

ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE
TASK FORCE FOR THE IMPLEMENTATION OF THE ENVIRONMENTAL ACTION
PROGRAMME FOR CENTRAL AND EASTERN EUROPE, CAUCASUS AND CENTRAL ASIA

UPDATE REPORT ON PPC ACTIVITIES: SEPTEMBER 2006 – MARCH 2007

Fifth joint meeting of the Task Force for the Implementation of the Environmental Action Programme for Central and Eastern Europe (EAP Task Force) and the Project Preparation Committee (PPC)

15-16 March, Brussels

Agenda Item: 9

ACTION REQUIRED: This document is presented for information. EAP Task Force/PPC delegates are invited to take note of the PPC's activities since the last Joint Meeting. More detailed information on project identification, preparation and financing will be provided by the accompanying presentations by PPC Officers at the Brussels meeting.

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UPDATE REPORT ON PPC ACTIVITIES: SEPTEMBER 2006 – MARCH 2007

This report provides a brief summary of the PPC's activities over the six-month period since the 4th Joint Meeting of the EAP Task Force and PPC in September 2006.

1. PPC staffing and organisation

1. There have been a number of staff changes since the last Joint Meeting. The PPC has continued to shift more of its resources away from IFI headquarters and into its countries of operation, including strengthening its presence in the Early Transition Countries (ETC)¹. Details of current PPC staffing arrangements (as of 1 March 2007) are shown in Table 1.

2. Netherlands-funded PPC Officer (Energy Efficiency and Climate Change) Jan-Willem van de Ven left the PPC in November 2006 to take up a permanent position with EBRD's Energy Efficiency and Climate Change Team, where he is now working as Head of the Secretariat for the Multilateral Carbon Fund. Jan-Willem's new role will build upon the contribution he made as a PPC Officer and help to mainstream this work within EBRD.

3. Agreement has been reached with the Dutch Ministry of Housing, Spatial Planning and the Environment to use the remaining funds left over from the Dutch contribution for Jan-Willem's position to fund a new PPC Officer position working on energy efficiency, renewable energy and climate change in the Early Transition Countries. This Officer will be based in EBRD's Resident Office in Tbilisi and will be recruited as a local hire (i.e. open to nationals of EECCA countries). This will be the first time that the PPC has recruited an EECCA national as a PPC Officer. The intention is to recruit somebody with local language skills, existing local contacts and knowledge that would enhance the PPC's ability to help build relationships and develop projects. The recruitment process is underway and we hope to have the new Officer in place by late spring 2007.

4. EC-funded consultant Ashot Baghdasaryan has had his contract extended by the EC until the end of March 2007. This will enable him to continue to support the identification of environmental infrastructure projects in ETC countries, with a particular focus on Moldova, during the remainder of his time with the PPC.

5. Italian-funded PPC Officer Gaetano Massara completed his assignment at the EBRD's Resident Office in Belgrade in January 2007. We would like to thank Gaetano for his valuable contribution to the PPC and the Italian Government for their generous funding for his position.

¹ Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan

Table 1: Status of PPC staffing

Officer (Location)	Donor sponsor	Term of office	Regional focus	Sector focus
Jean-Marie Frentz (EBRD, London)	Luxembourg	Jun 2004 – Jun 2007	EBRD countries of operation	Environmental additions to EBRD pipeline projects, particularly industrial and SME projects; and stand-alone environmental projects, particularly the setting up of a Biodiversity Financing Facility.
PPC Consultant - Ashot Baghdasaryan	EC	Oct 2005 – March 2007 (part-time)	ETC (focus on Armenia, Moldova, Kyrgyz Republic)	Identification and development of an environmental investment and technical assistance pipeline. Links with EU Water Initiative/Water Investment Support Facility.
Catarina Bjorlin Hansen (EBRD, Tbilisi)	Sweden	Sept 2006 – Sept 2008	ETC	Municipal environmental infrastructure projects in Early Transition Countries.
Janne Heiskanen (EBRD, St. Petersburg)	Finland	Sept 2006 – Sept 2008	North-Western Russia	Municipal and environmental infrastructure projects in North-Western Russia.
Energy Efficiency and Climate Change PPC Officer – under recruitment (EBRD, Tbilisi)	Netherlands	Spring 2007 – Spring 2009	ETC	Identification, preparation and financing of energy efficiency, renewable energy and emission trading projects in Early Transition Countries.
Craig Davies Executive Secretary (EBRD, London)	UK	Feb 2006 – Oct 2007	-	Management of the Secretariat; oversight coordination of activities and implementation of the PPC's strategy
Nadine Warren Administrative Officer (EBRD, London)	UK	Jan 2006 – Jan 2008	-	Assistance to the Executive Secretary

2. Project identification, preparation and financing

6. PPC Officers have continued to support the development of environmental investment projects in a number of priority regions and thematic areas. An update on their activities since September 2006 is given below.

