

Enhancing the Ecological Performance of Rail Transport

Environmental Criteria in the Financing of Railway Investments

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Presentation Structure

- Introduction to EBRD
- EBRD transport portfolio
- EBRD environmental requirements
- EBRD EHS due diligence process (incl. public consultation)
- Examples of projects in rail transport
- Issues for discussion

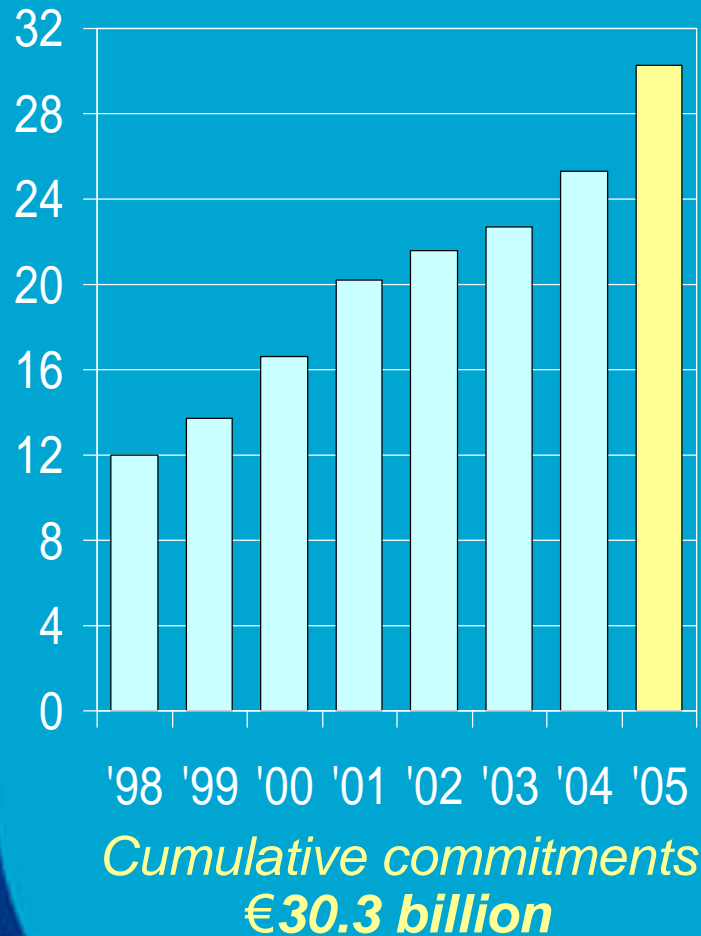


What is the EBRD?

- An Investment Bank with Public Shareholders:
 - owned by 60 countries and 2 supranational bodies (EU; EIB); AAA-rated; founded in 1991; approx. 1200 employees
- Capital base of €20 billion
- Largest single investor in the region; 75% debt / 25% equity; 72% private sector/privatisation projects



