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Please find attached "*The EIB in the Water Sector: European Investment Bank*" Supply and Sanitation Schemes", delivered to the Second Preparatory Conference to the 15th OSCE Economic and Environmental Forum "Key challenges to ensure environmental security and sustainable development in the OSCE area: Water Management", held in Zaragoza, Spain, 12 - 13 March 2007.



European Investment Bank



The EIB in the Water Sector:

Supply and Sanitation Schemes





The EIB in the Water Sector: Supply and Sanitation Schemes

Water is essential to everything in life – food, energy, transportation, nature, leisure, identity, culture, social norms, and virtually all the products used on a daily basis. With population growth and economic development driving accelerating demand for everything, the full value of water is increasingly apparent to all. Therefore, limited access to safe drinking water as well as the decline in water quality affecting Europe and other regions of the world, are leading global environmental and development problems¹.

Today 1.1 billion people in the world live without access to clean drinking water and 2.6 billion suffer from the consequences of poor or no sanitation at all. Millions of people die every year from contaminated water. Rapid urbanisation increases pressure on water resources. 30–40% of water is 'lost' through illegal tapping and leaks. Improving the quantity and quality of

water supply for human consumption and its treatment after use are therefore keys to economic development and poverty alleviation throughout the world including Europe. Over 40 million European citizens do not have access to safe drinking water, and 85 million lack basic sanitation. More than half of the European Union's urban water goes untreated, and the problems

posed by both floods and drought are on the rise².

Water resources management is a central plank of the European Union's (EU) environmental, regional and development policies. The European Investment Bank (EIB) has always been a major player in this sector. The EIB is the long-term financing



¹ As stated in the 2nd UN World Water Development Report "A Shared Responsibility" published in March 2006 on the occasion of the World Water Day during the Mexico World Water Forum.

² Source: Cyril Roger-Lacan, Executive Vice-President and Member of the Executive Board, Veolia Water, at the Friends of Europe's European Policy Summit on the World's Water Crisis - Brussels, 20/6/06. According to Eurostat, in 2002 in the EU-25 there were still households not connected to the public water supply: the rate of connection ranged between 70 and 100%. 14% of domestic wastewater was still not treated and only 90% on average of the EU-25 population was connected to urban wastewater collection systems (first step towards wastewater treatment), the lowest rates being found in the new member countries.



institution of the EU with the mission of contributing to the implementation of EU policy objectives by financing investment projects. Since its creation in 1958, the Bank has lent some EUR 30.3bn to 651 water supply and sanitation projects in both the EU and the Partner Countries³ (PCs). In the last decade, the EIB has intensified its lending to this key sector, with an annual average reaching EUR 1.6bn.

In accordance with the various EU Water Directives, the Bank fosters projects that form part of sustainable water resource management through demand management, integrated river basin planning and integrated flood defence management. The EIB supports both public and private projects in and outside the EU covering all aspects of the water cycle including water abstraction, water quality, supply of drinking water, water distribution, wastewater treatment (recycling, re-use), sewage disposal (domestic, commercial and industrial), dykes, coastal erosion, flood prevention, as well as rainwater drainage, small and large-scale hydropower schemes⁴ and, finally, irrigation⁵. This brochure in fact concentrates mainly on activity in the water supply and sanitation sector.



The EIB operates within the scope of EU policies

The reason why the EIB finances water supply and sanitation projects is mainly environmental. Moreover, these projects often support the achievement of other Bank priority objectives as well. Within the EU-25 and the Enlargement Countries, EIB-financed water supply and sanitation projects not only protect and safeguard the natural environment, contribute to

people's welfare, reduce health risks associated with water-borne diseases and protect fragile ecosystems and the diversity of freshwater species, but also support regional development and economic and social cohesion in areas where the lack of infrastructure is a constraint to development.

Primarily, the EIB seeks to finance investment projects and capital expenditure programmes. This is often undertaken jointly with the European Commission (EC), which manages various EU grants. This is done in order to ensure adequate resources for such heavy investments as well as compliance with EU legislation on water. EU legislation includes the EU Water Framework Directive (WFD) (2000/60/EC) and related directives, such as those on Urban Wastewater Treatment (91/271/EEC), Drinking Water (98/83/EC) and Bathing Water Quality (76/160/EEC). The WFD – integrated river basin management for Europe – is the most substantial piece of EU water legislation to date. It requires all inland and coastal waters to

³ EIB lending outside the Union is governed by a series of mandates from the EU (see Factsheet 2: EIB Lending to the Water and Sanitation Sector in the Partner Countries).

* The main focus of the Bank's lending is in:

- the Enlargement Countries including the Acceding (Bulgaria and Romania), Accession (Croatia and Turkey) and Candidate Countries (Former Yugoslav Republic of Macedonia) as well as other countries of the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, Serbia) under the Southern and Eastern Neighbours Mandate, and in
- the 10 Mediterranean Partner Countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Gaza and the West Bank, Syria, Tunisia and Turkey).

NB: statistically lending in Turkey is recorded under the MPC

* The Bank also has lending mandates for Russia and the Ukraine, Africa, the Caribbean and the Pacific Regions (ACP), the Republic of South Africa and Asia and Latin America (ALA)

⁴ Although hydropower dams can be looked at as water investments, they are not taken into account in the present brochure as they appear in EIB statistics under the energy sector heading.

⁵ Irrigation projects only play a minor role; from 1996 to 2005, the Bank only financed four of them, accounting for EUR 156m, in Swaziland, Egypt, Tunisia and Spain.

reach “good status” by 2015. It will do this by establishing a river basin district structure within which demanding environmental objectives will be set, including ecological targets for surface waters. The directive came into force on 22 December 2000 and sets out a timetable for both initial transposition into the laws of the Member States and thereafter for the implementation of requirements.

In the Partner Countries water is a basic need and a key element in food production. The provision of basic water services supports the EU development and cooperation policies for reducing poverty and helps to reach the Millennium Development Goals⁶ (MDGs) set in 2000. The Bank is committed to using its financial resources and sector expertise to contribute to the achievement of the MDGs. While all eight MDGs are indirectly linked to water issues, Goal 7 on environmental sustainability addresses them directly: one of its targets, Target 10, is to “halve by 2015 the proportion of people in urban and rural areas without sustainable access to safe drinking water”. A similar goal on access to sanitation has been added following the Johannesburg World Summit on Sustainable Development (WSSD) in 2002.

2015 is also the year by which the EU Member States will have to comply with the Water Framework Directive’s obligation to achieve a good ecological status for all water bodies and by which many new EU members will have to comply with the EU environmental directive on Urban Wastewater Treatment (91/271/

⁶ See the United Nations Millennium Declaration.

⁷ Summarised in the Environmental Statement 2004

Share of environmental loans: 2001-2005 (in EUR million)

	Individual loans	Environment	%
EU-25+EFTA* Countries (Iceland)	135 537	49 743	37
Partner Countries**	14 971	3 928	26
Total	150 508	53 671	36

* European Free Trade Association; its Member States are Iceland, Liechtenstein, Norway and Switzerland.
 ** See footnote 3.

