CEE bankwatch network

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CEE Bankwatch Network input for the EBRD's sectoral evaluation of Municipal Environmental Infrastructure (MEI) projects

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Introduction

CEE Bankwatch Network welcomes the EBRD's MEI sectoral evaluation and the valuable opportunity to provide comments on this vital sector, which plays a highly tangible role in determining the quality of people's lives.

We are submitting comments only for those MEI sectors in which we have closely monitored projects, namely waste, water supply, wastewater treatment and urban transport. Where possible we refer to projects approved since the current MEI Operations Policy became operational, however we also refer to projects approved before this date *if the issues raised do not appear to have been resolved by the 2004 policy*. Likewise, whereas the EBRD does not carry out project evaluations of projects where the financing was not finally disbursed, we refer to some such examples here, as we believe they contain valuable lessons learned.

Aims of the EBRD's operations in the MEI sector

Before moving on to sector-specific comments, we would like to emphasise the need to evaluate the EBRD's **aims** in its MEI investments, not only to measure the investments against the existing aims. As a new sectoral policy will be developed next year, it is imperative to assess whether it should set similar goals to the last one.

EBRD MEI aims 2004

According to the EBRD's 2004 Municipal and Environmental Infrastructure Operations Policy, the EBRD's core objective within its MEI operations "*to promote greater efficiency and higher quality in the provision of local authority services through investment and the promotion of independent, well-managed and financially sustainable operations provided on commercial principles and in a market-oriented institutional and regulatory framework*".

The Policy further states that "*The European Bank for Reconstruction and Development's (EBRD) approach is strongly supportive of transition towards decentralisation of service responsibilities to local or regional levels; commercialisation of the operating companies providing local services; and environmental improvement as a consequence of investments that conserve environmental resources and reduce pollution.*"

Further objectives are outlined on p.48-49:
- Extend the use of standard products to Early and Intermediate Transition Countries
- Promote commercialisation and efficiency of local service companies (whether private or publicly owned or managed)
- Develop and extend use of existing products to address the needs of smaller municipalities
- Address the institutional development needs of clients through effective use of TC grants and address affordability constraints by use of grant investment co-finance.
- Increase access of municipal or environmental service companies to appropriate capital instruments
- Employ proven transaction structures to expand into selected new sectors where services are provided at a local level
- Improve levels of disbursement and earning assets relative to levels of commitments.

In our opinion, most of the aims above are more like methods: they should be only the means to an end, not an end in themselves. **We believe that the Policy should have stated - and the new policy needs to state - clearly what the EBRD wanted to achieve on the ground in the constituent MEI sectors (ie. waste, water supply etc.) and how these would improve people's lives and the environment.** eg. Did it want more people to be connected to mains water? Sewerage? Did it want to ensure the construction of EU standard landfills? Encourage recycling? In which countries? The Annexes of the MEI policy discuss the possible role of the EBRD but do not lay out clear sectoral priorities, with the exception of the urban transport section.

We agree with the need to promote greater efficiency and higher quality in the provision of local authority services. **However these concepts needed to be further explained:** Is efficiency being referred to in terms of overall value for money for public and users' money, as we would advocate, or more narrowly in terms of cutting operational costs? What does 'quality' consist of in municipal services?

Did the methods or sub-objectives necessarily lead to the goals? Without knowing what the concrete on-the-ground goals for each sector are, this is hard to answer, and there is a danger that the management methods and commercialization assume a greater importance than the on-the-ground sector-specific results. **Nevertheless we hope that the evaluation will be able to quantify some clear sector-specific results from the projects** and indicate whether the EBRD has chosen the projects bringing good results for people and the environment. For example, overall (not only per project) how many additional people got mains water supply or regular waste collection as a result of the EBRD's projects? How much less waste was produced or more waste re-used or recycled as a result of the projects? How many additional people started to use public transport as a result of the projects?

Municipal Solid Waste (MSW) Management

The MEI policy lays out in Annex 3 the general investment needs in the MSW sector, however it does not clearly lay out **sector-specific goals** for what the EBRD wants to achieve with its MSW investments, what its **priorities** are, and what the **indicators** of success will be.

This should not include only economic management-related issues but also the on-the-ground measurable results, such as expansion of organised waste collection, decreases in waste production, an increase in re-use, recycling and composting, the development of a basic network of EU-compliant landfills or the rehabilitation of illegal dumps. This needs to be addressed in the new policy.

The EBRD also needs to clarify its aims with regard to compliance with EU legislation. While most of the transition countries have a long way to go to comply with EU legislation, for more advanced transition countries it should also be recognised that complying with EU waste legislation is a minimum requirement rather than best practice. EU waste legislation has been developed to address a waste situation which has already got much worse than it ever should have and the transition countries have a chance to leapfrog straight to more sustainable ways of living, without the difficult process of drastically increasing per capita waste production only to try to later find ways of decreasing it again. While it is unsurprising that governments of the transition countries are not aware of or committed to this, **the EBRD can and should, through the project development process, ensure that the solutions which are implemented are not only EU-compliant, but result in high levels of waste prevention, re-use, recycling and composting**. In advanced transition countries this should go beyond what is required by EU law.

Between 2005 and 2008 (since the current MEI policy was approved) the following projects have been approved and signed in the municipal solid waste sector, according to the list downloadable from the EBRD's webpage:

Country	Year	Project	Description	Million EUR	State/ Private
Romania	2006	Arges County Regional Solid Waste	Programme to create a new landfill site and improve waste collection facilities	6.1	State
Romania	2006	Bacau solid waste management	Programme to create a new landfill site and improve waste collection facilities	5	State
Serbia	2008	Duboko solid waste	Finance for the construction of the regional solid waste landfill	5	State
Tajikistan	2008	Dushanbe solid waste management	Loan to improve solid waste management	2.8	State
Bulgaria	2008	Bulgarian FLAG infrastructure project	Loan for the upgrade of Bulgarian municipal infrastructure (partly waste)	18	State

We are also aware of several newer and in some cases still unapproved projects such as the Rustavi and Adjara landfills in Georgia and Kastijun waste management centre in Croatia, and indeed we have looked at these in more detail than the ones above. The main issues we have observed are:

- Insufficient inclusion of sustainable methods of waste management. **The need for a basic network of sanitary landfills should not exclude the need for the EBRD to promote waste prevention, recycling and re-use as part of its projects**. For example Green Alternative has pointed out that a Mechanical-Biological Treatment plant should be considered as part of the Adjara solid waste project. Where recycling is present in projects, such as the planned Kastijun waste management centre, it is at a much lower level than could be feasibly achieved. While economic realities obviously have to be taken into account it is important that there are no double standards, with recycling elements for advanced transition countries and only landfills for less advanced ones.

