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CEE Bankwatch Network MEI strategy comments

General comments

CEE Bankwatch Network welcomes the revision of the EBRD's Municipal and Environmental Infrastructure Strategy. The previous policy was approved in 2004; we became aware that an Evaluation Department assessment of MEI investments was being carried out in 2009 and in 2010 we were told that the new policy would be on public consultation during the first quarter of 2011. We would therefore like to ask **what is the reason for the delayed revision process?** In addition, **why was the evaluation report on the bank's MEI activities not posted on the bank's website before the new draft MEI policy was circulated?** This would have made it easier to see if all lessons had been learned, not only those summarised in the annex of the draft policy.

We very much appreciate the on-the-ground goals and sustainability goals, gender mainstreaming and the attention given to public participation as a crucial element of success for the bank's operations. **We would like to ask at what stage the bank will publish projects' expected and actual contribution to the on-the-ground and sustainability goals. Will it be part of project summary documents?**

We also consider it positive that the bank appears to be taking a more cautious approach than previously towards public-private partnerships in the draft strategy, recognising some of the drawbacks both for the bank (i.e. high workload without guaranteed outcome) and in general (difficulty of ensuring balanced contracts and good value for money). However there is a disconnect between the analysis and the conclusions drawn. To crudely paraphrase the document, the overall message we are taking away is that "there are a lot of issues with PPPs, but we will promote them anyway". The strategy **needs to include more analysis of what works and what does not in terms of private sector participation in MEI and its on-the-ground impact**, considering that private sector involvement, particularly in water supply, but also sometimes in other MEI fields, is highly controversial. At the moment the document tends to analyse what works for the EBRD in these fields, not what works for ordinary people and public budgets. Related to this, we would ask: **When the EBRD refers to efficiency in the strategy, is it meant 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?** (See also further comments on PPPs below)

Specific comments

1.3 Sector Vision

The bank's vision is said to be focused on people in their capacities as citizens, economic agents and infrastructure users. Considering the wide gap in perceptions between the various wishes of ordinary people and the authorities in the EBRD region, how does the bank intend to ensure that people's actual needs in terms of municipal and environmental infrastructure are correctly identified? Does the bank use its technical support funds to carry out customer surveys on such issues, or is it required as part of project preparation?

The draft strategy indicates that the bank aspires to long-term sustainability for its investments through the application of market-based approaches and instruments, at the same time placing low-carbon imperatives at the core of its operations. We would like to see the bank's vision include energy efficient, new renewables-based zero-carbon imperatives non-dependent on market evolutions and distortions.

1.5 Operating Priorities and Tools

"Finally, the Bank intends to measure and monitor performance against the three over-arching vision statements set out above, including through the monitoring of selected physical indicators evidencing on-the-ground impact in addition to the transition benchmarks over the strategy period."

This is very good news. It needs to be specified how the public can monitor these indicators.

3. Sector Challenges

A crucial challenge is missing, the transition to an energy efficient, new renewables-based decarbonised economy. This challenge needs to be addressed in all of the bank's fields of operations. A vision to address this transition is no easy task, but it is one that cannot be postponed.

3.2 Provision of Essential Services

The bank is using 'improved' water supply as a starting point. While it is true that it is a priority to ameliorate the situation of those people who do not have an 'improved' water supply, it is also necessary to ensure that those people with piped water can actually drink it without boiling/filtering it or buying bottled water, as these require significant unnecessary energy and/or materials usage.

Does the bank regard potability of tap water as a goal of its operations? If not, why not?

"Opportunities to 'Reduce, Reuse and Recycle' – the '3Rs' – should be utilised before final disposal of waste into a landfill. Supply chain optimisation coupled with integrated technologies (e.g., waste-to-energy, waste-to-bioenergy) will be required to optimise the full recovery of value from solid waste (see Annex F)."

We very much agree that the 3Rs must be prioritised in the EBRD's investments, which does not seem to have been the case so far. While waste-to-energy in the form of biogas can make a useful and sustainable contribution to both waste management and energy production, incineration with energy recovery should not be financed by the bank. It is expensive, locks municipalities into producing a certain level of waste, and in practice usually ends up burning recyclable materials, both because it leaves little resources for developing prevention and recycling schemes and because paper and plastic are among the most combustible forms of municipal waste. Its health impacts are hotly debated, but given the low regulatory and monitoring capacity in most of the EBRD's countries of operations, the bank must take a precautionary approach: There is a high likelihood that the hazardous fly ash and filter residues will not be treated appropriately, and that air quality monitoring will not be carried out with sufficient regularity or reliability.