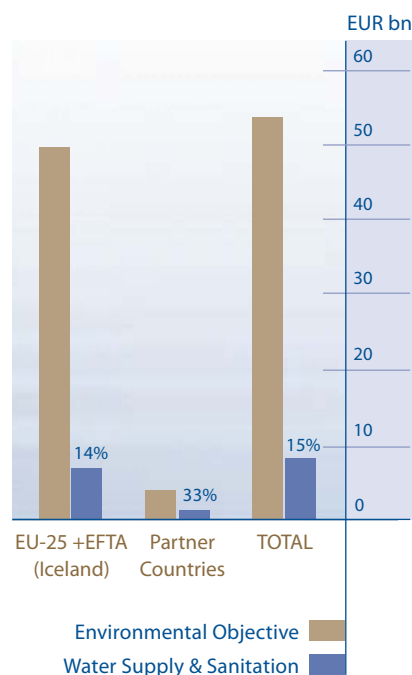


EEC). So both inside and outside the EU, the coming decade will be challenging for the sector, for the EU and, by implication for the EIB.

Water supply and sanitation – an essential part of the EIB’s environmental lending

Water projects are accounted for in EIB statistics under the general objective of environmental protection. All EIB-financed projects need to comply with EU environmental principles and standards⁷. The Bank identifies and takes account of environmental considerations and components in all the projects it appraises. It supports various actions to minimise possible adverse environmental impacts and enhance positive effects.

Share of water supply and sanitation loans in EIB environmental individual lending: 2001-2005





To be considered as projects specifically serving environmental objectives, investments also need to protect and improve the natural and built environments and foster social well-being in the interest of sustainable development. EIB-financed projects focus on

- tackling climate change, including energy efficiency and renewable energy;
- protecting and enhancing biodiversity;
- safeguarding the environment and health (e.g. reduction of industrial pollution, provision of water and wastewater treatment);
- promoting the sustainable use of natural resources and efficient waste management, including the minimisation, recycling, re-use and disposal of domestic, commercial and industrial waste;
- improving the quality of life in the urban environment, particularly through urban renewal and sustainable urban transport projects.

The Bank's environmental individual (or direct) lending (see details in section on EIB financial instruments, p.9-10), both inside and outside the EU, showed an increase of 72% over the past five years (from EUR 7.2bn in 2001 to 12.3bn in 2005). In 2005, the EIB provided individual loans totalling EUR 12.3bn for 97 large environmental projects, of which 10.9bn was in the EU and 1.4bn in the Partner Countries. The Bank's target⁸ of devoting 30-35% of its individual loans in the EU-25 to projects aimed at protecting or improving the natural or urban environment was

⁸ The target is incorporated in the EIB's Corporate Operational Plan, which ranks environmental protection and improvement among the Bank's main operational priorities.

reached over this period (see table on p.3). Loans to the water sector over the same period represented 15% of the Bank's environmental direct lending.

These figures do not include small-scale environmental schemes carried out, for instance, by local authorities and financed through specific, more tailor-

made instruments for small-scale investments: EIB global loans (GLs) (see details in section on EIB financial instruments, p.9-10).

EIB value added

All EIB-financed projects have to contribute to the achievement of EU policy

EIB water events

To promote awareness and understanding of the EIB's financing in the water sector, the Bank organised, together with Aquanet SA, the third largest municipal water utility company in Poland¹, a conference in Poznań in June 2006 on the most recent developments in the water and sanitation sector in Poland. It compared these with trends and developments that demonstrate and promote good practice in other European countries. The conference brought together representatives of the government and local authorities, scientists, experts, managers and other stakeholders from the water sector and tackled issues such as pricing and tariffs, regionalisation of waterworks, funding of infrastructure and availability of technical expertise.

As an environmental, social and developmental concern for civil society, water issues were on the agendas of three of the NGO workshops organised by the Bank over the last 5 years. The clean-up of the Baltic Sea was discussed at the Copenhagen workshop in June 2002 and water initiatives on both shores of the Mediterranean Sea featured in the Thessaloniki workshop in February 2003 and again in Marseilles in October of the same year.



¹ Third largest municipal water utility company in Poland responsible for the supply of water and the collection and treatment of wastewater in the Poznań region and serving some 750 000 inhabitants.

The European initiatives

The EU Water Initiative (EUWI)¹, launched in Johannesburg at the 2002 World Summit on Sustainable Development (WSSD), provided the political commitment at EU Council level to the targets² agreed, with a view to raising the priority of the water sector not by providing additional funds (in the short term), but by making more efficient use of the available funds and achieving better synergy/coordination of efforts between the various EU and local stakeholders (Member States, EC, EIB, donors, MFIs, municipalities, regional and basin organisations, civil society and NGOs, private sector).

The ACP-EU Water Facility, EUWI's financial dimension, worth EUR 0.5bn, was launched by the EC in 2004 as a water-dedicated instrument for ACPs under the Cotonou Agreement. It has freed-up funds for technical assistance and enabled more effective co-financing between EU grant aid and for instance EIB financing instruments.

¹ The EIB actively participated in the multi-stakeholder forum and working groups to prepare and support the implementation of the EUWI.

² MDG 7-Target 10: to "halve by 2015 the proportion of people in urban and rural areas without sustainable access to safe drinking water and without access to proper sanitation".



objectives and meet the Bank's corporate strategic operational priorities now based on innovation and quality, as laid down in its Corporate Operational Plan 2006-2008.

EIB project appraisal and monitoring comprises economic, financial, social, institutional, technological and environmental analyses. Project teams are made up of water specialists (economists and engineers) and financial experts bringing together significant cross-sectoral and cross-regional resources and focusing on the "three pillars" of EIB value added. These are:

- consistency with EU policies,
- quality and soundness of the investment and the promoter,
- financial benefits to the final beneficiary.

The EIB adds value in the water sector by assessing project viability, by ensuring financial sustainability through incentive pricing and cost recovery, by prioritising regions with an investment backlog, and by supporting the development of financially viable and efficient water utilities. It ensures the long-term sustainability⁹ of water projects that are designed to be affordable to users. It encourages the pursuit of good governance, the use of appropriate technologies, the phasing of investments and investment in efficiency gains prior to promoting investment in new capacity.

⁹ In the water sector, the main risks for a project include bad governance, poor management of projects, low tariffs, low affordability and over-ambitious projects supported by grants or subsidies.

The Bank is one of the lowest-cost providers of long-term funding. It contributes to the diversification of the funding available to the water industry and enables it to meet the substantial investment challenges posed by the continued improvement of public services and environmental standards. The benefits of the EIB's long-term financing also contribute to lowering the overall cost of capital. This is ultimately passed on to the consumer and is reflected in (lower) consumer tariffs for an essential service.

When appraising water supply and sanitation projects in the EU as well as in the Enlargement Countries, the EIB follows EU environmental principles, i.e. the recommended practices and environmental standards enshrined in EU



Dams¹

Partner Countries in the developing world have a continued need for dams and other large water infrastructure projects. This was highlighted at the Johannesburg World Summit on Sustainable Development in 2002 and in the 2003 “Financing Water for All” Report of the World Panel on Financing Water Infrastructure chaired by Michel Camdessus.

Africa is characterised by limited groundwater resources and very little development of surface storage. Dams, of all sizes, are certainly part of the solution to Africa’s water crisis. The challenge is to develop the projects in a way that all stakeholders can benefit from them. The EIB will continue to lend for large dams and transfer infrastructure projects. Each project will be assessed on its merits and will include adequate social and environmental safeguards.

