas of institution building, cross-border cooperation, civil society building and biodiversity and health protection. The countries adopted the programme priorities and translated them into priority projects, financed by the donor community. In 2006 alone, donors allocated a total of around 70 million euros to ensure implementation of the programme's goals. **The Priority Environmental Investment Programme⁵⁷ (PEIP)** is one of the REReP components. The PEIP assists strategic environmental investment planning by identifying and prioritising projects of regional importance, providing capacity building on project preparation, and helping to securing finance. The PEIP list of priority projects was developed in 2002. Since then the progress in preparing and financing projects from the list has been monitored regularly. In view of the changing situation of the REReP beneficiaries, REReP's aim on facilitating environmental reconstruction in the post-war environment has been fulfilled and there is a need to move on with environmental regional cooperation focusing on pre-accession cooperation. Building on results achieved by REReP, a new initiative will be launched in 2009: **the Regional Environmental Network for Accession (RENA)**. The activities developed by RENA will focus on: strategic planning of the pre-accession process, public participation, climate change, cross-border co-operation and preparation of environmental investment projects.⁵⁸

There are regional initiatives which focus on water sector improvements. Since 2001 **The DABLAS Task Force⁵⁹** provides a platform for co-operation for the protection of water and water-related ecosystems in the Danube and Black Sea Region. DABLAS provides a strategic approach to the use of available financing and ensures coordinated action between the donor community interested in de-pollution of the Danube and the Black Sea. The DABLAS priority projects list was endorsed in 2003 and since then the progress on project implementation has been monitored. DABLAS also provides assistance to project preparation and sustainable river basin management. The **EU Water Initiative⁶⁰ (EUWI)** was launched to contribute to the achievement of the Millennium Development Goals (MDGs) and targets for drinking water and sanitation, within the context of an integrated approach to water resources management. A set of demonstration projects provides examples of good practice. As a follow-up to the Jordan Ministerial water conference⁶¹ a Mediterranean Water strategy will be adopted in 2010. In this context working groups of Mediterranean water experts were set up.

The **Union for the Mediterranean (UfM)** was launched in 2008. It replaces the Euro-Mediterranean Partnership (Barcelona Process). The UfM is a multilateral partnership which focuses on regional and trans-national projects increasing the potential for regional integration and cohesion. The programmes developed under this initiative will have a strong potential to promote regional cohesion and economic integration, and to develop infrastructural

⁵⁶ REReP website: <http://www.rec.org/REC/Programs/REREP/default.html>.

⁵⁷ PEIP website: <http://www.rec.org/REC/Programs/REREP/PEIP/default.html>

⁵⁸ RENA priorities were identified by the Environment Ministers of the beneficiary countries and Bulgaria and Romania in June 2007.

⁵⁹ DABLAS website: http://ec.europa.eu/environment/enlarg/dablas/index_en.htm

⁶⁰ EU Water Initiative website: <http://www.euwi.net/>

⁶¹ www.medaquaministerial2008.net/

interconnections. The de-pollution of the Mediterranean Sea is in the core interest of the initiative. Therefore Horizon 2020 is one of the flagship programmes identified. In 2009 the activities will focus on 6 sectors. Under the environment sector the focus will be on water, maritime strategy and climate change. As a follow-up to the Jordan Ministerial water conference⁶², a Mediterranean Water strategy will be adopted in 2010. In this context working groups of Mediterranean water experts have been established.

In 2005 The Euro-Mediterranean partners launched the **Horizon 2020 (H2020) initiative**⁶³ which aims to reduce the levels of pollution in the Mediterranean Sea by 2020. It focuses on facilitating implementation of infrastructure projects, capacity building, enhancing research efforts and monitoring progress. The initiative identified and prioritised the most significant industrial emissions, municipal waste and urban waste water reduction which are responsible for up to 80% of pollution in the Mediterranean Sea. The Mediterranean Hot-Spot Investment Programme⁶⁴ (MeHSIP), a study financed under FEMIP Support Fund, identified the potentially most bankable projects from projects identified under the National Action Plans developed under the LBC Protocol of the Barcelona Convention. The regional capacity building measures assist the partner countries in strengthening national environmental administrations to develop and police environmental laws. The capacity building actions are directly related to the aim of de-pollution and target the priority H2020 sectors.