- The need to both rehabilitate old landfills and construct new waste management facilities simultaneously creates a heavy financial burden for state and local authorities and users, and makes it easy for authorities to ignore innovative practices such as separated collection and recycling. We believe that **the EBRD should add environmental value in this area precisely by ensuring that no disposal facility projects are financed without a separated collection and recycling component, designed according to local conditions.**
- Insufficient public participation. This is a frequent issue in transition countries but **waste projects are often the most controversial and need to be examined particularly carefully**. For example the Rustavi Solid Waste Management Project is an A category project, so the project sponsor is obliged to inform all interested stakeholders including the local population and arrange hearings regarding the project before the approval of the project in accordance with the EBRD's environmental and social policy. However during a visit to the village of Akhali Samgori neighbouring the the proposed landfill undertaken by Bankwatch member group Green Alternative, it became clear that the villagers had not been informed about the project and no public hearings had been arranged in the area. In the Adjara landfill project the local people participated in consultations but strongly objected to the site selection, as does the Governor of Chakvi where the landfill would be located, because Chakvi is one of the most humid places in the world. These concerns do not appear to have been addressed and the consulting company is still planning to submit the project to the Ministry of Environment.
- For landfill rehabilitations, a lack of clarity on where the hazardous elements removed from existing illegal landfills will go. In the case of the Zagreb Jakusevac rehabilitation financed in 1998 and 2003 this led to a disastrous hazardous waste incinerator being built outside the scope of the EBRD project, without any EIA at all. The incinerator burnt down in 2002 but around 250 tonnes of hazardous ashes are still at the site, improperly stored. **The EBRD must alway ensures that it is clear during the EIA process whether any hazardous waste is present at the existing dump and what will happen to it during the project**.
- A need for joined up thinking regarding waste production in other sectors. Article 2.1(vii) of the EBRD statutes states that one of the aims of the bank is "*to promote in the full range of its activities environmentally sound and sustainable development*." However the bank has financed several projects for inherently unsustainable production such as MDF (which cannot be recycled), such as the Kronospan MDF projects, and has also financed packaging manufacturers, apparently without stipulating a preference for multi-use packaging or a minimal requirement for packaging which can be recycled in a non-toxic manner. One improvement seems to be in the Logoplaste Ukraine project, whose PSD states that the proposed transaction will set the standards of business conduct by achieving recycling rates above the EU required levels and above the level achieved by other rigid plastics producers in the Ukrainian market. **The EBRD should not finance the manufacture of materials that cannot be re-used or at least recycled in a non-toxic manner.**
- **The EBRD is to be commended for not having financed any municipal waste incinerator projects during the period, and we recommend that it also does not do so for the foreseeable future.** Waste incinerators are the most expensive waste management method by far, and as well as burning valuable resources and resulting

in air pollution and hazardous ash and filter residues, they also limit future waste management choices due to their need for a constant supply of waste and money. This is a particular problem in transition countries where there is very high scope for improvement of waste prevention and recycling, combined with financial constraints, and decisions to build incinerators now are likely to inhibit steps towards sustainable resource use during the coming decades.

Water supply and wastewater treatment

We believe there is a need to re-examine what the EBRD is trying to achieve with its water supply and wastewater treatment investments. The investment drivers on p.2 of Annex 1 of the MEI policy do give some idea of the sector-specific goals or outcomes - compliance with environmental regulations, improving services, and increasing efficiency, but are not very specific. We believe these were worthwhile goals, particularly if improving services is understood in the sense of the Millenium Development Goal on water: *By 2015, reduce by half the proportion of people without sustainable access to safe drinking water*. We would however additionally emphasise the need for water to be easily **affordable for all** and the need for decreases in water network losses. However more detailed priorities and indicators based on these would be useful so that the EBRD's projects can be evaluated based on their impact in these areas rather than just the transition-related indicators.

The transition indicators outlined on p.3-5 of Annex 1 show how the EBRD tries to fit its water investments into its framework of promoting market economies. However **the water sector, as a natural monopoly dealing with fulfilling basic rights, fits poorly into the market economy framework so the indicators need to be changed to reflect this.**

In particular, we do not see having private sector participation (PSP) as an indicator of success as useful. **PSP in water supply is a means to an end, not an end in itself.** Having a private company involved says nothing about whether environmental regulations are being complied with, service is being improved or efficiency is being increased.

PSP in the water sector is also not an integral part of a market economy. For example it is forbidden for private companies to carry out water supply management in both the Netherlands and Uruguay, although both of these are clearly market economies. **This indicator should not be used for the water and wastewater sector,** nor for waste, where PSP in communal waste collection services is similarly not a pre-requisite for a market economy.

Indeed, private sector participation in the water sector has been extremely controversial and the results have not been particularly impressive globally. **A recent overview of studies comparing public and private operation of water supply globally found that private sector participation has not reduced costs**,[1] although this has been one of the main advantages cited in favour of private sector participation. We would invite the EBRD evaluation team to assess the relative performance of the public and private water sector projects financed by the bank to ascertain whether the private sector projects have offered advantages in cost reduction.

[1] Germà Bela and Mildred Warner: Does privatization of solid waste and water services reduce costs? A review of empirical studies, Departament de Politica Econòmica, Universitat de Barcelona, and West Sibley Hall, Cornell University, 11 October 2008

Projects and issues

From the limited monitoring we have undertaken on water and wastewater projects, the following issues have arisen, which we would recommend the evaluation team to examine. The main cases we have looked at are the Zagreb Wastewater Treatment Plant, the Tbilisi water supply improvement project and other Georgian water projects. While the Tbilisi project was not ultimately carried out, it was nevertheless approved by the bank and provides several lessons to be learned.

- Need for additional attention to affordability: At the time the EBRD approved the later abandoned Tbilisi water project in 2007, significant concerns remained about affordability for vulnerable people as prices for electricity and gas had increased in Georgia by up to 50 percent during the previous year and around 50 percent of the population was living under the poverty line. Insufficient subsidies had been promised to the most vulnerable households and there was insufficient regulatory capacity to ensure that the system would function. A working paper prepared for the EBRD in 2005[2] outlined the low availability of reliable data on affordability in the region and pointed out that the problem may become worse before improving. This is especially likely to be true given the current global economic situation and **we urge the Evaluation Department to investigate whether the bank has given affordability due weight in its projects.**
- A lack of public participation in decisions on water issues. The UN Economic and Social Council Committee On Economic, Social And Cultural Rights has asserted that: *"The right of individuals and groups to participate in decision-making processes that may affect their exercise of the right to water must be an integral part of any policy, programme or strategy concerning water. Individuals and groups should be given full and equal access to information concerning water, water services and the environment, held by public authorities or third parties"*.[3] Yet there have been no public consultations in the Georgian water projects, even in ones concerning large changes such as the introduction of private sector participation or water metering. Nor do any supervisory councils including civil society representatives seem to have been set up. **We recommend that the creation of such councils is made a condition of loans where significant changes such as tariff increases or private sector participation are included in the project**. The Project Summary Documents displayed on the EBRD's website in this sector also vary in quality and it is therefore sometimes unclear what exactly is to be done under the project. For example the Zagreb Holding Water and Sewer Investment Project PSD states that bonds will be issued for improvements, which *"are currently expected to include water and wastewater network rehabilitation and expansion; public transport improvements; and refinancing of some existing debt of the Company's businesses*." From such a brief description it is very hard for the public to assess what is being done.
- Promotion of private sector participation with unclear justification and without adequate social safeguards in place. In the Tbilisi case the consultants carrying out the

