

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

**MUNICIPAL AND ENVIRONMENTAL  
INFRASTRUCTURE**

**SECTOR STRATEGY**

**REPORT ON THE  
INVITATION TO THE PUBLIC TO COMMENT**

## MUNICIPAL AND ENVIRONMENTAL INFRASTRUCTURE STRATEGY

### 1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft 2012 Municipal and Environmental Infrastructure Strategy was posted on the EBRD web site for 45 calendar days from 23 March 2012. The public was invited to submit written comments on the draft Strategy no later than 6 May 2012.

Comments were submitted by: (i) CEE Bankwatch Network, an international non-governmental organisation based in Prague, Czech Republic, and established in 1995 to monitor the activities of those IFIs that operate in Central and Eastern Europe; (ii) REC Caucasus Branch Office in Azerbaijan; and (iii) Chernobyl-Belarus Union. Please note that comments and proposals submitted by the Chernobyl-Belarus Union are outside of the scope of the EBRD's MEI Strategy and addressed to the "leaders of the European Union". Therefore these comments are not included in the Report. The Bank will forward the comments to the relevant European Union authorities.

As a general remark applicable to all the comments, the Bank would like to highlight its role as a demand-driven, project-orientated financial institution.

### 2. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
General	1. The new policy was expected by CSOs to be on public consultation during the first quarter of 2011. What is the reason for the delayed revision process?	The year 2011 was a record year for the MEI Team in terms of signings and annual business volume. Although substantial resources were assigned to preparation of the Strategy, it was slightly delayed as the Team handled the increased business volume. This delay had the advantage of enabling the Bank to incorporate EBRD's entry into the SEMED region within the new Strategy.
General	2. Why was the evaluation report on the Bank's MEI activities not been posted on the Bank's website before the new draft policy was circulated?	A new Chief Evaluator has been appointed and the Evaluation Department (EvD) is restructuring. This has caused some delays. The report will be posted on the EvD site shortly.
	3. At what stage the Bank will publish projects' expected and actual contribution to the on-the-ground and sustainability goals? Will it be part of the project summary documents?	The Bank plans to publish the indicators in the Project Summary Document before Board approval of a project. Additional text has been added to section 6.8.

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	<p>4. The strategy needs to include more analysis of what works and what does not in terms of private sector participation in MEI and its on-the-ground impact.</p>	<p>There are few examples in the EBRD region of outright privatisations in the infrastructure sector. If a transaction is well structured, the Bank could potentially support it, but this category is not expected to become an important mainstream activity.</p> <p>Numerous potential concessions / PPPs are conceived by authorities and sponsors, but few reach fruition. The Bank has well-established tools to screen proposals, which all have to be in line with the Bank's Concession Policy where strict criteria for the Bank's participation are defined. The Bank expects to finance a relatively small number of well structured concessions/PPPs over the Strategy period.</p> <p>There is greater potential for private sector participation through outsourcing services. The range of private sector partners is greater; private sector finance can be mobilised; and risks transferred. Outsourcing is generally less complex than concessions.</p> <p>Additional text has been added to section 5.7.</p>
	<p>5. When the EBRD refers to efficiency in the strategy, is it meant in terms of overall value for money for public and users' money, as we would advocate, or more narrowly in terms of cutting operational costs?</p>	<p>The Bank means overall value for money. The benefits of private sector involvement can often be non-monetary i.e. quick delivery, better know-how, new service ideas etc.</p> <p>Additional text has been added to section 5.7.</p>
<p>Section 1.3 Sector Vision</p>	<p>6. "... how does the bank intend to ensure that people's actual needs in terms of municipal and environmental infrastructure are correctly identified? Does the bank use its technical support funds to carry out customer surveys on such issues, or is it required as part of project preparation?"</p>	<p>Firstly, in the case of public sector clients, the Bank relies on democratically elected representatives to reflect the views of their constituents. Secondly, for both public and private sector clients and projects, some form of market assessment or research is generally required to quantify demands. This activity is frequently included in Technical Due Diligence, conducted</p>