The Bank is committed to working with Partner Countries to develop their natural resources in a sustainable, but pragmatic way, taking account of best practice guidance and the principles of the World Commission on Dams (WCD) recommendations² and the findings of the Camdessus Report on the financing of large dams within the context of its general policy on the environment. In line with best practice in financing large dam projects, the Bank applies stringent requirements with regard to the project’s justification, the EIA process and the management capacities of the project promoter. It recommends that promoters of large dam projects take account of the WCD recommendations in their justification and design of the project, and in the preparation of mitigating measures.

¹ Hydropower dams are not included in the statistics of the Bank’s lending to the water sector.
² See the 2000 WCD Report “Dams and Development – A New Framework for Decision-Making”.



legislation. These include the requirements of the EU Directive on Environmental Impact Assessment (EIA). Outside the EU, the Bank applies the EU environmental approach as a benchmark, subject to local conditions that might justify a more flexible approach.

In May 2006, the Bank and four other European Multilateral Financing Institutions (MFIs) – the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the Nordic Investment Bank (NIB) and the Nordic Environment Corporation (NEFCO) – adopted the European Principles for the Environment (EEP), which commit them to a common approach to environmental management associated with the financing of projects. This initiative has been endorsed by the Directorate General for the Environment of the European Commission.

In the pursuit of sustainable development, particularly in countries outside the EU, the EIB applies a broad definition of the term “environment”. Social issues, such as social inclusion, non-discrimination, social welfare, gender issues and good governance are also carefully addressed in the Bank’s assessment of water supply and sanitation projects. A due diligence exercise ensures that adequate arrangements are in place to mitigate adverse/negative impacts and to guarantee minimum human rights and good governance standards.

The Bank also supports project preparation and feasibility studies through upstream input of technical expertise¹⁰.

EIB staff provide expert input into a number of key working groups in pub-

lic or self-organised events dedicated to water-related policies to share expertise with other actors in the sector, develop synergies and find innovative financing solutions for the sector.

The Bank's technical services also act as sector specialist advisers to the European Commission in the assessment of infrastructure projects for grant funding in Cohesion Fund countries and in Acceding, Accession and Candidate Countries.

A major lender to the water sector

The Bank can lend up to 50% of investment costs for individual projects. On average its lending makes up 30% of the total cost of water projects. The Bank lends to public or private utility companies, national or local authorities or directly for project finance deals. Overall, water lending is more-or-less equally split between public and private sector borrowers.

Over the last decade, EIB individual loans to the water sector reached almost EUR 16bn of which 83% was in the EU-25. Over the same period, the Bank significantly increased its support to the water sector and almost doubled its direct financing of major water projects (see graph) from EUR 1.4bn in 1996 to 2.1bn in 2005.

From 2001 to 2005, EIB direct lending to water supply and sanitation projects – almost EUR 8.2bn – represented some 15% of the Bank's environmental lending and 5.5% of its overall lending and

Ten years of EIB lending to the water sector from 1996 to 2005



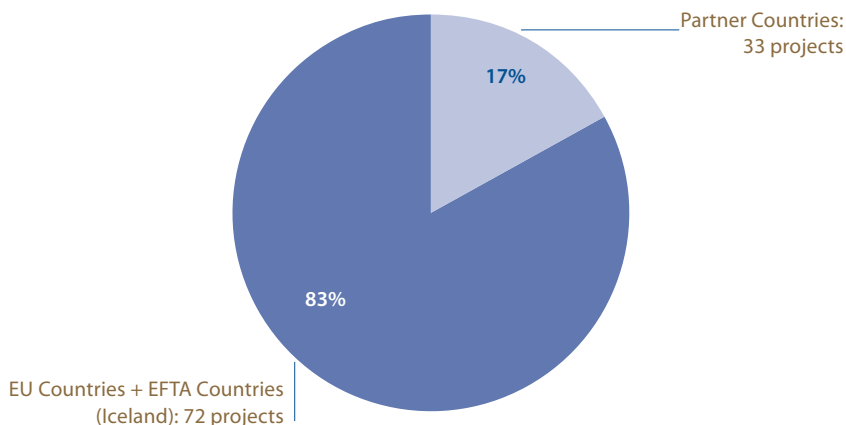
funded a total of 105 major water supply and sanitation projects, of which the vast majority were located in the EU-25.

As to the Bank's indirect support of smaller-scale water supply and sanitation schemes carried out by local authorities via global loans¹¹, it is estimated at approx. 25% of the Bank's annual average direct lending to the

sector over the last few years – between EUR 400 and 500m per year to be added to the individual loans in the sector.

In 2005, the share of environmental loans allocated to water supply and sanitation projects reached 17%. The Bank funded 27 major water supply and sanitation projects for a total amount EUR 2.1bn, of which 1.9bn in the EU-25 for

EIB direct lending to the water supply and sanitation sector from 2001 to 2005: EUR 8.2bn



¹⁰ More details on the technical assistance instruments can be found on p. 10-11 in the section on EIB financial instruments, § 3 Specific Regional Instruments.

¹¹ See section on EIB financial instruments.



EIB support in the event of water-related natural disasters in the EU and Partner Countries

In the last six years, 123 severe floods have hit Europe – from Germany to Italy, from France to Romania – affecting a total area larger than the EU itself. 185 people have been killed, more than 500 000 have lost their homes and damage caused by floods has been estimated at EUR 25bn.

While EIB loans have concentrated principally on the reconstruction of damaged infrastructure and short-term clean-up operations¹, a number of projects financed by the Bank have focused on flood prevention aimed at safeguarding the environment. Over the last 5 years (2001-2005), the Bank provided direct finance amounting to EUR 601.5m (i.e. 7% of EIB individual lending to the water sector) to flood prevention projects, mainly located in the EU, with some projects in the Neighbouring² and Partner Countries. In principle, flood prevention projects can involve cross-border cooperation.

Some examples of EIB involvement in prevention projects are:

- the three loans totalling EUR 290m allocated between 2002 and 2004 to the Niedersächsischer Landesbetrieb für Wasserwirtschaft und Küstenschutz to support the construction of a multi-purpose flood barrier on the lower Ems river in the north-west of Lower Saxony (Germany) and the upgrading of flood protection facilities on the North Sea coast and along the Elbe and its tributaries in the eastern part of the Land;
- a EUR 182m loan in 1997 to the Province of Gelderland in the Netherlands for upgrading dikes along the rivers Rhine, Waal, Issel and Meuse to protect the area against flooding;
- a EUR 60m loan supporting the implementation of the first phase of the National Flood Prevention Strategy in the Czech Republic 2002-2006;
- a EUR 34m loan in 2004 for the decontamination of the Taparura coastal site (phosphogypsum deposit) in the greater Sfax area in Tunisia;
- a EUR 40m loan to the Russian Federation in 2005 for the St Petersburg flood barrier to complete the 25 km barrier stretching across the Neva Bay in the eastern end of the Gulf of Finland, to protect the city and its 5 million residents from the risks of floods and from the pollution of contaminants carried by floodwaters.

