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EIB in the water sector: Financing Water Supply and Sanitation







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Water is essential to everything in life – food, energy, transportation, nature, leisure, identity, culture, social norms, and virtually all the products used on a daily basis. With population growth and economic development driving accelerating demand for everything, the full value of water is increasingly apparent to all. Therefore limited access to safe drinking water as well as the decline in water quality affecting Europe and other regions of the world, are leading global environmental and development problems¹.

Across the world, around 1.1 billion people lack access to a safe and sustainable water supply and 2.6 billion suffer from the consequences of poor or no sanitation

at all. In many countries, there is a growing imbalance between the availability and demand for water. Economic growth and rapid urbanisation are increasing the

pressure on water resources and increasing water pollution. At the same time the frequency and intensity of floods and droughts are rising as a result of climate change. Improving the quality and quantity of water and the protection of water resources are therefore essential to support all aspects of human life as well as to support the health of ecosystems.

The importance of the water and sanitation sector, and the issues highlighted above have been clearly reflected in the European Union's (EU) environmental, regional and development policies. The European Investment Bank (EIB) is the long-term financing institution of the EU with the mission of contributing to the implementation of EU policy objectives by providing finance for investment projects. Since its inception in 1958, the EIB has played a major role in the development of the water and sanitation sector, having lent more than EUR 30 bn to water supply



¹As stated in the 2nd UN World Water Development Report "A Shared responsibility" published in March 2006 on the occasion of the World Water Day during the Mexico World Water Forum.



and sanitation projects in both the EU and the Partner Countries² (PC). In the last five years, the EIB has intensified its lending to this key sector, with an annual lending average reaching EUR 2.1bn.

In accordance with the various EU Water Directives, the Bank supports sustainable water resource management through projects that promote demand management, integrated river basin planning and integrated flood defence management. The EIB supports both public and private projects in and outside the EU covering all aspects of the water cycle including water abstraction, water supply (for household, industrial, and agricultural use), wastewater treatment and disposal, as well as coastal erosion, flood control and protection, and hydropower production³ and, finally, irrigation⁴. This brochure in fact concentrates mainly on activity in the water supply and sanitation sector.



and sanitation projects not only protect and safeguard the natural environment, contribute to people's welfare, reduce health risks associated with water-borne diseases and protect fragile ecosystems and the diversity of freshwater species, but also support regional development and economic and social cohesion in areas where the lack of infrastructure is a constraint to development.

The EIB primarily finances investment projects and capital expenditure programs. Financing is often jointly undertaken with the European Commission (EC), which manages various EU grants. This is done in order to ensure adequate resources for such capital intensive investments with long maturity, as well as compliance with EU legislation on water. Relevant EU legislation includes the EU Water Framework Directive (WFD)

(2000/60/EC) and related directives, such as those on Urban Waste Water Treatment (91/271/EEC), Drinking Water (98/83/EC) and Bathing Water Quality (76/160/EEC). The WFD - integrated river basin management for Europe - is the most substantial piece of EU water legislation to date. It requires all inland and coastal waters to reach "good status" by 2015. It will do this by establishing river basin authorities within which demanding environmental objectives will be set, including ecological targets for surface waters. The directive came into force on 22 December 2000 and sets out a timetable for both initial transposition into the laws of the Member States and thereafter for the implementation of requirements

In the Partner Countries water is a basic need and a key element in food production. The provision of basic water services supports the EU development and cooperation policies for reducing poverty and helps to reach the Millennium Development Goals⁵ (MDGs) set in 2000. The Bank is committed to using its financial resources and sector expertise to contribute to the achievement of the MDGs. While all eight MDGs are indirectly linked to water issues, Goal 7 on environmental sustainability addresses them directly: one of its targets, Target 10, is to "halve by 2015 the proportion of people in urban and rural areas without sustainable access to safe drinking water". A similar goal on access

EIB operates within the scope of EU policies

In the light of the objectives assigned to the Bank by its shareholders, the 27 Member States, the EIB has 6 core priority objectives for its lending activity. Water supply and sanitation projects come under the EIB's environmental priority objective and often support other Bank priority objectives as well. EIB-financed water supply

² EIB lending outside the Union is governed by a series of mandates from the EU (see EIB Lending to the Water and Sanitation Sector in the Partner Countries).

* The main focus of the Bank's lending is in:
- the Enlargement Countries incl. the Candidate Countries (Croatia, Turkey, and the Former Yugoslav Republic of Macedonia) as well as the Potential Candidate Countries of the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, and Serbia including Kosovo), under the Southern and Eastern Neighbours Mandate, and in
- the 9 Mediterranean Partner Countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Gaza and the West Bank, Syria, and Tunisia).

* The Bank also has lending mandates for Eastern Europe, Southern Caucasus and Russia, Africa, the Caribbean and the Pacific Regions (ACP), the Republic of South Africa, as well as Asia and Latin America (ALA)

³ Although hydro-power dams can be looked at as water investments, they are not taken into account in the present brochure as they appear in EIB statistics under the energy sector heading. EIB lending to hydropower projects in the period 2003 to 2007 totals almost EUR 1bn.

⁴ Irrigation projects have not been prominent in EIB lending: from 1996 to 2005, the Bank financed four irrigation projects in Swaziland, Egypt, Tunisia and Spain, totalling EUR156m.

⁵ See the United Nations Millennium Declaration: <http://www.un.org/millennium/declaration/ares552e.htm>



EIB Water Lending Policy

In 2008, the EIB developed a new lending policy for the water sector. The aim of this policy is to define a set of appropriate policy interventions and actions that will intensify the Bank's support for the implementation of the EU policy objectives in the sector.

The key policy areas defined are:

- Integrated Water Resource Management (IWRM) including transboundary cooperation;
- Supporting the consolidation of institutional frameworks;
- Adaptation to climate change;
- Water efficiency;
- Development of new water supply;
- Wastewater and sanitation services; and
- Research and innovation.

Although, the EIB already has significant experience of working in many of these policy areas in its operations in the sector, the lending policy reinforces their importance in the face of the new challenges faced by the sector.

There are a number of aspects in the lending policy that deserve particular attention:

- ▶ **River basin projects:** in order to strengthen the link between water resources management and the provision of water services to users, the Bank will work more closely with water resource management entities, such as river basin authorities, to support regional initiatives and transboundary investment programmes that support the principles of IWRM.
- ▶ **Sector development:** the water sector often suffers from fragmented institutional structures with a large number of actors. This has constrained service providers to fulfil their public service obligations. In this context, the Bank will support sector consolidation, including the development of viable utilities and regional service providers, and seek ways to secure appropriate financing terms for such entities.
- ▶ **Climate change:** climate change and its impacts are a reality even though the scale and causes are still subject to further research. Therefore, the Bank will establish adaptation as key area of intervention, as has already been done for mitigation, and enhance its focus on adaptation to mitigate detrimental impacts of climate change notably on water resource availability and quality.
- ▶ **Promote water efficiency:** Water Efficiency (WE) has a key role to play in the efficient allocation of water resources, addressing water scarcity issues, ensuring the viability of service providers, and increasing the efficiency of their services. There are four efficiency measures that the Bank will consider: (i) efficiency of water use by the consumer (household, industry, agriculture, and hydropower); (ii) efficiency in allocation across different users; (iii) efficiency of the utility in managing the system and (iv) efficiency of the water supply system itself.
- ▶ **Meeting additional supply requirements:** Development of new water supply is often necessary to address imbalances between demand and supply and increase security of supply, particularly in water scarce regions. The Bank will support new water supply projects (e.g. water desalination plants and dams) if and when a number of conditions are met, including: a clear demonstration that water efficiency and demand side management have been adequately considered and implemented; an options analysis undertaken; and the projects are consistent with the Bank's environmental and social policy.
- ▶ **Wastewater and sanitation services:** The provision of wastewater collection, treatment and disposal services has dual environmental and public health hazard mitigation roles. The Bank will continue to support wastewater



collection and treatment systems in the EU, in recognition of the significant investments required to comply with EU directives. Similarly and in line with the EIB mandates, the Bank will continue to support wastewater and sanitation projects in Partner Countries, with other financing institutions, national governments and local organisations.

