Supporting critical infrastructure projects is one of the key tenets of the EBRD’s crisis response, with a focus on public-private partnerships, support for small and medium-sized municipalities and policy reform.
MEI

The EBRD’s work in the municipal and environmental infrastructure (MEI) sector covers investments and services under the responsibility of local government (public or private sector entities) and typically includes water supply, wastewater collection and treatment, solid waste management, district heating and urban public transport.

Infrastructure that boosts economies and quality of life is a major area of EBRD finance. Whether helping to improve water supply, waste management, heating systems or public transport, the EBRD is working with partners to make infrastructure efficient, reliable and secure for people across the region.

The need for the EBRD’s investments in the MEI sector has never been greater given budget constraints and the scarcity of commercial lending for such projects in the post-crisis recovery period. As a result, MEI experienced record activity, with 32 operations signed, amounting to a business volume of €486 million, which compares with 27 operations and €479 million in 2009, itself an exceptional year.

As a whole, 2010 was marked by a strong focus on policy reform, public-private partnerships (PPPs), environmentally friendly investments in wastewater or clean urban transport and support to small and medium-sized municipalities in the EBRD’s countries of operations. In central and southern Europe, the Bank has moved to help clients effectively absorb EU funds, with five such projects signed, mobilising almost €400 million of EU funds for the region. Elsewhere, the Bank has further expanded business in the early transition countries (ETCs) and the Western Balkans, with a record 10 projects signed in 2010. In doing so, almost 50 per cent of the financing in 2010 has been directed towards energy efficiency and sustainable energy-related activities.

Water and wastewater

There is strong demand for large capital expenditure projects to build and rehabilitate the water and wastewater sector throughout the region. In response, the EBRD has provided funding for water and wastewater treatment projects (representing 40 per cent of MEI business in 2010), combined with support for much-needed policy reforms and company restructuring.

In Moldova, for example, the EBRD is supporting the modernisation of the country’s water system with a €10 million sovereign loan to co-finance a water utilities development programme across the country. The proceeds of the loan will benefit water companies in six reform-minded localities (outside the capital Chisinau) to finance the upgrade and extension of the water and wastewater systems in these towns. It is the first water project in the country to focus on the regionalisation of water services and the consolidation of water companies. With a total cost of €30 million, the programme is co-financed by a €10 million loan from the European Investment Bank (EIB) and a €10 million grant from the EU’s Neighbourhood Investment Facility (NIF). The EBRD is providing an additional €2 million in technical assistance grants to support the projects’ implementation.

In 2010 the Bank further developed private sector involvement in the MEI sector with a breakthrough in Turkey. Indeed, the EBRD and TASK Group, a privately owned company specialising in water and wastewater management, joined forces to expand private sector participation in the water market in Turkey. The Bank’s €16 million investment in TASK will finance the company’s plans to rehabilitate water supply networks and construct wastewater treatment facilities at its concessions across the country.
During the year the EBRD continued innovations for the support of critical investments, notably facilitating the absorption of EU funds. In Romania, a €200 million co-financing framework was launched to back the EU-funded programme of modernisation and regionalisation of water utilities in the country. A first project was signed under the framework for the water company operating in the Constanța and Ialomița counties on the Black sea coast of Romania, and several other projects are under active preparation. Through the new framework – the Romania EU Cohesion Fund Co-financing Framework (R2CF) – regional Romanian water companies can access grant funding from the Cohesion Fund and align their water and wastewater services to EU environmental standards. The financing under the framework is provided on a non-recourse basis, which demonstrates the Bank’s confidence in the sector. It is estimated that the €200 million framework will mobilise nearly €1.5 billion in investments in Romanian water and wastewater infrastructure.

**Urban transport**

Energy efficiency is a central objective in MEI operations, with almost half of the 2010 MEI investments afforded energy efficiency and CO2 emission benefits. This drive is particularly significant in urban transport where the Bank has systematically pursued clean and low carbon projects with seven operations signed in 2010, focusing on electric systems (metro, tram, trolleybus) and vehicles fuelled by compressed natural gas (CNG).