In addition, the EIB has also provided credit support on especially favourable terms – totalling EUR 1.8bn from 2001 to 2005 – for reconstruction and/or rehabilitation of basic infrastructure damaged or even destroyed by natural disasters, such as floods, storms, earthquakes, oil spills, etc. EIB emergency loans for aid programmes and flood damage relief were granted in countries or regions severely hit by flood disasters, such as Italy and Romania in 2000, Poland, Hungary and Algeria in 2001,

Austria, the Czech Republic, France and Germany in 2002 and Romania in 2004 and 2005. These facilities form part of EU disaster relief measures.

A good example is the EUR 300m loan granted in December 2005 by the Bank to Romania for the reconstruction of flood-damaged roads. This project mainly consists of repair works on the Romanian national road network including bridge, culvert and viaduct re-building, strengthening of the road embankment, road reconstruction and protection and riverbank protection, necessary after the major flooding in 2004, as well as emergency reconstruction needs following the 2005 floods. This loan was complementary to an earlier EIB framework loan of up to EUR 250m granted in 2000 to reconstruct basic infrastructure damaged by the heavy floods of Spring 2000 and to implement watercourse management and flood prevention schemes.

The Bank also contributed to the international relief effort after the tsunami disaster by signing in 2005 and 2006 three global loans totalling EUR 170m to establish in Indonesia, the Maldives and Sri Lanka partially or fully dedicated credit lines to finance small and medium-sized post-tsunami reconstruction projects.

¹ These loans, not recorded in EIB statistics under the water supply and sanitation sector, are designed to finance emergency, infrastructure repair and reconstruction works.

² Accessing (Romania, Bulgaria), Accession (Croatia, Turkey) and Candidate (FYROM) Countries.

21 projects (1.5bn in the EU-15 + EUR 349m in the EU-10) and EUR 231m to 6 projects located outside the EU.

EIB financial instruments for the water sector

In close cooperation with the EC – especially its Directorates General for Regional Policy and the Environment – the EIB may use the various EU funds and instruments (subsidies and grants) with the goal of leveraging budgetary funds through EIB financing. Also essential to innovative and efficient financing solutions is the cooperation with other financing partners either by co-financing projects or in security structures. As the EIB does not usually finance more than 50% of the investment cost of a project, its involvement in a project often encourages private sector participation. The Bank also cooperates with other multilateral financial institutions (MFIs), bi-laterals, national financial institutions, governmental and non-governmental organisations (NGOs).

The financial services offered by the EIB for the water sector are listed below:

1. For larger projects, individual (or direct) loans are long-term loans, running from approximately 4 to 20 years (depending on the economic life of the assets to be financed), provided in practically all major currencies, with advantageous fixed or revisable fixed and convertible rates, with neither commitment nor non-utilisation fees, and secured by a bank or banking syndicate, a financial institution, or a large diversified parent company with good credit rating. They are meant to fund capital investment exceeding EUR 25m in long-term large-scale projects or programmes (multi-scheme operations with a common promoter, objective or





sector, such as sectoral infrastructure programmes or multi-sectoral municipal programmes).

In recent years, and in the context of its new strategy, the Bank has adapted its loan offer to reflect changes in the economic climate and developments in the banking sector and to enhance the value it brings to a project.

Under the Structured Finance Facility (SFF), the EIB provides additional support to priority projects, including in the water and environment sectors, mainly located in the EU, through the assumption of risks that it was previously unable to take. The SFF complements the Bank's traditional lending products and also financing from commercial banks, capital markets and involvement generally by the private sector. Using the SFF, the Bank can, for instance, bear greater risk in the financing of private, public or semi-public European or national public-private partnerships¹² (PPPs) in water infrastructure projects and tailor its financing contribution to optimise its value added.

2. For smaller projects, global loans (GLs) provide indirect support to small/medium-sized enterprises (SMEs) and small public sector investments (from EUR 40 000 to 25m). These are credit lines made available to banks or other financial intermediaries that on-lend the proceeds for small or medium-scale investment projects that meet the Bank's economic, technical, financial and environmental

criteria. GLs represent an estimated 25% of the Bank's annual average direct lending to the water sector, i.e. EUR 400m-500m/year on average.

Framework loans are designed to finance multi-scheme operations, typically implemented by the public sector and included in an investment programme often covering infrastructure projects (e.g. the co-financing programmes benefiting from EU Structural or Cohesion Funds).

3. Specific Regional Instruments

3.a In the EU-10 and Acceding Countries, the Joint Assistance to Support Projects in European Regions (JASPERS) is an initiative aimed at increasing the efficiency of the use of Cohesion and Structural Funds over the period 2007-2013. It is a partnership that pools technical resources from the EIB, the European Commission's Directorate General for Regional Policy and the European Bank for Reconstruction and Development (EBRD), to assist national and regional authorities of the 10 new Member States (EU-10) and Acceding Countries to identify and prepare projects for funding by the Cohesion and Structural Funds.

3.b In the Southern Mediterranean countries, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) finances, as a matter of priority, private sector ventures, whether local initiatives or foreign direct investment, as well as projects aimed at creating an investment-friendly environment. The Facility promotes a broad spectrum of instruments to finance infrastructure projects, investment in human capital and schemes specifically targeting environmental protection. To this end, FEMIP operations primarily involve products

such as loans, investment capital (equity and quasi-equity) and grant aid for technical assistance. Of specific interest for the water sector are the two Technical Assistance (TA) Funds designed for projects located in the region:

- » *the FEMIP Support Fund* of EUR 105m – of which 25% has been used for water projects – using EC grants in support of EIB-financed projects to assist promoters throughout the project cycle and
- » *the FEMIP Trust Fund*, funded by the EU Member States and the EC and more specifically used for upstream activities, such as support for institutional and legislative reform, sector development strategies and training.

3.c In the ACP countries, another area where the water sector is at the forefront, the Bank operates in the framework of the Cotonou Partnership Agreement. Under this agreement the EIB manages the Cotonou Investment Facility (IF), a EUR 2bn risk-bearing and revolving facility funded by the EU Member States, alongside an interest rate subsidy appropriation aimed at providing appropriately concessional lending to the Bank's public sector borrowers in low-income countries, and EUR 1.7bn from the EIB's own resources.

Through the IF, the Bank can provide ACP projects with a wider range of risk-bearing financial instruments to promote the development of the private sector and commercially-run public utilities.

Considerable TA is needed to make water projects in these countries viable in financial, technical and institutional terms, and ensure that the countries are able to meet the MDGs. The EIB-ACP Project Preparation Facility (PPF) of EUR 3m was created in mid-2006 (EUR 2.25m was made avail-

¹² PPPs are contractual agreements between a public agency and private sector entity that facilitate greater private sector participation in the delivery of infrastructure projects, in this case water projects. Between 1999 and October 2006, the EIB financed four PPP projects in the EU and one in China.

able by the ACP-EU Water Facility¹³ with the Bank providing counterpart funding of EUR 750 000). The PPF will enable the Bank to continue preparing projects in accordance with the main objectives of the ACP-EU Water Facility, e.g. support for the achievement of the water MDGs. Over its scheduled three years of operation (2006-2008), the PPF is expected to help the Bank to prepare eight or more new water projects in ACPs, increasing the lending volume in a sector focused on basic services for the poor and improving project quality and sustainability.



¹³ The Bank was actively involved in the definition of the guidelines and the establishment of the ACP-EU Water Facility launched in 2004 and targeting ACP countries. In addition to the EUR 500m set aside for the WF under the 9th European Development Fund (EDF) for ACP countries, the Facility is meant to catalyse additional funding and work directly with those most affected by shortages of water and the absence of sanitation. The total amount of EUR 500m was approved in two tranches of EUR 250m by the EU Council in 2004 and 2005.