- **Research and Innovation:** the Bank will support research and development of appropriate technologies and the use of research outputs in project preparation and implementation.

These aspects of the policy are closely linked and constitute a coherent whole. Moreover, the lending policy is a working document that will be periodically reviewed and updated to keep track of developments in the sector. The EIB will continue to focus its lending operations in the regions that come under its mandate, to support the implementation of EU policy. At the same time, the Bank in its operations will selectively adapt its activity to the specific needs of the regional areas concerned.

The lending policy will help the EIB consolidate and strengthen its role in the water sector, enhance the Bank's good track record, provide further leverage, and increase its value added in the sector.

to sanitation has been added following the Johannesburg World Summit on Sustainable Development (WSSD) in 2002.

2015 is also the year by which the EU Member States will have to comply with the Water Framework Directive's obligation to achieve a good ecological status for all water bodies and by which many new EU members will have to comply with the EU environmental Directive on Urban Waste Water Treatment (91/271/EEC). So both inside and outside the EU, the coming decade will be challenging for the sector, for the EU and, by implication for the EIB.

Water supply and sanitation - an essential part of the EIB's Environmental lending

Water projects are accounted for in EIB statistics under the general objective of environmental protection. All EIB-financed projects need to comply with EU environmental principles and standards⁶. The Bank identifies and takes account of environmental considerations and components in all the projects it appraises. It supports various actions to minimise possible adverse environmental impacts and enhance positive effects.

To be considered as projects specifically serving environmental objectives, investments also need to protect and improve the natural and built environments and advance social well-being in the interest of sustainable development. EIB financed projects focus on

- tackling climate change, including energy efficiency and renewable energy;
- protecting and enhancing biodiversity;
- safeguarding the environment and health (e.g. reduction of industrial pollution, provision of water, and wastewater treatment);
- promoting the sustainable use of natural resources and efficient waste management, including the minimisation, recycling, re-use and disposal of domestic, commercial and industrial waste;
- improving the quality of life in the urban environment, particularly through urban

renewal and sustainable urban transport projects.

The Bank's environmental lending via individual loans (for details on EIB financial instruments, see p.11), both inside and outside the EU, increased by 16% over the past five years (from EUR 12.2bn in 2003 to 14.6bn in 2007). In 2007, the EIB provided individual loans totalling EUR 14.6bn for 170 large environmental projects, of which 12.9bn was in the EU and 1.7bn in the Partner Countries. The Bank's target⁷



⁶ Summarised in the Environmental and Social Statement 2008

⁷ The target was incorporated in the EIB Corporate Operational Plan for 2006-2008, which ranked environmental protection and improvement among the Bank's main operational priorities.



Share of environmental loans in EUR million (2003-2007)

	Individual loans	Environmental Loans	Share ENV/Ind
EU-27+EFTA* Countries (Iceland)	152 155	55 897	37%
Partner Countries**	16 556	5 251	32%
Total	168 711	61 148	36%

* European Free Trade Association; its Member States are Iceland, Liechtenstein, Norway and Switzerland.

** See p.3, footnote 3.

of devoting 30-35% of its individual loans in the EU-27, to projects aimed at protecting or improving the natural or urban environment was achieved (see table). Loans to the water sector over the same period represented 17% of the Bank's environmental direct lending.

These figures do not include small-scale environmental schemes carried out, for instance, by local authorities and financed through specific, more tailor-made instruments for small-scale investments: EIB Global Loans (GL) (for details on EIB financial instruments, see p.11).

EIB value added

All EIB-financed projects have to contribute to the achievement of EU policy objectives and meet the Bank's corporate strategic operational priorities, as laid down in its Corporate Operational Plan for 2008-2010.

EIB project appraisal and monitoring comprises economic, financial, social, institutional, technological and environmental analyses. Project teams are made up of water specialists (economists and engineers) and financial experts bringing together significant cross-sectoral and cross-regional resources and focusing on the "three pillars" of EIB value added. These are:

- consistency with EU Policies,
- quality and soundness of the investment and the promoter,
- financial benefits to the final beneficiary.

The EIB adds value in the water sector by assessing project viability, by ensuring financial sustainability through incentive pricing and cost recovery, by prioritising regions with an investment backlog, and by supporting the development of financially viable and efficient water utilities. It ensures the long-term sustainability⁸ of water projects that are designed to be affordable to the users. It encourages the pursuit of good governance, the use of appropriate technologies, the phasing of investments and investment in efficiency gains prior to promoting investment in new capacity.

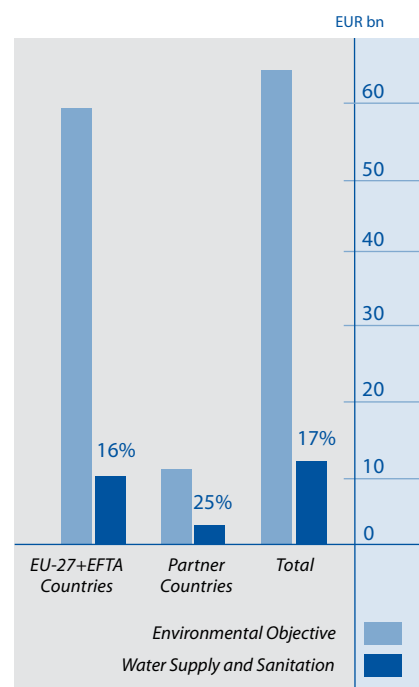
The Bank provides long-term, financing on competitive terms. It contributes to the diversification of the funding available to the water industry and enables it to meet the substantial investment challenges posed by the continued improvement of public services and environmental standards. The benefits of the EIB's long term financing also contribute to lowering the overall cost of capital. This is ultimately passed on to the consumer and is

⁸ In the water sector, the main risks for a project often include bad governance, poor management of projects, low cost recovery, poor demand forecasts, and over-designed projects.

reflected in (lower) consumer tariffs for an essential service.

When appraising water supply and sanitation projects in the EU as well as in the Enlargement Countries, the EIB applies EU environmental principles, i.e. the recommended practices and environmental standards enshrined in EU legislation.

Share of water supply and sanitation loans in EIB environmental individual lending (2003-2007)



These include the requirements of the EU Directive on Environmental Impact Assessment (EIA). Outside the EU, the Bank applies the EU environmental approach as a benchmark, subject to local conditions that might justify a more flexible approach.

In May 2006, the Bank and four other European Multilateral Financing Institutions (MFIs) – the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD), the Nordic Environment Finance Corporation (NEFCO) and the Nordic Investment Bank (NIB) – adopted the European Principles for the Environment (EPE), which commit them to a common approach to environmental management associated with the financing of projects. This initiative has been endorsed by the Directorate General for Environment of the European Commission.

In the pursuit of sustainable development, particularly in countries outside the EU, the EIB applies a broad definition of the term “environment”. Social inclusion, non-discrimination, social welfare and gender issues, and good governance are also addressed in the Bank’s assessment of water supply and sanitation projects. A due diligence exercise ensures that adequate arrangements are in place to mitigate adverse/negative impacts, and to guarantee minimum human rights and good governance standards.

The Bank also supports project preparation and feasibility studies through upstream input of technical expertise⁹.

EIB staff provide expert input into a number of key working groups (e.g. the EU Water Initiative) in public or self-organised events dedicated to water related policies, to share expertise with other actors in the sector, to develop synergies, and find innovative financing solutions for the sector.

⁹ More details on the technical assistance instruments can be found on p. 11 in the section on EIB Financial Instruments, § 3 Specific Regional Instruments.



The European Initiatives

The **EU Water Initiative (EUWI)**¹⁰, launched in Johannesburg at the 2002 World Summit for Sustainable Development (WSSD), has provided the political commitment at EU Council level towards the targets¹¹ agreed, to raise the priority of the water sector not by providing additional funds (in the short term), but by making a more efficient use of the available funds and by achieving a better synergy/coordination of efforts between the various EU and local stakeholders (Member States, EC, EIB, donors, MFIs, municipalities, regional and basin organisations, civil society and NGO’s and private sector).