[2] Samuel Fankhauser and Sladjana Tepic: Can poor consumers pay for energy and water? An affordability analysis for transition countries, EBRD, May 2005

[3] UN Economic and Social Council Committee On Economic, Social And Cultural Rights, Twenty-ninth session Geneva, 11-29 November 2002 Agenda item 3: Substantive Issues Arising In The Implementation Of The International Covenant On Economic, Social And Cultural Rights, General Comment No. 15 (2002): The right to water (arts. 11 and 12 of the International Covenant on Economic, Social and Cultural Rights), Art. 48 p.15

pre-feasibility study acknowledged great improvements in recent years in the management of the company, yet recommended private sector participation without any real reason. This is particularly troublesome in countries without adequate social safeguards and high numbers of people living below the poverty line. **We call on the EBRD to critically examine the claims made in favour of private sector participation, particularly in water supply management.** If private sector participation in this sector is to be supported a robust methodology should be developed to ensure that is only employed where it will bring clear and properly analysed benefits compared to public management of water and wastewater facilities.

- **Poor value for money for the public.**

Zagreb Wastewater Treatment Plant
Please see case study attached in Annex 2, which was written as part of Bankwatch's November 2008 report *Never Mind the Balance Sheet.* It highlights the issues around this public-private partnership, which appears to be excessively expensive and offering poor value for money for the public (although the contract is not publicly available so it is very difficult to know precisely how much it is costing).

- A lack of effective regulation. During the development and approval of the Tbilisi water project there was no state regulator to monitor the activities of the water company. *"Where water services (such as piped water networks, water tankers, access to rivers and wells) are operated or controlled by third parties, States parties must prevent them from compromising equal, affordable, and physical access to sufficient, safe and acceptable water. To prevent such abuses an effective regulatory system must be established, in conformity with the Covenant and this General Comment, which includes independent monitoring, genuine public participation and imposition of penalties for non-compliance."*[4] **The EBRD should not finance private sector participation in the water sector where there is ineffective regulation.**
    - Investment in private water services companies with unclear added value:

Veolia Voda
Between 2005 and 2008 the EBRD has lent more than EUR 500 million for water and wastewater[5]. Of this, around one fifth (EUR 104.9 million) went for equity investments into Veolia Voda. **As part of one of the world's largest companies, it is unclear why Veolia Voda required public financing, and what the EBRD's added value is in this investment**. Was the EBRD able to adequately assess in advance, and is it possible for the evaluation team to assess now, to what extent this company will improve so many people's water and wastewater services that it justifies such a level of public investment? We ask the evaluation team to look into this investment, and give its opinion on whether the EBRD is able to provide sufficient added value to justify the investment. This also applies to the Aqualia equity investment approved in 2009, and at least in financial terms also to the 2008 Rosvodokanal project. As Rosvodokanal is owned by the Alfa group, it is hard to imagine that the financing could not have been found elsewhere.

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[4] UN Economic and Social Council Committee On Economic, Social And Cultural Rights, Twenty-ninth session Geneva, 11-29 November 2002 Agenda item 3: Substantive Issues Arising In The Implementation Of The International Covenant On Economic, Social And Cultural Rights, General Comment No. 15 (2002): The right to water (arts. 11 and 12 of the International Covenant on Economic, Social and Cultural Rights), Art. 24 p.9-10

[5] The exact amount is not clear because some loans extend to several MEI sectors and it is not clear how much went for what.

- **Potential conflict of interest in equity investments in public service companies**. Where the EBRD invests in private utility companies, which then go on to make contracts with municipal authorities, it may be difficult for the EBRD both to ensure that the public sector obtains good value for money and that the returns of the private company are maximised. We would recommend the evaluation unit to examine whether adequate safeguards are in place for such investments or whether the EBRD should avoid equity investments in such sectors. A previous enquiry on this topic yielded the response that *"When financing concessions, the Bank looks to ensure that projects are in compliance with its concession policy, which is entitled Financing of Private Parties to Concessions,"*[6] however this has not fully addressed our concerns.
- Issues with project planning and sequencing:

Zagreb water and wastewater
In 2007 the EBRD approved a project for the upgrade and expansion of water and wastewater infrastructure. This in itself is welcome, as Zagreb's drainage system is clearly in need of renewal. The issue lies, however, in the carrying out of this project *after* the construction of the Zagreb wastewater treatment plant, financed by the EBRD in 2001.

Before the wastewater treatment plant was built, an expert panel appointed by the City of Zagreb stated that they found the proposed plant totally unsuitable for the conditions in Zagreb at that time. One of the main reasons was because Zagreb's drainage water was mixed with the stream water running off the neighbouring Medvednica mountain, thus clean water was being made dirty, only to be taken to the wastewater plant to be cleaned again, meaning that the wastewater treatment plant was being built for a much greater volume of water than necessary. They recommended that a smaller mechanical plant should be built at that point, and that renewal of the drainage system should take place before assessing further needs for biological treatment. The recommendations of the panel were ignored and the panel dismissed.

Yet several years later, the work is being carried out, with unclear consequences for the wastewater treatment plant: If this Zagreb water project is resulting in the separation of the clean streamwater from Zagreb's sewerage system, will the volume of water going to the wastewater treatment plant be reduced? Will this mean that the facility is not used to its full capacity? If the Zagreb water project is not resulting in the separation of stream and sewerage water, why not?

- Collective metering: Green Alternative in Georgia raised concerns about the proposed collective metering system proposed as part of the Tbilisi water project, assessing that it was likely to cause or aggravate conflicts between neighbours. A similar metering system for electricity had caused such impacts and been ruled unconstitutional. Although it may work in more advanced market economies where levels of bill payment are higher and poverty is lower, experience from other transition countries suggests that collective metering is a frequent source of conflict among neighbours. **We would recommend examining the local situation and consulting local people for each project, but treating collective metering with extreme caution.**
- Delays in project implementation and unclear contracts.

[6] E-mail response from Mr Jean-Patrick Marquet, EBRD, 13.05.2009

The City of Subotica Municipal Infrastructure Reconstruction Programme
A EUR 9 million EBRD loan for the City of Subotica Municipal Infrastructure Reconstruction Programme was approved in late 2004, along with a technical co-operation grant of EUR 0.15 million. The project is aimed at upgrading and extending the existing wastewater treatment plant in Subotica in terms of capacity and improvements of cleaning technology (introducing the removal of phosphorus and nitrogen and improving sludge treatment) in order to improve the water quality in Lake Palic, the recipient of all communal and industrial wastewater from the Subotica region, and to restore its recreational value.

