



April 27, 2005

## **Infrastructure Steering Group – Environment Sector Meeting**

**April 25, 2005**

### **Draft conclusions**

#### ***Action Items***

Questions concerning projects identified as being potentially viable will be delivered by the members of the ISG to the Joint Office and the Regional Environment Center for presentation at a Ministry of Environment focal points meeting for the PEIP, to be held on May 06, 2005. (ISG members are asked to send their questions latest by 4<sup>th</sup> of May). The following messages should be delivered at the May 6 focal points meeting:

- ISG members are prepared to engage in a long-term effort of cooperation with national authorities to prepare environmental investments with a view to EU integration.
- The list of projects is a dynamic one; there may be projects currently on the list which do not materialize and others which will appear on the list at a later date.
- To be financed, projects need to fit into an agreed national public investment programmes. Countries need to actively alert their colleagues in other ministries to the existence of this exercise so that it can be taken into account when planning investment programmes.
- This exercise does not bypass existing strategies for IFI financing, but the results should be fed into discussions on future strategies.
- Some IFIs expressed the view that authorities need to consider how best to involve civil society in any consultation exercise concerning the development of projects.
- Projects identified through this exercise have not been endorsed or given priority by the donor community – they have simply been identified as those projects that seem to offer the best chance of attracting finance – if national governments support them.

For the list of projects, a number of new information columns will be added to highlight:

- Regional components; and,
- Who is financially responsible for the project ? (State or Municipal budget / private company)

The next update of the list is to be presented on the PEIP Regional Meeting in September 2005.

The Joint Office will work closely with the Regional Environmental Center to complete a stocktaking of the projects of key bilaterals active in the environmental sector in the region (Netherlands, Sweden, Germany, Italy and Switzerland).

Members of the group were also encouraged to provide the Joint Office with an update of ongoing and pipeline projects in the environmental sector<sup>1</sup>.

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<sup>1</sup> Only the World Bank had provided information to the Joint Office in advance of the meeting

### **Morning session – chaired by the European Commission**

During the morning session participants were requested to screen 79 investment projects on the PEIP list, with the objective of identifying two to three priority projects per country that seemed to stand a positive chance of securing financing from international financial institutions. A number of considerations were taken into account during the screening:

1. Does the project address an environmental threat of regional importance?
2. Is there a link to the *acquis communautaire*?
3. Is the project financially viable? Does it fit within the lending strategies of the IFIs? Is that sufficient information available to judge? Is the project small enough to be picked up through ground systems?

Following the screening, a number of projects were highlighted by members of the ISG as being potentially viable but for which further information would be requested from all parties concerned.

#### **1. Albania**

Project AL-9: water supply rehabilitation for Vlora city (for Durres funds are secured)

#### **2. Bosnia and Herzegovina**

Project BH-2: sewage system of Bijelina city

#### **3. Croatia**

Project HR-1: animal waste management and effluent treatment system in rendering plant "AGROPROTEINKA" – under discussion in SAPARD.

Project HR-5: establishment of the national network for permanent air quality monitoring in the Republic of Croatia

Project HR-10: waste collection and treatment center "Mariscina"

#### **4. The former Yugoslav Republic of Macedonia**

Project MA-1: wastewater treatment plant for the city of Skopje – SIDA is interested in possibly co-funding this

Project MA-5: solid waste treatment by procurement of waste recycling equipment

Project MA-7: rehabilitation of the wastewater treatment plant in Skopje

Project MA-30: wastewater treatment plant for the city of Veles

#### **5. The State Union of Serbia and Montenegro**

##### **Republic of Serbia**

Project SR-13: developing sustainable system for disposing of solid municipal waste of Kragujevac

It was stated that SR-9 (upgrade and extension of Wastewater treatment plant of the city of Subotica) is fully funded but this needs to be verified. If not, then it is also a potential candidate.

##### **Republic of Montenegro**

Project MN-7: upgrade and extension of existing Podgorica wastewater treatment plant up to 2011 [phase one] and construction of new facilities at the location outside the city [phases two and three] for the period 2012 to 2031.

In addition, members of the group discussed the possible inclusion of a regional water supply project in Herzeg-Novi being considered by the EBRD (linking BiH, Croatia and the Republic of Montenegro). This could be added to the list and the EBRD will provide the Joint Office and REC with a project fiche.

## **Kosovo**

Project KO-5: improvements on air quality – thermal plants, Pristina.

### **Afternoon session – Chaired by the World Bank**

During this section of the meeting the following key factors for investments in environment were discussed: prospects for environmental funds creation; needs in capacity building; regulatory framework; borrowing capacity; and, revenue collection.

With regard to environmental funds creation, members agreed that environmental investments in the water, wastewater and solid waste sectors can be financed through a variety of mechanisms including, *inter alia*, tariffs and grant mechanisms through bilaterals [direct budgetary contributions]. For other sectors, a mix of approaches could be used - the most important of which are incentives such as tax incentives and investment subsidies. It was agreed that this issue should be revisited by the group at another meeting.

There was not strong support for the establishment of environmental funds as a means of financing investments for, *inter alia*, the following reasons: (a) to ensure sound public expenditure management and fiscal policy, IFIs prefer that expenditures be consolidated within government budgets and prefer to avoid extra-budgetary funds and (b) such funds, if financed out of pollution charges, have in-built perverse incentives; and, (c) experience with governance of such funds has been mixed at best.

Concerning the issue of legacies from industrial pollution, members agreed that there was a lack of clarity concerning the responsibility for environmental liability in the context of newly privatized companies. What is clear is that as countries move closer towards the European Union there will be a need for much investment in this area; again, this issue will be addressed during a second meeting.

For capacity building, members agreed that there are extensive needs at central level and even more at local level, with one of the most pressing requirements being improved intra governmental communication. Members also felt that capacity building is not only important for project preparation and implementation but also for dealing with broader issues, such as:

- Permit inspection
- Monitoring
- Implementation of the environmental acquis

It was recalled several times during the meeting that the focus of the group should be on the regional dimension for helping to determine investment priorities.

Finally, members highlighted two further issues that should be considered at a second meeting:

- Need to look at the costs associated with implementation of heavy investment directives, especially in the light of fiscal space issues
- The question of whether the group should consider the green agenda as well as the brown agenda (*The Green Agenda concentrates on reducing the impact of urban-based production, consumption and waste generation on natural resources and ecosystems and, ultimately, on the world's life support systems. The Brown Agenda emphasises the need to reduce the environmental threats to health that arise from poor sanitary conditions, crowding, inadequate water provision, hazardous air and water pollution, and local accumulations of solid waste. Generally, the Brown Agenda is more pressing in poor cities and the Green Agenda more pressing in affluent cities.*)