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		with the support of EBRD technical cooperation. Thirdly, in the case of larger projects and those with environmentally sensitive issues, public consultation is carried out and individuals, CSOs and others are encouraged to express their views. Additionally, many MEI projects include a TC-funded Stakeholder Participation Programme, particularly in the water sector, to involve all interested parties in the investment.
Section 1.3 Sector Vision	7. The Bank’s vision should include energy efficient, new renewables-based zero-carbon imperatives non-dependent on market evolutions and distortions.	EBRD projects aim to demonstrate structures that are replicable in a commercial/ market financing environment, and the Bank uses market instruments to foster environmental improvements. It is for governments and others to adopt measures independent of market mechanisms if they so desire.  This Strategy outlines how the Bank intends to apply the instruments at its disposal in the MEI sector in the coming years. The Bank also has an initiative to mainstream sustainable energy into its operations - the Sustainable Energy Initiative (SEI) - and this has been fully reflected within the new MEI Strategy.
Section 1.5 Operating Priorities and Tools	8. It needs to be specified how the public can monitor these (performance) indicators.	The Bank plans to publish the indicators on the EBRD website.
Section 3 Sector Challenges	9. A crucial challenge is missing, the transition to an energy efficient, new renewables-based decarbonised economy. This challenge needs to be addressed in all the bank’s fields of operations.	This issue is addressed within the SEI. The initiative has been reflected in the drafting of this Strategy, and the MEI sector is clearly a key sector in moving towards a low-carbon future. The MEI Strategy sets this out clearly and provides in-depth information on the kind of operations the Bank intends to pursue with this in mind.
Section 3 Sector	10. It is indicated in the Strategy that “five countries are estimated to have more than around one million	The latest data from the WHO/UNICEF Joint Monitoring Programme for Water Supply and

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Challenges page 18	<p>people without access to improved water: Azerbaijan ....". This statement is not pertinent for Azerbaijan and somehow ridiculous as having data of 1 million of population out of 9 million in the country without access to improved water is not correct. ...</p> <p>It may be result of referring to old data, but this statement should be revised.</p>	Sanitation (updated March 2012), indicate that 80 per cent of the population in Azerbaijan in 2010 had water 'piped into premises' or 'other improved source', and that 20 per cent (1.28 million inhabitants) relied on 'other unimproved facilities' or 'surface water'.
Section 3 Sector Challenges page 19	<p>11. It is indicated that "six countries had more than one million inhabitants without access to improved sanitation (of whom one-third lived in urban areas): Azerbaijan; ..." This statement is not pertinent for Azerbaijan.</p> <p>It may be the result of referring to old data, but this statement should be revised.</p>	The latest data from the WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (updated March 2012), indicates that 89 per cent of the population of Azerbaijan in 2010 enjoyed 'improved facilities' or 'shared facilities' and that 11 per cent (1.65 million inhabitants) had 'other unimproved facilities'.
Section 3.2 Provision of Essential Services	12. Does the bank regard portability of tap water as a goal of its operations. If not, why not?	Yes - please see indicator No. 1 in Annex C.3 Box 8.
Section 3.2 Provision of Essential Services	13. "... incineration with energy recovery should not be financed by the bank."	<p>The European Union's new Waste Framework Directive embodies a strategic shift from addressing waste as an unwanted material to a valued resource. The waste hierarchy establishes a five step-approach as a priority for developing policies and legislation to be implemented in National Waste Management Plans. The Bank will consider financing incineration proposals within that policy context, provided the facility to be financed is energy efficient as per the Directive, and meets applicable financial, environmental and social criteria.</p> <p>Waste minimisation and recycling remain priorities. It is noted that alternative means of disposal such as landfill are not risk-free or without environmental impacts.</p>

