

EUROPEAN INVESTMENT BANK

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Document (...)

Agenda  
Item n°

**PRE-ACCESSION MANDATE  
(2007-2013)**

B O A R D O F D I R E C T O R S

**Gazela bridge rehabilitation Project** (Serbia)

Waiver of a first disbursement condition under the EIB Finance Contract

**ORIG.: E**

CONFIDENTIAL

## PROPOSAL FROM THE MANAGEMENT COMMITTEE TO THE BOARD OF DIRECTORS

### 1. Approved Financing proposal

<u>Borrower/Promoter/Final Beneficiary:</u>	JP "Putevi Srbije" (the Public Enterprise "Roads of Serbia")
<u>Amount:</u>	Up to EUR 33 m
<u>Term:</u>	Up to 20 years
<u>Terms and conditions:</u>	EIB own resources
<u>Interest rate(s):</u>	Rate applicable at date of contract signature or disbursement
<u>Security:</u>	Sovereign operation, fully covered by the EU Budget Guarantee
<u>Commission opinion:</u>	Favourable
<u>Financing plan:</u>	
- Roads of Serbia	EUR 4.79 m
- City of Belgrade	EUR 7.50 m
- European Bank for Reconstruction and Development (EBRD)	EUR 25.00 m
- European Agency for Reconstruction (EAR)	EUR 6.75 m
- UK Department for International Development (DFID)	EUR 0.03 m
- EIB	EUR 33.00 m
Total Financing	EUR 77.07 m

### 2. Background information

The project concerns the rehabilitation of the Gazela bridge on the E70/E75 highway crossing Belgrade (financed by the EIB), including the rehabilitation and upgrading of its access roads with a total length of 24.2 km and of the R251 ring road located in the South of the city with a total length of 17.3 km (financed by the EBRD) (Ref. CA doc 07/189). The EIB finance contract of EUR 33 m was signed on 16 July 2007.

Project implementation has not started yet. The delay was mostly caused by the need for the resettlement of the people living in temporary accommodation underneath the bridge before construction works could start. In this respect, a condition precedent to the first disbursement is the "availability of a realistic and implementable Resettlement Action Plan (RAP) for the project affected people (PAPs) living under the bridge to the satisfaction of the Bank".

Since the start of project appraisal in 2006, EIB and EBRD have been addressing with the relevant Serbian authorities the issue related to the resettlement responsibilities and the requirement of the preparation of an acceptable RAP. The process of developing an acceptable RAP has been lengthy and complex partially due to the fact that responsible authorities for the resettlement - City of Belgrade and Ministry of Labour and Social Policy - are not EIB and EBRD contractual counterparts under the above mentioned finance contract.

The physical move of the population living under the bridge took place on 31 August 2009. It was a well organized action with no incidents reported. Although over time the authorities have prepared several proposals for handling the resettlement of PAPs, to date neither EIB nor EBRD have officially approved final versions of the proposed RAPs, as they did not meet fully EIB and EBRD Social Assessment Guidelines. The main issues of concern in terms of compliance are: 1) consultation and participation of the PAPs during the RAP preparation were very limited; 2) sustainable housing in terms of the provision of permanent housing solution, 3) livelihood restoration.

Most of the Belgrade PAPs have been accommodated in containers. Initially, this represented a considerable improvement compared with the squatter shelters under the bridge. However, the accommodation provided does not represent a long term sustainable solution. The current living conditions for the non Belgrade residents, that have been resettled to other parts of the country, are variable. They range from those no better than the deprived Gazela conditions to improved ones. The lack of alternative employment opportunities remains a concern for all PAPs.

The vast majority of the PAPs are Roma. Roma represent some 8% of the Serbian population. The resettlement of PAPs has become a major political issue in Serbia, as Serbian authorities are finding difficult to justify the treatment of PAPs more favourably than other vulnerable groups, including the Roma minority as a whole. However, Serbia is committed to paying focused attention to the vulnerable groups, including the Roma.