In Poland the EBRD is supporting the modernisation of urban transport with a syndicated loan of PLN 200 million (approximately €50 million) to Warsaw Tramways, financing the acquisition of 186 energy-efficient, modern trams, the modernisation of 29 kilometres of tram tracks and the refurbishment of tram stops and related infrastructure. Structured under the EBRD’s A/B loan scheme, the Bank is retaining PLN 100 million (€25 million) on its own account, with the rest being syndicated to commercial banks. With a total cost of PLN 1.9 billion (approximately €480 million), the project is co-financed by EU Cohesion Funds and the EIB.

The Warsaw Tramways project is part of the city’s Sustainable Urban Transport Strategy, which aims to expand clean public transport services and encourage a modal switch from private cars to public transport, thus reducing the city’s carbon footprint. The Warsaw project is just one of a series of projects in clean urban transport planned throughout Poland with Kraków, Gdańsk, Poznań, Wrocław, Szczecin, Łódź and Lublin also preparing investments. Thanks to technical assistance funds from the Central European Initiative (CEI), the Bank is helping the Polish authorities to capitalise on these low carbon investments and develop a ground-breaking framework to monetise CO2 emission reductions in urban transport via the sale of carbon credits.

In Armenia, the Bank signed a €5 million sovereign loan for the state-owned Yerevan Metro Company to finance essential modernisation in the city’s underground transport system. The EBRD loan is accompanied by close to €1 million in technical cooperation (TC) grants to support project implementation, provided by the EBRD Shareholder Special Fund (SSF). The investment programme itself is to be co-financed by a €5 million capital grant from the EU NIF and a €5 million sovereign loan to be provided by the EIB. The investment programme is expected to generate significant savings of electricity due to reduced water pumping costs, estimated to be cut by 50 per cent.

Further east in Kazakhstan, the Bank signed two loans with Almaty Electrotrans for €53 million in aggregate to finance the introduction of CNG-powered buses and further develop electric trolleybus services in the city of Almaty. The projects are accompanied by an ambitious reform agenda to strengthen public transport regulation and introduce effective competition between transport operators.

**Smaller and more remote municipalities**

The year 2010 was marked by intensified efforts by MEI to implement projects in smaller and more remote municipalities and utilities, particularly in the Western Balkans and the ETCs, with 10 projects signed across six countries. For example, in Tajikistan the Bank provided a US$ 10 million (equivalent to €7.5 million) loan to improve the municipal water services in seven small cities, mainly in the north of the country. The provision of uninterrupted access to safe drinking water for these populations is expected to have a major impact on public health. In a similar fashion, the Bank financed essential wastewater investments in Bišejina (Bosnia and Herzegovina) and Danilovgrad (Montenegro), with loans of €5 million and €5.4 million, respectively.

**District heating**

Projects in district heating in 2010 were dominated by private sector operations. These include a loan of RUB 350 million (approximately €3.5 million) to privately owned district heating company Taganrog Teploenerto to finance its investment programme in the city of Taganrog, southern Russia. The proceeds of the EBRD loan will allow the company to replace an obsolete boiler house, estimated to result in a 13 per cent reduction in fuel consumption and a 7 per cent cut in electricity use. Another operation in the sector consisted of a major equity investment of €100 million in Daikia Baltica-Russia, the regional operating company of Daikia, the leading European provider of energy services. Through this investment, the Bank will help raise service levels, improve operating efficiencies and promote fuel diversification through biomass in Estonia, Lithuania and Russia and potentially other countries in eastern Europe.

**Solid waste management**

In the solid waste management sector, the EBRD provided a €3 million loan to the Adjara Municipal Sanitary Services Company in Georgia for municipal solid waste investments. This project will be co-financed by a €4.7 million grant from the Swedish International Development Agency (SIDA) and a €0.6 million grant from the ETC Fund and will allow the development of an EU-compliant sanitary landfill in the vicinity of Batumi on Georgia’s Black Sea coast.

**Donors and MEI**

In 2010 the EBRD began adopting an “integrated approach” to MEI project development, which combines coordinated investment, technical assistance, policy dialogue and cooperation with other stakeholders that together strive to deliver measurable sector reforms and help address evolving transition needs. The approach provides the opportunity to address countries’
broader transition challenges beyond the scope of individual projects, while maintaining the core EBRD project approach. This strategy relies on substantial donor-funded grant support. For example, the EBRD’s €60 million loan to the city of Belgrade, signed in 2010 to complete the construction of a major cable-stayed bridge over the Sava river, was part of such an integrated approach to modernise public transport, traffic management and parking facilities in the Serbian capital. The Sava project is the first of a series of projects envisaged with the municipality and these investments will be combined with donor-funded technical assistance and policy dialogue to help the municipality improve the sector’s regulatory framework and reorganise and upgrade the public transport system. During 2010 similar integrated approaches were also used in the municipal sector in Kazakhstan and Tajikistan.