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Section 3.2 Provision of Essential Services	14. If the bank is serious when it comes to the 3Rs (Reduce-Reuse-Recycle), all its sectoral policies need to be revised so as to prevent investments that are not in line with this strategy's vision statements.	This comment is outside the scope of the MEI Strategy. Further representations to the Bank regarding each sector strategy would need to be made as and when they come forward for approval.
Section 3.2 Provision of Essential Services  Romania. Pathway to long-term transition in water sector	15. It is noticeable that even after all these EBRD investments, the water in cities in Romania is not drinkable, or at least people do not perceive that it is. This is not to say that we would have expected the EBRD to solve all the MEI problems in the country but it seems fair to expect that in at least one or two cases the EBRD investments could have contributed to a turnaround large enough to ensure drinkable water.	If true, this is a matter of perception rather than reality. All EBRD water sector investments target full compliance with the EU Drinking Water Directive (DWD). All the cities that have benefited from EBRD financing already have drinkable water, even when the Bank covered only a portion of the service area.  Romania still has cities/areas where centralised water supply networks are not yet available; however, investments are ongoing with sufficient EU co-financing with the aim of complying with the DWD by 2015.  Water quality is measured against the relevant EU quality parameters by the water operators and regularly checked by the local Agencies for Public Health. Monitoring is ensured by EBRD for its own financed projects.
Section 4.1 Decentralisation and Strengthening Institutional Structures	16. The criteria for private sector involvement should not only be feasibility, but rather good value for money and significant improvements in service provision compared to the public sector. Page 38 outlines a number of challenges related to private sector participation but then goes on to emphasis on page 39 that PPPs will still be a priority for EBRD. ... It is not clear why the Bank anyway then goes on to prioritise PPPs above other models ...	The EBRD is able to finance infrastructure investments with either the private or the public sector. PPPs are still a priority for EBRD given its mandate, but not “above other models”.  PPPs are also pursued selectively by the Bank, to ensure transparency, high standards and private sector value-added.  Additional text has been added to section 4.1.
Section 4.1 Decentralisation and Strengthening Institutional	17. There have been many cases where private sector involvement in the water sector has not brought significant public benefits, both in and outside of the EBRD region.	The most recent audited financial report of the concessionaire, Sofia Voda, states that the rate of losses in 2011 was 55 per cent. Prior to the concession losses were in the region

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Structures	For example, in the EBRD region, the Sofia water concession, after more than 10 years, has failed to reduce water losses in the system to any significant extent, with losses still at around 60 per cent and the water considered by most people as undrinkable.	<p>of 66 per cent.</p> <p>In evaluating water losses, the Bank looks at both administrative losses (which include unauthorised consumption and metering inaccuracies) as well as technical losses (leakages in the network and service connections as well as overflows of storage reservoirs). The investments in Sofia Water will reduce losses, but these will take time. Moreover, measurement of improvements of water losses needs to be harmonised. With better monitoring equipment, Sofia Water is able to more accurately assess water losses, which is why the rate of improvement may seem slower.</p> <p>The reports for 2011 of the Sofia Regional Inspection on Public Health Protection and Control, which conducts an independent supervision on water quality, show that the quality of the potable water in Sofia meets the requirements of the Bulgarian legislation, which is harmonised with the European Union Drinking Water Directive.</p> <p>As in Romania, this is an example of perception of water quality.</p>
Section 4.1 Decentralisation and Strengthening Institutional Structures	18. Public-public partnerships should not be mentioned as an alternative model for improving public sector water provision, which does not seem to have been utilised by the EBRD ...	<p>There are no cases of public-public partnerships in EBRD water sector projects to date. However, the Bank is aware of some public sector companies from its region, pursuing opportunities outside their service area. Public-public technical cooperation in the form of ‘twinning’ has been used in urban transport.</p> <p>Publicly-owned commercial entities are eligible to bid for EBRD-funded projects outside their country of origin, subject to published criteria regarding their commercial nature and being subject to bankruptcy. A challenge of these investments is that the public sector company’s primary focus is to provide quality services in its service area at efficient prices. As such, many public companies do not</p>