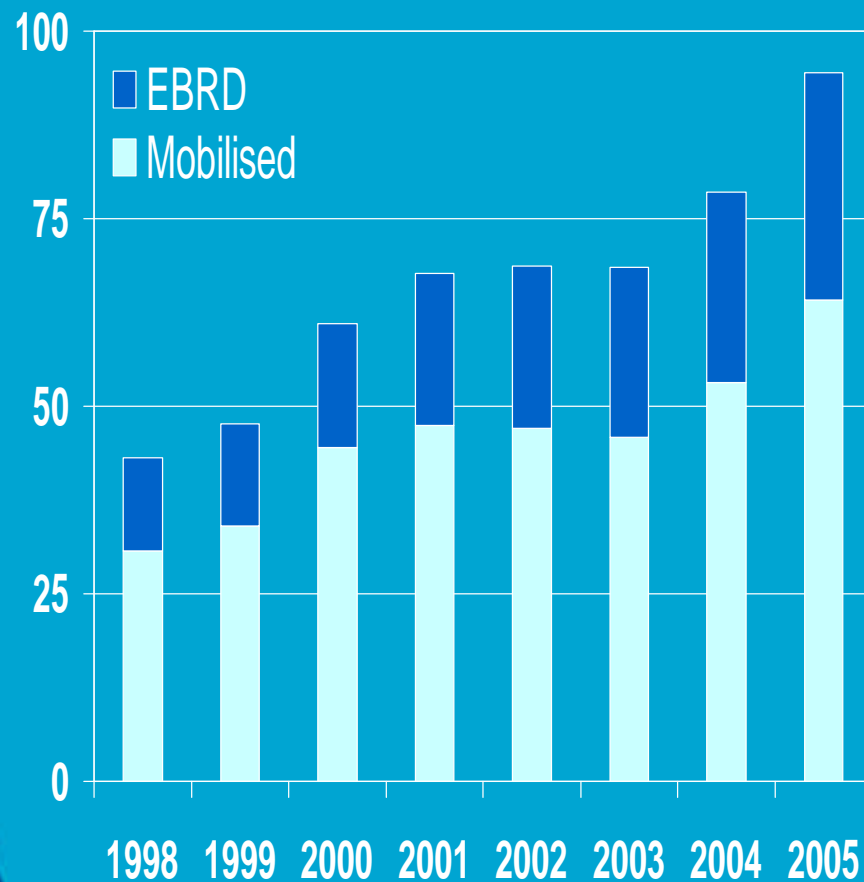
Committed and growing



- **Regional focus:** supporting investors and local companies in 27 countries of CEE and CIS
- **Asset base:** over 1500 transactions worth €30 billion signed since 1991
- **Capital base:** €20 billion dedicated exclusively to this region



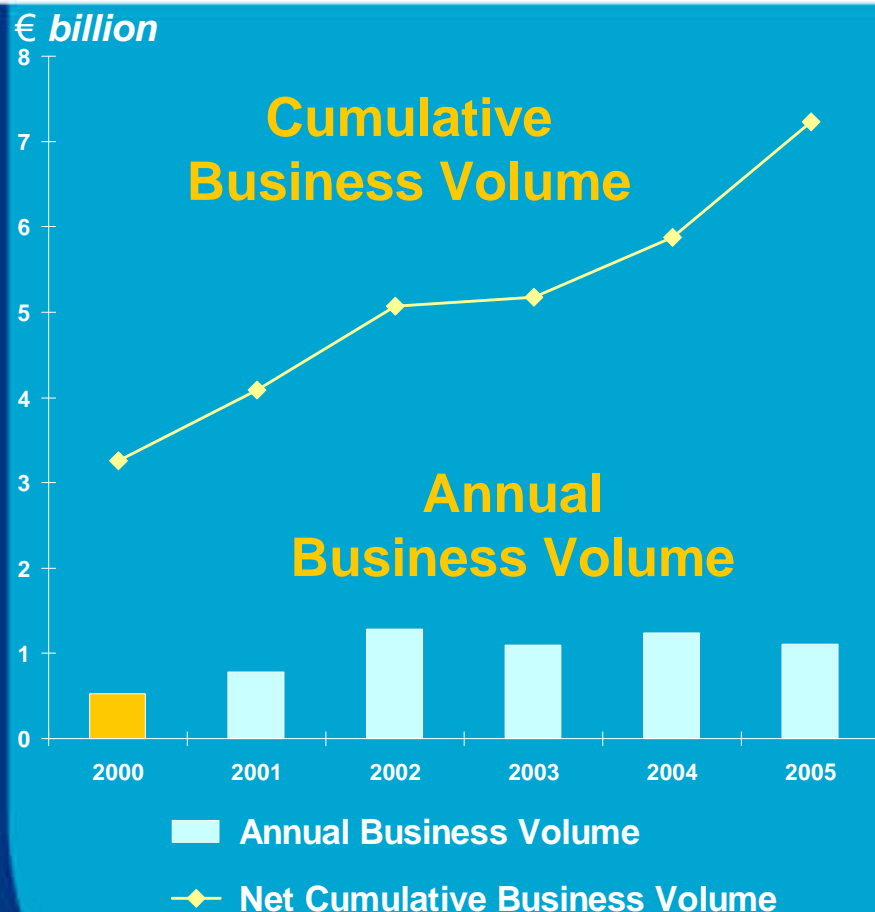
Mobilisation capacity



- Ability to mobilise funds from our partners
- Cumulative additional funds mobilised EUR 64.1 billion
- Sectoral knowledge: extensive experience in wide and diverse sectors