"Landfills are used as the primary end-point for waste disposal throughout the region and many receive both municipal and industrial waste. Patterns of increasing consumption with related abundant packaging aggravate the situation. There is a need to promote sustainable consumption and production through a 'life-cycle' analysis along the entire value chain to identify the optimal solutions for maximum recovery or useful waste streams"

Hypermarkets are drivers for over-packaging and extinction of small shops. In some countries, hypermarkets are making a final move towards maximum market control, with smaller, neighbourhood stores. By continuing support to hypermarket chains, the EBRD supports a future consisting of plastic wrapped products, industrial farming, and excessive food transportation which is ultimately unsustainable both because of climate change and rising oil prices.

If the bank is serious when it comes to the 3Rs, all its sectoral policies need to be revised so as to prevent investments that are not in line with this strategy's vision statements.

Romania. Pathway to long-term transition in water sector

It is noticeable that even after all these EBRD investments, the water in cities in Romania is not drinkable, or at least people do not perceive that it is. This is not to say that we would have expected the EBRD to solve all the MEI problems in the country but it seems fair to expect that in at least one or two cases the EBRD investments could have contributed to a turnaround large enough to ensure drinkable water.

4.1 Decentralisation and Strengthening Institutional Structures

"Private sector participation. Private sector initiatives have inevitably been affected by the financial crisis. Even so, 15 per cent of MEI signings and 31 per cent of MEI annual business volume in 2011 were with the private sector. Given its private sector mandate, the Bank will continue to emphasise support for private sector initiatives, where feasible."

Promoting adequate private sector participation: "Despite these constraints, the development of PPPs will remain an aim in all EBRD countries of operations."

The EBRD indeed has a mandate to promote the private sector, however this should not be equally applied across all sectors, and in some cases pushing the private sector where it does not bring clear benefits may even prove counterproductive and increase resistance to the whole idea. Namely, some municipal services such as water supply deal with basic human needs and should not be treated in the same way as other businesses. The criteria for private sector involvement should not only be feasibility, but rather good value for money and significant improvements in service provision compared to the public sector. Page 38 outlines a number of challenges related to private sector participation but then goes on to emphasise on page 39 that PPPs will still be a priority for the EBRD. It is welcome that the EBRD acknowledges some of the challenges involved in PPPs, however it is not clear why the bank anyway then goes on to prioritise PPPs above other models, and we would recommend the removal of the last sentence and its replacement with a more cautious approach to PPPs, further defining what does or does not work.

There have been many cases where private sector involvement in the water sector has not brought significant public benefits, both in and outside of the EBRD region. For example, in the EBRD region, the Sofia water concession, after more than 10 years, has failed to reduce water losses in the system to any significant extent, with losses still at around 60 percent and the water considered by most people as undrinkable.¹

Outside of the EBRD region, 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

¹Novinite.com: Anger in Sofia over Poor Water Quality, Loss, 10 June 2011
http://www.thebulgariannews.com/view_news.php?id=129170

economies, and many other market economies have the majority of their water sector run by public companies. Last year in Italy a national referendum resulted in the majority of voters voting to ban the privatization of water supply.

Indeed, private sector participation in the water sector has been extremely controversial and the results have not been particularly impressive globally. An overview of studies comparing public and private operation of water supply globally found that private sector participation has not reduced costs,² although this has been one of the main advantages cited in favour of private sector participation.

Another report, by the World Bank's Public-Private Infrastructure Advisory Facility³, has found that in the water and electricity sectors, private sector participation has resulted in increased *efficiency*, *but* that this has not necessarily translated into increased investments or lower tariffs, meaning that either the starting tariffs were so low that increased efficiency still has not led companies to a sustainable position, or that the additional income has simply ended up as company profits that have not been re-invested. This highlights the fact that efficiency, whilst desirable, cannot be seen as an end in itself.

Meanwhile in the more advanced market economies, there have been indications that private water management contracts may not provide good value for money, for example in Paris, which has re-municipalised its water supply, and in Berlin where a contract has been published that appears to guarantee profit to the private water operator.

We would mention here public-*public* partnerships as an alternative model for improving public sector water provision, which does not seem to have been utilised by the EBRD (See for example: Public-Public Partnerships: An Alternative Model to Leverage the Capacity of Municipal Water Utilities by Food and Water Watch⁴).