Donor TC funding also continues to enhance MEI project design and implementation and to improve corporate governance and institutional development. For example in 2010 the Bank developed initiatives to integrate a gender component into pilot MEI projects. Under a technical cooperation agreement funded by the SSF, a gender analysis was undertaken to identify women’s considerations and inform project design and implementation for a street and lighting rehabilitation project in Sfantu Gheorghe (Romania). Similar pilot gender projects in the MEI sector were initiated in Georgia, Kyrgyz Republic, Romania and Tajikistan. It is hoped that successful components from these pilot initiatives can be adapted and incorporated in future into selected projects to be financed by the EBRD.

**TRANSPORT**

The EBRD is taking the lead in upgrading and modernising transport infrastructure in transition countries and emerging Europe, reinforcing its commitment to supporting sector reform and commercialisation of transport operations as it strives to ensure the provision of safe and efficient transport networks.

In total, since the beginning of 2010 the EBRD has invested close to €1.3 billion in transport infrastructure projects in its countries of operations. These projects help countries align their transport networks to international quality and safety standards and boost cross-border trade links that are key to the development of the region’s economies. At the same time these projects bring significant long-term benefits for future potential investors and for the sustainable development of these economies.

The year 2010 saw an increasing proportion of finance to support the railway sector across the region, both in the numbers of projects and volume of finance. Furthering the EBRD’s commitment to rail sector reform and based on long-standing support to the provision of an efficient rail network in the Western Balkans, the EBRD provided a €100 million loan to support further modernisation of rail infrastructure in Serbia. This is the second €100 million loan offered by the Bank to Serbian Railways in the recent past to support its modernisation programme and is just the latest in a range of infrastructure investments across the Western Balkans.
This most recent loan to Serbian Railways will finance the renewal of over 111 kilometres of rail track along Corridor X, one of the 10 pan-European transport routes and a key transit stretch in Serbia, providing vital links to FYR Macedonia and Greece in the south and to Croatia, Hungary and western Europe in the north. The modernisation of Serbian Railways is supported by donor funds from the Central European Initiative (CEI), the German government and the EBRD Shareholder Special Fund (SSF).

The EBRD’s support to strategic European Network corridors was further advanced with the provision of a €17.6 million loan to Macedonian Railways, which will be used to renew track along key sections of Corridor X as well as to support sector restructuring and the development of the east-west railway link known as Corridor VIII. In Montenegro the EBRD is providing financing of up to €13.6 million for priority passenger fleet modernisation at the national passenger carrier, ZPCG, ensuring safe and efficient movement of passengers.

The Bank’s focus on passenger safety continues not only in rail but also in road projects, with a €50 million EBRD sovereign loan to Albania to provide for the rehabilitation of the country’s regional and local roads, including the refurbishment of up to 500 kilometres in rural areas. The poor condition of rural roads in the country is hindering the development of the private sector in small towns and villages and limiting the competitiveness of agribusiness companies. The European Investment Bank (EIB) will provide a similar-sized loan to the EBRD to co-finance the project, and it is also being supported by €33 million in grant financing from the European Commission under the Instrument for Pre-Accession Assistance (IPA) 2010-11 programme, and an additional €4 million technical assistance grant from the Western Balkans Investment Framework (WBIF).

Again, passenger safety and security remains at the forefront of the Sarajevo International Airport Project (Bosnia) where the €25 million financing provided by the EBRD will enable the airport to upgrade its facilities for passenger services, including the passenger terminal, where sustainable energy initiatives will be introduced; as well as the apron and taxiway.

Support to sector reform in the Western Balkans also took the form of pre-privatisation support being provided to the strategic port of Bar in the form of €8.5 million loan to finance part of the pre-privatisation programme of the Container and General Cargo Operator – one of the two majority state-owned port operators at that port.

