EvD Special Study - EBRD Public Sector Operations: Mobilising Private Sector Participation in Infrastructure

Management Comments

Executive Summary

- Management thanks Evaluation Department for this study and welcomes the analysis conducted as part of the report. The study contains a wealth of information regarding the overall context around infrastructure financing as well as EBRD's evolving experience with public sector operations (PSO) across the COOs. Management appreciates the analysis and findings presented in the study, while noting areas of disagreement with recommendations. Management provided explanations of these reservations and clarifications for EvD's attention, as presented further below.
- The study recommends an "overhaul" of the EBRD approach to PSOs, including a change to ATQs separating those that represent "end goals" versus "means", suggesting a top down development approach through preparation of "country infrastructure strategies" and related implementation plans, and a change in the scope and type of products. Management does not agree with the study conclusion that the EBRD model "prioritises the delivery of low cost finance and not creation of value for money (VFM) for its clients", used as an argument for these recommendations. Such recommendations do not seem to be justified neither from the assessment of past experience and identified successes/failures of the EBRD public sector operations and more specifically for PSPs/PPPs that is the focus of the study, nor by providing evidence that the proposed model is more effective in other MDBs.
- It is management's view that EBRD's engagement with sovereign and non-sovereign infrastructure projects has proven to be critical for countries seeking to introduce private sector participation (PSP). Management disagrees with the assertion in the draft study that SIG does not sufficiently focus on sectoral reforms needed for PSP. The PSOs nearly always include a focus on critical sector reforms (e.g. tariffs), institutional improvements and commercialisation approaches of the incumbent public sector entity (e.g. a SOE or municipal utility), along other transition qualities such as Green or Inclusive. These steps are critical to the ability of the public sector to be prepared to launch the successful introduction of PSP into projects (beginning often with the out-sourcing of maintenance or operations of a public service), moving when possible and appropriate to PPP structures using project finance. Based on the over 20 years of past experience across all COOs, it is abundantly clear to Management that the Bank's PSOs allow it to engage with public sector decision-makers on ever-deeper forms of PSP and eventually to PPPs. There are numerous examples displaying the EBRD's successful track record in promoting PSP in infrastructure, including in Ukraine and Kazakhstan road sectors, Belgrade municipal services, and Egypt's logistics sectors.
- Management notes the diversity and uniqueness of infrastructure PPP structures across different markets and countries, which presents inherent complexity and a range of PPP approaches depending on subsectors, local regulatory regimes and the investment size. Adding to this complexity, many countries seek (at least initially) to pursue untried and/or untested approach to structuring PPPs where a project may well be better delivered using well-prepared public sector financing, introducing the critical reforms and establishing institutional approaches that are needed as the building blocks for eventual procurement and delivery through project finance. It is precisely because of these reasons that the Bank created a dedicated PPP Unit within SI3P (Sustainable Infrastructure Policy & Project Preparation, within SIG) to work with public sector clients on PPP advisory mandates.
- The downstream investment opportunities for the Bank are important, but equally as important from an advisory perspective are the significant mobilisation amounts with other private financiers. Aligned with the call from the G20 to deliver on the mobilisation agenda

and 'quality infrastructure', the Infrastructure Project Preparation Facility (IPPF), led by SI3P, was created in 2015. Since that time, SI3P built a pipeline of nearly 20 PPP mandates across 10 COOs with a total project value of over EUR5 billion, with a further prospective early pipeline of additional 15 PPP mandates. The first of these PPPs were successfully awarded within the first 5 years, as noted by the study. Based on the outputs of the Global Infrastructure Facility (housed in the World Bank), the IPPF is considered one of the most successful new PPFs created since the focus by G20 on project preparation began in earnest in 2014.