Main Parameters – end 2005



- Cumulative Business Volume: €7.2bln (24% of Bank)
- Portfolio Stock: 4.3bln (26% of Bank)
- Operating Assets: €2.6bln (26% of Bank)
- 73% of portfolio in the private sector
- 83% debt, 13% equity and 4% guarantees.
- Stagnation of annual business volume since 2003



32 offices in 27 countries



What are the EBRD's objectives?

- To promote transition to market economies by investing mainly in the private sector
- To mobilise significant foreign direct investment and funds from our partners
- To support privatisation, restructuring and better municipal services to improve people's lives
- To encourage environmentally sound and sustainable development



Principles of EBRD operations

- 1 Apply sound banking principles to every project**
- 2 Support but not replace private investors**
- 3 Advance the transition towards a full market economy**



What the EBRD does NOT do

- Provide “soft” loans
- Support projects detrimental to the environment
- Invest outside central and eastern Europe and the CIS
- Restricted sectors:
Defence-related activities, tobacco industry, substances banned by international law, stand-alone gambling facilities, hard liquor projects...



EBRD Financing instruments

Loans

- Senior, subordinated, convertible
- LT (up to 10y or more) or ST revolving
- Floating/ fixed rates
- Choice of currency
- Syndication possible for large amounts

Equity

- Common stock or preferred
- Minority position only (up to 35%)
- Mezzanine debt

Guarantees

- of specific risk (i.e. political)
- Commodity-backed instruments
- Trade facilitation program (with participation of local banks)



EBRD basic project criteria

- The operation is located in our countries of operation
- Investments have beneficial effect on local economy
- We are not “crowding out” private money
- The Project makes economic sense - no “soft loans”
- Main shareholder has substantial money at risk before EBRD
- Small size (<€5m for EBRD) is difficult directly from EBRD but special facilities are available mainly for ETCs (DIF, SME, phased investment)
- Compliance over time with EU environmental standards



EBRD's Range of Transport Projects

(excluding public transport)

Roads

Construction of Highways,
operation and maintenance,
toll roads, road haulage...

Railways

Railway infrastructure,
Freight, Passenger rail,
inter-modal transport...

Maritime

Port infrastructure (berth,
breakwater) superstructure,
shipping, stevedoring,
traffic control systems ...