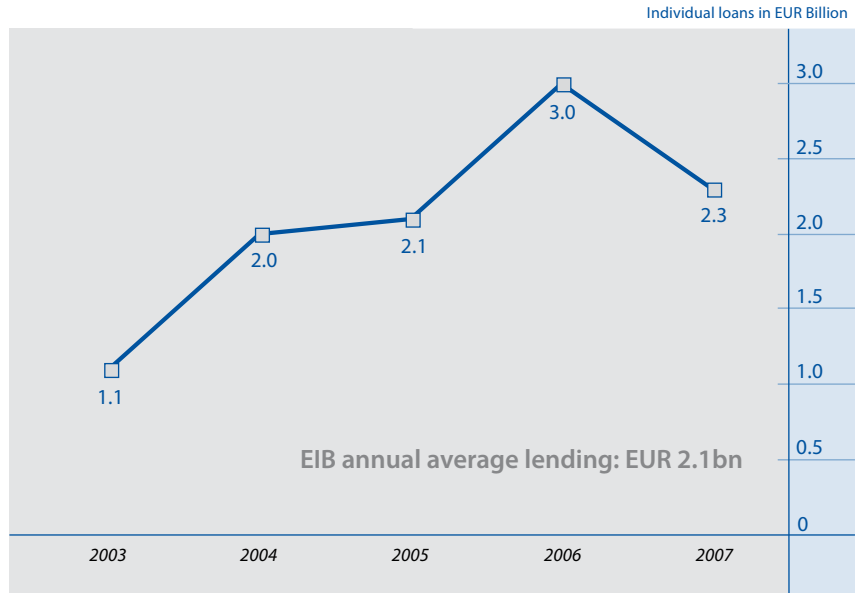
The **ACP-EU Water Facility**, EUWI’s financial dimension, worth EUR 0.5bn, was launched by the EC in 2004 as a water-dedicated instrument for countries in the ACP region, under the Cotonou Agreement. It has freed-up funds for technical assistance and allowed for more effective co-financing between EU grant aid and for instance EIB financing instruments.

¹⁰ EIB has actively participated in multi-stakeholder forums and working groups to prepare for and support the implementation of the EUWI.

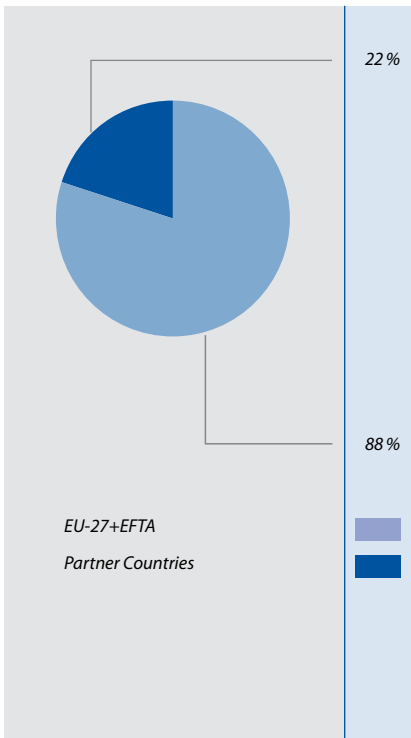
¹¹ MDG 7-Target 10: to “halve by 2015 the proportion of people in urban and rural areas without sustainable access to safe drinking water and without access to proper sanitation.



EIB lending to the water sector (2003-2007)



EIB lending in the water supply and sanitation sector: EUR 10.5b (2003-2007)



The Bank's technical services also act as sector specialist advisers to the European Commission (EC) in the assessment of infrastructure projects for grant funding in Cohesion Fund countries and in Accession and Candidate Countries (e.g. JASPERS - for details on EIB financial instruments, see p.11).

A major lender to the water sector

The Bank can lend up to 50% of investment costs for individual projects. On average its lending makes up 30% of the total cost of water projects. The Bank lends to public or private utility companies, national or local authorities or directly for project finance deals. Overall, water lending is more-or-less equally split between public and private sector borrowers.

Over the period 2003 and 2007, EIB individual loans to the water sector reached almost EUR 10.5 bn, of which 88% (see

chart) was in the EU-27, making it the largest lender to the sector within the EU. The Bank significantly increased its support to the sector from EUR 1.1bn in 2003 to 2.3bn in 2007, with average lending of EUR 2.1bn per annum. EIB loans to the water sector represented a 6% of its overall lending activity and funded a total of 136 major water supply and sanitation projects, over this period.

In 2007, the Bank funded 28 major water supply and sanitation projects for a total amount of EUR 2.3bn, of which 2bn was for 22 projects in the EU-27 and EUR 249m for 6 projects located outside the EU.

As to the Bank's indirect support of smaller-scale water supply and sanitation schemes carried out by local authorities via the global loans¹², it is estimated at approximately 25% of the Bank's annual average direct lending to the sector over the last few years or between EUR 400 and 500m per annum.

¹² See section on EIB financial instruments.



Dams¹³

The recent resurgence of support among promoters and international financing institutions for dam projects can be attributed to a growing emphasis on renewable energies to counteract climate change; continuing increases in water and energy demands, particularly in emerging economies; their role as part of an adaptation strategy to address variability and seasonal extremes in river flows, floods and droughts; and a realisation that considerably more attention needs to be paid to mitigating social and environmental impacts.

However, dams remain a sensitive issue and generate strong views, both in opposition and support. Often located in remote areas, dam projects can impose impacts on the environment and on the livelihoods of local people. The challenge is to develop dam projects in a way that they also provide a focus for development, bring opportunities to communities, including poor and vulnerable groups, and limit the associated environmental and social impacts.

In the period from 1990 to 2007, EIB co-financed at least 34 dam projects, of which 20 were primarily for hydro-power, 8 for water supply, 4 for irrigation and 2 for flood management. The Bank is committed to working with Partner Countries to develop their natural resources in a sustainable, but pragmatic way that is consistent with the EIB environmental and social principles and standards.

¹³ Hydropower dams are not included in the statistics of the Bank's lending to the water sector.





EIB financial instruments for the water sector

In close cooperation with the EC – especially its Directorates General for Regional Policy and for the Environment – the EIB can use the various EU funds and instruments (subsidies and grants) for leveraging budgetary funds through EIB financing. Cooperation with other financing partners either through co-financing projects or in security structures is also essential to innovative and efficient financing solutions. As the EIB does not usually finance more than 50% of the investment cost of a project, its involvement in a project can encourage private sector participation. The Bank also cooperates with other multilateral financial institutions (MFIs), bi-laterals, national financial institutions, and governmental and non-governmental organisations (NGOs).

The financial services offered by the EIB for the water sector are listed below:

1. For larger projects, individual (or direct) loans are long-term loans, running from approximately 3 to 20 years (depending on the economic life of the assets to be financed), provided in practically all major currencies, with advantageous fixed or revisable fixed and convertible rates, with neither commitment nor non-utilisation fees, and secured by a bank or banking syndicate, a financial institution, or a large diversified parent company with good credit rating. They are meant to fund capital investment projects or programmes exceeding EUR 25m on a long-term basis (multi-scheme operations with a common promoter, objective or sector, such as sectoral infrastructure programmes or multi-sectoral municipal programmes).

In recent years, the Bank has adapted its loan offerings to reflect changes in the economic climate and developments in the banking sector and to enhance EIB value added.

Under the Structured Finance Facility (SFF), the EIB may extend senior loans incorporating pre-completion and early operations risk, creating additional headroom for the Bank's support to priority projects with more complex structures. SFF may thus provide additional support to projects in the water and environment sector, mainly located in the EU, through the assumption of more risk than the traditional EIB loan product. The SFF complements the Bank's traditional lending products and financing from commercial banks, capital markets and private sector involvement. Using the SFF, the Bank can, for instance, bear greater risk in the financing of private, public or semi-public European or national public-private partnerships¹³ (PPPs) in water infrastructure projects and tailor its financing contribution to optimise its value added.