- Management also believes that there is a very high degree of coordination across the team (SI3P) responsible for directly supporting governments with PPP preparation (advisory) and the sector teams (three Infrastructure and two Energy teams) responsible for lending for private and public sector projects. Furthermore, incentives for SIG to invest in private sector projects are very strong, with a high target for private sector lending (in line with the 75% private vs 25% public sector limits set under the SCF) as well as the professional incentives at the OL level to lead an investment by the Bank for a PPP or in Renewable Energy.
- Management finds some components of the recommendations reasonable and aligned with the ongoing management endeavours and objectives, not acknowledged in the study. The Bank has recognised the need to strengthen local institutional capacity on PPPs, and upstream non-transactional support is provided alongside transactional TCs as required. The new VP3 structure – with clear management directions now established for pillars under both PSD (Policy Strategy and Delivery) and CSD (Climate Strategy and Delivery) – will provide important capabilities to further strengthen policy work and policy dialogue with our COOs. Specifically, the Competitiveness, Governance and Political Affairs (CGPA) team under PSD will develop and lead policy dialogue to promote energy and infrastructure sectors reform, in particular to improve policies and functioning of SOEs and other sector reforms at the national and municipal levels (tariff reform, unbundling, energy market design, regional connectivity etc.), and support SIG team on sovereign and sub-sovereign transactions. VP3 teams will work seamlessly with SIG and other Banking teams to enhance the Bank's overall delivery of policy, including with regard to PSOs and readiness for private sector investments. The VP3 restructuring and its management structure was not yet in place when EvD's report was written, and therefore the report largely misses these important developments with respect to Management's capabilities.
- Management has also thoroughly internalised the G20 Quality Infrastructure principles and is implementing them systematically. Management also notes that the method for assessing ETI already takes into account value creation deriving from VFM assessment and implementation in PPP projects and wider project benefits are accounted for in public infrastructure projects. Beyond the attribution issue, given the size of the EBRD it is difficult to establish a link between the success of its support and the overall progress with structural reforms or level of institutional capacity within governments in COOs to facilitate PSP in infrastructure. ATQs and their sub indicators are hence used (as relevant) in country strategies for assessing the context and progress in the COOs. The ongoing work on operationalising theory of change approach will also consider the most effective and efficient way of demonstrating contribution of EBRD's activities to broader country level outcomes and impacts for selective cases.
- Management disagrees with most recommendations Management does not agree with the change, as proposed by recommendations, in the approach, in ATQs, as well as the type of products and rebalancing of grant use. Some aspects of the recommendations may also need to be clarified and contextualised. Management recognizes the importance of a thorough analysis of challenges related to infrastructure financing in setting long - term objectives. However, it does not find it reasonable to develop "country infrastructure strategies" as separate products. The analysis of infrastructure needs in a country would be done as part of the established country strategy preparation process. This includes a detailed country

diagnostics containing deep-dive assessments of key challenges in the country. While VFM assessment is used for all potential PPP projects, it is Management's view that, for projects that are ex-ante non-viable for PPPs (for example, due to small project size, unproven project type/structure as a PPP, or an inadequately developed legal framework), benefit-cost assessments (such as EIRR) are fit for purpose. These are in line with international best practice and other MDBs. Finally, Management finds the SI3P organisational structure to be fit for purpose, serving well both internal and external needs.

A response to the study recommendations is provided below, followed by further detailed comments.

1. Study Recommendations

Recommendation 1: *Revise priorities and scope of EBRD's Public Sector Operations to include a focus on institutional capacity building and provision of advice and knowledge for greater additionality and results:*

a. Rebalance its priorities to allocate grants towards non-transactional institutional capacity building, rather than directly subsidising projects.

b. Broaden the scope of traditional sovereign loans from directly financing projects to funding facilities such as project preparation and guarantee funds and provision of advice.

Management disagrees with this recommendation for a need to revise priorities of grant allocation for use only for institutional capacity building, and broaden the scope and shifting away from the traditional sovereign loans as suggested.

First, Management believes that a careful prioritisation is already in place achieving the appropriate balance in the allocation of grants for use in transactional TCs and non-transactional TCs for institutional capacity building.