EIB Lending to Water Supply and Sanitation Schemes in the European Union (2001-2005)

Within the EU-25, the Bank funds private water utility companies and project finance deals as well as public sector borrowers. Over the past decade, the main investment driver has been the tightening of EU environmental quality standards, particularly the EU directives on urban wastewater collection and treatment, drinking water quality and bathing water. In the future, the key driver will be the Water Framework Directive, which aims to promote sustainable water resource management through inte-

grated river basin management plans. The target is to reach good ecological status for all EU water bodies by 2015. The majority of lending was and will remain at a sub-sovereign¹⁴ level and more than 50% of the Bank's water supply and sanitation operations are with private sector promoters.

Most of the projects financed involved the modernisation and extension of existing distribution, collection and treatment networks as part of large-scale national/

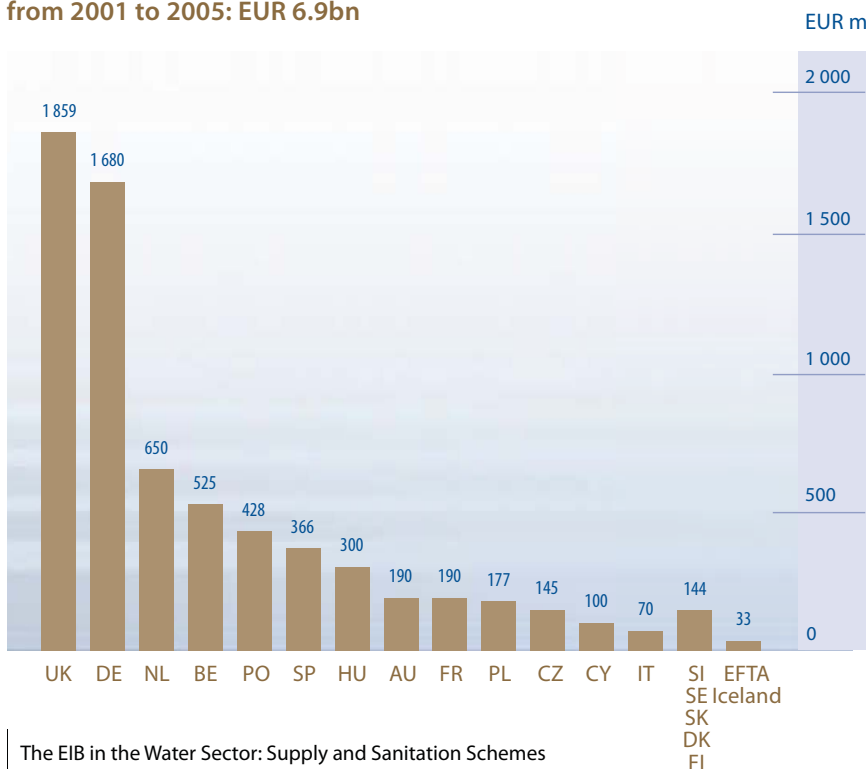
regional/municipal capital expenditure programmes.

Over time, the EIB has been active in financing the water sector in all the EU Member States. Since 2001, the Bank has lent EUR 6.9bn to the water sector in 18 of the EU-25 countries (plus Iceland). In a number of them, the EIB is the largest single lender in the sector.

More than half of EIB direct financing of the EU water sector goes to projects located in only two countries, the United Kingdom and Germany (representing 31% of the EU population), where the Bank has essentially supported large regional or municipal investment programmes and schemes that aim to ensure compliance with the tighter environmental and customer service standards set by national and EU legislation and to meet the 2005 deadline of the Directive on Urban Wastewater Treatment.

Throughout the United Kingdom the EIB has been a major source of financing to the water industry since the 1970s, preceding the privatisation of 1989. It has financed the implementation of a number of schemes to improve water supply infrastructure and ensure the quality of drinking water supply and distribution with loans to the majority of

EIB individual loans for water supply and sanitation projects in the EU and the EFTA countries (Iceland) from 2001 to 2005: EUR 6.9bn



¹⁴ Sub-sovereign borrowers (private or public utilities at local, regional or national level) do not need sovereign guarantees (by the State).

Two EIB-financed PPP projects in the water sector

1. The Wastewater Treatment Delfland scheme – the first PPP deal in the Dutch water management sector – was financed with an EIB loan of EUR 125m in 2003. It involved the design, building, financing and operation (DBFO) of a new Harnascholder tertiary wastewater treatment plant (WWTP) and subsequent upgrading of the existing Houtrust WWTP in The Hague region. The project was implemented via a PPP arrangement, which passed on operation of the bulk wastewater system and all operational performance risk to the concessionaire Delfluent BV, a consortium of companies. The promoter of this pilot PPP project was Hoogheemraadschap van Delfland, one of the Dutch Water Boards (local authorities in charge of wastewater treatment, water quality and water levels), operating under the supervision of the Province. Further to the Bank's EUR 125m loan, the PPP obtained loans from Rabobank and Dexia Crédit Local. The two plants are scheduled to be fully operational by November 2008 to ensure compliance with EU directives on wastewater quality and will deliver significant environmental benefits by reducing pollution loads and the frequency of raw sewage spills in the North Sea.

Hoogheemraadschap van Delfland received a first EIB loan of EUR 74m in 2001, followed by a second one of EUR 46m in 2003 to support its investments to improve sewerage networks in The Hague region. The objective of this first project was to achieve wastewater collection, transport, treatment and disposal standards for the region. Both plants and the domestic and industrial sewage systems will serve 1.7m people.

2. Another good example of a PPP water project financed by the Bank is the Acqua di Arezzo PPP project in Italy.

Specifically, the project consists in expanding the bulk water supply, constructing and upgrading treatment plants and distribution networks, extending the sewerage network, and refurbishing wastewater treatment plants in 37 municipalities in the provinces of Arezzo and Siena. By 2009 the project will have improved the water supply and sewerage services delivered in the Alto Val d'Arno region in Tuscany to about 300 000 residential and non-residential users and water quantity and quality standards will comply with EU legislation.

The project's promoter, Nuove Acque SpA, which was awarded a 25-year concession by the local authorities for the provision of integrated water and wastewater services in the area, is a mixed public-private company with a combined 54% stake owned by the 37 municipalities and 46% owned by a private consortium controlled by Suez-Environnement (23%), the world leader in water and wastewater services, together with the Genoese multi-utility company Azienda Mediterranea Gas e Acqua-AMGA SpA (16%). The project financing package, which was arranged by the lead banks Dexia Crediop and MPS Banca per l'Impresa to support Nuove Acque's long-term investment programme, included the EIB's participation through a 17-year EUR 44m direct loan to the promoter, representing two thirds of the total debt financing of EUR 70 million. A specific feature of the Bank's loan was its 7-year grace period, allowing for tariffs to grow gradually and in a socially affordable and politically acceptable way, before repayment of the principal.





the privatised regional water and wastewater companies in England and Wales for a total amount of EUR 1.9bn over the last 5 years (or some EUR 4.6bn from 1996 to 2005).