Delays: The new part of the wastewater treatment plant was supposed to be operational by November 2008, however, while part of it (the water treatment unit) finally started to operate on 15 June 2009, the sludge digestors are still not operating. This creates problems for the utility, as they store the sludge in an old retention basin with very limited space. The delays seem to have gone hand in hand with a disagreement between the project company, DHV, and the municipality, about who should cover increased costs, raising questions about the clarity of the contract.

Environmental issues remain: This year Lake Palic experienced the death of 11 tonnes of fish, and for the first time, officials warned citizens not to bathe in the lake, because of pollution, mostly fecal bacteria. Even when the plant starts to operate properly, there is the problem of past environmental damage in the form of a huge layer of sludge, whose removal costs are estimated at EUR 20 million, and which is not included in the project. Most worryingly, some of the wastewater from the local industry still goes straight into the lake without treatment, raising the question of why this was not addressed by the project.

Payment issues: The price increases for residents taking place as part of the project are causing some resentment as legal entities altogether owe 62 427 000 dinars, with the general hospital and 29. Novembar meat company the biggest culprits, according to the "Vodovod i Kanalizacija Subotica" 2008 annual report. It should be examined whether this threatens the water company's sustainability and ensured that Subotica residents do not have to cover the cost of the debts through their bills.

We recommend that the Evaluation Department examines why these problems have occurred and whether the project could have been developed in a way which would have addressed these issues.

Urban transport

Our monitoring of this sector concerns mainly the Tbilisi public transport project, approved in 2005. Below is a summary of a case study published in February 2008, which outlines the issues with the project:

Tbilisi public transport project
During Soviet times, Tbilisi was served by around 1,200 buses and electric transport facilities (trams, trolley buses and underground). At this time problems already existed, especially during peak hours. After independence in the early 1990s, this model collapsed due to financial constraints, and private operators started to complement the deficient public transport services through the introduction of numerous flexible and frequent microbuses.

After the “Rose Revolution”, Tbilisi city council took the correct decision to reform the public transport management system and the EBRD was asked to provide support. In July 2005, the EBRD lent EUR 3.1m to the “Municipal Auto Transport Company Ltd” which is wholly owned by Tbilisi Municipality. The project aimed to purchase 150 municipal buses, spare parts and workshop equipment and reform the regulatory framework for public transport in Tbilisi. With regard to the environmental impact of the project, it was assumed that modernisation of the bus fleet would decrease traffic congestion, increase traffic safety, improve air quality and reduce emissions. In addition, the project summary document specified that fuel efficiency requirements would comply with the European Union’s environmental standards for urban buses.

However, the implementation of the project has actually led to increased environmental and social stress, while there is still no sustainable public transport scheme to mitigate existing problems. In September 2006, the government banned all minibuses from main avenues and substituted them with buses. The decision might have been successful if the amount of the buses had been sufficient. As there were only 500 buses working on a few routes within the centre, it led towards increased overloading on public transport. Additionally, in November 2006, the city government discontinued the tram and trolley fleet, which exacerbated the situation. As a result, since the EBRD supported the purchase of the so-called “yellow” buses, the environmental situation in Tbilisi has become much worse. The buses comply only to the EURO 1 standard, due to poor fuel quality, and the promised catalytic converters have not been fitted, so consequently they emit black smoke.

The EBRD Tbilisi public transport project attempted to establish and implement a fee collection system on public transport. However, the system was only introduced in July 2007 after the doubling of bus service tariffs, and almost totally collapsed. After a one-month experiment with the system, the conductors were fired due to increased expenditures for the company related to the salaries of conductors and their supervision. This clearly shows that the decision to implement the ticketing system was not based on sound calculations and was made without proper planning. One of the major problems related to the increased tariffs on travel fees is that Tbilisi city council is not ready to develop measures to assist vulnerable people. While the authorities make assurances that the poorest section of the population pays only half of the travel fee, the amount of people living under the poverty line is higher than identified by the municipal authorities. The 60,000 people identified exclude internally displaced people, veterans and pensioners, who represent a very vulnerable part of the population.

The project’s economic viability and sustainability are questionable. While the city budget covers more than 50 percent of the company’s expenses, including the covering of the EBRD loan, the losses of the company are increasing. In 2006, the company had losses of GEL 3m, which is not surprising, taking into account the fact that the company still has no estimate of the real number of passengers and no transparency in terms of real and fixed revenues and expenses related to the company’s further development. While the company requested Tbilisi municipality to double the travel fee from July 2007, it has never presented the arguments in terms of pricing. According to the income statement for the project for the first half of 2006, the cost for transporting one passenger was 0.451 GEL, while the average adopted tariff was 0.209 GEL. This difference was supposed to be covered from the subsidy given by the municipality. According to the company, one of the biggest expenses relates to fuel costs, which exceed the incomes from the transfer of passengers. This raises fears that 'shadow' money is greatly spread throughout the system. Green Alternative rechecked this information with bus drivers to find out how much they spend on fuel. For instance, for bus number 44, one route requires 20 litres of diesel, which costs GEL 28, while the planned income was GEL 33. According to the drivers they spent less on fuel than is assigned to the route.

There is much to be done in order to reform the public transport management system in a way which responds to the needs of Tbilisi's citizens but the top priority should be given to:

- The development and public discussion of a Tbilisi City Sustainable Transport Management Plan (including tram, trolley, metro and buses)
- Making available all necessary documents in order to assess the financial and commercial problems within the public transport system and develop a plan to overcome them
- Developing new routes for all above-mentioned transport means as part of a public transport scheme with maximum possible efficiency which covers the whole city
- Undertake a social assessment to identify mitigation measures for vulnerable people
- Organise a public consultation to design optimal travel fees, as well as to discuss environmental problems related to the existing public transport scheme
- The city council should ensure that all new equipment and transport means purchased in future apply at least EURO II standard.

There is also a need to publicly evaluate the outcomes of the EBRD project and improve its sustainability:

- Publish all the relevant documentation related to the Tbilisi Public Transport Project (Environmental Management Plan, Transport Management Plan, financial calculations, Social Mitigations Plan) for wider public discussion
- Publish the Business Plan for the Tbilisi Bus Company development
- To reduce air pollution and improve the environmental conditions of the city, it is very important to equip the EBRD purchased secondary buses with relevant catalytic converters to reduce air emissions, and bus depots with suitable equipment to measure the pollution level of each bus.

Public-Private Partnerships

The current MEI policy discusses public-private partnerships at length, and MEI is one of the main sectors, along with transport, where the bank has financed PPPs. However in the period of the current MEI policy, there have been few PPPs financed in this sector.

In 2008 Bankwatch published a report entitled *Never Mind the Balance Sheet*, in which we raised concerns relating to PPPs. Although much of the experience in central and eastern Europe relates to motorways, examples such as the Zagreb wastewater treatment plant show that there is also cause for concern in the MEI sector. PPPs appear attractive to decision-makers because they can move investments off the public balance sheet, but little if any information is available about the effect of such projects on public finances over their lifetime.