The **Northern Dimension Environmental Partnership**⁶⁵ (NDEP) is cooperative effort responding to the need for a concerted effort to tackle some of the most pressing environmental problems in north-west Russia with benefits extending to the Baltic Sea and to the Arctic Barents Sea region. It has mobilised 80 million euros of grants (including 20 million euros from the European Community) to facilitate environmental projects in the fields of water, wastewater, solid waste, energy efficiency and district heating. The NDEP's environment programme consists of 15 priority projects whose combined cost exceeds 2 billion euros. In addition, the nuclear window of the NDEP has mobilised 114 million euros for projects on nuclear waste management.

In 2008 a proposal for the creation of an **Eastern Partnership**⁶⁶ (EaP) was initiated to enhance the EU's relationship with ENP partner countries through the adoption of measures such as enhanced agreements and their progressive integration into the EU economy and thematic platforms for multilateral dialogue and cooperation. The thematic platform on economic integration and convergence with EU policies identifies the need to extend multilateral cooperation on environment policy and climate change.

The **Black Sea Synergy** is a regional cooperation initiative of the EU established in 2007 aimed at solving problems which require practical region-wide efforts. It is intended to be a flexible framework to ensure greater coherence and policy guidance. Environment is identified as one of the cooperation areas.

The table below summarises the geographical coverage of the regional initiatives and project preparation facilities described in the text.

⁶² www.medaquaministerial2008.net/

⁶³ H2020 website: http://ec.europa.eu/environment/enlarg/med/horizon_2020_en.htm

⁶⁴ http://ec.europa.eu/environment/enlarg/med/pdf/mehsip_report.pdf

⁶⁵ NDEP is managed by EBRD. Partners and implementing agencies are presented on the website <http://www.ndep.org/home.asp>

⁶⁶ Eastern Partnership: http://ec.europa.eu/external_relations/eastern/index_en.htm

	Candidate Countries			Potential Candidates					Russia & Eastern Neighbours						Mediterranean Neighbours										
	HR	MK	TR	AL	BA	RS	ME	KO	AM	AZ	GE	MD	UA	RU	BY	EG	JO	MA	TN	LB	IL	PS	LY ¹	DZ	SY
Regional Initiatives																									
DABLAS Task Force	√		√		√	√					√	√	√	√											
EU Water Initiative (EUWI)	√		√						√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Future Mediterranean Water Strategy	√		√	√	√		√								√	√	√	√	√	√	√	√	√	√	√
The Regional Environment Reconstruction Programme (REReP) ²	√	√		√	√	√	√	√																	
The Priority Environmental Investment Programme (PEIP)																									
The Regional Environmental Network for Accession (RENA)	√	√	√	√	√	√	√	√																	
Horizon 2020 Initiative (H2020) ⁵	√ ³		√ ³	√ ³	√ ³		√ ³									√	√	√	√	√	√	√	√	√	√
Northern Dimension Environmental Partnership (NDEP)														√											
Union for the Mediterranean (BP: UpM)	√		√	√	√		√								√	√	√	√	√	√	√	√	√	√	√
Eastern Partnership (EaP)									√	√	√	√	√		√										
Black Sea Synergy			√						√	√	√	√	√	√											
Project Preparation																									

Infrastructure Projects Facility (IPF)	√	√		√	√	√	√	√																
Neighbourhood Investment Facility (NIF)									√	√	√	√	√	√ ₄	√ ₄	√	√	√	√	√	√	√ ₄	√ ₄	√ ₄
The Project Preparation and Investment Facility (PPIF)															√	√	√	√	√	√	√	√	√	√

Notes:

Country abbreviations: HR- Croatia; MK- the Former Yugoslav Republic of Macedonia; TR- Turkey; AL- Albania; BA- Bosnia-Herzegovina; RS- Serbia; ME- Montenegro; KO- Kosovo UN Security Council Resolution 1244 ; AM- Armenia; AZ- Azerbaijan; GE- Georgia; MD- Moldova; UA- Ukraine; RU- Russia; BY- Belarus; EG- Egypt; JO- Jordan; MA- Morocco; TN- Tunisia; LB- Lebanon; IL- Israel; PS- Palestine; LY- Libya; DZ- Algeria; SY- Syria. IPF focuses on potential candidates. In the future it will cover Turkey.