Framework loans are designed to finance multi-scheme operations, typically implemented by the public sector and included in an investment programme often covering infrastructure projects (e.g. the co-financing programmes benefiting from EU Structural or Cohesion Funds).

2. For smaller projects, global loans (GL) provide indirect support to small/medium-sized enterprises (SMEs) and small public sector investments (from EUR 40,000 to 25m). These are credit lines made available to banks or other financial intermediaries that on-lend the proceeds for small or medium-scale investment projects that meet the Bank's economic, technical, financial and environmental criteria. GLs represent an estimated 25% of the Bank's annual average direct lending to the water sector, i.e. EUR 400-500m per annum on average.

3. Specific Regional Instruments

3.a In the EU-12, the **Joint Assistance to Support Projects in European Regions (JASPERS)** is an initiative aimed at increasing the efficiency of the use of Cohesion and Structural Funds over the period

2007-2013. It is a partnership that pools technical resources from the EIB, the European Commission's Directorate General for Regional Policy and the European Bank for Reconstruction and Development (EBRD), to assist national and regional authorities of the 12 new Member States to identify and prepare projects for funding by the Cohesion and Structural Funds. Water projects figure prominently in the JASPERS project portfolio. As of July 2008, JASPERS has provided technical assistance to 297 projects in the EU-12, of which 63 (or 21%) were water projects. JASPERS has also supported 11 Cohesion and Structural Funds applications, of which all but two concerned water projects.

3.b In the Southern Mediterranean countries, the **Facility for Euro-Mediterranean Investment and Partnership (FEMIP)** finances as a matter of priority, private sector ventures, whether local initiatives or foreign direct investment, as well as projects aimed at creating an investment-friendly environment. The Facility promotes a broad spectrum of instruments to finance infrastructure projects, investment in human capital and schemes specifically targeting environmental protection. To this end, FEMIP operations primarily involve products such as loans, investment capital (equity and quasi-equity) and grant aid for technical assistance. Of specific interest for the water sector are the two Technical Assistance (TA) funds designed for projects located in the region:

► the FEMIP Support Fund of EUR 105m - of which 25% has been used for water projects - using EC grants in support of EIB financed projects to assist promoters throughout the project cycle; and

¹³ PPPs refer to contractual agreements between a public agency and private sector entity that facilitate greater private sector participation in the delivery of infrastructure projects, in this case water projects. Between 1999 and October 2006, the EIB financed four PPP projects in the EU and one in China.



► the FEMIP Trust Fund, funded by the EU Member states and the EC and more specifically used for more upstream activities, such as support for institutional and legislative reform, sector development strategies and training.

3.c In the ACP countries, the Bank operates under the framework of the Cotonou Partnership Agreement. Under this Agreement the EIB manages the [Cotonou Investment Facility \(IF\)](#), a EUR 2bn risk-bearing and revolving facility funded by EU Member States, alongside an interest rate subsidy appropriation (EUR 187m) aimed at providing appropriately concessional lending to the Bank's public sector borrowers in low-income countries, and EUR 1.7bn from the EIB own resources. Through the IF, the Bank can provide projects in the ACP countries with a wider range of risk-bearing financial instruments to promote the development of the private sector and commercially-run public utilities.

The EIB also manages the [EU-Africa Trust Fund](#) launched in 2007. The objective of the Fund is to contribute to achieving

the strategic objectives of the EU-Africa Partnership through targeted funding of the infrastructure sector. It supports infrastructure projects, including those in the water sector, with cross-border or regional impact in sub-Saharan Africa. The Fund facilitates the blending of grant resources from the Commission and EU Member States with the lending and technical assistance from the EIB and Member State development financiers, in partnership with the African Development Bank.

Considerable TA is needed to make water projects in these countries viable in financial, technical and institutional terms and ensure that the countries are able to meet the MDGs. The EUR 3m [EIB-ACP Water Project Preparation Facility \(WPPF\)](#) launched in 2008 (with EUR 2.25m from ACP-EU Water Facility¹⁴ and EUR 0.75m from the EIB's own resources). The WPPF

will enable the Bank to continue preparing projects in accordance with the main objectives of the ACP-EU Water Facility, e.g. the support to the achievement of the water MDGs. Over its scheduled three years of operation (2008-2010), the WPPF is expected to help the Bank to prepare at least 8 new water projects in the ACP region increasing the lending volume in a sector focused on basic services for the poor and improving project quality and sustainability.

¹⁴ The Bank was actively involved in the definition of the guidelines and the launching of the ACP-EU Water Facility launched in 2004 and targeting ACP countries. In addition to the EUR 500m set aside for the WF under the 9th European Development Fund (EDF) for ACP countries, the Facility is meant to catalyse additional funding and to work directly with those most affected by shortages of water and the absence of sanitation. The total amount of EUR 500m was disbursed in two tranches of EUR 250m by the EU Council in 2005 and 2006.



EIB support to climate change adaptation projects in the EU and Partner Countries

The bank recognises the complementarity of climate change mitigation and adaptation measures. In parallel to its significantly increasing activities in climate change mitigation, focusing on the energy sector, the EIB is developing a portfolio of stand alone adaptation projects. In the last five years, severe floods have devastated parts of Central and Northern Europe, causing loss of life and significant economic damage. While EIB finances the reconstruction of damaged infrastructure and short-term clean-up operations¹⁵, it also recognises that anticipatory and precautionary adaptation is more effective and less costly than forced, last-minute, emergency adaptation or post event reconstruction. The Bank has significant experience with stand-alone climate change adaptation projects, with more than EUR 1.1bn loans over the last 10 years to coastal and landslide protection and flood risk mitigation projects mainly located in the EU with some projects in Partner Countries. In principle flood prevention projects can involve cross-border cooperation.

Examples of EIB involvement in flood prevention projects include:

- ▶ three loans totalling EUR 290m allocated between 2002 and 2004 to the Niedersächsischer Landesbetrieb für Wasserwirtschaft und Küstenschutz to support the construction of a multi-purpose flood barrier on the lower Ems river in the north-west of Lower Saxony (Germany) and the upgrading of flood protection facilities on the North Sea coast and along the Elbe and its tributaries in the eastern part of Lower Saxony;
- ▶ a EUR 60m loan supporting the implementation of the first phase of the National Flood Prevention Strategy in the Czech Republic 2002-2006 and has signed a second loan of EUR 200m to fund the second phase over the period 2007-12;
- ▶ a EUR 40m loan to the Russian Federation in 2005 for the St Petersburg flood barrier to complete the 25 km barrier stretching across the Neva Bay in the eastern end of the Gulf of Finland, to protect the city and its 5 million residents from the risks of floods and from the pollution of contaminants carried by floodwaters.

Climate change is projected to increase the frequency of natural disasters such as floods and droughts. The EIB has provided credit support on especially favourable terms, emergency loans for aid programmes, and flood damage relief in countries or regions severely hit by flood disasters, such as Italy and Romania in 2000, Poland, Hungary and Algeria in 2001, Austria, the Czech Republic, France and Germany in 2002 and Romania in 2004 and 2005. These facilities form part of the EU disaster relief measures.