2.1. Municipal environmental infrastructure – Early Transition Countries

7. Swedish-funded PPC Officer Catarina Bjorlin Hansen is supporting EBRD in developing a number of environmental infrastructure projects in water supply and sanitation, solid waste management and transport.

8. General challenges related to environmental infrastructure projects in Early Transition Countries include:

- uncertain ownership of projects due to unclear divisions of responsibility between different government departments/agencies and ad hoc decision making;

- difficulties in identifying donors interested in supporting projects in specific countries, e.g. the Kyrgyz Republic;
- some donors have very long processing times for considering funding applications, which makes it impractical for them to fit in with project cycles.

Table 2: Water supply and sanitation projects in the ETC

Project title	Country	Project description	Status
Borjomi Bakuriani Water Supply Project	Georgia	Improvement of water supply and wastewater services	Exploratory
Kobuleti Water and Wastewater Project	Georgia	Extension of the municipal water supply and upgrading of the wastewater treatment system	Exploratory
Kutaisi Water Supply Project	Georgia	Improved access to water supply and wastewater services in the City of Kutaisi	Under development
Poti Municipal Water Project	Georgia	Improvements in the municipal water supply system	Under development
Rustavi Water Supply Project	Georgia	Rehabilitation of the water supply system of the City of Rustavi	Exploratory
Tbilisi Water Supply Project	Georgia	Renovation of the Tbilisi municipal water supply system	Exploratory
Bishkek Water Project	Kyrgyz Republic	Improvements in the quality of the water supply services in the City of Bishkek	Exploratory
Khujand II Wastewater Project	Tajikistan	Second phase of a project to improve wastewater services in the City of Khujand	Under development
Southern Tajikistan Water Rehabilitation Project	Tajikistan	Rehabilitation of the water supply systems of three cities in Southern Tajikistan	Exploratory

9. Discussions are being held with various donors to identify funds to fill the financing gaps associated with these projects. The use of carbon credits is also being explored as a potential source of financing for some of these projects.

10. Key challenges for water supply and sanitation projects:

- The identification of sufficient capital expenditure grant co-financing to enable investments to go ahead while ensuring the affordability of the water supply to the population.
- Some ETC countries are subject to IMF caps on concessional lending, although this is not necessarily a problem in its own right as a large proportion of grant financing is usually needed anyway to avoid unaffordable tariff increases.
- An important limiting factor on project development is access to untied technical cooperation funds for project preparation, especially untied funds that can be mobilised quickly for small assignments like audits, credit analysis, etc.

Table 3: Solid waste management projects in the ETC

Project title	Country	Project description	Status
Baku Solid Waste Project	Azerbaijan	Construction of EU-compliant landfill segments, improvement of collection and possible construction of a waste incinerator	Exploratory
Adjara Solid Waste Project	Georgia	Creation of an integrated solid waste management system for the Adjara region	Exploratory
Tbilisi Solid Waste Project	Georgia	Improvements to waste management facilities in the City of Tbilisi	Exploratory
Bishkek Solid Waste Project	Kyrgyz Republic	Improvements to waste management facilities in the City of Bishkek	Exploratory
Dushanbe Solid Waste Project	Tajikistan	Improvements to waste management facilities in the City of Dushanbe	Exploratory
Khujand Solid Waste Project	Tajikistan	Improvements to waste management facilities in the City of Khujand	Exploratory

11. Key challenges for solid waste projects:

- In addition to those challenges faced by WSS projects, institutional issues can pose particular challenges for solid waste management projects. Land acquisition can sometimes be a slow process and it can therefore be very difficult to ensure timely project preparation.

Table 4: Municipal transport projects in the ETC

Project title	Country	Project description	Status
Baku Urban Transport Project	Azerbaijan	Improvements in municipal transport facilities in the City of Baku	Exploratory
Batumi Public Transportation Project	Georgia	Improvements in municipal transport facilities in the City of Batumi	Exploratory
Tbilisi Energy Efficiency Metro Project	Georgia	Improvements in energy efficiency and the rehabilitation of the power system and passenger cars	Exploratory
Tbilisi Municipal Transport Project	Georgia	Improvements in municipal transport facilities in the City of Tbilisi	Under development

12. Key challenges for municipal transport projects:

- It is particularly difficult to identify donor capital expenditure grants for public transport projects. The Netherlands is one of the few donors active in the transport sector, but otherwise opportunities are limited.
- It is also difficult to secure sovereign guarantees for urban transport projects. Loans can be provided directly to cities, but only at higher interest rates. This makes it difficult for public transport companies to cover loan repayments as fares cannot be increased to cover such relatively expensive loans.

