

Sida-EBRD municipal environment and climate programme in Eastern Europe

with focus on water supply, wastewater, solid waste and district heating

SIDA AND EBRD JOIN FORCES IN A NEW PROGRAMME FOR ENVIRONMENT AND CLIMATE. THE PROGRAMME IS EXPECTED TO RESULT IN IMPROVED MUNICIPAL SERVICES AND LESS POLLUTION.

Sida and European Bank for Reconstruction and Development (EBRD) join forces in a new Environment and Climate Programme. The cornerstone is a trust fund that will enable governments and cities to implement municipal environment and climate projects. The overall objectives is to support:

- EU-integration
- Reduced emissions to the environment
- Sustainable use of natural resources
- Institutional reforms and sustainability of services
- Transition and social inclusion

1-2 MILLION PEOPLE WILL BENEFIT

The programme will contribute to the reduction of water, soil and air pollution as well as of greenhouse gas. It will also contribute to a development towards EU compliance and improved efficiency of the municipal environmental infrastructure sectors in the eligible countries.

Over the three year period covered by the programme it is expected that some 4–6 projects will be prepared and implemented at a total cost of between 600–1,000 MSEK. The projects are expected to bring about general improvements of the services within municipal sectors, especially water supply and waste water, district heating and solid waste management. The total urban population that will benefit from the programme is estimated to approximately 1,000,000–2,000,000.

Photo: Chris Stowers | Panos



ELIGIBLE COUNTRIES

- Albania
- Belarus
- Bosnia and Herzegovina
- Georgia
- Macedonia
- Moldova
- Serbia
- Ukraine



SIDA'S CONTRIBUTION

Sida and EBRD have had an extensive cooperation in the field of municipal and environmental infrastructure in the Baltic Sea Area and also in some countries in early transition in the Caucasus and Central Asia. Through this programme, financing will be extended to Swedish priority countries in Eastern Europe. Much of the work to reform and improve the systems in these countries still remains to be done, notably in the countries of the Western Balkans, Ukraine, Moldova and Georgia.

Sida's contribution will include:

- an investment grant component aimed at financing the procurement of goods and services in support of an EBRD lending operation. The normal blend in the financing will be two thirds EBRD loan and one third Sida grant.
- a technical cooperation component aimed at financing project preparation, implementation and supervision as well as institutional support.

Sida will allocate funds to the fund on a yearly basis starting with 100 MSEK 2009 and with indicative planning amounts of 50 MSEK for both 2010 and 2011.

IT IS DIFFICULT FOR MANY MUNICIPALITIES AND THEIR UTILITY COMPANIES TO ATTRACT LONG-TERM CAPITAL FINANCING.

TYPICAL CHALLENGES

Many of EBRD's countries of operation still struggle with some of the typical challenges in transition economies such as decentralisation, commercialisation and environmental improvement.

Decentralisation has started with the transfer of much of the responsibility for environmental management and other key services to regions and municipalities. In some cases responsibilities have been transferred without the requisite budget and tax raising authority to cover the cost of providing the decentralised service or of maintaining or upgrading the underlying infrastructure. Although current central legislation provides municipalities with certain shares of central and regional taxes, these shares are not usually sufficient.

Because of central government controls on foreign currency financing and a weak institutional and legal framework, it is difficult for many municipalities and their utility companies to attract long-term capital financing. Independent regulation is almost non-existent and courts are not reliable. Private sector investment is also limited because of concerns over opaque business practises and weak legal environments as well as the limited capacity to generate revenue.

Commercialisation Most operating utilities are municipally owned companies but are not yet functioning on a full commercial basis. Some municipalities have successfully implemented reforms aimed at operational cost-recovery (i.e. sufficient to cover full operating costs) principally through tariff reform. The tariffs are seldom adjusted to cover the full cost of new investments.

ENVIRONMENTAL CHALLENGES

Water supply is in a backlog and services and quality need substantial improvements. The situation is caused by under-investments in maintenance and repair before and since the collapse of the Soviet Union and the Yugoslav Republic and low capacity and skills of staff in the institutions responsible for operation of the supply systems. No or low incentives for water saving exists. Low-income consumers make feasibility of investments limited. Inefficient use of energy contributes to CO2 emissions.

Wastewater treatment suffers from the same consequences of under-investment in maintenance and repairs as water supply facilities. The low-



Photo: Mats Sundgren | Side



Photo: Siauliu Vandienys

income level of the water consumers combined with investment needs create financial constraints for short and medium term investments in wastewater collection and treatment. Wastewater treatment, when existing, is still maintained but has deteriorated due to the malfunctioning of mechanical and electrical systems in the plants.

In the **Solid Waste** sector the legislation is generally not adequately developed and there is a lack of organisational structures. Seen from the perspective of western standards, all the necessary physical components are missing: no system for storage of household waste in closed containers; no closed compacting vehicles for collection and transportation; no controlled sanitary landfills; no sorting and no recycling. There are no routines and practices in place for separate handling of hazardous and toxic wastes.