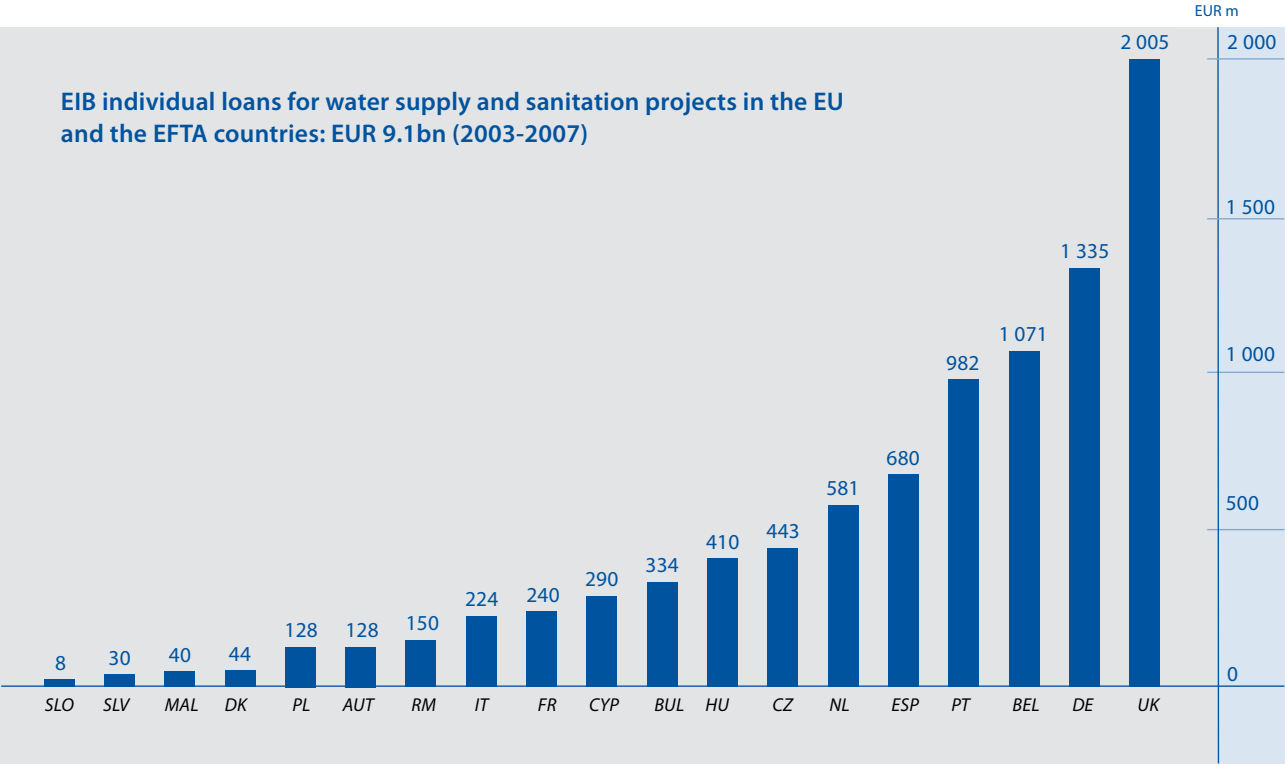
¹⁵These loans, not recorded in EIB statistics under the water supply and sanitation sector, are designed to face emergency works, infrastructure repair and reconstruction works.



EIB Lending to Water Supply and Sanitation in the European Union

Within the EU-27, the Bank funds private water utility companies and project finance deals as well as public sector borrowers. Over the last decade, the main investment driver has been the tightening of EU environmental quality standards, particularly the EU Directives on urban wastewater treatment, drinking water quality and bathing water. In the future, the key driver will be the Water Framework Directive, which aims to promote sustainable water resource management through integrated river basin management plans. The target is to reach good ecological status for all EU water bodies by 2015. The majority of lending was and will remain at a sub-sovereign¹ level and more than 50% of the Bank’s water supply and sanitation operations are with private sector promoters.

¹ Sub-sovereign borrowers (private or public utilities at local, regional or national level) do not need sovereign guarantees (by the state).





Most of the projects financed involved the modernisation and extension of existing distribution, collection and treatment networks as part of large-scale national/regional/municipal capital expenditure programmes.

Over time, the EIB has been active in financing the water sector in all EU Member States. Since 2001, the Bank has lent EUR 9.1bn to the water sector in 19 of the EU-27 countries (plus Iceland). In a number of them, the EIB is the largest single lender in the sector.

Around 37% of EIB direct financing of the EU water sector goes to projects located in two countries, the United Kingdom and Germany (representing 31% of the EU population), where the Bank has essentially supported large regional or municipal investment programmes and schemes that aim to ensure compliance with the tighter environmental and customer service standards set by national and EU legislation and to meet the 2005 deadline of the Directive on Urban Waste Water Treatment.

Since the 1970s, the EIB has been a major source of financing to the water industry in the United Kingdom, preceding the privatisation process of 1989. It has financed the implementation of a number of schemes to improve water supply infrastructure and to ensure the quality of drinking water supply and distribution with the majority of the privatised regional water and wastewater companies in England and Wales, for a total amount of EUR 2bn over the last 5 years.

The Bank is also supporting water supply and sanitation private-public partnership (PPP) projects in Northern Ireland. In particular, in May 2006 the Bank signed a EUR 84.7m loan for a project to up-grade water treatment plants and link mains, and to provide treated water to the NI Water Service under a 25 year PPP Concession Contract. It has also approved the financ-



ing of a PPP wastewater treatment project with a EUR 89m loan to enable the region to comply with EU Directives.

In Germany, the other EU country in which EIB financing capacity has traditionally been used to support extensive state/municipal water investment programmes, the Bank lends to private and public promoters, both through direct long-term loans and via financial intermediaries in the framework of global loans. EIB lending in the German water sector reached EUR 1.3bn between 2003 and 2007.

Since 2001, investments have concerned the construction, upgrading and/or extension of drinking water supply, sewerage or stormwater networks as well wastewater treatment plants and flood protection infrastructure in almost all German States and cities; in Berlin and the State of Brandenburg, Hamburg, Munich, Dresden, Trier, the Ruhr River basin, Lower Saxony, the Bremen area, the Thuringian Schiefergebirge and Saxony-Anhalt.

Other EU countries that have benefited from EIB funding in the water sector are Belgium (12%), Portugal (11%), Spain

(7.5%), the Netherlands (6.4%), the Czech Republic (4.9%) and to a lesser extent Hungary, Bulgaria, France, Poland, and Cyprus. In Belgium, the EIB is the major lender to Aquafin in Flanders and Société Publique de Gestion de l'Eau (SGPE) in Wallonia, two regional wastewater utilities. In the Netherlands, the Bank directly finances the investment programmes of commercially run public water utilities. The EIB is the major lender to Águas de Portugal (ADP), the national holding company in charge of implementing a large-scale investment programme in Portugal. A EUR 300m loan was signed in 2006 out of a EUR 925m credit already approved to support investment in water services by 12 regional public concessions mainly owned by ADP. The EIB has also lent with commercial bank guarantees to water concessions in Portugal and financed a pioneering Dutch wastewater Design-Build-Finance-Operate (DBFO) project (see box EIB financed PPP projects in the water sector). Projects financed by the Bank in 2007 included a EUR 160m loan with Aigues Ter Llobregat for various investments (including a desalination plant) to improve the quality and the security of supply of drinking water in the Barcelona region in Spain, and

EUR 50m loan to upgrade the water and sanitation systems in province of Gorizia (Friuli-Venezia Giulia) in Italy. In Portugal, Spain and Italy, the Bank co-finances with EU regional development grants.

In the twelve new Member States (EU-12), the water sector requires a growing amount of capital expenditure as these countries need 1) to comply with the standards laid down in the EU directives applying to the water sector and to the environment in general and 2) to absorb the backlog of investments accumulated during the past decades. For the new Member States, EIB finance may be combined with grant aid under the European Commission's Structural and Cohesion Funds, in order to speed up the process of compliance. EIB support to major water projects in the EU-12, over the period 2003 to 2007, amounts to EUR 1.8bn or 20% of total direct lending to the water sector in the EU-27.

As an example of lending activity in the EU-12, the EIB lent EUR 15.3m to the City of Plzeň in the Czech Republic to support its 5-year municipal investment programme for water and wastewater facilities, including the refurbishment and extension of drinking water networks and reservoirs; the construction of drainage and storm-water retention facilities, and the upgrading of treatment plant and extension of sewer networks. The project will improve water and wastewater services for Plzeň's 170 000 inhabitants and enhance environmental conditions by protecting water resources and reducing soil and water pollution in and around the city. In Poland, a first EUR 128m EIB loan was granted to Aquanet's investment programme to improve the urban environment of Poznań, a major conurbation in Poland and one of the hot spots identified by the Helsinki Commission for the environmental protection of the Baltic Sea (HELCOM). The project's wastewater schemes will reduce the pollution load originating from some 750 000 residents in Poznań and nine neighbouring municipalities, in

line with the sensitive area requirements of the Urban Wastewater Treatment Directive. The schemes are also compatible with the broad objectives of the Water Framework Directive to promote sustainability by improving water quality and reducing the pollution of rivers draining into the Odra River and eventually into the Baltic Sea. The project forms part of international programmes for reducing the pollution load of the Odra River and the Baltic Sea in which the Bank is a major participant. It will thus also help Poland to comply with its obligations under international treaties. Economic benefits associated with modern wastewater systems relate to improved public health and positive effects on recreation, agriculture and fisheries in Poznań and downstream municipalities along the Warta and Odra rivers as well as in the Baltic Sea area.