On one hand, the EBRD has already recognised the need to strengthen local institutional capacity on PPPs. Since 2016, SIG has provided intensive training for the 'Global PPP Certification' designation to public sector officials across the region. Certified by APMG (one of the leading certification companies), SIG has trained over 300 publics sector officials to date, with over 10 'PPP Certification' trainings having taken place in multiple COOs. This is an on-going programme, co-developed with the World Bank, EBRD and many other Regional MDBs, which SIG provides alongside its PPP advisory work. Over time, this will create a critical mass of officials well versed in the concepts, principles (including VFM), structures and vocabulary of PPPs, and is already helping to narrow the knowledge gap between the private PPP industry and the public sector in our region. SIG provides the PPP Certification training in parallel to SI3P's PPP advisory work on PPP tenders, which often lead to SIG downstream financing. The restructuring of VP3 is expected to dedicate resources to provide additional institutional / capacity building support to the public sector officials, an opportunity to provide more upstream support to clients.

On the other hand, Management believes that transactional TCs are provided when necessary to support project implementation when alternative resources are not available, and hence they should not be de-prioritised.

Management also believes that, while funding facilities may have some limited potential, expanding their use needs to be carefully assessed and importantly to be demand driven. Firstly, EBRD already includes project preparation components under its sovereign or sovereign guaranteed loans where there is willingness or interest of the government to borrow for this purpose. This may be used to fund a feasibility study for a follow-on project or preparation of a pilot PPP as part of the transition impact of the project being financed. However, our past experience suggests that governments are reluctant to use sovereign borrowing capacity to finance a standalone project preparation facility, although this could be explored further.

It is also worth noting that the PPP Unit's support via the Bank's IPPF is reimbursable, achieving greater buy-in from the public counterpart for PPP preparation as intended by the recommendation. The public sector ultimately pays for the PPP advisory indirectly, since the winning private sector sponsor prices in the cost of the PPP preparation incurred upfront by the Bank into its bid price, with the cost spread of full duration of the PPP contract (i.e., 20+ years).

Secondly, the Bank has already developed an approach that accomplishes greater focus on funding project preparation, and does so with more commitment by client governments to fund them directly. This approach, exemplified by the Greek Government's engagement with the Bank, shows that one can achieve the goals of this recommendation with no funding facilities provided by the Bank. In 2020, the PPP Unit entered into a formal 5-year arrangement with the Greek Government to manage a EUR 20m 'national project preparation facility' (provided by the Ministry of Finance). Under it, the PPP Unit uses the resources from the Greek PPF to pre-fund the PPP preparation efforts, with the eventual PPP tender winner reimbursing the Greek Government NPPF for the full amount. SI3P charges a 10 per cent management fee for its efforts to carry out the PPP preparation effort, with cohorts of pre-selected PPP advisory consultants. So far, five PPPs under the Greek PPF have been launched, with direct support from the Bank's SI3P PPP Unit, with a healthy pipeline of 15 additional PPPs. The Greek Government is pleased with this arrangement, as it accelerates and strengthens their PPP market and investment levels. The creation of national PPFs could be envisaged for all countries with ambition at a programmatic level for PPPs. This approach is being actively discussed with the Bank's COOs where we are preparing PPPs, such as Jordan and Uzbekistan.

Finally, regarding the idea of "guarantee funds", Management would signal a note of caution on whether it makes sense to use sovereign lending in this way. For example, to provide a guarantee for a PPP to cover the availability payments: this could be used to provide a guarantee to the concessionaire but would need a back-to-back sovereign loan to the government such that if the guarantee is drawn the payment made by the Bank becomes a drawdown under a sovereign loan (alternatively we could provide a sovereign loan for the government to collateralise its availability payments). However, this would require committing a large (albeit declining over time) sovereign loan which may never be drawn. Given the Board's sensitivity about undisbursed sovereign exposure, it is doubtful that this would be an efficient way to use the Bank's capital.