Problems experienced within the **Municipal District Heating sector** are inefficient systems with deteriorating production facilities and distribution networks resulting in high losses and consequently high fuel consumption and low quality of services. In most countries the heating and hot water systems are based on consumption by norm and not on actual consumption. This inevitably leads to over-consumption and increased negative effects on the environment. Fossil fuels are the predominant source for production of heat and hot water leading to excessive emissions of green house gases. The use of renewable sources of energy has hitherto been very insignificant.

ALL THE NECESSARY PHYSICAL COMPONENTS ARE MISSING. THERE IS NO SORTING, NO RECYCLING AND NO ROUTINES AND PRACTICES IN PLACE FOR SEPARATE HANDLING OF HAZARDOUS AND TOXIC WASTES.

Sida/EBRD will:

- Promote decentralised financing solutions through the use of local government loans or loans to local public companies.
- Introduce cost recovery and “user pays” concepts with appropriate support mechanism to mitigate affordability constraints and promote transparency regarding subsidies and payments.
- Support utility companies and local authorities in their efforts to achieve institutional strengthening and financial and operational sustainability.
- Continue use of local currency financing instruments, where possible.

- A The public environmental awareness is still low.
- B Sweden has contributed to several sewage treatment plants.
- C View over Tbilisi in Georgia.



EXPECTED RESULTS

The investments in the **Water Supply** and **Wastewater Projects** will lead to improved safety and reliability of the water supply and wastewater services. It will also improve the energy efficiency and reduce existing pollution loads to the receiving water bodies. This will concern discharges of Biochemical Oxygen Demand (BOD) and phosphorus and in some cases nitrogen, bringing environmental benefits in adjacent rivers and lakes thus, in many cases, protecting important downstream raw water sources for neighbouring municipalities. Demand management programs linked to investments have proven to give substantial reduction of water consumption in the range of 25–50 per cent leading to less need for new investments and considerable reductions of chemical consumables and energy.

Investments in **Solid Waste Management projects** are expected to yield better and more environment friendly collection and transportation services and systems, increased recycling as well as better managed and controlled disposal sites. This in its turn will reduce and mitigate leakage of pollutants to ground water bodies and more sustainable use of natural resources. Simultaneously it is expected that the solid waste management projects, where appropriate, will include the collection and utilization of biogas from existing disposal sites and thus reduces greenhouse gas emissions. Institutional development in many cases involves the establishment of new management structures which improve conditions for the introduction of modern collection methods and techniques as well as sustainability of equipment and services.

The investments in the **District Heating Projects** are expected to increase energy efficiency, reduce emissions to the air and improve services delivery to the consumers. Demand management programmes and introduction on modern technology linked to investments will yield substantial reduction, typically some 20 per cent on system level, of consumption of heat and water. This in its turn will reduce needs for investments for expansion in capacities. Conversions to usage of renewable fuels such as biomass will reduce consumption of finite resources. Institutional development will safeguard sustainability with services and investments.

GENERAL REQUIREMENTS AND PROCEDURES

Only projects that demonstrate potential for achieving results with regard to the overall objectives will be eligible for funding.

EBRD is responsible for the management and administration of the Fund and for the preparation, monitoring and supervision of the projects including the procurement of goods and services by either EBRD or different beneficiaries. Procurement will be carried out in accordance with EBRD's Procurement policies and rules.

The use of the resources in the Fund are subject to Sida's approval on the basis of proposals with project descriptions from EBRD. This includes consultant assignments under the technical cooperation component where EBRD is to submit proposals with Terms of Reference and Budgets for Sida's approval.

All Procurement Notices from EBRD will be announced on Sida's website www.sida.se. A direct link to active procurements can be found on <http://sida.kommersannons.se>

INVESTMENT GRANTS

Investment grants should help to address affordability problems allowing time for full cost recovery principles to be introduced. It may also expand the affordable budget for investments. The financing (the EBRD loan combined with the investment grant) is normally linked to specific conditions on institutional strengthening, improvements in operations, implementation of tariff reforms and improvements in cost recovery principles.

TECHNICAL COOPERATION

Technical cooperation is used for:

- project development ahead of project signing
- project implementation and transition impact related activities post-signing.

Typically a project will require up to €500,000 in presigning technical cooperation support and up to €700,000 post-signing. Examples range from:

- financial and environmental audits
- feasibility studies
- financial and operational performance improvement programmes
- support in the establishment of project implementation units for the borrowing utilities
- studies to help reform the legal and/or regulatory environment.

CONTACT POINTS

- Jane Kieran
Municipal Environment and Infrastructure Dept
EBRD (kieranj@ebrd.com)
- Engin Göksu
Official Co-financing Unit
EBRD (goksuE@ebrd.com)
- Lars Eklund
Senior Programme Manager
Sida (lars.eklund@sida.se)
- Peeter Horm
Senior Regional Adviser
Sida (peeter.horm@sida.se)
- EBRD, One Exchange Square
London EC2A 2JN,
United Kingdom
Phone: +44 20 7338 6000
www.ebrd.com