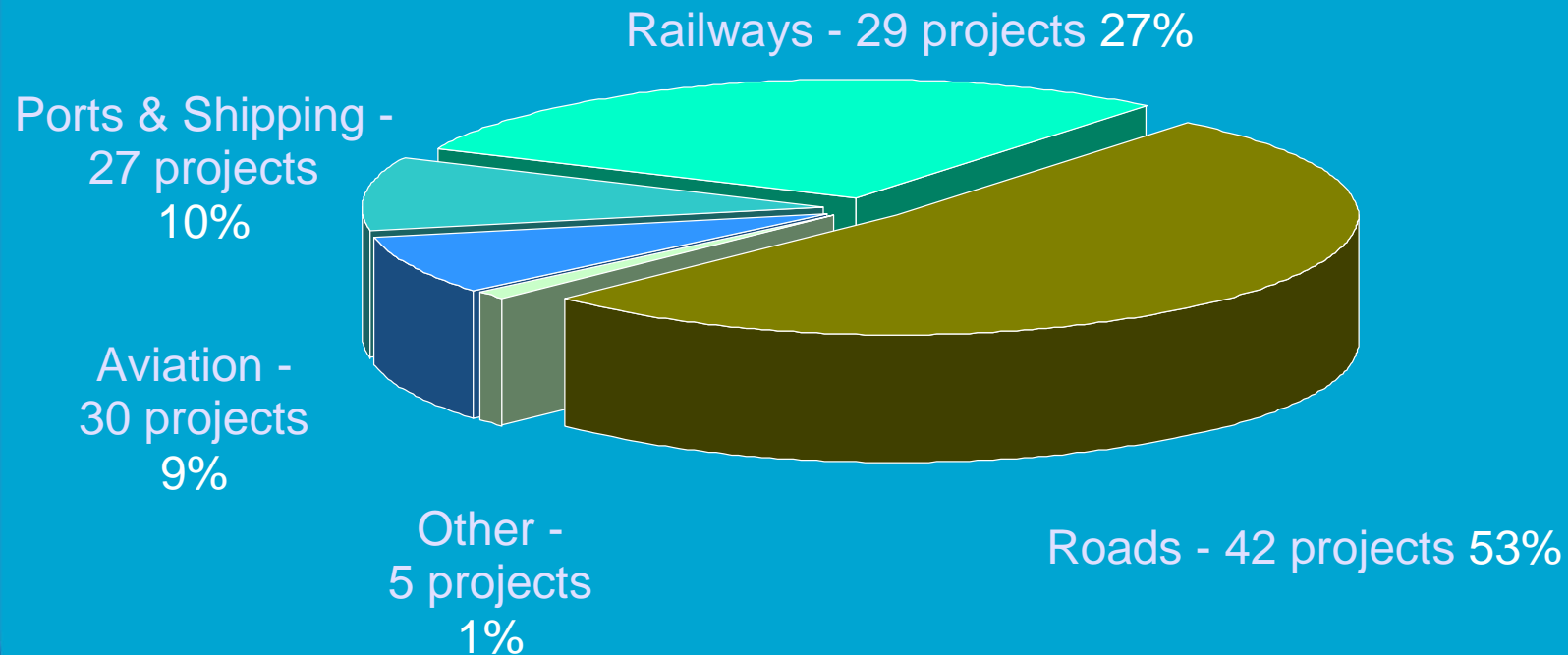
Aviation

Airport development,
aircraft leasing, air cargo,
air traffic control systems...



Transport Portfolio (excluding urban transport)

By sector



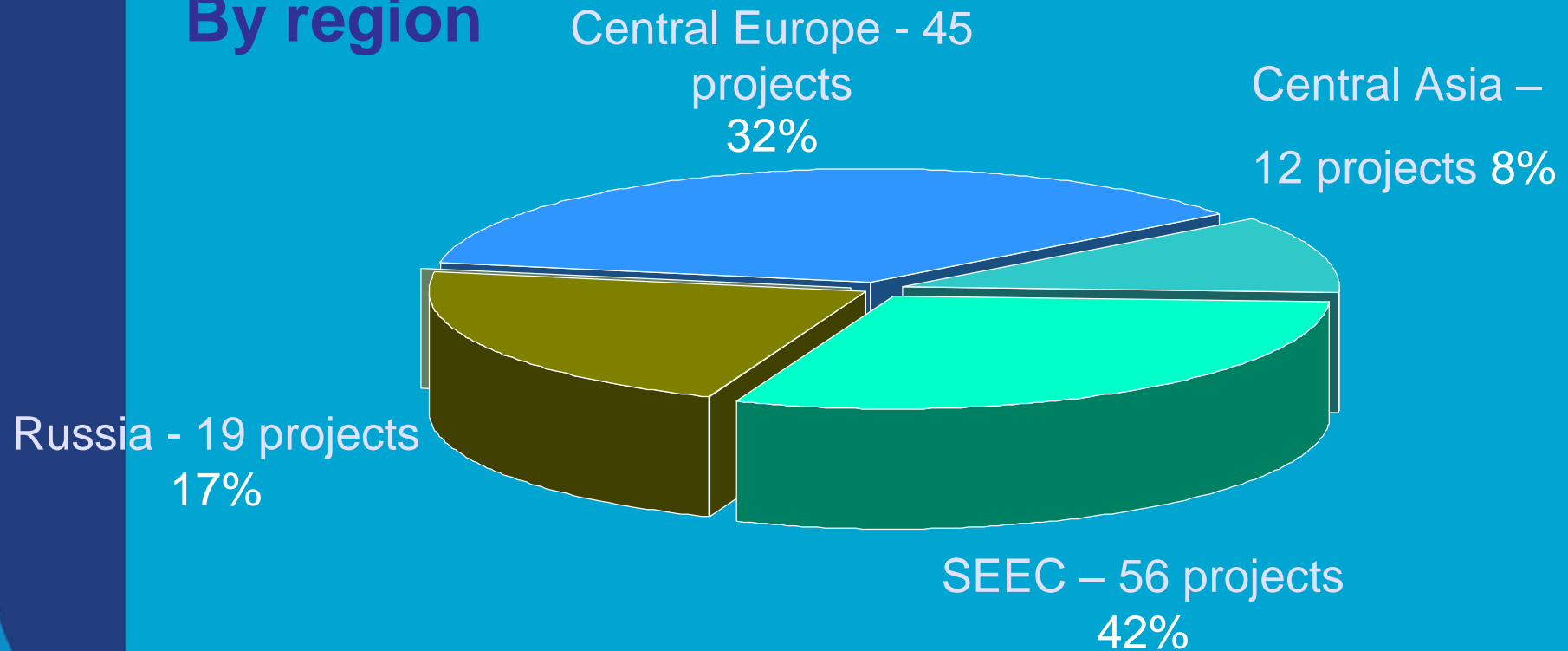
Total net cumulative portfolio of EUR 4.5bn with 133 projects at end July 2006