Recommendation 2: *Maximize synergies between policy and institutional capacity building at the country level for greater results by adopting a holistic development approach to design infrastructure programmes.*

a. *Country infrastructure strategies should include details on the adequacy of infrastructure facilities and institutions, capacity of local banks to provide LCY, opportunities to provide preparation and guarantee funds.*

b. *Country infrastructure strategies should be supported by country implementation plans that reflect metrics in Framework Agreements that demonstrate expected VFM from projects using measurable time bound indicators.*

Management disagrees with this recommendation suggesting development of separate country infrastructure strategies and associated implementation plans. Management recognizes the importance of a thorough analysis of challenges related to infrastructure financing and taking a holistic approach in setting long-term objectives to tackle them as part of country strategy preparation. Management notes that currently there are no "country infrastructure strategies" in the Bank and would not find it reasonable to develop them as separate products. Country strategies used to present envisaged activities in individual sectors separately but this approach was changed in 2017. Country strategies are now presented with priorities based on transition qualities to emphasize the focus on Bank's mandate and results we would like to achieve, rather than just to provide a list of expected activities by sector as was the case in the past.

Any enhancement of infrastructure analysis and planning needs to be considered within the parameters of the existing country strategy process. The country diagnostics would assess the current state and bottlenecks to infrastructure financing, and help identify future operational and policy engagement directions in these areas in country strategies, for relevant countries. This includes the analysis of local currency financing gaps where appropriate – although availability of longer term local currency financing at volumes and maturities required for infrastructure projects will remain constrained in most COOs. The Bank is working on enhancing its approach to local currency financing and management to help increase availability in local currency and in some cases relies on intermediary solutions (e.g., inflation-indexed products).

In line with the existing country strategy formulation and review process, there are also no separate "country implementation plans". The review and stocktaking of country strategy implementation is done through an annual Country Strategy Delivery Review (CSDR). At operational level, as referred in the study, the Bank also uses Frameworks to better specify the challenges and the Banks approach and instruments of support (including investments and policy) for more specific long-term objectives (e.g. Green Cities, PPP Frameworks, etc.). The indicators used to monitor results of country strategies and frameworks are aligned with Compendium of Indicators and aggregate results from projects using measurable time-bound metrics.

Recommendation 3: *Revise results frameworks so the focus is shifted to parameters that can be influenced and measured by EBRD and provide a basis for identifying sources of VFM.*

- *a.* *ATQ indicators for inclusiveness and green objectives should be set at the country level to reflect effectiveness goals. Green objectives such as reductions in GHGs should be contextualised using country plans to meet Nationally Determined Contribution (NDC) obligations, supported by baselines and targets. Inclusiveness measures should be drawn from the SDGs.*
- *b.* *ATQs for competitiveness, integration and governance should be set at the country level to reflect efficiency gains. ATQs should draw on the ATC framework to reflect progress on both corporatisation/privatisation objectives and developing PPPs.*
- *c.* *ETI and PTI scores should be aligned with measures of expected value creation for clients that integrate ATQs and project based sources of VFM.*

Management disagrees with the recommendation. Management notes that it is not clear why or how the suggestion to "separate the ATQs into end goals (demand objectives) such as inclusiveness and climate change from means (supply objectives) such as competitiveness, integration and governance", would be better to "provide a basis for prioritising projects".

The ATQ index assessment for the Inclusive quality already uses the SDG indicators as appropriate given the specific focus of the EBRD support. These indicators are adjusted as the Bank's objectives evolve as per the latest Equality of Opportunity Strategy. Management welcomes the suggestion to align the green objectives and contextualise the relevant indicators at country level with Nationally Determined Contribution (NDC) but notes that NDCs are not currently available across all COOs.

Given the size and extent of EBRD support in a given country/area, Management notes that, as set out in the guidance for the design implementation and reporting for country strategy results framework (CSRF), ATQ indicators and sub indicators are used as "context" indicators to measure the country's progress. No targets are set for indicators within CSRF. Work is underway to operationalise the theory of change to selectively demonstrate contribution of EBRD's activities to broader country level outcomes and impacts in the strategy priority areas, which may impact the way we describe, set and monitor results metrics at country level in the future, including specifically and as relevant results for infrastructure-related objectives.