Most experts agree that PPPs should only be used where they offer clear advantages over traditional public procurement, however the methods of assessing such advantages have proved controversial. In many cases in CEE there does not appear to be any assessment at all, while the existing public sector comparator models have been criticised for being easy to manipulate, with highly subjective categories such as discounting rates. Likewise there is rarely any assessment of a public sector option, but with a turnkey contract, which may help to avoid cost and time overruns.

One of the main concerns stifling debate about this issue is the lack of transparency in PPPs and the amount of information and documents which remain unpublished due to commercial confidentiality classification.

Please see below for our recommendations towards the EBRD concerning public private partnerships. We ask the Evaluation Department to assess during its evaluation how the EBRD could improve its assessment of PPPs in order to improve value for money for the public sector and increase transparency in such projects.

Recommendations:

Overall

1) Any future MEI policy needs to state clearly what the EBRD wants to achieve on the ground in the constituent MEI sectors (ie. waste, water supply etc.) and how these would improve people's lives and the environment. Strategies should clearly distinguish between ultimate, on-the-ground aims and the EBRD's methods of achieving them. We ask the Evaluation Department to look at on-the-ground impacts of the projects so far as well as the EBRD's financing methods.

2) Public participation needs to be improved in waste and water projects, particularly where major changes are envisaged such as private sector participation, significant tariff increases, the construction of waste management facilities etc.
a) Public hearings and consultations must be held on the different components of water projects.
b) Companies should provide a development plan and clear time-bound information about the investments to be made and the costs to residents over the whole period of the project.
c) Affordability should be assessed in consultation with vulnerable groups and mechanisms for social assistance assured.
d) The EBRD should ensure that its PSDs state precisely what investments will be carried out as part of the projects.

Waste

3) The EBRD can and should, through the project development process, ensure that the solutions which are implemented are not only EU-compliant, but result in high levels of waste prevention, re-use, recycling and composting. In more advanced transition countries this should exceed what is required by EU law, but in all cases the EBRD should add environmental value by ensuring that no disposal facility projects are financed without a separated collection and recycling component, designed according to local conditions.

4) For landfill rehabilitations, it is important that the EBRD always ensures that it is clear during the EIA process whether any hazardous waste is present at the existing dump and what will happen to it during the project.

5) In all sectors, the EBRD should not finance the manufacture of materials that cannot be re-used or at least recycled in a non-toxic manner.

6) The EBRD is to be commended for not having financed any municipal waste incinerator projects during the period, and we recommend that it also does not do so for the foreseeable future.

Water and wastewater

7) There is a need to re-examine what the EBRD is trying to achieve with its water supply and wastewater treatment investments, with an emphasis on clear goals such as increasing the number of people with access to clean water or complying with EU legislation, rather than viewing private sector participation as a goal in itself.

8) Likewise private sector participation in the water sector should not be used as a transition impact indicator, as it is not a pre-requisite for a market economy.

9) We call on the EBRD to critically examine the claims made in favour of private sector participation, particularly in water supply management. If private sector participation in this sector is to be supported a robust methodology should be developed to ensure that is only employed where it will bring clear and properly analysed benefits compared to public management of water and wastewater facilities.

10) We recommend the creation of a public supervisory mechanism as a condition of loans where significant changes such as tariff increases or private sector participation are included in the project. The council should be able to participate in key decision making processes including project design, water tariff setting, investment obligations etc.

11) The EBRD should not finance private sector participation in the water sector where there is ineffective regulation.

12) We ask the evaluation team to look into the Veolia Voda investments, and give its opinion on whether the EBRD is able to provide sufficient added value to justify the investment. This also applies to the Aqualia equity investment approved in 2009.

13) We would recommend the Evaluation Department to examine whether adequate safeguards are in place for avoiding conflicts of interests in equity investments into public utilities or whether the EBRD should avoid equity investments in such sectors.

14) Regarding collective water metering, we would recommend examining the local situation and consulting local people for each project, but in general treating collective metering with extreme caution.

15) We ask the Evaluation Department to examine the delays in the Subotica project and the reasons why the problem of the remaining untreated industrial wastewater has not been included in the project, and to assess whether the project could have been developed in a way that would have addressed these issues.

Urban transport

16) All urban transport projects must be included in publicly-consulted urban transport development plans.

17) We ask the Evaluation Department to assess the problems outlined with the Tbilisi public transport project and how the bank could have contributed to a more sustainable transport system.

Public Private Partnerships

The EBRD should:

18) be more pro-active in ensuring that an affordability assessment and PSC calculation is carried out in PPP projects and that they rely on reasonable assumptions. As a public institution it should actively ensure that the public sector obtains value for money.

19) ensure that the long-term cumulative impacts of PPPs and other public budget commitments are quantified and analysed for their constraints on future public spending

20) ensure that public authorities release project documents such as the PSC calculation and methodology, the draft and signed versions of the contract, and information about affordability; this may entail a review of the criteria for withholding project information on the grounds of 'commercial confidentiality'.

21) ensure that the public authority has adequately shown how it will monitor and enforce performance standards; where a public authority has low capacity to undertake such work effectively, the EBRD should not finance PPP projects.

22) consider lending to the public authority rather than the private partner in order to reduce the cost of financing, so that the decision on whether to involve the private sector will not be made on the basis of the potential to rely on off-balance-sheet accounting.

23) lend only to those projects where other financing is not available on reasonable terms.

24) ensure that all project components have been included in the project, in order to avoid cost increases later.

25) set clear limits on the cost increases and specification changes that it is willing to accept during the preferred bidder stage, and be ready to walk away from a project if the public is no longer getting good value for money.

26) carry out a publicly available evaluation – with the project named – for all PPP projects, and consider doing two in order to allow the minimisation of problems that arise during the project.

27) consider lending for public-public partnership projects for sectors such as water where management improvements are needed, for example where well-run municipal companies can be twinned with ones in need of capacity building.

Annex 1: Water and wastewater projects[7]