2.2. *Municipal environmental infrastructure – North-Western Russia*

13. Finnish-funded PPC Officer Janne Heiskanen has been supporting EBRD in developing a range of environmental infrastructure projects in water supply and wastewater, district heating and solid waste management.

14. Overall challenges related to environmental infrastructure development in NW Russia include:

- The identification of donor grant co-financing for capital expenditure to make projects affordable without necessitating unaffordable tariff increases, including securing contributions to the Northern Dimension Environmental Partnership Fund.
- Institutional issues when dealing with the Russian authorities at local, regional and federal levels, such as unclear decision-making lines, and gaps between commitment and the actual support and participation of authorities.
- Difficulty in getting project partners to adhere to agreed timelines, which can considerably postpone or delay project start-up and implementation.
- Difficulties in obtaining sovereign guarantees have postponed the start-up of a number of projects.

Table 5: Water supply and wastewater projects in North-Western Russia

Project title	Location	Project description	Status
Archangelsk Municipal Water Services Development	Archangelsk Oblast	Rehabilitation of municipal water supply and sewerage infrastructure in the City of Archangelsk	Under development
Kaliningrad Water and Environmental Services Project	Kaliningrad Oblast	Construction of wastewater treatment plants and water works, and rehabilitation of water distribution and wastewater connection networks	Under development
Komi Municipal Water Services - Syktyvkar	Komi Republic	Rehabilitation of municipal water and sewerage infrastructure and services in the City of Syktyvkar	Under development
Komi Municipal Water Services - Syktyvkar Phase II	Komi Republic	The City of Syktyvkar has approached the EBRD regarding a possible Phase II of the water services project	Exploratory
Komi Municipal Water Services - Vorkuta	Komi Republic	A municipal water services project is under consideration for the City of Vorkuta in the north of the Republic of Komi	Exploratory

Table 6: District heating projects in North-Western Russia

Project title	Location	Project description	Status
Kaliningrad District Heating Project	Kaliningrad Oblast	Upgrading and rehabilitating of district heating network	Exploratory
Syktvykar District Heating Programme	Komi Republic	Upgrading and rehabilitating of district heating network	Exploratory

15. The use of carbon credits to provide an additional stream of financing is being considered in both of these district heating projects.

Table 7: Solid waste management projects in North-Western Russia

Project title	Location	Project description	Status
St. Petersburg Krasny Bor Toxic Waste Landfill Clean-up Programme	City of St. Petersburg	Clean-up of the Krasny Bor landfill site	Under development
Kaliningrad Solid Waste Management Project	Kaliningrad Oblast	Establishment of an efficient, cost-effective, and environmentally safe municipal waste management system	Exploratory

2.3. *Biodiversity and environmental mainstreaming*

16. Luxembourg-funded PPC Officer Jean-Marie Frentz has continued to work within EBRD's Environment Department developing a number of projects aimed at creating financing opportunities for biodiversity-related projects and mainstreaming environmental issues into existing investment projects.

Pilot Biodiversity Financing Facility

17. The €1 million Pilot Biodiversity Technical Assistance Facility in Bulgaria, Hungary and Poland, financed by the EC, is about to move into its implementation phase. EBRD and EIB will be members of the steering committee. A request for co-financing from the Government of Poland has been sought and a response is pending.

Kyrgyz Republic: Institutional capacity building for biodiversity conservation

18. This technical cooperation project will turn the protected area adjacent to the Kumtor Gold Mine (of which EBRD is a shareholder) into a model conservation area. This will demonstrate EBRD's positive engagement with the issue of biodiversity and will also provide an important mechanism to strengthen local capacity to undertake long-term environmental management and sustain livelihoods.

FYR Macedonia: Elektrostopanstvo - Implementation of an Environmental Management System

19. This technical assistance project will enable Elektrostopanstvo, the state-owned electricity utility for FYR Macedonia, to develop a structured Environmental Management System based on international standards. This will benefit the planned privatisation process and will have a powerful demonstration

impact within the FYR Macedonia project and the Balkan region. The project is now beginning its second year and has already resulted in an environmental policy being adopted by the company.

Pro-biodiversity business in the steppe zones of the Eurasia region

20. This project is to be financed under the EC's Tacis Regional Action Programme for 2004 (Sustainable Integrated Land Use of the Eurasian Steppes in Kazakhstan, Moldova, Russia and Ukraine). Pending negotiations over the Terms of Reference and budget, the agreement will be signed between EBRD and EC.

3. Coordination, matchmaking and networking

21. The PPC has continued to support related regional initiatives involved in the promotion of environmental investment projects in EECCA and SEE.