### *2.1 Current status of the resettlement process*

Since the resettlement EIB and EBRD have, in close cooperation with the Serbian authorities, monitored the implementation process of the RAP. Some significant improvements have been made especially in regard to issuing proper identification documentation to the PAPs, and providing access to health services, education and social welfare. Although progress has been made, there are still gaps in relation to EIB requirements (...). These outstanding issues are of concern to NGOs as well. The project is taken as a negative example by the NGO coalition Counter Balance in its campaign against the Bank in the context of the mid-term review of external mandates. The main criticism is that the Bank is not sufficiently taking into account the needs of the affected communities and the project's social impacts, stating "yet so far the EIB has passively waited for the completion of the RAP and did not properly ensure with the borrower that all social issues would be properly addressed in-line with EIB policies and commitments"

### *2.2 Condition of the Gazela bridge and next steps*

While awaiting commencement of works, the Borrower closely monitored the condition of the Gazela Bridge. On 29 January 2010 it was reported that further cracks developed in the bridge structure, raising serious concerns about its stability. The traffic of heavy goods vehicles and buses was restricted as well as one lane closed. Belgrade Mayor urged the Government to set a deadline by which EIB and EBRD loans would become effective. All this has led to the Gazela bridge project becoming a serious political issue for the Serbian Government.

The urgency of works on this critical infrastructure is linked to:

- rising cost of the rehabilitation as time elapses and the bridge is allowed to deteriorate further,
- socio-economic cost of delay due to lane closures of a bridge of a strategic importance for the City of Belgrade, which have already begun, and
- risk of injury from falling debris, although the perimeter has now been secured following evacuation of the population most clearly at risk.

In order for the Bank to ensure fulfilment of requirements under the EIB Social Assessment Guidelines, a list of actions and a timetable have been suggested by the EIB and EBRD (...) and formally agreed by the relevant Serbian authorities. It is proposed as described below to link the satisfactory implementation of these actions, notably in regard to housing and livelihood restoration, by the relevant authorities to subsequent disbursements under the EIB Finance Contract.

On 25 December 2008 the Bank has received a request from the Borrower PE Roads of Serbia to provide additional financing for the rehabilitation of the Gazela bridge in the amount of EUR 33 million, reflecting the outcome of the bidding process and offers received. EIB services are currently evaluating the technical and economic aspects of the possible increased investment. In case of a positive outcome of the analysis, a proposal for the authorisation of additional financing will be submitted to the Board of Directors. A condition precedent for the additional financing would be the satisfactory performance of the relevant Serbian authorities in relation to the resettlement requirements of the EIB and EBRD.

EBRD has received an exception from its Board of Directors under its social policy guidelines on 23 February 2010.

In order to facilitate the further development and monitoring of the agreed actions, EIB and EBRD will provide urgently needed technical advice and support to the authorities regarding the resettlement requirements and provision of the progress reports to EIB and EBRD.

### *2.3 On-going investigation on complaint received*

In September 2009, a formal complaint was lodged with the EIB Complaints Office (CO) and with the European Ombudsman regarding the resettlement of the project affected people in relation to the Gazela Bridge Rehabilitation project.

This complaint is under internal investigation by the CO, which has drawn the Bank's attention to (i) the eventual reputational risk for the Bank in this matter and (ii) to the possibility that the European Ombudsman considers that derogating to the Bank's social standards and guidelines, constitutes maladministration.

## **3. Proposed decision**

Given the emergency situation linked to the bridge's structure and reputational risk for the Bank vis-à-vis the Serbian authorities who are asking for EIB's immediate intervention, in order to enable commencement of urgently needed repair works, it is proposed by the Management Committee to the Board of Directors to:

- waive the condition precedent to a first disbursement of up to EUR 10 m under the EIB finance contract;
- authorize subsequent disbursements provided that the outstanding resettlement requirements of the EIB have been implemented (...);
- include as an undertaking in the EIB finance contract the implementation of the specific actions (...) enabling EIB to ask for prepayment if actions have not been taken by end-2010.

(...)

**Questions concerning this paper should be referred to (...)**

(...)