Management disagrees reverting back to the previous method of assessing transition challenges (ATC) in the case of ATQs for competitiveness, integration and governance, as suggested by the recommendation. The ATQ analysis for all qualities focuses on more horizontal cross-sector challenges, since many are similar for different sectors. Sub-indicators of ATQ assessment at the quality level cannot include all specific indicators for every sector/subsector that EBRD operates. As part of country diagnostics, the deep-dives contain more detailed sector level indicators for specific areas of challenges and country/EBRD priorities, including as relevant on corporatisation/privatisation objectives and institutional capacity for developing PPPs.

Finally, Management also notes that the TOMS system for assessing ETI already takes into account value creation deriving from VFM assessment and implementation in PPP projects and wider project benefits are accounted for in public infrastructure projects. Furthermore, ETI scores (and consequently PTI scores) are adjusted for relevant quality ATQs, reflecting the relevant transition quality gaps in the country where the project takes place. PTI scores take into account the delivery of transition impact indicators versus envisaged targets, reflecting measures/milestones behind the assessment of expected VFM when relevant.

Recommendation 4: *4. Prepare an approach paper that outlines a business model for infrastructure that focuses on creating VFM for COOs. Specific areas of focus would include:*

- a. *Adoption of G20's Quality Infrastructure Principles.*
- b. *Development of a VFM methodology that can be used to identify costs and benefits when appraising and structuring EBRD infrastructure financings at the project level in line with international best practice, and the practices of other MDBs.*
- c. *Preparation of a Business Case for SI3P, looking at the most effective and efficient organization structure to mobilise private finance through the delivery of advice on institutional capacity upstream at project identification, preparation, transaction, and downstream project management.*

Management partly agrees with this recommendation. While Management welcomes the focus on high-quality infrastructure and private sector investment opportunities where justified,, and supports the QI Principles operationally, it notes the sensitivity of formally adopting the G20 QI Principles, given that the G20 members do not represent all shareholders of EBRD. Management agrees with the application of the VFM concept, but would like to state that the PPP Unit already applies this practice for all projects before developing full advisory services for Governments. Finally, Management disagrees with need to prepare a new approach containing a Business Case for SI3P as this was already completed in 2018 prior to the creation of the Sustainable Infrastructure Group.

EBRD has thoroughly internalised the QI Principles and is implementing them systematically. Management incorporated the G20's QII into our approach with the IPPF and the SI3P PPP Advisory Unit. In fact, EBRD was intimately involved in developing the QII during the G20 Japanese Presidency in 2019, and led much of the dialogue with the G20 Shareholders as the rotating Chair of the MDB's Infrastructure Cooperation Platform. While the QI Principles are voluntary and non-binding, the IFIs were tasked by the G20 to play a central role in promoting their implementation, given that emerging markets play a key role in the very substantial wave of infrastructure investment needed to close the global infrastructure gap. These types of considerations around maximising impact, full life-cycle costing, green/resilient/inclusive approaches, and first-rate governance are all well-aligned with the Bank's way of doing business with the Sustainable Infrastructure sectors, GET 2.1 and the Bank's commitment to Paris Alignment.

On the use of VFM methodology, Management would advocate for a balanced approach. VFM calculations are made for all project preparation efforts that are assessed as having viability as PPPs. It is a tool used internationally by governments and the MDBs, which provide PPP advisory services for prospective PPP projects. PPP Unit also applies a checklist for all projects considered to be potentially viable as PPPs to ensure that each meets the basic criteria to advance to a 'phase zero' assessment which is often used by the PPP Unit to determine further details on the suitability of any given project as a PPP. Management notes, however, that there are categories of project types that do not lend themselves to PPP structures such as small-scale transactions, unless they can be replicated easily or projects with limited scope for operational/technical know-how and improvements vs the public sector delivery, thus limiting the ability of the project to achieve VFM vs. the public sector comparator. For this reason, even in the most advanced markets globally (including OECD countries) PPPs account for a maximum of 20 per cent of all infrastructure investment, and typically much lower percentages. For projects that are ex-ante unviable as PPPs (e.g., rail track, transmission grids, water networks, etc.) and deemed non-contestable, the Bank carries out benefit-cost assessments (EIRR) in line with international best practice and other MDBs.