In Romania, the Bank has lent EUR 25m for the construction of the Bucharest Glina Wastewater Treatment Plant and has supported the infrastructure development programme for small and medium-sized towns (SAMTID) that started in 2005 with loans totalling EUR 42m. Most of the water projects in Bulgaria and Romania that were aimed at meeting the requirements of EU environmental legislation were co-financed with the European Commission ISPA Pre-Accession grants and appraised with the European Commission (EC) and the national ministries.

The Bank also uses the various instruments at its disposal to advise and to assist both projects and key strategic developments in the sector, for instance, by working closely with the EC to support the creation of regional water companies. In Romania, the EIB, the European Commission, the European Bank for Reconstruction and Development (EBRD) and national authorities use grant incentives to create regional water utilities, which are supported by a financial and operational performance improvement programme and backed by tariff reform.

The water sector will be challenged further in the future by the more stringent EU standards envisaged by the Water Framework Directive, which establishes the objective of achieving higher minimum ecological quality of inland surface waters, transitional waters and groundwater by 2015. It is likely that substantially higher funding will be needed to increase tertiary treatment, to reduce the frequency of storm overflows and the impact of abstractions on low flows in rivers and to meet increased operational efficiencies consistent with the health and safety standards. The directive's introduction of incentives for more efficient water use may also encourage higher levels of customer metering. The EIB is therefore committed to continuing its current role as a significant source of long-term finance to the water sector throughout the EU-27.





EIB financed PPP projects in the water sector

► **The Wastewater Treatment Delfland scheme** – the first PPP deal in the Dutch water management sector – was financed with an EIB loan of EUR 125m in 2003. It involved the design, building, financing and operation (DBFO) of a new Harnaschpolder tertiary wastewater treatment plant (WWTP) and subsequent upgrading of the existing Houtrust WWTP in The Hague region. The project was implemented via a PPP arrangement, which passed on operation of the bulk wastewater system and all operational performance risk to the concessionaire Delfuent BV, a consortium of companies. The promoter of this pilot PPP project was the Hoogheemraadschap Delfland, one of the Dutch Water Boards (local authorities in charge of wastewater treatment, water quality and water levels), operating under the supervision of the Province. Further to the Bank's EUR 125m loan, the PPP obtained loans from Rabobank and Dexia Crédit Local. The two plants aim to ensure compliance with EU directives on wastewater quality and will deliver significant environmental benefits by reducing pollution loads and the frequency of raw sewage spills in the North Sea; they are scheduled to be fully operational by November 2008.

Het Hoogheemraadschap Delfland received a first EIB loan of EUR 74m in 2001, followed by a second one of EUR 46m in 2003 to support its investments to improve sewerage networks in The Hague region. The objective of this first project was to achieve wastewater collection, transport, treatment and disposal standards for the region. Both plants and the domestic and industrial sewage systems will serve 1.7m people.

► **The Acqua di Arezzo PPP project in Italy** – specifically, the project consists of expanding the bulk water supply, constructing and upgrading treatment plants and distribution networks, extending the sewerage network, and refurbishing wastewater treatment plants in 37 municipalities in the provinces of Arezzo and Siena. By 2009 the project will have improved the water supply and sewerage services delivered in the Alto Val d'Arno region in Tuscany to about 300 000 residential and non-residential users and water quantity and quality standards will comply with EU legislation.

The project's promoter, Nuove Acque SpA, which was awarded a 25-year concession by the local authorities for the provision of integrated water and wastewater services in the area, is a mixed public-private company with a combined 54% stake owned by the 37 municipalities and 46% owned by a private consortium controlled by Suez-Environnement (23%), the world leader in water and wastewater services, together with the Genoese multi-utility company Azienda Mediterranea Gas e Acqua-AMGA SpA (16%). The project financing package, which was arranged by the lead banks Dexia Crediop and MPS Banca per l'Impresa to support Nuove Acque's long-term investment programme, included the EIB's participation through a 17-year EUR 44m direct loan to the promoter, representing two thirds of the total debt financing of EUR 70 million. A specific feature of the Bank's loan was its 7-year grace period, allowing for tariffs to grow gradually and in a socially affordable and politically acceptable way, before repayment of the principal.



EIB Lending to Water Supply and Sanitation Schemes **in the Partner Countries**

In the context of the EU's cooperation with non-European countries, the Member States have given mandates to the EIB, to support the implementation of the European Union's external development aid and cooperation objectives in i) the Enlargement countries; ii) the European Neighbourhood; iii) the Mediterranean Partner Countries; iv) in 78 countries belonging to the African, Caribbean and Pacific (ACP) regions, and 20 Overseas Countries and Territories (OCT), mainly in the Caribbean and Pacific; v) in South Africa; and vi) in 17 countries in Asia and 17 countries in Latin America. Loans for waste sector projects in these countries amounted to almost EUR 1.3bn in 2007.

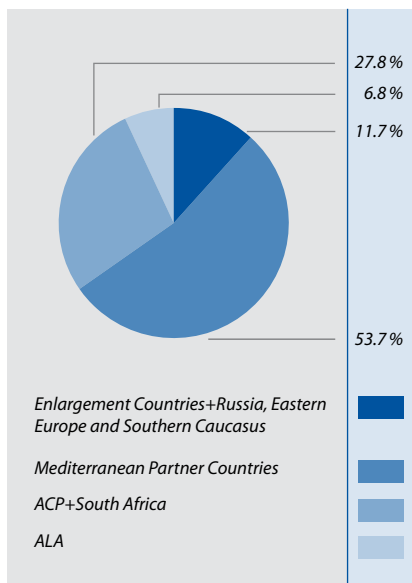
EIB External Mandates

Lending in the Partner Countries (PC) is governed by a series of external mandates given by the Council of Ministers:

- ▶ **in the Enlargement Countries** (Candidate Countries: Croatia, Turkey, and the Former Yugoslav Republic of Macedonia-FYROM; and Potential Candidate Countries: Albania, Bosnia and Herzegovina, Montenegro, and Serbia including Kosovo), the main driver for investment is the Acquis communautaire. The EIB is also contributing to the financing of rebuilding the basic infrastructure and support for local authorities in the Western Balkans;
- ▶ **in the European Neighbourhood**, the EIB is financing projects of significant interest to the EU in the environmental infrastructure sector;
- ▶ **in the Mediterranean Partner Countries (MPC)**, the Bank's mandate supports investment in water and environment, via the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), in order to provide an enabling environment for economic development;
- ▶ **in Africa, the Caribbean and the Pacific Regions (ACP) and the Overseas Countries and Territories (OCT)**, under the Cotonou ACP-EU Partnership Agreement between the EU and the 79 ACP countries, the EIB finances projects that support "poverty reduction and ultimately its eradication; sustainable development; and progressive integration of the ACP countries in the world economy";
- ▶ **in the Republic of South Africa (RSA)**, the Bank provides long-term finance to infrastructure projects of public interest (including municipal infrastructure, power and water supply) and private sector support, including SMEs;
- ▶ **in Asia and Latin America (ALA)** the Bank's mandate focuses on environmental sustainability (including climate change mitigation) and energy security projects as well as the continued support of EU presence in Asia and Latin America.



EIB direct lending in the water supply and sanitation sector in the Partner Countries (PC): EUR 1.3bn (2003-2007)



While implementing its external mandates, the EIB emphasises sustainable development, especially in financing water investments that facilitate the efficient development and management of local natural resources. The Bank’s policy in the water sector is aligned with the EU sector priorities decided at the Johannesburg World Summit on Sustainable Development of 2002.

