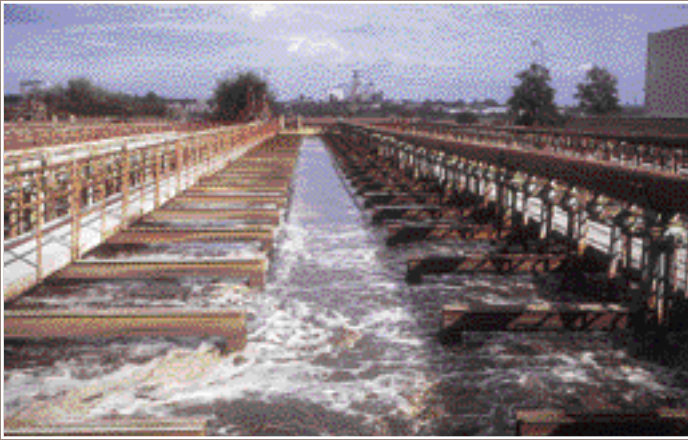


12 Municipal and environmental infrastructure

As of December 2000, the EBRD had committed over €1 billion in the municipal and environmental infrastructure (MEI) sector, supporting overall investments of over €2 billion spread across over 100 municipalities in 12 countries.



Experience to date clearly indicates that projects where the EBRD assists in the tendering of concession, build-operate-transfer or similar contracts have an important demonstration effect for the region as a whole.

The EBRD is committed to improving municipal and environmental services in its countries of operations, in line with its mandate to promote environmentally sound projects. Investment is urgently required in the region to tackle a legacy of environmental damage, to improve living conditions and to upgrade inadequate infrastructure. Areas most in need of financing include water supply, waste-water collection and treatment, solid waste management, district heating, natural gas distribution and urban public transport.

Over €1 billion had been committed by the EBRD in the municipal and environmental infrastructure (MEI) sector as of December 2000, supporting overall investments of over €2 billion spread across over 100 municipalities in 12 countries.

The objectives of the MEI sector team at the EBRD are to improve municipal infrastructure and services, and to facilitate the transition process in a number of ways. Reducing costs and increasing the reliability of services help stimulate the emergence and development of commercial and industrial enterprises. Improvements in residents' living conditions increase public confidence in democratic local government and in the ongoing reform efforts. The institutional and regulatory reforms that accompany the decentralisation and commercialisation of municipal and

environmental infrastructure, and private sector involvement, are crucial elements of the transition impact of Bank projects in the MEI sector.

The EBRD's activities and investment in this sector aim to make an important contribution to the transition process, and to address pressing environmental problems. In its operations, therefore, the Bank pursues the following main objectives:

- decentralisation of municipal and environmental infrastructure provision;
- commercialisation and corporatisation of service provision;
- promotion and optimisation of private sector involvement;
- development of regulatory structures;
- environmental protection.

The MEI sector covers direct revenue-earning services, such as water, waste-water collection and treatment, solid waste management, district heating, natural gas distribution and urban public transport. Generally, the provision, financing and management of these municipal and environmental services are the responsibility of local or regional governments. The MEI sector, however, also covers environmental services, such as industrial and hazardous waste management, that may be organised nationally or outside local government responsibility.

Chart 12.1 Distribution of the EBRD's MEI portfolio by sector (as of December 2000)

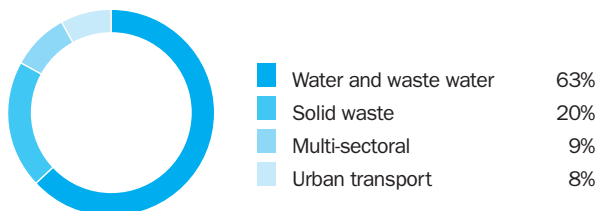
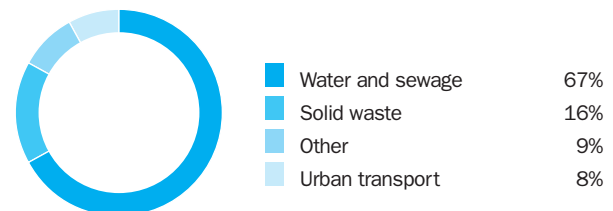


Chart 12.2 Distribution of technical cooperation funds by sector 1998-2000



Municipalities, particularly in advanced transition economies, want to work with the EBRD because of its ability to provide assistance to municipal clients in the development and structuring of investment operations, and the strengthening of their financial, managerial and operational capacities. There is substantial demand for EBRD investment in municipalities and municipal utilities in countries such as Croatia, the Czech Republic, Poland and Romania that wish to benefit not only from the financing itself, but also from the EBRD's investment-structuring capacity and expertise. Municipalities seek cooperation with the EBRD because of its financially disciplined approach to investment appraisal and selection, and its support in the commercialisation of service provision and the strengthening of municipal creditworthiness.

In projects involving the private sector, the Bank's role as advisor is particularly important. It promotes and facilitates private sector participation through dissemination of information and a focus on reducing political and municipal risk during the early project development phase. It helps municipal authorities to gain a thorough understanding of the implications of private sector involvement by working with them to develop the details of project arrangements and to create the conditions necessary to attract experienced and well-qualified operators and investors.