Transport Portfolio

(excluding public transport)

By region



Total project cost of EUR 14.7bn with 133 projects at end July 2006



EHS in the Project Cycle

- Environmental due diligence is an integral part of project appraisal; process includes public information and consultation
- Successful completion of environmental due diligence is a pre-condition for project approval
- Environment is used in a broad sense
- EHS conditionality covenanted in legal documentation
- Active monitoring of sensitive projects



Scope of Environmental Due Diligence

- Ecological aspects
- Worker and public health and safety
- Core labour standards
- Community issues
- Cultural/heritage
- Involuntary resettlement; indigenous peoples

Progressive shift from E to E+HS to E+HS+S



Relevant EBRD Policies

- Environmental Policy (2003)
- Public Information Policy (2003)
- Independent Recourse Mechanism (2004)

plus

- Transport Policy (2005)



Environmental Standards

All project have to comply with

- National law
- EU environmental standards (Directives)
- Applicable international conventions
- WBG guidelines (as a fall-back) and IFC Performance Standards (indigenous peoples, resettlement, cultural property)
- Good international industry practice

Occupational and public health issues more difficult to capture than environmental issues



Environmental Due Diligence Process

- All projects are classified according to their likely impact and risk (A/B/C; 1/0); classification determines the scope and detail of Bank due diligence incl. of public consultation
- Due diligence assesses impact of project to be financed (A=EIA; B=Environmental Analysis; C=None)
- Due Diligence assesses risk and liabilities associated with existing sites and operations (1=Audit; 0=no Audit)



Instruments for Change

- Covenants in Loan Agreements
- 'Conditions Precedent' requiring action prior to disbursement
- Environmental Action Plans (specific; timed; monitored by the Bank)
- Reporting requirements on the client (e.g. on implementation of the EAP)
- Monitoring visits by the Bank and/or its consultants
- Project appraisal by independent audit unit within the Bank



Public Information and Consultation

- Guided by EBRD Public Information Policy and Environmental Policy
- In compliance with national requirements
- Scope depends on project classification
- Summary project information on Bank website; EIAs at Bank HQ and local ROs
- Exceptions possible for confidentiality reasons (private sector projects only)
- NGOs: Bank has specialists for NGO liason and seeks meaningful dialogue



Project Implementation Monitoring

- Periodic environmental reports by the client; require approval by the Bank's ED; plus immediate accident/emergency notification
- Independent audits (at specified intervals or as required)
- Site visits by ED staff or consultants
- Exceptions Reports (reported to management)
- 'External monitoring': Press, NGOs etc.