Regarding the structure of SI3P, this team is well positioned within SIG to help prepare project from a technical and planning perspective, carry out PPP transaction advisory activities and provide downstream support for implementation, working closely with the Sustainable Infrastructure Portfolio team and the rest of the Bank, including VP3. Management notes that in response to the VP3 restructuring, SIG has already carried out the revamp of SI3P structure to reflect the main objectives and functions of the team (see Annex). The three units (Project Preparation & Implementation; PPP Advisory; and Grant and Technical Assistance) and the Green Cities team provide critical support to SIG internally and to our clients externally, from its position firmly embedded within the Group in Banking. SI3P is therefore very well positioned to provide advice and planning of investments, for both public and private sector projects, given its proximity to front-line operations, where SI3P staff are essential team members. Senior management from both SIG and VP3 endorse the current structure, operational practice and business approach of SI3P.

In addition, within VP3 the newly established Climate Strategy and Delivery (CSD) and Policy Strategy and Delivery (PSD) departments are responsible for delivering the strategy, policy and operational support functions across the Bank's green / climate transition qualities, and all of the other transition qualities, respectively. CSD /PSD do this by enhancing the quality, delivery and impact of the Bank's interventions through leading and supporting policy engagements in countries of operation – including policy advisory, reform advocacy and capacity building, by engaging in high-level dialogues with the leadership of COOs, and supports the origination and structuring of transactions with policy/sectoral reform linkages and components.

2. Comments on the analysis and related findings

<u>Reasons for slow progress with PPPs</u>

The main reasons for the slow progress on PPPs do not relate to the lack of coordination between public and private sector operations, nor misaligned incentives or forex risks. In fact, the main impediments that mitigate against the scaling up of PPPs are the lack of bankable pipeline within our COOs, which is turn is caused by incomplete legal and/or institutional enabling environments, and the weak capacity and knowledge of most our COOs regarding PPPs. While forex risks are certainly present, wherever there is a mismatch between project revenues and the currency used in the financing package, there are methods for mitigating these risks through strong agreements with national treasuries to absorb a significant proportion of this risk (e.g., using lower and upper bounds of exchange rate movements and indexation of forex movements to inflation).

<u>Low cost financing</u>

It is important to state that the Bank explicitly does not offer 'low cost financing'. EBRD's governance process and Credit Department review of projects ensures that all projects include a cost of financing in line with the prevailing market. This is in contrast to other IFIs who do have a mandate to provide subsidised, highly concessional public sector loans using various forms of donor support to a broad range of countries, typically Low-Income Countries. Where EBRD does include concessionality, it is done in accordance with the MDB principles on blended concessional finance.

Coordination with other IFIs in general and on PPP laws

EBRD coordinates closely with other IFIs, in the spirit of the G20's calls for the MDBs to work 'as a system'. However, the fact that we use the Global Infrastructure Facility and the IFC is related to: a) the GIF's ability to cover some of the heavy costs of pre-funding PPP preparation efforts (each effort averages EUR 1.5 million, reimbursed by the private sector at financial close of the PPP, a major innovation for the Bank in light of scarce SSF resources); b) the Bank teams up with IFC APPP Advisory when we mutually decide that the level of institutional and/ or political complexity surrounding the PPP in question merits a joint effort by both IFIs. This is the case in four of the 20 PPPs undertaken to date: Sofia Airport PPP; Ports Olvia and Kherson PPPs; and Jordan Schools. Where this condition is not met, the EBRD proceeds alone.

Whilst significant work has gone into the drafting of PPP laws across the region over the past decade, this work does not settle all legal issues facing any given PPP tender. As shown above, SIG and the staff in the residential offices always need to work further on specific legal aspects to make PPP contracts bankable.