The EBRD is expanding its role in advising municipalities on the broad direction, objectives, options and procedures for involving the private sector. It is also providing assistance through technical cooperation resources for the institutional, technical and analytical preparation of competitive bidding processes to select private parties for the financing and provision of municipal infrastructure. Investors and municipalities alike see the Bank's participation as critical in ensuring that strategies and arrangements for private sector involvement support financial viability and keep the interests of local authorities, consumers and service providers reasonably balanced. Experience to date clearly indicates that projects where the EBRD is assisting in the tendering of concession, build-operate-transfer (BOT) or similar contracts have an important demonstration effect for the region as whole. The Bank's advisory support complements the way in which it may subsequently provide comfort on political and municipal risks in project financing.

Another EBRD service is assistance in the review and, where necessary, improvement of the legal and regulatory framework, in order to remove key obstacles to effective private investment in the MEI sector. The Bank supports the use, where possible, of technical cooperation resources to assist in developing the appropriate mechanisms. These resources

can also be directed to address deficiencies in the secured transactions laws, pledge registries and concession laws in any of the Bank's countries of operations.

To support these activities, the EBRD has undertaken a range of TC assignments. The specific objectives of operations financed by the EBRD's technical cooperation funds in the MEI sector are:

- investment preparation and appraisal, and technical implementation support;
- strengthening decentralisation (e.g. the preparation and implementation of creditworthiness enhancement programmes);
- furthering commercialisation (e.g. the preparation and implementation of financial and operational performance improvement programmes; the implementation of corporate partnerships where these cannot be financed from loan proceeds);
- development of appropriate regulatory structures and capacity;
- facilitation of private sector involvement (e.g. preparation of tenders for concessions and BOT operations).

The sectoral distribution of TC activities over the past two years is shown in Chart 12.2. The individual TC assignments initiated in the MEI sector during this period are listed in the annex on page 96.

Annex 12.1: TC activities in the MEI sector 1998-2000

Country	Project title	Type	Sector	Funding source	Amount committed (€)
Regional	Project Preparation Committee Officer for Russia	Advisory services	Municipal services	Finland	377,301
Regional	PPC (Project Preparation Committee) – Municipal and Environmental Team	Advisory services	Professional services	United Kingdom (Project Preparation Committee)	432,322
Regional	PPC (Project Preparation Committee) – Municipal and Environmental Team	Advisory services	Professional services	Belgium (Walloon)	369,940
Croatia	City of Zagreb Creditworthiness Enhancement Programme	Project implementation	Public administration	Balkan Region Special Fund	90,000
Croatia	City of Zagreb Creditworthiness Enhancement Programme	Project implementation	Public administration	Canadian Fund for South-East Europe	90,000
Croatia	City of Zagreb Creditworthiness Enhancement Programme	Project implementation	Public administration	United Kingdom	365,000
Croatia	Rijeka Water and Sewerage Project – Kantrida Sewerage Extension Project Review, Financial Due Diligence	Project preparation	Sanitary services	France	20,810
Uzbekistan	Tashkent Solid Waste Management Rehabilitation Programme – Support for Municipality	Project implementation	Solid waste management	EC Tacis	147,523
Uzbekistan	Tashkent Solid Waste Management (ear-marked portion)	Project implementation	Solid waste management	Japan	49,000
Uzbekistan	Tashkent Solid Waste Management – Project Management Support (ear-marked portion)	Project implementation	Solid waste management	Japan	676,329
Kazakhstan	Tashkent Solid Waste Management Rehabilitation Programme – Landfill Engineering and Operations	Project implementation	Solid waste management	Japan	503,672

Country	Project title	Type	Sector	Funding source	Amount committed (€)
Croatia	Project Management Consultant – Zagreb Solid Waste Management	Project implementation	Solid waste management	Netherlands	434,000
Poland	Municipal Creditworthiness Analysis Cities of Gdansk and Sopot	Project preparation	Support activities for transport	EC Phare	398,868
Poland	Warsaw Urban Transport	Project preparation	Support activities for transport	US Trade Development Agency	30,878
Czech Republic	Brno Sewerage Network Rehabilitation	Project implementation	Water and sewage	EC Phare	450,000
Regional	Project Preparation Support for Municipal & Environmental Infrastructure Projects	Project preparation	Water and sewage	EC Phare	450,000
Moldova	Chisinau Water Services Corporate Development Assistance	Advisory services	Water and sewage	EC Tacis	272,791
FYR Macedonia	Municipal and Environmental Action Programme	Project implementation	Water and sewage	Japan	1,480,500
Russia	Assistance for the Procurement of Project Management Company for Kaliningrad Vodokanal	Project implementation	Water and sewage	Sweden	47,300
Bulgaria	Sofia Water Supply Improvement Project	Project preparation	Water and sewage	United Kingdom	25,000
FYR Macedonia	Macedonia Municipal and Environmental Action Programme	Project implementation	Water transportation	Balkan Region Special Fund	750,000
Poland	Poland Water Sector Benchmarking Study	Project preparation	Water transportation	United Kingdom	150,000