Country	Year	Project	Description	Million EUR	State/ Private
Bulgaria	2005	Burgas water company	Upgrading and expansion of the Burgas regional water company's infrastructure	11	State
Poland	2005	Bydgoszcz Water revenue bond	Financing to enable consolidation and improvements to the water and sewerage system in Bydgoszcz	38.4	State
Ukraine	2005	Dnipropetrovsk municipal water and wastewater project	Loan to improve operational and financial performance of municipal and wastewater services	20	State
Croatia	2005	Karlovac wastewater management project	Beginning construction of a wastewater treatment plant and upgrade and extension of existing sewerage network	10	State
Romania	2005	Regional operating company - Apa Soames	Laying the foundations for a regional water operator to promote sustainability	7.2	State
Romania	2006	Bucharest wastewater treatment plant	Funding for the construction of a wastewater treatment plant for Bucharest	10	State
Russia	2006	Khanti-Mansi Regional Municipal Services Development	Investment in Surgutski Rayon municipal district heating, water and wastewater infrastructure	16.9	State
Poland	2006	Krakow Plaszow II	Modernisation and expansion of a wastewater plant	20.9	State
Georgia	2006	Poti water supply	Upgrading of facilities to improve water supply	2.5	State
Bulgaria	2006	Rousse water	Upgrades to improve financial and operational performance of a regional water company	8	State
Russia	2006	Sakha (Yakutia) Republic	Upgrade of heating and water systems in the Republic of Sakha	24.2	State
Russia	2006	St Petersburg wastewater	Construction and operation of a wastewater treatment facility	41	State
Russia	2006	Vologda Municipal Water Services	Comprehensive modernisation of water and wastewater facilities	8.8	State
Bosnia and Herzgovina	2007	Bijeljina wastewater collection system	Construction of wastewater collection network to prevent pollution of the aquifer	7	State
Russia	2007	Kazan water and wastewater	Loan to Kazan city for upgrading of water and wastewater facilities	8.4	State
Armenia	2007	Lake Sevan	Upgrade of two wastewater treatment plants and	7	State

[7] The Bulgarian FLAG infrastructure project appears to cover all MEI subsectors so is listed in all the tables, while the Lipetsk loan covers district heating and water/wastewater so is listed only here. An additional project, the Gliwice Environmental Programme, was listed as being approved in 2005 as a transfer of a previous loan. It appears to consist mainly of water and wastewater investments but there does not appear to be a project summary document for it.

			construction of a further three		
Montenegro	2007	Montenegro regional water supply	Construction of a regional water supply network	15	State
Romania	2007	Oradea water and wastewater	Renovation of water and wastewater facilities	6	State
Romania	2007	Oradea water and wastewater - extension	Renovation of water and wastewater facilities	4	State
Bulgaria	2007	Plovdiv water	Investment to improve water and waste-water facilities in Plovdiv	11.4	State
Bulgaria	2007	Stara Zagora water	Investment to upgrade water supply infrastructure	9	State
Romania	2007	Timisoara Aquatim	Financing for renovation of water and wastewater infrastructure	6.5	State
Russia	2007	Ufa wastewater	Loan to finance priority capital investments to improve the water and wastewater infrastructure and services, thus decreasing the level of pollution reaching the Volga River and the Caspian Sea	12	State
Czech Republic	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	27.3	Private
Hungary	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	8.4	Private
Poland	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	29.4	Private
Russia	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	25	Private
Slovak Republic	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	7.4	Private
Ukraine	2007	Veolia Voda	Equity investment in Veolia Voda, enabling it to expand in Central and Eastern Europe, Russia and Ukraine	7.4	Private
Croatia	2007	Zagreb water	Upgrade and expansion of water and wastewater infrastructure	30	State
Georgia	2008	Borjomi water	Support for upgrading and enhancement of the water and wastewater networks	1.5	State
Russia	2008	Khanti-Mansi Municipal Services Development Programme	Improving heating and water services in Siberia	8.5	State
Tajikistan	2008	Khujand Water Supply Improvement	Additional investment to improve the water supply infrastructure and distribution network in Khujand	1.5	State
Georgia	2008	Kobuleti water	Support for rehabilitation and enhancement of the water and wastewater networks	1.5	State
Russia	2008	Novogor Prikamie	Support for water and wastewater system in Perm	18.1	Private
Russia	2008	Rosvodokanal	Loan to finance rehabilitation and upgrade of the water and wastewater infrastructure	36.3	Private
Bulgaria	2008	Bulgarian FLAG	Loan for the upgrade of Bulgarian municipal infrastructure	18	State

		infrastructure project			
Russia	2008	Lipetsk municipal infrastructure project	Loan for modernisation of Lipetsk municipal services	17.9	State

Annex 2

November 2008

Case Study: Zagreb Wastewater Treatment Plant (CUPOVZ), Croatia

Key issues:
- ***Poor risk allocation leading to high fees for residents and businesses***
- ***Lack of transparency***
- ***Oversized project***
- ***Controversial charging system***
- ***Long contract locking city into unfavourable arrangement***

The Zagreb Wastewater Treatment Plant, which opened in phases between 2004 and 2007, was intended to improve water quality in the River Sava. No-one disputed that some wastewater treatment was needed in the city, but the project which was developed has been highly problematic and cost Zagreb's residents dearly.

The plant is run by Zagrebačke Otpadne Vode (ZOV), which built and will operate the treatment plant for 28 years, before transferring its operation to another party, under a BOT (Build-Operate-Transfer) arrangement. ZOV is 97 percent owned by a consortium consisting of RWE Aqua GmbH, a subsidiary of German utility RWE AG, and WTE Wassertechnik, a subsidiary of the Austrian utility EVN AG. The remaining 3 percent is owned by Vodoprivreda Zagreb, a municipal company of the City of Zagreb,[8] which is being partially privatised.

Price lottery

In 2001 the EBRD approved a EUR 55 million loan for the project, with a further EUR 115 loan from German bank Kreditanstalt für Wiederaufbau (KfW).[9] However **the total cost of the project has risen several times and is still shrouded in mystery**. Some of the quoted prices include:

- EUR 176 million (Decision by City Assembly, 2001)[10] (DM 352 000 200)
- EUR 292.7 million (EBRD, end 2003)[11].
- EUR 220 million (Spring 2007)[12],

[8] EBRD press release: EBRD helps Croatia's Zagreb clean up its waste, 14.12.2001, http://www.ebrd.com/new/pressrel/2001/01dec14x.htm

[9] EBRD press release: EBRD helps Croatia's Zagreb clean up its waste, 14.12.2001, http://www.ebrd.com/new/pressrel/2001/01dec14x.htm. The final figure was EUR 42 200 000 (EBRD investments in Croatia 1991-2007, EBRD webpage www.ebrd.com)

[10] Zagreb City Assembly, Zakljucak o davanju koncesije za obavljanje komunalne djelatnosti prociscavanja otpadnih voda na podrucju Grada Zagreba, 14, December 2000; Vladimir Simic: Legal aspects of the Zagreb-based water treatment concession project, Gradevinar Magazine 53 (2001) 4, 261-271, 16.3.2001.

[11] EBRD Statement of cumulative net commitments, Croatia 31.12.2003.

- EUR 253 million (City Council, December 2007)[13]
- EUR 326.7 million (EBRD, end 2007[14] - increase due to capacity increase and main collector upgrade[15])
- EUR 265 million (City Council, May 2008)[16]

There is a huge variation between the costs published by the EBRD and those quoted by the City Council, raising suspicions that the City Council is still not revealing the full costs. The contract has never been released.