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		<p>have sufficient capital to put at risk or are unable to do so since if the investment returns are lower than initially envisaged, they could be criticised for using scarce capital for investments that do not directly benefit their home markets. Some public sector companies seek to provide management or project development expertise. EBRD is currently supporting a joint venture with a private sector operator and a public sector water company which is seeking to develop such opportunities.</p> <p>Additional text has been added to 4.1.</p>
<p>Section 5. Mainstreaming the New Frontiers – Early Transition Countries page 19</p>	<p>19. It is stated that “the ETC have lagged behind the rest of the region in their transition to market economies: more than one out of every two people live below the national poverty line ...” May be in the past these countries may have been considered as early transition countries, but it is already 20 years passed and countries have achieved different development levels during this period. In Azerbaijan, the national poverty level was 15.8 per cent in 2008 (due to World Bank Indicators published in 2012), and is only 7.6 per cent at present time (due to last statistic of 2011). The result of such generalisation may be referring old data.</p>	<p>The ‘Early Transition Country’ grouping is one of several used by EBRD to analyse issues and mobilise funds.</p> <p>It is true that different countries have progressed at different rates and that Azerbaijan has made significant progress in recent years, as demonstrated by the World Bank Indicators.</p>
<p>Section 5.1 Expanding Geographic Reach  Russia</p>	<p>20. “... the chances of the EBRD backing a PPP which brings real public benefits in the country are extremely low and the Bank’s participation in such models is much more likely to bring support for corrupt practices and reputational risks for the Bank.”</p>	<p>The Bank’s policy on Financing of Private Parties to Concessions (“Concession Policy”) was designed to ensure that all issues raised in this comment are addressed during project due diligence and approval. Competition, transparency and fairness are core criteria of the Concession Policy. If they are not met, the project will not receive EBRD support and financing. Other core criteria include: (i) compliance with laws and regulations, and (ii) the Concession Agreement</p>

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		<p>should be fair and balanced. Good value for money can be achieved if the public party is supported by professional advisors and bidders meet strict qualification criteria. The Concession Policy requires that PPPs meet the requirements that: (i) professional advisors should be appointed by the public sector, and (ii) the tender should have a pre-qualification stage and clear qualification criteria should be published. As for public participation, this is part of the social and environmental assessment procedure and has higher requirements and standards than Russian national requirements.</p> <p>Additional text has been added to section 5.1.</p>
Section 6.2 Geographic Spread	21. Even in much larger economies with a much greater public sector capacity there have been many cases of very poor value for money PPPs, so it would seem more logical to concentrate on getting the basics of public procurement right before moving on to more complicated structures.	The Bank has for many years invested substantial staff time and technical cooperation resources into supporting its clients with public procurement. Hundreds of contracts financed by EBRD have been placed by public sector organisations, with minimal problems. The number of cases of mis-procurement is minimal. The Bank intends to continue to support good public procurement in parallel with supporting more complex structures, where appropriate.
Section 6.3 Policy Dialogue	22. The Bank should put more effort into policy dialogue on innovative waste prevention and management techniques, sustainable transport models, energy efficiency and new renewables.	The Bank will continue to devote resources to policy dialogue, including innovative waste prevention and management techniques and sustainable transport, where appropriate.
Annex A	23. The Evaluation Department score sheet shows that more than a third of water and sewage projects were only partly successful. Can the Bank comment on why this was?	MEI's clients are for the most part municipally-owned public utilities, some of which face financial challenges. In some cases, projects have been delayed for procurement or financial reasons, resulting in 'Partly Successful' outcomes at the

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		time the evaluation was undertaken. We note, however, that the overwhelming majority of MEI projects are deemed ‘successful’ or ‘partly successful’.
Annex B	24. The transition analysis rather undoes the fairly nuanced analysis in the rest of the document, giving the impression that the EBRD’s only yardstick of success is the amount of commercialisation and private sector participation in the MEI sector. It should be recognised that well-functioning communal systems and services also benefit the private sector, regardless of whether it actually runs them or not.	<p>The annex on transition challenges focuses on the structural and institutional aspects of the municipal utility sector and does not directly measure infrastructure outcomes. Commercialisation and financial sustainability are key challenges arising from the legacy of central planning in the EBRD region, whereas private sector participation in municipal infrastructure is only one of the many aspects of this transition from a planned to a market allocation of resources. EBRD’s mandate recognises the importance of infrastructure for private sector development and the main rationale for the Bank’s involvement in infrastructure financing is on the basis of support for private sector development.</p> <p>Additional text has been added to section B1.</p>
Annex B	25. The acknowledgement of the Millennium Development Goals in the Strategy is very much welcomed. Does this mean that projects in developing countries will be assessed in relation to their contribution to these goals? Will their contribution be outlined in the project summary documents?	The Millennium Development Goals (MDGs) provide a context for development in a given country or region. EBRD selects projects having regard to this agenda, but assesses candidate investments according to its own criteria such as creditworthiness, transition impact and so on. A project’s contribution to the MDG will not therefore be included in the project summary document.
Annex C	26. Can the Bank provide details on the derogations related to drinking water?	The EBRD environmental and social policy requires EBRD financed projects be structured to meet EU environmental standards. Therefore, on the projects involving drinking water supply services, the drinking water quality would need to achieve the standards set out in the EU Directive 98/83/EC on drinking

