

## 2 Summary of kick-off meeting

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A kick-off meeting was convened, to inform stakeholders about the dialogue, its ambition and the working method. The agenda was designed to build a momentum and appetite for next steps.

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## 2.1. General Overview

The Ministry of the Environment of Estonia jointly with other governmental authorities (the Ministry of Finance, the Minister of Public Administration), the European Commission DG Reform, and the OECD are partnering to enhance the sustainability of water supply and sanitation services in Estonia.

The kick-off meeting was co-convened by Estonian authorities and the OECD, on 27 October 2020, as a virtual meeting. The aim was to discuss the findings of the background report and the priorities for the remainder of the project. It was structured around four Agenda items (see Annex A). The meeting gathered approximately 25 delegates from national and local authorities, water utilities, the Estonian Water Works association, and international participants from the EC (DG Reform, DG Environment) and the OECD Secretariat (see Annex B for List of Participants).

This note captures the main messages of the meeting on the state of play of the water supply and sanitation (WSS) sector reform, OECD analysis and official and expert opinions expressed at the kick-off meeting.

## 2.2. Agenda Item 1: Opening and Welcoming Remarks

Participants took note of welcoming remarks from Mr. Kyriacos Kyriacou, Deputy Head of Unit of Growth and Business Environment, DG REFORM, who welcomed participants of the meeting. Mr Kyriacou underlined the value of evidence-based policy development and the benefit of cooperation programmes.

Mr. Harry Liiv, Deputy Secretary General, Ministry of Environment of Estonia, welcomed participants. He provided a brief overview of the most recent experience with water policy reform in Estonia. He emphasised the need for realistic, action-oriented recommendations, and affordability issues, particularly in small towns and rural areas.

## 2.3. Agenda Item 2: The state of play in the WSS sector of Estonia

The meeting took note of a presentation of Ms. Karin Kroon, Head of Water, Ministry of Environment. Ms. Kroon shared the experience with the administrative reform and its impact on WSS service provision in Estonia. The presentation reiterated the main objectives of national policy for water supply and sanitation:

- population connected to public sewerage
- share of consumers receiving safe drinking water from public water supply
- the average water tariff level
- share of agglomeration above 2000 p.e that comply with the requirements.

It also highlighted the key challenges faced by the sector:

- how to keep the compliance with the EU legislation in long term
- how to provide the service with affordable water tariff
- how to step out from state support (including EU money).

It also signalled the dynamic towards consolidation of local authorities and water utilities, induced by broader administrative reform in Estonia.

Mr. Vahur Tarkmees commented on the factors influencing voluntary inter-municipal cooperation for WSS service provision in Estonia. He shared experience with such cooperation in one particular utility. The following issues were mentioned:

- local governments may not realise financing challenges faced by water utilities

- There is no clear accountability or driver for change
- Local authorities scrutinise affordability of water bills in the short term
- How to deal with small, unsustainable utilities?

## 2.4. Agenda Item 3: Towards a greater sustainability of WSS in Estonia: further needs for the reform

Participants noted introductory remarks from Ms. Tatiana Efimova, OECD, reflecting the key findings of the background report.

The discussion highlighted:

- A massive investment programme implemented to comply with the EU Water Directives in Estonia
- Financing challenges associated with further needs to build new or rebuild existing assets
- A call for the reform of tariff policy and for mobilising additional sources of finance. Finance may not be an issue in the next 3-5 years, but will become more pressing very soon, as financing needs accumulate, potential EU funding are phased out, and affordability of water bills becomes an issue for segments of the population
- The potential benefit for water users to benchmark the performance of service providers. The Water Works Association of Estonia is considering to resume benchmarking of water utilities; the Ministry of Environment collects data on water leakage. Incentives to improve performance through tariff structure or sanctions for poor performance are lacking, not enforced or not effective.
- Water utilities' need technical assistance, on both financial and technical issues.
- Local authorities would benefit from additional capacities to prepare Sector Development Plans and implement investment decisions. Some Sector Development Plans (e.g. Narva city) are actually developed by water utilities due to lack of capacity of local authorities.
- Practical issues can affect the possibility of agglomeration. For instance: what about loans contracted by utilities? Can tariffs remain different in agglomerated utilities?

Participants acknowledged the fact that the financial sustainability of water companies is an issue. The prevailing methodology for WSS tariff setting does not provide revenues for the modernisation and maintenance of existing assets.

Issues related to incentives for consolidation of service providers were discussed. While all water utilities should look for options to enhance efficiency of operations, consolidated ones get preferential state support (grants) for investments. Other utilities are facing difficulties to benefit from state grants.

Local authorities should systematically explore opportunities for inter-municipal cooperation.

Participants took note and endorsed the suggestions for further work under the project:

1. *Zoom-in on the issues* affecting sustainability of WSS services in Estonia
2. Consider a *range of options for agglomeration*: geographical scale vs functions (planning; programming expenditure; technical skills; billing)
3. Advance the role for the *economic regulator* for WSS:
4. Clarify and *address legal issues* related to asset ownership (options to transfer ownership to entities operating at larger geographical scales)
5. Develop an *action-oriented strategy* for a greater sustainability of WSS services in Estonia

Participants noted the feedback from Ms. Inese Kause, DG Environment, regarding the need to drive sustainable WSS models, keeping the environment and climate objectives high on the policy agenda.

Ms. Zinovia Tsikalaki, DG Reform, reminded participants about potential synergies to share practical experiences with neighbouring countries, most particularly Lithuania, where DG Reform launched a similar support programme.

## **2.5. Agenda Item 4: Next steps and priorities for the coming period**

Participants noted the priorities of the project for the coming period introduced by Mr. Xavier Leflaive, OECD. It was noted that the analysis will cover opportunities for new business models to support improved sector operation; more attention will be paid to regulation, the inclusion of social issues and further consideration of the management of rural versus urban communities; and sustainable financing opportunities.

The Ministry of Environment thanked participants for their participation and informed that a next meeting of Working Group will take place in Q1, 2021, and closed the meeting.

## Annex A. Agenda of the kick-off meeting

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Chair: Mr Harry Liiv, Deputy Secretary General, Ministry of Environment of Estonia

14:00 ~ 14:15

### Welcome and Adoption of the Agenda

Welcome by DG REFORM (Mr Kyriacos Kyriacou, Deputy Head of Unit of Growth and Business Environment)

Welcome by the Ministry of Environment of Estonia (Mr Harry Liiv, Deputy Secretary General)

Adoption of the Agenda

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14:15 ~ 14:45

### The state of play in the WSS sector of Estonia (led by the Ministry of Environment)

Status with the administrative reform and its impact on WSS services provision. Consolidation of WSS services: how did it work so far and what are the lessons learnt?

Factors influencing voluntary cooperation for WSS service provision.

*Questions for clarification*

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14:45 ~ 16:15

### Towards a greater sustainability of WSS in Estonia: further needs for the reform (led by OECD)

Issues related to the institutional and legal framework

Need for enhanced regulation

Financing of WSS services

Suggestions on further work under the project: milestones and key outputs

*Discussion*

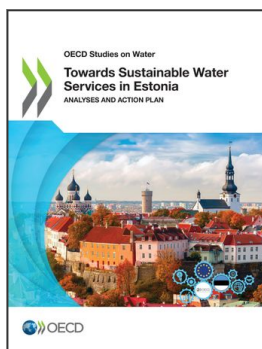
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16 :15 ~ end of meeting

### Next steps and priorities for the coming period

Conclusions and a wrap up of the meeting.

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