27% of all the water projects financed from 2003 to 2007 are located in the Partner Countries (PC). Although these projects account for only 12.6% of total lending to the sector, reflecting a smaller average project size, they have a higher leveraging effect as the Bank co-finances with other International Financial Institutions (IFIs), and bilateral agencies. Moreover, water projects in the Partner Countries tend to need a far higher resource input for identification, appraisal and monitoring, thus requiring strong cooperation between donors; but they also offer greater scope for value-added EIB involvement.

Stakeholders’ involvement in EIB approach of the sector

The EIB in its approach to ACP water projects has worked closely and successfully with non-governmental organisations (NGOs) and community-based organisations to ensure the community ownership of projects and greater involvement (especially of vulnerable groups) in their design and implementation. The involvement of all actors – including local communities and authorities as well as specialised NGOs such as Water and Sanitation for the Urban Poor (WSUP) and WaterAid – from the early stages of project preparation phase to its implementation, is another common feature of EIB financed projects in the ACP countries.

Enlargement Countries

Since 1998, the Bank has advanced loans totalling EUR 415m (EUR 82m loans from 2003 to 2007) to municipal or water utility promoters, mostly in Turkey (88%) but also in Albania, Serbia and Montenegro. Most projects concerned the rehabilitation and upgrading of drinking water supply and wastewater collection and treatment.

After an initial focus on post-war reconstruction in the Western Balkans, the EIB has gradually widened its financing for infrastructure to include water and other environmental projects, such as the protection of the Danube River basin and wastewater management in major cities. Together with the World Bank (WB), Kreditanstalt für Wiederaufbau (KfW) and Lux Development, the Bank financed a water and sanitation project for five cities in Albania in 2003. With the EBRD and KfW, it also financed the rehabilitation and modernisation of the drinking water supply and wastewater treatment networks of Novi Sad and Nis, the second and third largest cities in Serbia by number of inhabitants after Belgrade.

In 2007, the EC together with the EIB, the EBRD and the Council of Europe Devel-

opment Bank (CEB), agreed to setup a “Western Balkans Infrastructure Initiative”. The Initiative will have an Infrastructure Project Facility (IPF) through which grants funds from the Instrument for Pre-Accession (IPA) would be channelled for the preparation of a broad range of investments in environmental, energy, transport and social sectors; a Complementary Grant Financing Mechanism (CGFM) mobilising grant resources from the EC, the three partner IFIs and other EU multilateral and bilateral donors, would provide additional support for priority infrastructure projects; and a Lending Facility that will provide financing for priority projects prepared using the IPF and/or the CGFM. The Initiative will benefit Albania, Bosnia and Herzegovina, Croatia, FYROM, Montenegro, Serbia and Kosovo.

The EIB takes part in various regional strategy initiatives. Since 2001 it has been associated with the DABLAS Task Force, set up under the aegis of the European Commission’s Directorate General for the Environment. DABLAS is a platform for the protection of water and water-related ecosystems in the Danube and Black Sea Region, and ensures co-ordinated action between all financial instruments operating in the region. It has sets up priority investment programmes such as the

EIB Water Lending in Morocco

In Morocco, the national water company ONEP and municipal utilities ("régies") have received five EIB loans for a total of EUR 140m between 2001 and 2005. Each operation was tailored to the nature of the investments. A programme loan went to technically simple, small-scale, water supply schemes. A subsidised loan supported a group of more complex water recycling and sludge disposal schemes. Other subsidised loans went to five utilities for large cities (Marrakesh, Settat, Mèknes, Agadir and Oujda) as the Bank's contribution to the Moroccan "Programme National d'Assainissement Liquide et d'Épuration des Eaux Usées" to put into operation basic and affordable wastewater infrastructure. The design of the projects was based on preparatory studies which were supervised and part grant-funded by the FEMIP Technical Assistance Fund.

Another subsidised loan for EUR 20m went to the Régie Autonome de Distribution d'Eau et d'Électricité de Fès for the rehabilitation of its sewerage network and the construction of a biological sewage treatment plant to treat, for the first time, wastewater originating from 1 million residents and the area's industry. The project is reducing the pollution load discharge into the river Sebou and fostering the development potential of the Greater Fez area. Simultaneously, the Bank focused on two mid-sized cities' sanitation projects providing support to smaller utilities. The Bank's input during appraisal resulted in a more suitable design (treatment capacity and sludge treatment) of the treatment plant, thus limiting the need for higher tariff increases and rendering the project affordable. The EIB is currently promoting a large-scale programme to substantially reduce the industrial pollution affecting the City of Fez and the Sebou basin in general.

Most of these projects have been co-financed with EU-bilateral aid.

Regional Environmental Reconstruction Programme, which serves as the basis for EIB-funded projects. Since 2003, the Bank has been coordinator of the Adriatic Sea Environmental Master Plan (ASEMP) in Croatia, which provides the groundwork for a selection of investment priorities in the coastal areas bordering the Adriatic Sea.

Eastern Europe, Southern Caucasus and Russia

The EIB has given particular priority in Russia to projects within the framework of the

Northern Dimension Environmental Partnership. In the period 2003 to 2007, the EIB lent a total of EUR 68.6m (around 81% of the total environmental lending to this region) for three water projects in St Petersburg: the construction of wastewater treatment networks in the city, the rehabilitation and modernisation of sewage sludge treatment facilities at the city's northern wastewater treatment plant and the completion of the Flood Protection Barrier to protect St Petersburg and its residents from floods and from polluting contaminants carried by floodwaters. All three projects were co-financed inter alia by the Nordic Investment Bank (NIB) and EBRD.

EIB financing operations in Eastern Europe, Southern Caucasus and Russia is carried out in close cooperation with the EBRD, according to the terms set out in a tripartite Memorandum of Understanding between the European Commission, the EIB and the EBRD.

EIB participation in the two main international programmes for Europe's northern region, the NDEP and the Baltic Sea Joint Comprehensive Environmental Action Programme helps to identify and accelerate the implementation of important environmental projects in the Northern Dimension region with significant cross border benefits for all countries bordering the Baltic or Black Sea. It also facilitates cooperation between national governments, promoters, utilities, IFIs, environmental NGOs, etc.

Mediterranean Partner Countries (MPC)

In the water-stressed MPCs, the EIB has taken on a pro-active role in the sector, especially since the creation of its lending Facility for Euro-Mediterranean Investment and Partnership (FEMIP) in 2002. Through FEMIP, the EIB has provided long term loans totalling EUR 692m (or 54% of the total EIB lending to Partner Countries) to 12 water supply and wastewater treatment projects in Israel, Egypt, Lebanon, Syria, Morocco and Tunisia, over the last five years. This has accounted for nearly 10% of the Bank's total individual loans in the region and more than half of its environmental lending. The projects included a desalination plant, distribution networks, drinking water and wastewater treatment plants for larger and smaller cities, often combined with re-use, as well as coastal protection and marine depollution. In addition to improving the day-to-day living conditions of the populations concerned, such projects promote economic development by stimulating



EIB lending to the Maputo Water Supply Project

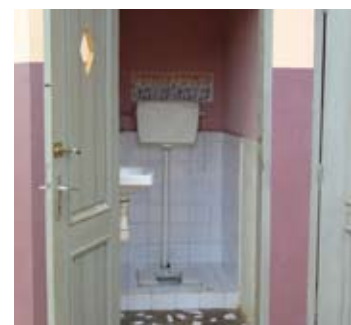
Currently, 48% of the population in the Greater Maputo area lives in absolute poverty and only 40% have access to adequate drinking water. The project aims to significantly increase the population that has access to safe drinking water and improve the services of those already connected, thereby contributing to the achievement of Mozambique's Millennium Development Goals (MDG) on water, health and poverty eradication, which are central to the country's Poverty Reduction Strategy.