The justifications given for the price rises include a package of seven measures, mainly involving an increase in capacity, costing EUR 19.2 million[17], fourteen other extensions to the project worth EUR 15.2 million, and the need to cover the main drainage channel leading to the plant, costing EUR 16.3 million.[18] The covering for the malodorous channel, which runs through a low-income suburb of Zagreb, was mentioned in the EBRD's 2001 press release[19], so it is unclear why the City Council did not approve expenses for it until several years later. Totalling around EUR 50.7 million, **these justifications fail to account for most of the price discrepancies.**

An additional cost arises from the fact that the project does not include final treatment or disposal for the sewage sludge resulting from the treatment process. Although anaerobic digesters are part of the project, these have been built so as not to be sufficient to completely process all of the sludge. **This seems to have been done on purpose to try to justify the construction of a waste incinerator proposed by Novum, a sister company of WTE Wassertechnik, on the same site as CUPOVZ**. The incinerator was not included in the Environmental Impact Assessment and its costs estimated to range between EUR 170 and EUR 290 million - are not included in the CUPOVZ project.

"Totally unsuitable" project

The cost increases are of even greater concern considering that the Expert Commission appointed by Zagreb City Council to examine the project **described it as "totally unsuitable f**or the current state of the sewage system and drainage conditions of Zagreb" and indicated that it would not lead to the improvements expected.[20] The Commission stated that the drainage system in Zagreb first needed to be renewed in order to separate stream water from the neighbouring mountain from the city's wastewater, in order to avoid having large fluctuations in the quantity and level of dilution of the water. The Commission also expressed concern that the cost of CUPOVZ would place a heavy financial burden on residents.[21]

The Commission instead proposed to:

- carry out a proper analysis of the River Sava's water quality before proposing appropriate

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12 Ivan Pandzic: Milijuni eura izgubljeni u cistijoj vodi, Poslovni Dnevnik, 15.01.2007, http://www.poslovni.hr/31139.aspx

13 Plamenko Cvitic: Industrial blow against Milan Bandic, Nacional, English Edition, 22.12.2007.

14 EBRD investments in Croatia 1991-2007, EBRD webpage www.ebrd.com

15 EBRD response to information request by e-mail, 10 September 2008

16 Presentation by City Economic Office, May 2008, http://www.zagreb.hr/UserDocsImages/svibanj_prezentacija_HR2008.ppt.

17 Decision of July 2006. Ivan Pandzic: Zbog novih troskova procistaca Zagrepcanima skuplja voda, 14.07.2006, http://www.poslovni.hr/17587.aspx

18 Decision of 25 November 2005. Ivan Pandzic: Milijuni eura izgubljeni u cistijoj vodi, Poslovni Dnevnik, 15.01.2007, http://www.poslovni.hr/31139.aspx, Ivan Pandzic: Zbog novih troskova procistaca Zagrepcanima skuplja voda, 14.07.2006, http://www.poslovni.hr/17587.aspx

19 EBRD press release: EBRD helps Croatia's Zagreb clean up its waste, 14.12.2001, http://www.ebrd.com/new/pressrel/2001/01dec14x.htm

20 Jorgensen, Prof.dr.sc Sven Erik et al.: Zakljucak komisije, 12.09.2000

21 Jorgensen, Prof.dr.sc Sven Erik et al.: Zakljucak komisije, 12.09.2000

solutions, and gradually build facilities whilst carrying out further research and training

- separate the streams from the drainage system to improve the functioning of the water treatment equipment
- install a simple mechanical system (around ten times cheaper) whilst upgrading the city sewer system[22]
- build a retention system to prevent storm water flowing straight into the Sava.

The Commission was ignored by the City Council and disbanded[23].

The decision to include the Domovinski Bridge in the project was also controversial, as it added an estimated EUR 27.6 million to the cost of the project,[24] which would be borne by citizens through their water bills, even though they already pay taxes meant for road infrastructure. The Expert Commission also stated that the bridge was unnecessary, since it was possible to have a smaller treatment plant on the south side of the river.[25]

Who wins, who loses?

In 2004 the City started to pay ZOV monthly fees for the wastewater treatment plant, which have to be paid irrespective of how much money has been collected from residents and businesses. Although the idea of PPPs is to transfer some risk to the private sector, **in this project the public sector bears the demand risk, while the company bears the much milder availability risk.** This means that ZOV has just to ensure that the plant works whereas the City Council (ie. taxpayers' money) has to cover the shortfall when residents and businesses do not pay their bills, this there is little risk for ZOV.

The monthly fees totalled EUR 28.1 million for 2004 alone,[26] although only the mechanical part of the plant was in operation, and only from April of that year onwards. According to the state auditor, **between April 2004 and the end of 2006 the City of Zagreb had already paid ZOV 75.5 percent of the basic fixed costs of the plant's construction,[27] raising the question of why the city could not have raised the funds to carry out the project through normal public procurement**. The City of Zagreb was due to pay ZOV a total of EUR 44.79 million in 2007, rising to EUR 48.12 million in 2010, with **a total fee in 2007-2010 of EUR 294.15 million[28] - much more than the price of the original investment**.

Since mid-2004, when the mechanical part of the plant began to operate, there have been several price rises for water and wastewater services, for both businesses and residents.

Price rises for water and wastewater services in Zagreb, 2004-2008[29]

Date	Increase	Total fee for non-household users	Total fee for households
Baseline: Early 2004	-	HRK 11.07/m^3	HRK 5.45/m^3

22 Zmaic, Bojan, Meeting with Pippa Gallop 17.03.2005

23 Zmaic, Bojan, Meeting with Pippa Gallop 17.03.2005

24 Kramaric, Claudio, Zagrepcani ce odluciti o procistacu s mostom ili bez njega, a potom sve platiti? Vjesnik, 30.08.2000

25 Jorgensen, Prof.dr.sc Sven Erik et al.: Zakljucak komisije, 12.09.2000

26 Vjesnik: Cetveroclana obitelj placat ce za vodu mjesecno 38 kuna vise, 24.04.2004, http://ns1.vjesnik.com/pdf/2004%5C04%5C24%5C19A19.PDF

27 State Auditor's report for the City of Zagreb for 2006, www.revizija.hr/izvjesca/2008-rr/2-izvjesce-o-obavljenim-revizijama/02-lokalne-jedinice/01-grad-zagreb.pdf

28 Zagrebacki komunalni vjesnik: ZOV poskupio vodu, 23.01.2007, http://193.198.60.202/komunalni/arhiva/343/str05.pdf

29 Vodoopskrba i odvodnja website: http://www.vio.hr/default.asp?id=35

Official courier: 09/17.05.2004. Entered force 01.05.2004	New fee for CUPOVZ: Households: HRK 1.734/m^3 Other users: HRK 7.026/m^3	HRK 18.10/m^3	HRK 7.19/m^3
Official courier: 01/30.01.2006. Entered force: 01.02.2006.	Increase for water supply and sewerage services of 39.3 percent for household and 17.7 per cent for other users.	HRK 19.29/m^3	HRK 8.39/m^3
Official courier: 18/21.12.2006. Entered force: 01.01.2007	Increase in fee for CUPOVZ by 63.3 percent Households: HRK 2.83/m^3 Other users: HRK 11.47/m^3	HRK 24.71/m^3	HRK 9.73/m^3
Official courier: 18/31.12.2007. Entered force: 01.01.2008.	Increase for water supply and sewerage services of 49.9 percent for household and other users.	HRK 28.69/m^3	HRK 11.85/m^3

For non-household users, the fees are now more than 250 percent of what they were before CUPOVZ began to operate, and for households they are more than 200 percent the level of early 2004.