The Bank is also supporting water supply and sanitation private-public partnership (PPP) projects in Northern Ireland. In particular, in May 2006 the Bank signed a EUR 84.7m loan for a project to upgrade water treatment plants and link mains and to provide treated water to the NI Water Service under a 25-year PPP Concession Contract. It has also approved the financing of a PPP wastewater treatment project with a EUR 89m loan to enable the region to comply with EU directives.

In Germany, the other EU country in which EIB financing capacity has traditionally been used to support extensive state/municipal water investment programmes, the Bank lends to private and public promoters, both through direct long-term loans and via financial intermediaries in the framework of global loans. EIB lending in the German water sector reached EUR 1.7bn between 2001 and 2005 (EUR 3.1bn going back to 1996).

Since 2001, investments have concerned the construction, upgrading and/or extension of drinking water supply, sewerage or stormwater networks as well wastewater treatment plants and flood protection infrastructure in almost all German States and cities: in Berlin and the State of Brandenburg, Hamburg, Munich, Dresden, Trier, the Ruhr river basin, Lower Saxony, the Bremen area, the Thuringian Schiefergebirge and Saxony-Anhalt.

Other EU countries that have benefited from EIB funding in the water sector are the Netherlands (9%), Belgium (8%), Por-

tugal (6%), Spain (5%) and Hungary (4%) and to a lesser extent (from 3 to 1%) Austria, France, Poland, the Czech Republic and Cyprus. In the Netherlands, the Bank directly finances the investment programmes of commercially run public water utilities. In Belgium, it is the major lender to Aquafin in Flanders and Société Publique de Gestion de l'Eau (SGPE) in Wallonia, two regional wastewater utilities. The EIB is the major lender to Águas de Portugal (ADP), the national holding company in charge of implementing a large-scale investment programme covering the whole country. A EUR 300m loan was signed in 2006 out of a EUR 925m credit already approved to support investment in water services by 12 regional public concessions mainly owned by ADP. The EIB also lends with commercial bank guarantees to water concessions in Portugal and will take project risk on a pioneering Dutch wastewater Design-Build-Finance-Operate (DBFO) project (see box with PPP examples). In Portugal, Spain and Italy, the Bank co-finances with EU regional development grants.

In the ten new Member States (EU-10), the water sector requires a growing amount of capital expenditure as these countries need 1) to comply with the standards laid down in the EU directives applying to the water sector and to the environment in general and 2) to absorb the backlog of investments accumulated during the past decades. For the new Member States, EIB finance may be combined with grant aid under the European Commission's Structural and Cohesion Funds, in order to speed up the process of compliance. If EIB support to major water projects in the region (amounting from 2001 to 2005 to EUR 757m or 11% of direct lending in the water sector in the EU-25) declined tem-

porarily between 2001 and 2003 due to the large amount of aid granted to the EU-10 under the Cohesion and Structural Funds, it significantly increased from EUR 46m in direct loans in 2003 to 349m in 2005.

As an example of 2005 activity in the EU-10, the EIB lent EUR 15.3m to the City of Plzeň in the Czech Republic to support its 5-year municipal investment programme for water and wastewater facilities, including the refurbishment and extension of drinking water networks and reservoirs; the construction of drainage and stormwater retention facilities, and the upgrading of treatment plant and extension of sewer networks. The project will improve water and wastewater services for Plzeň's 170 000 inhabitants and enhance environmental conditions by protecting water resources and reducing soil and water pollution in and around the city.

In Poland, a first EUR 128m EIB loan was granted to Aquanet's investment programme to improve the urban environment of Poznań, a major conurbation in Poland and one of the hot spots identified by the Helsinki Commission for the environmental protection of the Baltic Sea (HELCOM). The project's wastewater schemes will reduce the pollution load originating from some 750 000 residents in Poznań and nine neighbouring municipalities, in line with the sensitive area requirements of the Urban Wastewater Treatment Directive. The schemes are also compatible with the broad objectives of the Water Framework Directive to promote sustainability by improving water quality and reducing the pollution of rivers draining into the Oder river and eventually into the Baltic Sea. The project forms part of international programmes for reducing the pollution

load of the Oder river and the Baltic Sea in which the Bank is a major participant. It will thus also help Poland to comply with its obligations under international treaties. Economic benefits associated with modern wastewater systems relate to improved public health and positive effects on recreation, agriculture and fisheries in Poznań and downstream municipalities along the Warta and Oder rivers as well as in the Baltic Sea area.

The water sector will be challenged further in the future by the more stringent EU standards envisaged by the Water Framework Directive, which establishes the objective of achieving higher minimum ecological quality of inland surface waters, transitional waters and groundwater by 2015. It is likely that substantially higher funding will be needed to increase tertiary treatment, to reduce the frequency of storm overflows and the impact of abstractions on low flows in rivers and to meet increased operational efficiencies consistent with the health and safety standards. The directive's introduction of incentives for more efficient water use may also encourage higher levels of customer metering. The EIB is therefore committed to continuing its current role as a significant source of long-term finance to the water sector throughout the EU-25.





EIB Lending to Water Supply and Sanitation Schemes in the Partner Countries (2001-2005)

In the context of the EU's development and cooperation policies, the EIB finances projects around the world: in Africa, the Caribbean and the Pacific, in South Africa, in Asia and Latin America, in South-East Europe and in Russia. Loans for projects in these countries amounted to almost EUR 5.1bn in 2005.

While implementing its external mandates, the EIB emphasises sustainable development, especially in financing water investments that facilitate the efficient development and management of local natural resources. The Bank's policy in the water sector is aligned with the EU sector priorities decided at the Johannesburg World Summit on Sustainable Development of 2002.

33 of the 105 water projects (31%) financed from 2001 to 2005 are located in the Partner Countries (PCs). Reflecting the smaller project size, these projects account for only 17% in volume terms. Water projects in the Partner Countries need a far higher resource input for identification, appraisal and monitoring, but also offer greater scope for value-added EIB involvement.

Enlargement Countries Western Balkans

In the Enlargement Countries, most of the water projects that are aimed at meeting the requirements of EU environmental legislation are co-financed with the European Commission's ISPA¹⁵ pre-accession

EIB external mandates

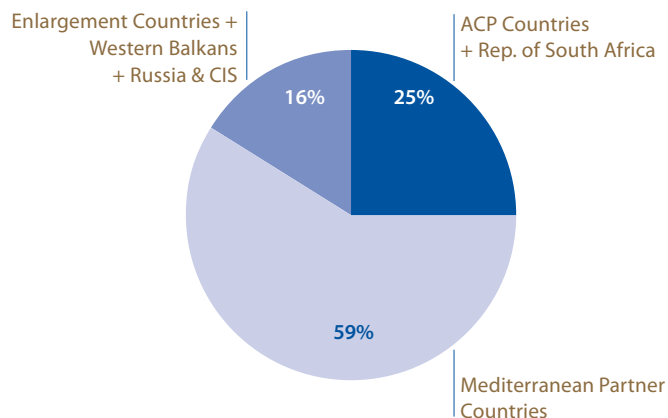
Lending in the Partner Countries (PCs) is governed by a series of external mandates given by the Council of Ministers:

- ▶ **in the Enlargement Countries** (Acceding Countries: Bulgaria and Romania; Accession Countries: Croatia and Turkey; and Candidate Countries: Former Yugoslav Republic of Macedonia-FYROM), the main driver for investment is the *acquis communautaire*;
- ▶ **in the countries of the Western Balkans** (Albania, Bosnia and Herzegovina, Montenegro, Serbia) under the Southern and Eastern Neighbours Mandate, the EIB is pressing ahead with financing the rebuilding of basic infrastructure and support for local authorities;
- ▶ **in Russia and the Ukraine** EIB activity is limited to environmental and other specific projects;
- ▶ **in the Mediterranean Partner Countries (MPCs)**, under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the EIB finances private sector and commercially run public sector projects;
- ▶ **in Africa, the Caribbean and the Pacific Regions (ACP) and the Overseas Countries and Territories (OCT)**, under the Cotonou ACP-EU Partnership Agreement, the EIB finances projects that support "poverty reduction and ultimately its eradication; sustainable development; and progressive integration of the ACP countries into the world economy";
- ▶ **in the Republic of South Africa (RSA)**, the Bank provides long-term finance in support of economic development;
- ▶ **in Asia and Latin America (ALA)** the EIB supports projects of mutual interest to the EU and the recipient countries, mainly promoted by EU enterprises.

¹⁵ Instrument for Structural Policies for Pre-Accession

EIB direct lending in the water supply and sanitation sector in the Partner Countries (PCs)

from 2001 to 2005: EUR 1.4bn (1996-2005: EUR 2.7bn)



grants and appraised with the European Commission (EC) and the national ministries. EU grants have also been used for projects in the Western Balkans. Since 1998, the Bank has advanced loans totalling EUR 210m (EUR 149m loans from 2001 to 2005) to municipal or regional water utility promoters, mostly in Romania but also in Bulgaria, Albania, Serbia and Montenegro. Most projects concerned the rehabilitation and upgrading of drinking water supply and wastewater collection and treatment networks.

The Bank also uses the various instruments at its disposal to advise and to assist both projects and key strategic developments in the sector, for instance, by working closely with the EC to support the creation of regional water companies. In Romania, the EIB, the European Commission, the European Bank for Reconstruction and Development (EBRD) and national authorities use grant incentives to create regional water utilities, which are supported by a financial and operational performance improvement programme and backed by tariff reform.

After an initial focus on post-war reconstruction in the Western Balkans, the EIB has gradually widened its financing for vital transport infrastructure to include water and other environmental projects, such as the protection of the Danube river basin and wastewater management in major cities. Together with the World Bank (WB), Kreditanstalt für Wiederaufbau (KfW) and Lux Development, the Bank financed a water and sanitation project for five cities in Albania in 2003. With the EBRD and KfW, it also financed the rehabilitation and modernisation of the drinking water supply and wastewater treatment networks of Novi Sad and Nis, the second and third largest cities in Serbia by number of inhabitants after Belgrade.

The EIB takes part in various regional strategy initiatives. Since 2001 it has been associated with the DABLAS Task Force, set up under the aegis of the Commission's Directorate General for the Environment. DABLAS is a platform for the protection of water and water-related ecosystems in the Danube and Black

Sea Region, and ensures co-ordinated action between all financial instruments operating in the region. It sets up priority investment programmes such as the Regional Environmental Reconstruction Programme, which serves as the basis for EIB-funded projects. Since 2003, the Bank has been coordinator of the Adriatic Sea Environmental Master Plan (ASEMP) in Croatia, which provides the groundwork for a selection of investment priorities in the coastal areas bordering the Adriatic Sea.

Russian Federation Ukraine

Given the environmental nature of this mandate, water projects play an important part. Under the first mandate for EUR 100m under the Northern Dimension Environmental Partnership (NDEP) for selected environmental projects in the Baltic Sea rim of Russia, which expired in May 2005, the EIB lent a total of EUR 68.6m for three water projects in St Petersburg: the construction of wastewater treatment networks in the city, the rehabilitation and modernisation of sewage sludge treatment facilities at the city's northern wastewater treatment plant and the completion of the Flood Protection Barrier to protect St Petersburg and its residents from floods and from polluting contaminants carried by floodwaters. All three projects were co-financed inter alia by the Nordic Investment Bank (NIB) and EBRD.

The second mandate for EUR 500m of EIB lending in the Russian Federation and Ukraine in support of the EU European Neighbourhood Policy is in place until July 2007. It allows the Bank to finance environmental projects of common interest to the EU and the recipient countries,



notably water projects contributing to pollution reduction in the Baltic and the Black Sea.

EIB participation in the two main international programmes for Europe's northern region, the NDEP and the Baltic Sea Joint Comprehensive Environmental Action Programme, helps to identify environmental projects with significant cross-border benefits for all countries bordering the Baltic or Black Sea. It also facilitates cooperation between national governments, promoters, utilities, MFIs, environmental NGOs, etc.

Mediterranean Partner Countries (MPCs)

In the water-stressed MPCs, the EIB has taken on a very pro-active role in the sector, especially since the creation of its lending Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in 2002. FEMIP has channelled substantial long-term funding into drinking water supply, urban sewerage and wastewater treatment projects. In addition to improving the day-to-day living conditions of the populations concerned, such projects promote economic development by stimulating new activity in tourism, which is vital to all Mediterranean countries. Most of the lending in the water sector went to public promoters in Egypt, Lebanon, Morocco, Tunisia and Turkey. Projects included distribution networks, drinking water and wastewater treatment plants for larger and smaller cities, often combined with re-use, as well as coastal protection and marine de-pollution. In the 1990s, the Bank also funded projects fostering the conservation of farmland through irrigation and dam schemes in the Nile Delta, Tunisia and Morocco, in order to sustain rural development and employment.

EIB water lending in Morocco

In Morocco, the national water company ONEP and municipal utilities ("régies") have received five EIB loans for a total of EUR 140m between 2001 and 2005. Each operation was tailored to the nature of the investments. A programme loan went to technically simple, small-scale, water supply schemes. A subsidised loan supported a group of more complex water recycling and sludge disposal schemes. Other subsidised loans went to five utilities for large cities (Marrakesh, Settat, Mèknes, Agadir and Oujda) as the Bank's contribution to the Moroccan "Programme National d'Assainissement Liquide et d'Épuration des Eaux Usées" to put into operation basic and affordable wastewater infrastructure. The design of the projects was based on preparatory studies which were supervised and part grant-funded by the FEMIP Technical Assistance Fund.

Another subsidised loan for EUR 20m went to the Régie Autonome de Distribution d'Eau et d'Électricité de Fès for the rehabilitation of its sewerage network and the construction of a biological sewage treatment plant to treat, for the first time, wastewater originating from 1 million residents and the area's industry. The project is reducing the pollution load discharge into the river Sebou and fostering the development potential of the Greater Fez area. Simultaneously, the Bank focused on two mid-sized cities' sanitation projects providing support to smaller utilities. The Bank's input during appraisal resulted in a more suitable design (treatment capacity, sludge treatment) of the treatment plant, thus limiting the need for higher tariff increases and rendering the project affordable. The EIB is currently promoting a large-scale programme to substantially reduce the industrial pollution affecting the City of Fez and the Sebou basin in general.

Most of these projects have been co-financed with EU-bilateral aid.



Over the past 5 years, the EIB has supported some 15 water supply and wastewater treatment projects in the MPCs with loans totalling EUR 806m, accounting for 15% of individual loans in the region and almost a third of its environmental lending.