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		<p>water quality. Due to affordability constraints of the population and limited financial resources and creditworthiness, many of the Bank's municipal clients, especially in Early Transition Countries, can only afford to borrow a loan amount sufficient for implementing short-term Priority Investment Programmes. These Programmes have a limited scope to address the most urgent issues and while they result in significant improvements in drinking water supply services, in many cases additional long-term investments are needed to bring the existing facilities and operations of the municipal water companies, including drinking water quality, into full compliance with EU environmental standards. When EU standards for drinking water quality cannot be achieved, the Bank's due diligence assesses the extent of the shortcomings and the potential public health risks associated with the drinking water. In most projects approved on the basis of derogation, there is no significant public health risk due to the impaired drinking water quality, because the non-compliance is minor or related to above the norm concentration of a substance or substances which do not have direct health impacts. To date, derogations have been granted on 25 projects related to water and wastewater, because full compliance with EU standards will not be achieved through a given EBRD project. Details on the number of derogations to date have been added to section C2.</p> <p>The Bank's Sustainability Report contains a list of all projects approved on the basis of derogation to the Bank's Environmental and Social Policy, including information on the nature of the derogation.</p>
Annex D	27. The section on parking fails to mention that car parks in the city core tend to attract traffic rather	A city's parking strategy should be the result of considering demands, congestion, the role of public

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	<p>than reduce it and that car parks should therefore be constructed around the edges of the centre, outside the congestion zone, and at the edge of cities (park + ride).</p> <p>New bridges, bypasses, improved junctions and other road links should only be considered in cases where public transport improvement plans indicate their necessity.</p>	<p>transport, site constraints and so on. There are many good examples of parking around the periphery of a city centre. There are some good examples of park-and-ride, but also examples where it has not been effective.</p> <p>The Bank believes that any investment in roads and bridges should be justified within the context of an overall land use and transportation plan or strategy (taking into account the demands for logistics, deliveries and freight transport), rather than from a passenger ‘public transport improvement plan’.</p> <p>Additional text has been added to section D1.</p>
Annex D.3	28. The sustainability goals for urban transport are positive, but it needs to be clear that “increase walking, cycling and public transport usage” is referring not only to an absolute increase but also to a corresponding absolute decrease in the use of cars.	The Bank’s clients may aim through their policies to “increase walking, cycling and public transport usage”, but the outcome will depend on travellers’ behaviour and preferences. The outcome may result in an absolute drop in car usage, but more likely a relative decrease compared to what it would otherwise have been without the measures.
Annex E	29. The strategy fails to address a vision for fossil fuel-free district heating. The switch away from fossil fuels should have its place among the sustainability goals set for district heating.	The Bank agrees that fossil-free district heating would be ideal, and there are EBRD investments to this effect happening already. Nevertheless, there are many cases where this goal is difficult and, under present conditions of technological development and resource availability, impossible to achieve. The aim therefore is to make fossil-fuel-operated systems as efficient as possible, and to encourage fuel switching to lower-carbon fuels where feasible.
Annex E	30. The draft policy refers to metering on the building level and automated individual heat substations, however it is not clear whether the Bank also plans to ensure that billing is carried out on	Household metering would be ideal, but there are physical, legal and organisational barriers. Nevertheless, the Bank can engage in policy dialogue with governments and regulators to move towards this end,

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	the basis of individual household metering.	<p>where feasible. Metering at building level and individual automated substations are a step in the right direction.</p> <p>Additional text has been added to section E2.</p>
Annex E	31. The Bank should not support incineration, even with energy recovery as their lifetime is at least 25 years, and it therefore follows that PPPs in incineration should not be supported either.	Please see response to Point 13.