



**Organization for Security and Co-operation in Europe
Secretariat**

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Conference Services

Please find attached the presentation by Mr. Henry Russel, Deputy-Director, Municipal and Environmental Infrastructure, European Bank for Reconstruction and Development (EBRD) with regard to the Plenary Session 4 Part I - Prevention of water related conflicts: the role of good governance, Second Preparatory Conference to the 15th OSCE Economic and Environmental Forum, Zaragoza, Spain, 12-13 March 2007.

OSCE Economic and Environmental Forum

Political reform and development through municipal infrastructure financing

Zaragoza, Spain, 12-13 March 2007

Henry Russell Deputy Director
13 March 2007



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Key messages

- Local infrastructure investment and political reform are mutually re-enforcing
- Local accountability for public services – democracy at work
- Decentralisation, Commercialisation, Environmental Improvements
- Demonstration effects: Transparency, Reform, Good procurement, Good governance, Sustainability
- Communities regain capacity to work constructively together



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Outline

- Sources of transition impact
- Role of IFI conditionality
- Project Examples
- Conclusion



Sources of transition impact

- Decentralisation
 - Investments secured by city budget (guarantee or support agreements)
 - Tariff reform linked to prioritised investments constrained by affordability limits
 - Greater accountability and responsibility at local level
- Commercialisation
 - Transparent review of accounts and operations
 - Full cost recovery (operational and investment)
 - Covenants on financial and operational performance
- Environmental improvements
 - Water, wastewater, solid waste, urban transport, district heating



Role of IFI conditionality

- Creditworthiness = sustainability
- Budget discipline at City level
 - Financial covenants (DSC, current surplus)
 - Sector and contractual reform (public service contracts)
 - Stable sources of “own revenue”
- Financial and operating discipline at utility level
 - Financial covenants (DSC, current ratio, etc)
 - Specific operational targets (reduce water losses, increase collections)
- Project implementation
 - Open transparent and competitive procurement
 - Disbursement linked to contract milestones (compliance)



Project Examples - Skopje

- International community support for decentralisation reform – Law on local government enacted June 2005
- EBRD agreed with Mayor to develop water and urban transport projects – October 2005 on a **non sovereign basis**
- Proposals under development:
 - Up to €12 million for “JSP” to renew its fleet of buses; requires commitment on revised regulatory framework and public service contract with City.
 - Up to €5 million for renewal of water supply network and initial investments in sewage collectors.
- Audit revealed weak institutional capacity for City to implement law – institutional support required
- Political stalemate; Central government wary of allowing City to borrow or guarantee; requires MOF approval

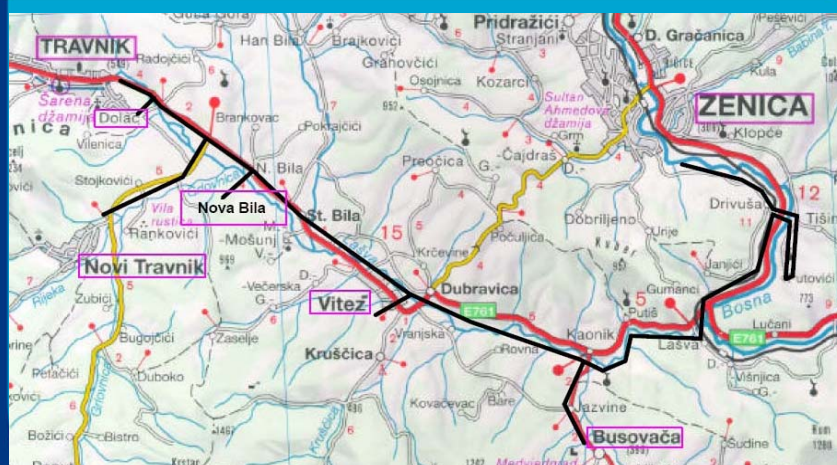


Project examples: Bosnia Hercegovina

- Plava Voda Regional Water Supply
 - Water supply pipeline serving communities of Travnik, Novi Travnik, Vitez, Busovaca and Zenica
 - Investment cost of €24 million supported by EBRD loan of €17 million.
 - Serving multi-ethnic population of 250,000.
 - Jointly owned special purpose vehicle to supply water under a concession.