While price rises can be justified to some extent to cover worthwhile investments and improvements in service, the questionable size and functionality of the project coupled with rapid price rises has resulted in protests from businesses and trade unions, particularly as the most recent price rises - estimated to immediately increase the average household water bill each month by EUR 6.2-7.6[30] - coincided with increases in waste collection and public transport fees in Zagreb, and rising food and oil prices worldwide. In April 2008 a committee appointed by the government to examine price increases in Croatia reached an agreement with Zagreb City Council and made a token reduction in total water price for households to HRK 11.22 per cubic metre.[31]

Several companies are refusing to pay their increased bills. By 27.08.2004, only HRK 20 million out of a total HRK 53 million owed by industry, had been paid.[32] One of the most vocal critics of the price rises has been petrochemical and plastics manufacturer Dioki, which claims that it is charged for the amount of water which enters its plant, not the amount that comes out and requires treatment. In other words, it pays for the treatment of 150 million cubic metres of water per year when it claims that only 100 million cubic metres enters the drainage system. By the end of 2007 the City of Zagreb had launched two seizure orders for more than HRK 30 million against Dioki. Dioki responded by publishing a paid advertisement in several daily newspapers in December 2007 entitled "We want a clean bill for the treatment plant," listing its reasons for dissatisfaction. Other companies using water for cooling or manufacturing beverages are similarly dissatisfied.[33]

In 2006 the City Council started to cover some of the company's debts using the city budget, ie. taxpayers' money, after ZOV threatened that it would not be able to continue with the works it was carrying out.[34] The City has been unable to raise around 30 percent of the total fees from bills.[35] In

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30 Ivan Pandzic: Od 1. sijecnja u Zagrebu skuplji voda, odvoz otpada i javni prijevoz, 28.12.2007, http://www.poslovni.hr/65417.aspx

31 Vjesnik: U Zagrebu od 1. svibnja jeftinija voda i odvoz smeca, 24.04.2008, http://www.vjesnik.hr/html/2008/04/24/Clanak.asp?r=unu&c=1, Vodoopskrba i odvodnja website: http://www.vio.hr/default.asp?id=35

32 Hrgovic, Maja: Industrijski potrosaci od svibnja nisu platili racune za prociscavanje otpadnih voda, Novi List, 27.08.2004

33 Plamenko Cvitic: Industrial blow against Milan Bandic, Nacional, English Edition, 22.12.2007.

34 Ivan Pandzic: Procistac ce doseci cijenu od cak 235 milijuna eura, Poslovni Dnevnik, 08.09.2006, http://www.poslovni.hr/21535.aspx

late 2007 opposition parties in Zagreb City Council - HDZ and HSLS - tabled an amendment to reduce the amount paid to ZOV. However this was rejected, as Council members were unwilling to break Zagreb's contractual obligations.[36] Around the same time, Deputy Mayor of Zagreb, Ivo Jelusic, told the Poslovni Dnevnik business daily that the City Council would try to change the contract with ZOV.[37] It is difficult, however, to imagine ZOV agreeing to this.

While the City Council could be penalised for its incompetence in the next local election, unless some serious action is taken, ZOV will be in power in Zagreb until 2028.

Annex 3:

Urban transport projects

Country	Year	Project	Description	Million EUR	State/ Private
Albania	2006	Tirana municipal transport	Comprensive upgrade of roads in Tirana	14.6	State
Bulgaria	2008	Bulgarian FLAG infrastructure project	Loan for the upgrade of Bulgarian municipal infrastructure	18	State
Croatia	2006	Pula urban transport	Loan to renovate bus fleet	5	State
Croatia	2008	Velika Gorica urban transport	Loan to improve communal services in Velika Gorica	9	State
Czech Republic	2005	Veolia transport (formerly Connex)	Equity funding to expand transport services	15.3	Private
Georgia	2008	Batumi public transport	Support for modernisation of urban transport	2.5	State
Georgia	2005	Tbilisi urban transport project	Financing of municipal bus network, including repair facilities and developing a regulatory framework	3.1	State
Hungary	2005	Veolia transport (formerly Connex)	Equity funding to expand transport services	15.3	Private
Lithuania	2006	Kaunas trolleybus modernisation	Upgrade of trolleybus infrastructure and provision of new equipment	10	State
Poland	2005	Krakow public transport	Investment in public transport infrastructure and rolling stock to improve services	18	State
Poland	2005	Veolia transport (formerly Connex)	Equity funding to expand transport services	15.3	Private
Romania	2005	Arad urban transport programme	Investment in public transport infrastructure and overall performance	15	State
Romania	2006	Brasov county road	Funding for the upgrade of county roads	10	State
Romania	2005	Brasov urban transport project	Upgrading of streets located along major public transport routes in the city	10	State

35 Tomislav Marinovic: Ljubicic najavio strože mjere naplate duznicima, Vjesnik, 11.12.2007, http://www.vjesnik.hr/html/2007/12/11/Clanak.asp?r=zag&c=3

36 Tomislav Marinovic: Ljubicic najavio strože mjere naplate duznicima, Vjesnik, 11.12.2007, http://www.vjesnik.hr/html/2007/12/11/Clanak.asp?r=zag&c=3

37 Ivan Pandzic: Jelusic: Mijenjat cemo nepovoljni ugovor sa ZOV-om o prociscavanju, Poslovni Dnevnik, 27.12.2007, http://www.poslovni.hr/65296.aspx

		- city loan			
Romania	2005	Brasov urban transport project - company loan	Purchase of 130 new buses and a street upgrading programme	10	State
Romania	2007	Iasi public transport	Finance for the renovation of tram and other public transport infrastructure in Iasi	10	State
Romania	2006	Sibiu public transport - city loan	Finance to Sibiu city for a road upgrading programme	5	State
Romania	2006	Sibiu public transport - company loan	Finance to municipal public transport company to purchase new buses	5	State
Romania	2005	Sibiu urban transport pre-accession project	Investment to improve key infrastructure including street refurbishment and street lighting	15	State
Serbia	2006	Sava River Crossing	Construction of a bridge to relieve traffic congestion, noise and traffic-related air pollution	49.6	State
Slovak Republic	2005	Veolia transport (formerly Connex)	Equity funding to expand transport services	15.3	Private
Ukraine	2008	Kyiv City Traffic Management	Loan for development of traffic management system for major transport corridors	15	State
Ukraine	2007	Kyiv City Transport (Metro)	Finance for new rolling stock and spare parts for Kiev Metro system	24	State
Ukraine	2007	Kyiv City Transport (PasTrans)	Loan to the company responsible for bus, tram and trolleybus services in Kiev	36	State