Preparation of PPP activities

Only SI3P performs PPP transaction advisory, and until recently, also housed the RE Auctions programme to tender out contracts for new clean energy capacity for solar and wind. Sector teams in SIG provide significant final structuring work that is a feature of mature PPP and RE tenders, particularly once the preferred bidder is announced. While SI3P is responsible for the mid-stream (i.e., tender preparation) phase, the period between commercial close and financial close includes significant work by SIG's downstream financing teams. Regarding the RE Auctions work previously housed within SI3P's Policy Unit, this is now placed (officially from January 1, 2022) within the restructured VP3 in an effort to consolidate all green policy aspects with one team (i.e., GECA/CSD).

Focus of Green cities

The Green Cities programme has indeed focused to date on municipal sub-sovereign projects, using the Green City Action Plan (GCAPs) as the planning tool to decide upon priority green projects. With regard to urban PPPs, SI3P's PPP Unit is now engaged (since 2020) directly in the GCAP process to support opportunities for PSP and urban PPPs. This will result in Green City PPPs in time, with several leads identified. Moreover, in countries where financial sustainability of municipalities is weak (e.g. in SEMED) the Bank will include a Financial and Operational Performance Improvement Plan ("FOPIP") under the GCAP, as the first step towards enabling the municipality to borrow on a standalone basis and ultimately to consider PPPs.

Examples of promoting PSP

As noted above, Management believes that EBRD's engagement in sovereign and non-sovereign projects has proven to be critical for countries seeking to introduce PSP. Numerous examples highlighting this include:

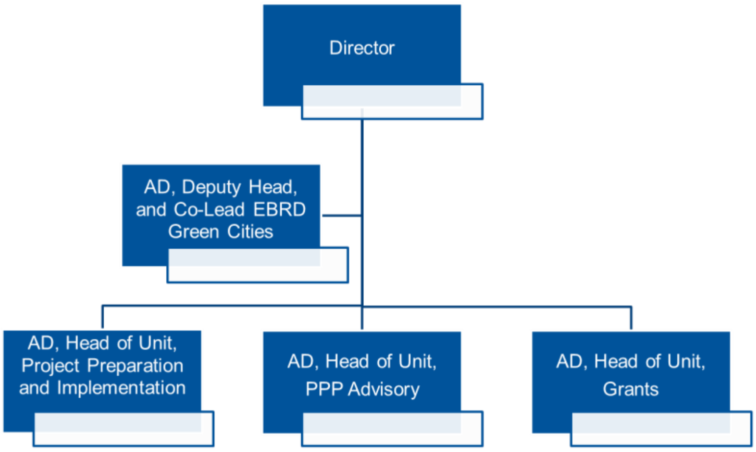
a) **Ukraine road sector:** beginning over 15 years ago, four separate sovereign operations progressively introduced road sector reforms (introduction of fuel levies; the creation of the road sector agency model; development of performance-based road maintenance contracting), which led to the government to be in a position to prepare a major road PPP programme involving at least six separate road segments (with a EUR 2 billion capex value). This will be jointly developed by EBRD and IFC in 2022. This steady and significant progress in the road sector would not have been possible without the sector reforms instigated through TC and multi-year policy dialogue carried out by SIG and the RO. The fact that two successful port PPPs were prepared by SI3P and IFC Advisory during 2018-2020 also contributed to the Ministry of Infrastructure's willingness to engage on this road PPP programme.

b) **Belgrade municipal services:** Over the past 15 years, across a handful of municipal loans to the Municipality and then directly to municipal utility companies, the Municipality gained substantial experience in managing and regulating 'commercialised' public sector utilities. In 2018, after more than a decade of engagement with EBRD, the Municipality prepared, with IFC support) a successful solid waste PPP that attracted a major international operator (Suez) into a long-term 30 year PPP contract with over EUR 300m in project value. This would not have been possible without the continuous and steady improvement in capacity in the Municipality to manage a complex relationship with the private sector, as all PPP contracts require.