3.1. Cooperation with the Danube and Black Sea Task Force (DABLAS)

22. In November 2006, the PPC participated in the DABLAS Implementation Working Group in London. PPC Executive Secretary Craig Davies presented the preliminary findings of the recent PPC review and explained how these were being taken forward in the preparations for the Belgrade Ministerial Conference. Information on the PPC's ongoing programme of Project Financing Workshops was also presented, several of which were in preparation in countries in the DABLAS region. During the meeting an evaluation of the EC's Investment Support Facilities in the DABLAS region was proposed in order to assess their contribution to environmental infrastructure investments. The PPC Secretariat and the EC agreed to work together on Terms of Reference for this evaluation, which will be managed by the PPC Secretariat with funding from the UK.

23. Immediately prior to the meeting, the PPC and DABLAS co-hosted a further informal dialogue between representatives of the EC, IFIs (World Bank, EBRD and EIB) and other interested parties including the EAP Task Force. This was the second such meeting organised by the PPC and provided an opportunity for an exchange of views on issues related to the financing of environmental infrastructure in EECCA and SEE.

3.2. Cooperation with the EU Water Initiative

24. At the 8th meeting of the Working Group of the EU Water Initiative EECCA Component in November 2006, the PPC Secretariat updated delegates on its activities in the water sector in the EECCA region, and provided information on PPC preparations for the Belgrade conference.

4. Sharing good practice and capacity building

25. The PPC has continued to roll out its programme of Project Financing Workshops, following the successful delivery of the first full Project Financing Workshop in Georgia in July 2006 (funded by the UK). As explained at the last Joint Meeting on the EAP Task Force and PPC, the programme is designed to help build the capacity of potential proponents of environmental infrastructure projects to develop viable project concepts that could be considered for further development by IFIs and other financiers.

4.1. Volgograd (Russia) Project Financing Workshop – December 2006

26. A second Project Financing Workshop was delivered in Volgograd Oblast, Russia, on 20-21 December 2006 (also funded by the UK). The workshop was organised in partnership with the Committee for Communal and Housing Services, Volgograd Oblast Administration. Five municipalities from Volgograd oblast (Frolovo, Kamyshin, Mikhailovka, Volgograd City and Volzhsky) participated in the

workshop, together with representatives of the Water and Wastewater Infrastructure Department and Economic Department of the Committee of Communal and Housing Services, Volgograd Oblast Administration.

27. During the course of the workshop six Project Concept Data Sheets were developed based on the projects ideas that the participants brought with them:

Frolovo Municipality:

- Flood protection of the town of Frolovo, Volgograd Oblast

Kamyshin Municipality:

- Sludge dewatering facilities at the Kamyshin biological wastewater treatment plant
- Design and construction of a sewage discharge manifold from the pumping station

Volgograd City:

- Reconstruction of water treatment facilities in Central District, City of Volgograd
- Reconstruction of water treatment facilities in Krasnooktyabrsky District, City of Volgograd

Volzhsky municipality:

- Reconstruction of the third line of the waste water treatment plant.

28. These project concepts will now be presented to the PPC network for consideration for further development and, potentially, financing. In addition, the workshop enabled the participants to develop a much clearer understanding of the requirements of IFIs and the issues involved in developing bankable project concepts. Full details of the Volgograd workshop will soon be made available on the PPC website (www.ppcenvironment.org).

4.2. Further Project Financing Workshops in preparation

29. The PPC is currently engaged in the preparation of three further workshops to be delivered during the first half of 2007.

- *FYR Macedonia* - A workshop is in preparation in FYR Macedonia for March 2007, with funding from the UK. The PPC Secretariat is working with the Ministry of Environment and Physical Planning to design a workshop that focuses on water supply and sanitation investments, including the need to design projects that can benefit from EC IPA funding.
- *Ukraine* - The Secretariat is working with the Association of Ukrainian Municipalities to prepare a workshop in Ukraine in April 2007, with funding from the German Federal Environmental Agency.
- *Armenia* - The PPC has secured funding from the Early Transition Countries Fund for a workshop in Armenia, envisaged for spring 2007.
- *Kazakhstan* - The PPC Secretariat is also in negotiation with the German Federal Environmental Agency concerning a possible further workshop in Kazakhstan, to be delivered in September 2007.

5. Preparations for the Belgrade Ministerial Conference

30. The PPC is in the process of finalising its preparations for the Belgrade Ministerial Conference. This includes:

- preparation of a Category I report entitled “Mobilising Finance for Environmental Priorities: Recommendations for the future”;
- preparation of a Category II report entitled “PPC Report to the Sixth Ministerial Conference ‘Environment for Europe’ in Belgrade”;

- finalisation of the 2006 PPC review and dissemination of its findings to PPC stakeholders and incorporation of its recommendations into the Category II report to the Belgrade conference;
- implementation of a review of donor support for environmental investments, which will be used to update the financing database on the PPC website (www.ppcenvironment.org) as well as inform the PPC's report to the Belgrade conference.