5.1 Expanding Geographic Reach

Russia: *"There are relatively few large PPPs, mainly because risks are still perceived as unacceptably high by many private sector players. Nevertheless, EBRD will continue to support the development of full PPPs in large and second-tier cities and in the regions."*

The EBRD should exercise extreme caution here (and we refer not to short-term private sector concessions for profitable activities but rather long-term ones for public infrastructure construction and operation), both because of corruption issues and because of the unlikelihood of achieving good value for money for the public sector. Good value for money can usually only be obtained with a high level of transparency and public participation, both of which are often lacking in PPPs, even in countries with a more developed democratic culture than Russia. In Russia, public participation in decision-making is too often rewarded with state repression and even physical attacks against civil society activists and journalists. Therefore the chances of the EBRD backing a PPP which brings real public benefits in the country are extremely low and the bank's participation in such models is much more likely to bring support for corrupt practices and reputational risks for

²Germà Bela and Mildred Warner: Does privatization of solid waste and water services reduce costs? A review of empirical studies, Departament de Política Econòmica, Universitat de Barcelona, and West Sibley Hall, Cornell University, 11 October 2008

³Gassner et al. World Bank/PPIAF, 2009

⁴<http://foodandwaterwatch.org/tools-and-resources/public-public-partnerships-an-alternative-model-to-leverage-the-capacity-of-municipal-water-utilities>

the bank.

Business steering – we agree that there is significant scope for more investments in urban transport and waste. Here the emphasis should be on environmental outcomes.

6.2 Geographic Spread

South East Europe: There remains an appetite for PPPs, despite the limited success in this region and the difficult market conditions. This approach will remain the mainstay of engaging the private sector. The Bank will continue to support municipalities wishing to tender viable PPPs, even though the process is resource-intensive and there is no guarantee EBRD finance will be chosen by the preferred tenderer. Activity is expected to cover a broad range of sub-sectors including parking, transport terminals, water and solid waste.

The bank is right to point out that there has been limited success with PPPs in the region and that the process is resource-intensive with no guaranteed outcome. Would it not therefore be more logical to step back from PPP investments in the region (especially large, long-term ones)? Even in much larger economies with a much greater public sector capacity there have been many cases of very poor value for money PPPs, so it would seem more logical to concentrate on getting the basics of public procurement right before moving on to more complicated structures.

This also applies to the other countries where the EBRD names PPPs as a possibility in this section.

6.3 Policy Dialogue

PPPs: Rather than spending its time on putting in place a model that can be a shortcut to large debt burdens and too often provides very poor value for money, we propose that the bank puts more effort into policy dialogue on innovative waste prevention and management techniques, sustainable transport models, energy efficiency and new renewables.

6.8 Measuring and Monitoring Progress

“On a project-by-project basis, the Bank will seek to report on two physical indicators, which may include:

- the number of people impacted by a project;*
- the anticipated CO2 reductions; and/or*
- a sectoral indicator such as water loss targets, public transport ridership or the number of district heating customers who are metered.”*

It is very positive to see that additional indicators will be used. We would be pleased to work with the bank on developing these in a way which will provide the most useful information with the minimum burden.

Annex A

The Evaluation Department scoresheet shows that more than a third of water and sewage projects were only partly successful. Can the bank comment on why this was?

Annex B

The transition analysis rather undoes the fairly nuanced analysis in the rest of the document, giving the impression that the EBRD's only yardstick of success is the amount of commercialisation and private sector participation in the MEI sector. It should be recognised that well-functioning

communal systems and services also benefit the private sector, regardless of whether it actually runs them or not.

p.60 We very much welcome the acknowledgement of the Millennium Development Goals here. Does this mean that projects in developing countries will be assessed in relation to their contribution to these goals? Will their contribution be outlined in the project summary documents?

p.63 The Water and Wastewater Sustainability Goals are appropriate and in our view take the most important factors into account.

C.2 Sector-Specific Challenges

“Due to affordability constraints and the required size of investments, in many parts of the EBRD region it is challenging to achieve EU standards, particularly for drinking water, effluent quality and sewage sludge management. As a result, the number of derogations from the Bank’s Environmental and Social Policy is comparatively high in the water sector. Attention will be given to setting clear justification, criteria and procedures for requesting such derogations.”

Can the bank provide details on the derogations related to drinking water?

Annex D

The section on parking fails to mention that car parks in the city core tend to attract traffic rather than reduce it and that car parks should therefore rather be constructed around the edges of the centre, outside the congestion zone, and at the edge of cities (park + ride).

Also, scarcity of parking space in city centres can contribute to successful congestion charging schemes.

New bridges, bypasses, improved junctions and other road links should only be considered in cases where public transport improvement plans indicate their necessity.

D.3 Promoting Sustainability

The sustainability goals for urban transport are positive, but it needs to be clear that “Increase walking, cycling and public transport usage” is referring not only to an absolute increase but also to a corresponding absolute decrease in the use of cars.