c) **Kazakhstan Road sector:** Similar to Ukraine, the Bank provide several sovereign loans over a 15-year period in the road sector to improve connectivity. All of these projects were complemented by sector reforms backed by TCs that created, over time, the Kazakh Road Agency (Kazavtozhol) and introducing the concept of electronic tolling, as well as various seminars and workshops on road PPPs. This led the country around 2008 to commence with the preparation of the Almaty Ring Road PPP (known as BAKAD). The legal framework was incomplete, as was the understanding of international bankability standards, which led to extended delays in the tendering process, with the deal finally coming to financial close in 2019 after protracted negotiations to address the issues. While the preparation and tendering process took much longer than envisaged, the fact that this first ever PPP reached financial close was due to no small part to the work that the Bank/SIG did to create the institutional setting (including inter alia redrafting the Concession Law for the Kazakh Government) and modern road asset management approaches (road agency creation; understanding of modern tolling). Our successful sovereign loan operations put the Bank in a positon to have the leverage to introduce these critical building blocks for road PPPs.

d) **Egyptian Logistics Sector**: In the early 2010s, Egypt set a goal for itself to become an important international logistics hub that serves not only global shipping needs with the Suez Canal, but also the large national market of 100+ million economy. Since the Bank's entry into SEMED, SIG began to provide sovereign support to the Egyptian National Railway (ENR) company. All of these projects included reforms to the sector (track charging; asset management; Public Service Obligations). Separately, SI3P's IPPF provided an early TC to establish the potential for the introduction of 'dry port' PPPs, which are located inland away from congested maritime ports (such as Alexandria), a prevailing condition in Egypt. The lynchpin of the business case for a dry port PPP is the ability to shift the movement of containerised freights goods from trucks to rail, which not only lowers costs, but improves the efficiency of container movements and lowers the overall carbon impact of this leg of the logistics chain due to a 'modal shift' to rail. On the back of these earlier TCs to ENR, the PPP Unit of SI3P was awarded in 2016 a mandate to prepare a pioneering PPP tender for the 6th of October Dry port PPP, located south-west of Cairo. As the first of its kind, numerous gaps in the legal and institutional set up needed to be overcome (including the issuing of two Presidential Decrees and various inter-agency agreement between ENR, Customs, and the new Dry Port Authority) to allow this PPP to be successfully awarded. It reached financial close (with EBRD financing, inter alia) in early 2021. This PPP is now being followed by a second, larger dry port PPP at the 10th of Ramadan site east of greater Cairo. There is no doubt that these PPPs in the logistics sector would not have been possible had the previous sovereign engagements and critical TCs with ENR not been completed. The Bank had deep relationships that Management leveraged to convince the Government to make adjustments in the legal, regulatory and institutional relationships that form the foundation of this type of dry port PPP.

Annex: Organisational structure of SI3P



Project Preparation & Implementation Unit

- Technical due diligence, project scoping, and supervision
- Synergies across energy, transport and municipal investments
- Technical support for Green Cities projects and Green City Action Plans (GCAPs).
- Promoting tried and tested reforms, regulatory improvements and institutional approaches
- Program Planning, Appraisal, Options Analysis, Paris Alignment methodology applications
- Support GCAP delivery
- Upstream support to private sector participation / PPPs
- Digitalisation of SIG sector investments, and innovation on technologies for decarbonisation pathways
- Capacity building and institutional strengthening

Green Cities Team

- Major flagship initiative, built around 'EBRD Green Cities' product
- Features GCAP approach leading to Green City investments
- 'Whole of Bank' approach across several departments
- External engagement and knowledge platforms

PPP Advisory Unit

- Strong track record of PPP project preparation mandates for governments
- Supporting projects from pre-feasibility through to tendering, commercial and financial close
- Dedicated team of infrastructure PPP specialists

Grant & Technical Assistance Unit

- Donor outreach and relationship management
- Oversight of all donor applications and grant sourcing to ensure consistency and approach and compliance with donor requirements
- Input/representing SIG in wider institutional grant related matters
- Support with grant contracting and administration
- Overall management of grant portfolio
- Grant pipeline management and oversight of efficient grant use within SIG
- Oversight of SIG's administrative budget function