1/ Libya has an observer status in all initiatives

2/ REReP will be replaced by RENA from June 2009

3/ Covered by H2020 since July 2008;

4/ Can benefit from the facility on a case by case basis in particular for projects of cross border nature to which the EU and its neighbouring partners attach particular interest.

5/ Initiative under UfM since July 2008

ANNEX 9: COOPERATION WITH IFIs

The objectives of various MoUs (see box below) between the Commission and IFIs are to enhance cooperation and coordination among the signatories in a number of areas, among others: environment protection measures; infrastructure development and sustainable agricultural, rural and regional development; and institutional strengthening and upstream support to national authorities in beneficiary countries.

Memoranda of Understanding and Agreements signed with IFIs

- MoU on cooperation in new EU member states, Candidate and Potential Candidate Countries with the EIB, the EBRD, the IFC, IBRD, Nordic Investment Bank, NEFCO, CEB and BSTDB (2006);
- MoU on cooperation in the NIS with the EIB, EBRD and IBRD, IFC, NIB, CEB and BSTDB (2007);
- MoU on cooperation in the Middle East and Southern Mediterranean/North African Region with the EIB, the IBRD and IFC (2008);
- Tripartite MoU between the Commission, EIB and EBRD on cooperation in Eastern Europe, Caucasus, Russia and Central Asia (2006);
- Agreement on cooperation in Turkey between the Commission, EIB and EBRD (2009).

In the context of the MoU with IFIs covering the enlargement process, an **IFIs Advisory Group (AG)** was created in March 2007. One of the working groups of the IFIs AG is a working group on environment. The Commission works closely with IFIs on strategic planning of environmental assistance to the countries and identifying and overcoming challenges in environmental financing. The Commission will continue cooperation with IFIs within the IFIs AG as it is an important instrument coordinating environmental assistance to the enlargement countries.

In addition to already established initiatives, the Commission envisages setting up a **Western Balkans Investment Framework by 2010**. It was endorsed by the ECOFIN Council in May 2008. The framework will be primarily developed by the EC and partner IFIs (EIB, EBRD and CEB) and other donors. The aim is to further enhance harmonisation and cooperation in investments for socio-economic development of the region, including environment. There are two phases of developing the framework. Firstly, to widen the existing IPF towards the Western Balkan Infrastructure Initiative, by including additional forms of cooperation for technical assistance in the field of infrastructure and through opening participation to other interested donors. Secondly, in addition to infrastructure, the framework will encompass cooperation in other socio-economic development areas between the Commission, the partner IFIs, other IFIs and bilateral donors. By presenting a common platform, the Framework will enhance harmonisation of the socio-economic investment activities of the Commission, IFIs and bilateral donors active in the region. It will be consistent with the IPA planning documents and national and multi-beneficiary programmes and will contribute to enhancing beneficiaries' ownership.

The WB infrastructure Initiative is based on three pillars: **IPF, a Complementary Grant Financing Mechanism, and a Lending Facility**. This move towards enhanced cooperation upstream in financing adds value in terms of pooling together grants to leverage loans and

through better targeting of environmental priorities linked to compliance with the environmental acquis.

Under the MoUs with IFIs on cooperation for Eastern Europe, Southern Caucasus, Russia and Central Asia and the MoU for the Middle East and Southern Mediterranean, the Commission organises annual meetings to discuss the most pressing issues of cooperation including environmental issues. For example the meeting in 2008 for the Eastern Neighbourhood tackled climate change issues. This and other issues are regularly discussed during bilateral meetings with the different IFIs.