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CEE bankwatch network

CEE Bankwatch Network comments on the draft EBRD Transport Strategy

General comments

Bankwatch welcomes the opportunity to comment on the EBRD's new draft Transport Strategy and the emphasis on environmental sustainability and climate issues emphasised in the document. The explicit recognition of the **Avoid-Shift-Improve (ASI) framework** is welcome and serves as a useful guiding principle on where investments should be concentrated. However, how this principle is applied in practice is not explained throughout the document and the bank's planned activities need to be more clearly linked to this framework in the document.

As the EBRD's mission is to promote market economies, it is not surprising that the bank would like to promote market-based transport systems. However, as the Strategy itself says: "*From a social perspective transport provides the individual mobility that is critical for the people of the region, in terms of access to markets and essential services such as health and education".* Thus, especially in times of crisis, **it is crucial that a focus on market-orientated transport systems does not result in serious cuts to public transport services, nor to affordability problems** for users, as this would be contrary to the inclusive society that the EBRD is trying to promote.

In order to promote modal shift, it is essential that if the EBRD promotes reforms **in public transport companies, especially rail, user fees must remain below those of road transport,** even if this requires subsidies, otherwise rail usage will seriously decline and a downward spiral will be initiated. If the number of services are cut and the prices raised, the mode becomes much less attractive and is likely to lose further users. This is already happening in many countries of operation, where either road user fees are low or rail services are infrequent, slow, or both, and requires urgent intervention to reverse the trend.

Private sector participation in the transport sector is seen by the Strategy as a positive step per se, but experience has shown very mixed results and **the Strategy needs to explain better in which aspects of transportation the EBRD thinks the private sector has an effective role, and in which aspects certain kinds of private sector participation have not proven to offer good value for money and effective services for users and taxpayers.** For example in sectors where there can be real competition such as intercity bus transport or airlines, private sector participation can work (although rarely without subsidies). However eg. PPP motorway construction and operation or privatised passenger rail operation and track maintenance has on balance had more negative outcomes than positive in our experience. The EBRD seems to feel obliged to promote all kinds of private sector participation but as transport is anyway a key part of any economy, it will anyway play a role in developing the private sector, whether it is itself owned or managed by the private sector or not.

We welcome the inclusion of **performance indicators,** at the same time offering comments below on how they could better reflect environmental sustainability.

One thing we see as missing in the document **is a link with the EBRD's investments that are not carried out by the transport team but clearly impact on the transport systems in the transition countries.** Urban transport investments are clearly covered in the MEI strategy, but for example, investing in the car industry has clear impacts on promoting car use, but this is not taken into account in the Transport Strategy. Likewise investments in export-oriented agriculture have impacts on increasing the transportation of agricultural products, which is unsustainable from the point of view of addressing climate change.

General recommendations

- The Strategy needs to show more clearly how the EBRD's plans relate to the ASI framework and particularly how the 'Avoid' aspect will be operationalised.
- The bank's focus on market orientation must not lead to higher prices for public transport than for private vehicle transport.
- The focus on market orientation must be carefully balanced with affordability for users and frequent and fast enough services to make public transport flexible and attractive.
- The Strategy needs to explain better in which aspects of transportation the private sector has an effective role, and in which aspects certain kinds of private sector participation have not proven to offer good value for money and effective services for users and taxpayers.
- De-emphasise support for PPPs, particularly in motorway construction and operation.
- The bank's approach to transport-related investments that do not fall into the transport team's portfolio should be explained, including how it will be ensured that such investments fall into the transport strategy's priorities.

Specific comments and recommendations

Section 2, p.11-12: For the 11 projects rated unsuccessful, **it would be useful to see more details about what kind of projects they were and whether there is a trend in the kind of projects that are less likely to succeed.**

p.17 *"Together, these projects are estimated to reduce CO2 emissions by an estimated 600,000 tonnes per year."* This is welcome, however **it would be useful to know if these are pre-project estimates or actual results.**

Section 3, p.19 *"The Bank's strategy will be to support sustainable transport, which applies energy efficient technologies and standards and encourages lower-emission modes to reduce energy consumption in the sector."* These points cover the 'Shift' and 'Improve' aspects of ASI, but **the Strategy should explain what the bank will do in the area of 'Avoid', ie. reducing the need for travel in the first place.**

p.19-20 "This may require lower annual Bank funding of transport operations as the focus on smaller niche projects increases." This recognition of the importance of smaller niche projects and the step away from the approach of maximising business volume is welcome.

p. 20 "A highly selective approach will be applied to the financing of airlines and other airline investments, such as aircraft maintenance, to ensure strong value added based, for example, on environmental improvements, energy efficiency and higher safety standards." We welcome this restrictive approach to the financing of airlines, as the aviation sector is highly carbon-intensive and its expansion should not be financed with public money. Additionally it is heavily subsidised through lack of VAT on tickets and lack of tax on kerosene and should not be eligible for additional public support.