In Croatia, where reform of the port sector remains critical to boosting economic growth – in particular within the tourism sector – the EBRD provided financing to both the port of Dubrovnik to assist with the finalisation of the significant upgrade that started, again with EBRD support, in 2005 and to the port of Sibenik in the form of a €12 million loan to reconfigure the port space allowing for expansion of its ferry and cruise passenger operations in support of the growing tourism industry in the area. The last quarter of the year saw the EBRD
consolidate its position in backing Croatian regional integration with a €60.6 million loan to HAC, the Croatian Motorway Company, to finance the construction of 12.86 kilometres of motorway sections along Corridor Vc, which connects the northern and southern ends of the Corridor Vc motorway at the border with Bosnia and Herzegovina. Corridor Vc is one of the three major trans-European corridors within the region and with the completion of the Croatian part of Corridor Vc, adjacent to Bosnia and Herzegovina, the project will allow for the full regional motorway linkage along the Corridor and complement the Bank’s existing funding of the Corridor Vc sections in Bosnia and Herzegovina and Hungary, and the port of Ploče, the maritime gateway for Corridor Vc.

EBRD investments are also benefiting vital road networks in Moldova and Ukraine. A €450 million sovereign loan facility to Ukravtodor (the state administration of Ukraine) will upgrade key routes into the capital, Kiev, and will aim to increase regional integration. This is the latest transaction in the Bank’s ongoing work to improve transport infrastructure within Ukraine and beyond, building on a series of earlier road improvement loans worth €375 million. Among the routes that will be completed under the new investment are stretches of the MO6 motorway – one of the key arterial roads in the country – which forms part of the pan-European Corridors III and V, linking the Ukrainian capital with the European Union. In Moldova the EBRD continued to advance the improvement of the road network with a €75 million phased loan facility to upgrade key areas of the network to ensure that vital road links are maintained to acceptable standards to ensure safety, facilitate economic growth and regional integration, and to support reform of the road sector.

The EBRD’s commitment to rail sector reform was exemplified by its collaboration with the Kazakh Rail Company, KTZ. Following many years of extensive dialogue, a package of lending products was provided to support further commercialisation in the form of two loans totalling €190 million to Kaztemirtrans, the freight wagon subsidiary of KTZ, plus participation in a successful bond issue on the London Stock Exchange which saw KTZ raise US$ 700 million (€521 million equivalent).

The EBRD also provided its first non-sovereign lending to Georgian Railways, providing €117 million equivalent for the Tbilisi Railway Bypass project for constructing a new railway route. It will bypass the central area of the city, moving hazardous transportation, noise and other related issues away from key locations in the capital and so improving the efficiency and safety of rail operations on the key east-west corridor within Georgia.

In 2010 the EBRD further promoted public-private partnerships (PPPs) in the transport sector by providing €200 million under an A/B loan structure to construct, expand and operate Pulkovo airport in Russia under the terms of a PPP agreement signed with the city of St Petersburg and Pulkovo Airport Company. The first part of the project calls for a new terminal at Pulkovo for both international and domestic passengers to be completed by 2013. What makes this deal unique is that it is the first airport sector PPP in Russia to be structured in accordance with international standards, including in the area of sustainable energy. It is also the first in Russia involving an experienced international partner, the Frankfurt airport operator, Fraport. The success of this project could therefore have far-reaching effects on the way many other major infrastructure projects in Russia are financed.

Lastly during 2010, alongside our engagement with some of the largest transport providers in the region, the Bank has also continued to support corporate borrowers in the shipping sector, with a particular focus on sustainable energy initiatives, and the rail and port sectors.

**Donors and transport**

In 2010 the Bank’s transport clients received approximately €6.3 million in technical cooperation (TC) funding from donors in support of 19 projects in countries ranging from the Western Balkans to Kazakhstan. These projects are focusing on the reform and commercialisation of transport operations.

Key beneficiaries in the rail sector, for example, have been Georgian Railways (with €1.5 million) and Macedonian Railways (€1.15 million), in line with the Bank’s efforts to maintain restructuring momentum in the early transition countries (ETCs) and the Western Balkans. Donor funding has also supported the establishment of institutional authorities to oversee rail safety and market competition, such as a rail regulator in Serbia.

The Bank has meanwhile provided support to Kazakh Railways for a regulatory review to instil best international practice in its corporate governance, and secured donor assistance for the company’s freight subsidiary with a corporate development strategy.

In the road sector donor funds have been assisting the development of corporate strategies for national road companies, such as Croatian Motorways Limited.