Plava Voda Project Region



Project Examples – Bosnia

- Tuzla water and wastewater project
 - Investment in combined water and wastewater investments serving Tuzla, Lukavac and Zivinice (total pop. 250,000)
 - Total investment (Phase I) of €8.8 million with proposed EBRD loan of €6.8 million.
 - Lake Modrac suffering degradation from waste of Zivinice sewage, coal mines and cattle farms.
 - Lake Modrac also source of long term water for Tuzla and Lukavac
 - Combined operating company a condition for consolidated and efficient operation – not agreed



Tuzla Water and Wastewater Project Region



Project Examples – Montenegro

- Montenegro Regional Water Development project providing water supply from Lake Scadar to coastal communities
- Urgent national priority to secure viable tourism sector (together with planned wastewater investments)
- Total investment cost of €53.4 million supported by WB (13.5 million); EBRD (15 million) and other government and donor grants (24.9 million)
- Serves 7 municipalities (population of 170,000, significantly increased in the summer period)
- Regional solution based on Special Purpose Company (government owned) for bulk water supply
- Sovereign guaranteed in first phase: possible concession in second phase once operational.



Results to date

Portfolio		
Project Name	Total Project Costs	EBRD Finance
Macedonia Municipal & Environmental Programme	37.6	17.3
Belgrade Water and Wastewater	105.9	20.0
Belgrade District Heating Rehabilitation		20.0
Belgrade Urban Transport		20.0
City of Nis Municipal Infrastructure Programme	11.7	5.5
City of Novi Sad Municipal Infrastructure Programme	5.8	1.9
City of Kragujevac Municipal Infrastructure Programme	6.7	3.9
City of Subotica Municipal Infrastructure Programme	14.0	9.0
Sava River Crossing	161.2	49.6
Tirana Municipal Transport Project	14.6	14.6
TOTAL	357.5	161.80



Project pipeline

Pipeline

Project Name	Total Project Costs	EBRD Finance	TC Finance required
Bijeljina Wastewater Collection	9.8	5.5	0.3
Duboko Solid Waste Regional Landfill	11.9	5.0	0.8
Montenegro Regional Water Supply	53.4	15.0	0.5
Pancevo Wastewater System	15.5	9.5	0.7
Plava Voda Regional Water Supply	24.0	17.0	0.5
Skopje Urban Transport Project	13.8	12.0	0.6
Skopje Water/Wastewater Rehabilitation	13.7	5.0	0.6
TOTAL	140.4	71.9	3.9



Conclusions

- Local infrastructure investment and decentralised political accountability are mutually re-enforcing
- Part of conflict resolution efforts:
 - Skopje – local community autonomy
 - BiH – inter-community collaboration
- Environmental benefits are natural “public goods” affecting neighbouring communities
- Decentralised and commercially disciplined (albeit small) projects create sustainable political and economic solutions.



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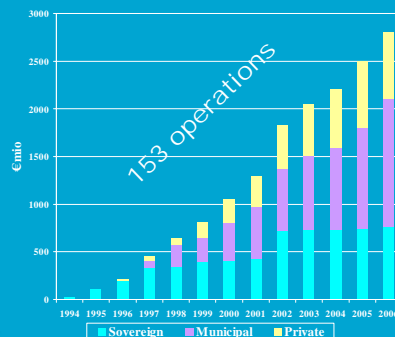
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Municipal infrastructure is a growing part of EBRD activity

Cumulative Business Volume € 2.8 billion



(as of 31 Dec 2006 including EE)

- €1.8 billion portfolio committed to €5 billion in total investment
- Projects in over 120 municipalities
- Over 35 million population served by EBRD-financed municipal projects
- Trend towards non-sovereign and private financing
 - 27% Sovereign
 - 25% Private
 - 48% Municipal



EBRD's municipal projects have had a successful track record since 1996