Selected Railways Projects



*Uzbek Railways
Republic of Uzbekistan*



***Uzbek Railways Freight Traction Renewal &
Management***
EUR €103 million

December 1999

*Modernisation of Freight Locomotive Fleet to
enhance performance of Freight Business*



*Yugoslav Railways - ZJR
Government of the Federal
Republic of Yugoslavia
Government of the Republic of Serbia*



ZTP Belgrade Reconstruction Project
EUR €134 million

October 2001

*Refurbishment of electric locomotives and purchase of
Track Machinery*



Grandi Stazioni



Signed 2004

- Equity €3.8 million in the Czech company Grandi Stazioni Ceska Republika
- Purchase of up to 40.5 % of the companies shares to support an innovative new concept for a private-sector company to refurbish, develop and operate three state-owned railway stations in the Czech Republic.



BaltTransService



- **USD 40 million 6 year loan** facility to finance the acquisition of tank wagons and freight locomotives
- EBRD A loan USD 20 mm
- EBRD B loan USD 20 mm
- **Largest Russian railway operator specializing in oil transport, not related with an oil producer**
- Guarantor: SeverstalTrans
- Signed December 2004



Typical railways project environmental issues include:

- Energy use and energy efficiency
- Power supply and fuel storage
- Air emission and air pollution
- Waste management, storage and disposal
- Depreciation of vehicles and equipment
- Noise impact
- Workers health and safety



Environmental impacts should be taken into consideration for the following reasons:

- Reduction of energy use helps to save money and makes cost calculations more reliable because of reducing the dependence on the world energy markets
- Stricter requirements for noise and exhaust emissions result in reduction of the depreciation of vehicles
- The environment-related efforts of the railway industry are important to strengthen its credibility in the public when applying for public funding



Environmental Action Plan usually contains the following actions:

- Establishment of environmental management functions
- Establishment of environmental management training practice
- Improvement of water and wastewater management
- Improvement of fuel, energy management
- Improvement of material, hazardous material and waste management including storage, handling and waste final disposal
- Improvement of air emission and noise management and control
- Improvement of workers health and safety management
- Improvement of transport safety
- Replacement of environmentally polluting energy generating capacity with efficient technology
- Improvement of fire protection
- Establishment of emergency response



Typical environmental covenants require the Borrower to:

- Comply with the National and EU Environmental Standards
- Obtain all necessary environmental permits
- Apply international construction practices and planning
- Implement Environmental Management Systems
- Develop a public communication programme



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About the EBRD

- Basic facts
- Management & structure
- Strategies & Policies
- Compliance hotline
- Contacts
- Press centre & Events
- Publishing & Analysis
- Countries & Sectors
- Projects
- Environment & Safety
- Apply for financing
- Opportunities

The European Bank for Reconstruction and Development was established in 1991 when communism was crumbling in central and eastern Europe and ex-soviet countries needed support to nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in 27 countries from central Europe to central Asia.

The EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. It is owned by 60 countries and two intergovernmental institutions. But despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners.

It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The Bank uses its close relationship with governments in the region to promote policies that will bolster the business environment.

The mandate of the EBRD stipulates that it must only work in countries that are committed to democratic principles. Respect for the environment is part of the strong corporate governance attached to all EBRD investments.

Every EBRD investment must

- Help move a country closer to a full market economy: the transition impact
- Take risk that supports private investors and does not crowd them out
- Apply sound banking principles

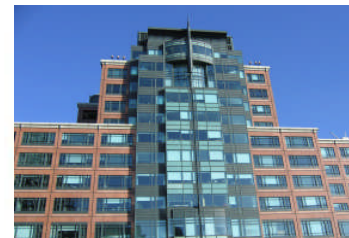
Through its investments, the EBRD promotes

- Structural and sectoral reforms
- Competition, privatisation and entrepreneurship
- Stronger financial institutions and legal systems
- Infrastructure development needed to support the private sector
- Adoption of strong corporate governance, including environmental sensitivity

Functioning as a catalyst of change, the EBRD

- Promotes co-financing and foreign direct investment
- Mobilises domestic capital
- Provides technical assistance

about the ebrd



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