Pollution does not respect borders. Some 90 million EU citizens living on the Mediterranean rim share a precious common heritage and a common challenge to the quality of life with their neighbours on the southern and eastern flanks of the Mediterranean. For the benefit of all countries concerned, the EIB is participating in the Horizon 2020 Initiative launched in Barcelona in December 2005 following the endorsement by leaders of Euro-Mediterranean countries at the 10th Anniversary Euro-Med Summit in Barcelona. The main aim of the initiative is to reduce the level of pollution in the Mediterranean region by identifying and tackling the most significant pollution sources by the year 2020.

The initiative will address all the major sources of pollution, including industrial emissions, municipal waste and particularly urban wastewater, which are responsible for up to 80% of Mediterranean Sea pollution. The key aims are to reduce pollution, to promote the sustainable use of the sea and its coastline, to encourage environmental cooperation and to foster the drafting of credible environmental protection legislation. By providing safe drinking water, the initiative will protect the health of the 143 million people living on the sea's shores and promote the long-term development of vital sectors such as tourism and fishing by contributing towards stemming the decline of local fishery stocks. Open to EU Member States and MPCs, inter-

national organisations, financial institutions and bilateral donors, the NGO community and civil society and other interested parties, the initiative reaches out to involve local and regional actors in a bottom-up approach. Environmental protection and improvement being a key objective of FEMIP, the Bank has joined the initiative already at the preparatory stage, in which it intends to create a pipeline of bankable Horizon 2020 investment projects, in close cooperation with the World Bank and the United Nations' Environment Programme's (UNEP) Mediterranean Action Plan.

African, Caribbean and Pacific (ACP) Countries Republic of South Africa (RSA)

In the ACP countries, as in the RSA, the availability of water services is one of the main contributors to sustainable development. Water sector projects are a key component of the Bank's activity in the region, where they represented more than three quarters (77%) of its overall environmental activity from 2001 to 2005, with EUR 147.5m in loans for seven projects in the ACPs and EUR 185m for two

major water supply projects in the RSA. Water projects in Botswana, Burkina Faso, Jamaica, Mauritius, Senegal and Tanzania involved essential drinking water supply, wastewater treatment and sanitation, while in South Africa the Bank financed the construction of a dam and related infrastructure on the river Berg, to improve the water supplies for the Cape Town conurbation, and a pipeline to supply water to strategic industries in the Johannesburg area.

The EIB's role is to support sustainable projects, both through institutional structuring and funding. The Bank uses individual operations to engage in dialogue with national authorities about necessary sector reforms. However, in selected countries where the Bank has a stronger upstream involvement, partnerships can be deepened through greater use of technical assistance grant funds. Most water projects have been co-financed with the EC (via interest rate subsidies from EC budgetary resources to promote environmental projects), or the WB, the African Development Bank (AfDB), KfW or Agence française de développement (AFD).

Stakeholders' involvement in the EIB's approach to the sector

In the new approach to ACP water projects, the Bank has worked closely and successfully with non-governmental organisations (NGOs) and community-based organisations to ensure the affected communities' ownership of the projects and greater involvement (especially of vulnerable groups) in their design and implementation. The involvement of all actors – including local communities and authorities as well as specialised NGOs such as Water and Sanitation for the Urban Poor (WSUP) and WaterAid – from the early stage of the long and demanding project preparation phase to its implementation is another common feature of these projects.



In line with international best practice¹⁶, the Bank operates in the ACP water sector not only as a financier and technical expert, but also as a catalyst of forces in alleviating poverty in general and promoting water Millennium Development Goals (MDGs) in particular. When and wherever possible, it involves specialised NGOs, the local private sector and affected communities, thereby promoting a fruitful exchange of experience and building a spirit of partnership and ownership of the project among the population.

With the help of the ACP-EU Water Facility, a strong pipeline of African water projects has been established in 2006. The Water Facility, agreed as part of the EU Water Initiative in Johannesburg in 2002, makes funds available for technical assistance and co-financing between EU grant aid and EIB loans. This mix of grant funds and loans with a long maturity, not available locally, is fundamental given the capital-intensive nature of water projects. Additionally, the use of the loan/grant mix allows for the grant elements to be allocated to the promoters' less profitable operations and for the provision of water at social tariffs to the urban poor.

The cooperation between the Bank and the Commission resulted in the approval by the WF, following a first call for proposals launched in November 2005, of four project proposals (in Ethiopia, Madagascar, Mozambique and Tanzania) involving the EIB, for a total grant contribution of

nearly EUR 70m, representing about 30% of the WF funds available. Another four new projects in Malawi, Benin, Lesotho and Senegal, with the participation of the Bank, were proposed under the Water Facility's second call for proposals in June 2006 (for evaluation by the Commission in the second half of 2006). For its part, the Bank's Board of Directors approved total lending of EUR 71m for three of the first four projects (the subject of the first call for proposals under the WF) in early 2006, and further proposals will be made to the Bank's Board in early 2007 following the results of the second call under the WF.

A first finance contract for a loan of EUR 31m was signed on 21 July 2006 with the Republic of Mozambique for the financing of the improvement and expansion of Maputo's water supply network.

The three projects in Ethiopia, Madagascar and Mozambique have a clear focus on providing access to drinking water and/or limited basic sanitation services to people living in conditions of poverty or even extreme poverty – in the greater Maputo area, in the most deprived areas on the outskirts of greater Antananarivo in Madagascar, and in 15 medium-sized towns across Ethiopia. Altogether they will supply water to some 1.3 million people. By significantly increasing the number of people – especially the poor in the peri-urban zones – with access to drinking water and sanitation, the projects will contribute to poverty alleviation. They will improve local health and social conditions (reduced risk of water-borne diseases and more time available to women and children for education instead of fetching water) as well as livelihoods, and will ensure wider environmental sustainability and reduce urban

squalor. These projects are typical of the new EIB approach to the ACP water and sanitation sectors. While they build on the Bank's traditional strengths, they present a number of innovative aspects, including the objective of universal coverage, focus on social inclusion, benefit-sharing and tailored civil society and private participation solutions, including small local private operators.

The EIB plays a coordination and leadership role in these projects, also because of its early involvement in the definition of each of the projects' scope, and the support given to the promoters' applications to the ACP-EU WF.

Asia and Latin America (ALA)

Between 1997 and 2000, the Bank financed six water projects of mutual interest in these parts of the world carried out by European firms, such as the extension of the water supply services and sanitation networks in the city of Córdoba and in Misiones Province (Argentina), as well as the construction of a drinking water treatment plant in Chengdu (China), the extension and improvement of water supply, sanitation and sewerage systems in Western Manila (Philippines) and the modernisation and extension of the water conveyance and distribution networks in the western and eastern parts of Jakarta (Indonesia).

No new water projects have been financed since. However, the signature of a EUR 60m loan to Manila Water, a successful water concession in the eastern part of Manila in the Philippines, is planned for the end of 2006.

¹⁶ i.e. with the recommendations of the Camdessus Report on Financing Water Infrastructure at the 3rd World Water Forum (WWF) in Mexico in 2003, the EU Water Initiative's Final Report on the Financial Component and the Gurria Task Force on Innovative Financing at the 4th WWF in Mexico in 2006.





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