Annex E

It is clear that district heating offers a number of benefits over decentralised options in large cities. The problem remains that CHPs are traditionally fossil fuel-based units. Obviously demand-side efficiency, combined with improvement in metering, billing, distribution network and production side can play an important role both in improving the quality of service and reducing environmental impacts. What the strategy fails to address is the next step, a vision for fossil fuel-free district heating. The document mentions new and innovative technologies and technical improvements, the introduction of renewable sources for generation of heat; it also mentions a direction towards an efficient, environmentally-friendly, climate-beneficial district heating. This constitutes a serious challenge and it should take a prominent position in the bank’s strategy. The switch away from fossil fuels should have its place among the sustainability goals set for district heating.

The draft policy refers to metering on the building level and automated individual heat substations, however it is not clear whether the bank also plans to ensure that billing is carried out on the basis

of individual household metering. In our experience, building-level metering is not sufficient to reduce consumption significantly as many people in the region do not sufficiently trust that everyone will make a joint effort in this direction, and thus the overall effect is more on diminishing trust between neighbours than on increasing energy efficiency.

“The strategy will support the introduction of alternative fuels and alternative energy sources such as renewable fuels, energy from waste, geothermal heat etc., which may further enhance DH’s competitive position relative to other heating alternatives.”

While we very much support the introduction of sustainable alternative fuels, it is crucial that the EBRD adopts sustainability criteria before embarking in this direction. We would emphasise here that energy from municipal waste is not a renewable energy as it uses resources which are at least partly fossil-fuel based. It also competes for both financial and material resources with recycling and re-use⁵, which are more efficient ways to use resources in terms of materials and energy⁶. When recyclable materials are burned, additional resources need to be extracted, transported and processed to make more of the equivalent material. It is easy to say that recyclable materials will not be burned in the incinerator, but practice shows that this is rarely the case as plastic and paper are among the most combustible municipal waste components. In addition the high capital costs of incineration usually result in few funds being available to develop a re-use and recycling scheme.

“All or some solid waste management collection, transportation, sorting, recycling and disposal, including incineration and waste-to-energy services are suitable for public-private partnerships.”

Incineration, even with energy recovery, should not be supported by the bank in any form, for the reasons mentioned in the paragraph above. However we would particularly draw attention to the issue of incinerators as PPPs. One of the main criticisms of incinerators, particularly large ones, is that they require a constant stream of waste to operate, and thus they are incompatible with serious efforts to reduce waste production. PPPs are subject to a similar criticism – that they attempt to define needs for public services for around three decades in advance and that they are inflexible to changes in real circumstances. This inflexibility is particularly serious in a sector as fluctuating as the waste sector. We cannot predict now with any reliability how much waste disposal capacity might be needed during the coming three decades, especially in an era of rising prices for various resources such as oil, which should lead to a major increase in resource efficiency and a major decrease in waste production. Thus the EBRD should not support incinerators, even with energy recovery, at all, as their lifetime is at least 25 years, and it therefore follows that PPPs in incineration should not be supported either.

Summary of recommendations:

- carry out customer surveys to ensure that people’s actual needs in terms of municipal and environmental infrastructure are correctly identified;
- specify how the public can monitor the indicators evidencing on-the-ground impact
- address the challenge represented by the transition to an energy efficient, new renewables-based decarbonised economy, in all of the bank’s fields of operations
- incineration, even with energy recovery, should not be supported by the bank in any form

⁵See for example: Jeffrey Morris, Ph.D. - Economics Sound Resource Management: Competition between recycling and incineration, 1996, <http://www.durhamenvironmentwatch.org/Incinerator%20Files/RecyclingAndIncineration.pdf>

⁶See eg. WRAP: Environmental benefits of recycling, 2010 update, March 2010
http://www.wrap.org.uk/sites/files/wrap/Executive_summary_Environmental_benefits_of_recycling_-_2010_update.d1af1398.8671.pdf

- when it comes to the 3Rs, all bank sectoral policies need to be revised so as to prevent investments that are not in line with this strategy's vision statements.
- the EBRD should take a more cautious approach to PPP investments, further defining what does or does not work. It should concentrate on basic public procurement and more flexible outsourcing structures instead of PPPs in countries where public sector capacity and corruption are an issue.
- car parks should rather be constructed around the edges of the centre, outside the congestion zone, and at the edge of cities (park + ride).
- new bridges, bypasses, improved junctions and other road links should only be considered in cases where public transport improvement plans indicate their necessity.
- the switch away from fossil fuels should have its place among the sustainability goals set for district heating
- while we very much support the introduction of sustainable alternative fuels, it is crucial that the EBRD adopts sustainability criteria before embarking in this direction.