The project builds on earlier sector reforms and project work by the World Bank and brings together the national water agency FIPAG (Fundo do Investimento e Património do Abastecimento de Água) and the Mozambican government with a group of international development finance organisations: the European Investment Bank (EIB), the ACP-EU Water Facility, FMO of the Netherlands and Agence Française de Développement (AFD). The EIB provides a subsidised loan (EUR 31m), co-financed with the grants from the ACP-EU Water Facility (EUR 25m), AFD (EUR 6.6m) and FMO (EUR 18.6m), and support from Mozambique's government (EUR 13.8m).

The project contributes to poverty alleviation, better quality of life, health and environmentally sustainable development. Sustainability and affordability are ensured by a combination of low-cost funding, good regulatory policy (notably regarding tariffs and institutional autonomy), appropriately designed and regulated private-sector participation in service provision, and involvement of NGOs at the point of delivery. The promoter's (FIPAG) managerial capabilities are supported by technical assistance. The project contributes to FIPAG's overall financial sustainability, and thus, to better water services in other Mozambican cities under its responsibilities. Furthermore, the five co-financiers of the Maputo water supply project in Mozambique have signed a MoU setting common procedures for procurement, disbursement and approvals that have significantly benefited the promoter and the project implementation in particular. Based on this experience, similar arrangements were established for other projects (Benin, Lesotho, and Senegal).

The operation of the water supply system in the lease area is undertaken by an international private operator, while the peri-urban autonomous schemes will be operated by local small-scale providers. This new system of delegated management to the private sector, either international or local, contributes to the efficiency of the system and the sustainability of the project. In addition, the involvement of small-scale local providers will have a significant employment and growth impact on lower-income areas. The project increases the sustainability of independent providers' activities, while improving control of their services' tariffs and quality.

This is a flagship project whose general principles and key features are being replicated in other ACP countries after appropriately tailoring their design to the local context.



new activity in tourism, which is vital to all Mediterranean countries. In the 1990s, the Bank also funded projects fostering the conservation of farmland through irrigation and dam schemes in the Nile Delta, Tunisia and Morocco, in order to sustain rural development and employment.

Pollution does not respect borders. Some 90 million EU citizens living on the Mediterranean rim share the waters of the Mediterranean Sea and therefore face a common challenge to reduce pollution with their neighbours on the southern and eastern flanks of the Mediterranean. The EIB is participating in the Horizon 2020 Initiative launched in Barcelona in December 2005, following the endorsement by the leaders of Euro-Mediterranean countries at the 10th Anniversary Euro-Med Summit in Barcelona. The main aim of the initiative is to reduce the level of pollution in the Mediterranean region by identifying and tackling the most significant pollution sources by the year 2020.

The initiative will address all the major sources of pollution, including industrial emissions, municipal waste and particularly urban wastewater, which are responsible for up to 80% of Mediterranean Sea pollution. Open to EU Member States and MPCs, international organisations, financial institutions and bilateral donors, the NGO community and civil society and other interested parties, the initiative reaches out to involve local and regional actors in a bottom-up approach.

In 2007, the Bank with the help of the FEMIP Support Fund and in cooperation with the United Nations Environment Programme's Mediterranean Action Plan (MAP) identified a Mediterranean Hot Spot investment programme (MeHSIP) and developed a pipeline of pollution prevention investments addressing pollution "Hot Spots" in the European Neighbourhood Policy (ENP) countries¹. The activities of the MeHSIP will primarily focus on providing support to the Horizon 2020

initiative and partner countries in implementing these priority pollution reduction investment projects. The MeHSIP will also contribute to closer collaboration between the Bank and other donors and initiatives in the region.

African, Caribbean and Pacific (ACP) Countries Republic of South Africa (RSA)

In the ACP countries, as in the RSA, the availability of water services is one of the main contributors to sustainable development. Water sector projects are a key component of the Bank's activity in the region, where they represented around 61% of its overall environmental activity from 2003 to 2007, with EUR 173 in loans for eight projects (involving essential drinking water supply, wastewater treatment and sanitation) in the ACP countries and EUR 185m for two major water supply projects in the RSA (the construction of a dam and related infrastructure on the river Berg, to improve the water supplies for the Cape Town conurbation, and a pipeline to supply water to strategic industries in the Johannesburg area).

The EIB's role is to support sustainable projects, both through institutional structuring and funding. The Bank uses individual operations to engage in dialogue with national authorities about necessary sector reforms. However, in selected countries where the Bank has a stronger upstream involvement, partnerships can be deepened through greater use of technical assistance grant funds. Most water projects have been co-financed with the EC (via interest rate subsidies from EC budgetary resources to promote environmental projects), or the WB, the African Development Bank (AfDB), KfW or Agence française de développement (AFD).

In line with international best practice², the Bank operates in the ACP water sec-

tor not only as a financier and technical expert, but also as a catalyst of forces in alleviating poverty in general and promoting the water and sanitation targets of Millennium Development Goals (MDGs) in particular. When and wherever possible, it involves specialised NGOs, the local private sector and affected communities, thereby promoting a fruitful exchange of experience and building a spirit of partnership and ownership of the project among the population.

With the help of the ACP-EU WF, a strong pipeline of water projects in Sub-Saharan Africa has been established in 2006. The two Calls for Proposals launched by the EC under the ACP-EU Water Facility in 2004 and 2006 led to the allocation of EUR 420m of grant financing for 175 projects. All project applications either supported or submitted by the EIB as lead donor have been accepted. The EC grants allocated to these projects amount to EUR 109m (25% of the total grant amount available under the Water Facility) and leveraged a further EUR 130m in soft loans from the EIB, as well as EUR 87m in loans and grants from other donors.

The water and sanitation projects co-funded by the ACP-EU Water Facility and the EIB in Ethiopia, Mozambique, Madagascar, Benin, Lesotho, Malawi, and Senegal have been designed in close cooperation with the national and local authorities to address the main water sector issues and encourage replication. They will lead to the first-time access to safe water services for nearly 3 million people living in urban, peri-urban and slum areas in the above countries.

¹ Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine Authority, Syria and Tunisia

² Recommendations of the Camdessus Report on Financing Water Infrastructure at the 3rd World Water Forum (WWF) in Mexico in 2003, the EU Water Initiative's Finance Working Group Report and the Gurria Task Force on Innovative Financing at the 4th WWF in Mexico in 2006.



The projects are typical of the new EIB approach to the ACP water and sanitation sector: while building on the Bank's traditional strengths of co-financing investments that are technically, economically and environmentally sound, they also incorporate a number of innovative aspects, including the objective of universal coverage, and focus on social inclusion, support for partnerships with non-governmental organisations and the local private sector in the delivery of services, and the strengthening of the operational capacity and commercial performance of water service providers. An important element of these projects is to use the blending of grants and loans with a long maturity to support pro-poor aspects of water and sanitation projects such as affordability and the expansion of coverage to previously unserved peri-urban and slum areas. This mix of grant

and loans, not available locally, is fundamental given the capital-intensive nature of water projects. The EIB, because of its early involvement in the definition of each of the projects' scope, and the support given to the promoters' applications to the ACP-EU Water Facility has played a coordination and leadership role in these projects.

Asia and Latin America (ALA)

In the past ten years, the Bank has financed various PPP projects, including major concessions and Build Operate and Transfer (BOT) projects that had a European interest, usually involving private EU international water companies as promoters. The Projects included the extension of the water supply services and sanitation

networks in the city of Córdoba and in Misiones Province (Argentina), as well as the construction of a drinking water treatment plant in Chengdu (China), and the modernisation and extension of the water conveyance and distribution networks in the western and eastern parts of Jakarta (Indonesia).

More recently in 2007, the EIB signed a EUR 60m loan to Manila Water, a successful water concession in the eastern part of Manila in the Philippines and EUR 27m loan for a sanitation project in Panama.

Stakeholders' involvement in EIB approach of the sector

The EIB in its approach to ACP water projects has worked closely and successfully with non-governmental organisations (NGOs) and community-based organisations to ensure the community ownership of projects and greater involvement (especially of vulnerable groups) in their design and implementation. The involvement of all actors – including local communities and authorities as well as specialised NGOs such as Water and Sanitation for the Urban Poor (WSUP) and WaterAid – from the early stages of project preparation phase to its implementation, is another common feature of EIB financed projects in the ACP countries.



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