p.21-22 Section 3: *"Increasing the use of private capital for transport infrastructure, through privatisation or concessions, is a key transition challenge. An important pre-condition for successful private sector participation in infrastructure is developing the necessary legislative and regulatory framework to attract private sector financing for PPPs, as well ensuring the financial soundness of PPP structures. Most countries in the region are yet to develop an adequate legal and regulatory framework and lack the skills to develop bankable projects. They have therefore been unable to utilise this source of capital and capitalise on the potential private sector efficiencies.*

We do not agree with this assessment and would caution against transition countries seeing private capital as a way to implement infrastructure they cannot afford. Such an approach has been particularly rampant in the transport sector, notably in motorway construction. Even those countries with a great deal of experience in concessions and PPPs have suffered from unsuccessful projects, very high costs and mounting hidden debts. In addition, especially since the financial crisis began, there is less and less truly 'private capital' supporting infrastructure construction, and increasing support is needed from public sources (eg. The EU's project bonds initiative, the UK's GBP 40 billion guarantees scheme launched in 2012), thus failing to transfer significant risk to the private sector. Countries in central and eastern Europe have spent a great deal of time and money adjusting their concessions/PPP legislation, creating PPP agencies, and trying to get transport projects off the ground, with extremely limited success. If this time and money had been spent on more careful and targeted project planning and decisive initiatives to fight corruption and wastefulness, transition governments could have certainly saved at least some funds that could be combined with financing means such as bonds, carefully limited loans, and in those countries which are eligible, EU funds, to finance a few well-chosen transport infrastructure projects. Certainly they could not finance their entire wish-lists by this means, however nor is this desirable, as many of the projects proposed (motorway projects are especially notorious) are oversized, overpriced and poorly prioritised.

We therefore recommend that the bank takes a more measured and nuanced approach to private sector financing and instead of seeing it as a main goal of the strategy, examines in more depth the structural weaknesses of such an approach, rather than concentrating only on whether the legislation to allow it is in place.

p.23-24 *Market-based infrastructure/Deepening Private Sector Participation; p.36 Policy dialogue and p.38 Project finance:* The draft Strategy recognises that there is a spectrum of ways that the private sector can be involved in transport but does not analyse which of these have worked best in the transition countries and elsewhere and which have not worked. The impression is given that including all kinds of private sector participation in transport in all countries is some kind of objective process, even though some of the advanced market economies themselves do not make as extensive use of the private sector as the EBRD appears to be prescribing for its countries of operation. For example, the use of PPPs has not been particularly widespread in the transport sectors of some of the EBRD's donor countries. Sweden has, for example, recently announced that it will not be undertaking PPPs in the transport sector for the foreseeable future. Other countries have used PPPs but have paid dearly: Hungary, Portugal and the UK's experience with accumulating hidden debts due to undertaking a high number of expensive PPP projects should be an important lesson for other countries, not to mention a number of projects which have collapsed or had to be renegotiated after millions of euros have been put into their preparation[1].

In the section on policy dialogue, PPPs are given unduly large attention, as if it is impossible to have a functioning transport sector without them.

PPPs in particular should be de-emphasised in the Strategy as – even if one considers the model itself valid and ignores weaknesses such as the virtual impossibility of really transferring significant risk to the private sector - they are complicated, expensive and in case of mistakes, difficult and expensive to fix.

If the EBRD insists on promoting PPPs it should participate in the financial risk-sharing the for projects so that governments and therefore taxpayers do not foot the entire bill if the project fails.

p.33 Railway Property Development: The bank should be extremely selective here in order to ensure it has added value, as many such redevelopments of rail property would be commercially viable even without the bank's involvement.

p.42 *Strategic Performance Indicators:* The indicators are too process-based and not sufficiently results-based.

1 To name a few from central and eastern Europe: the Hungarian M1/15 and M5 motorways; the D1 motorway in Slovakia, the Horgos-Pozega motorway in Serbia, the Trakia motorway in Bulgaria, the D47 motorway in the Czech Republic. However this is not only an issue of transition countries as for example the UK has made its own expensive mistakes with private sector participation in the transport sector, including the London Underground PPP, the Skye Bridge, rail privatisation, the M25 widening PPP, and expensive and inadequate privately-operated local bus services in many areas.

In other words, they do not measure what outcomes have been gained on the ground, but rather what the EBRD has tried to incorporate into its projects, irrespective of whether it worked or not.

Only the ports sustainability indicator looks at environmental issues, but it does not touch issues about the final environmental outcomes.

In our opinion at least the following environmental sustainability indicators need to be included:

- **Avoided need for travel due to the project (in passenger-km) or project's contribution to modal shift to cleaner transport modes (in passenger-km)**
- **CO_2 saved (actual estimated result in tonnes CO_2 based on fuel use reduction, not only pre-project prediction).**

On the indicator *"Incorporate road safety components into at least 50 per cent of all public sector road projects within five years"* **it is not clear why this does not cover all road projects. Either this should be explained or the percentage should be heavily increased.**

For more information contact:

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