

NDEP News

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contributing governments of Canada, Finland, France, Germany, the Netherlands, Norway, Russia, Sweden and the UK. Observers included Italy and the NDEP Implementing Agencies i.e. the EBRD, EIB, NEFCO and NIB.

"2008 has been a very good year for NDEP and this applies to both the funding and the project side", said the EBRD President Thomas Mirow at the start of the meeting. Since the last Assembly in November 2007, NDEP Support Fund received €20 million from Russia, €10 million from the European Commission, €1.3 million from Sweden and €0.5 million from Norway for the non nuclear window. On the project side, full financing for the St Petersburg Neva project, including the Russian federal funds, has been confirmed. Also in the nuclear window, four grant agreements were signed in 2008 including €43 million for Lepse and €20 million for Andreeva Bay. Mr Mirow thanked the donors for their continued support and assured that EBRD will not reduce their activities even now when the economic climate has become more challenging and demanding than before.

7th NDEP Assembly of Contributors



NDEP Assembly (from left) **Gunnar Wiegand**, Director for Eastern Europe, the European Commission, **Thomas Mirow**, EBRD President, **Horst Reichenbach**, EBRD Vice President, **Vince Novak**, EBRD Director, Nuclear Safety Department

The 7th meeting of the NDEP Contributors took place in London on 1 December 2009 in the offices of the EBRD. The Assembly was chaired by the European Commission and attended by the delegations of



Russian Delegation (from left first row) **Dmitry Pankin**, Deputy Minister of Finance, **Evgeny Evstratov**, Deputy Director General of Rosatom, **Igor Maidanov**, Director, Ministry of Natural Resources and Ecology, (from left second row) **Anatoly Grigoriev**, Head of Division at Rosatom, **Igor Zotov**, Chief Expert, Ministry of Natural Resources and Ecology

Mr Dmitry Pankin, Deputy Minister of Finance of the Russian Federation acknowledged the substantial increase in the Fund's resources, over €31.8 million in total. He welcomed the EBRD as the new Steering Group Chair and thanked the NIB for their work as the previous Chair. Mr Pankin confirmed that all the necessary approvals from the Russian authorities were



successfully received for the St Petersburg Neva project and moreover, two NDEP projects in Kaliningrad were approved by the Russian government shortly before the Assembly meeting. Mr Pankin made a point to increase efforts to achieve faster implementation of projects and concluded that working with the NDEP has been a good experience and Russia looks forward to further cooperation within the partnership.

The Russian delegation led by the Ministry of Finance also included representatives from the Ministry of Foreign Affairs, Federal Atomic Energy Agency "Rosatom", Nuclear Safety Institute of the Russian Academy of Sciences IBRAE and also, for the first time, the Russian Ministry of Natural Resources and Ecology.

Mr Gunnar Wiegand, the Director for Eastern Europe, South Caucasus and Central Asian Republics at the European Commission, chaired the meeting on behalf of the European Commission. The Chair encouraged the Steering Group to bring forward new projects to deliver environmental benefits to the ND area and to speed up the rate of disbursements on the ongoing projects. "The NDEP remains a remarkable demonstration of how one can strengthen and coordinate financing of important projects with cross-border effect", said Mr Wiegand and added that the European Commission remains committed to NDEP and believes in such partnerships and their role in addressing the challenges of today.



NDEP Assembly (from left) Jean-Paul Joulia, Head of Unit at the European Commission, Jose Gomez Gomez, Head of Thematic Section, Delegation of the European Commission to Russia

The Assembly examined the financial status of the Fund and took stock of the progress made so far. Regarding new projects in the non nuclear window, the Assembly confirmed their grant commitment of up to €30 million for the St Petersburg Neva Closure of Direct Discharges project approved earlier in summer 2008 through written procedure. The Assembly allocated €0.5 million grant for a wastewater treatment project in Sosnovyi Bor proposed by NEFCO. Also a small grant increase of €0.18 million for Vologda Municipal Water Services Project was given a go-ahead. NEFCO also brought forward a project proposal for agricultural waste management in Leningrad Oblast. Poultry farms in that region produce high quantities of phosphorus which, if no protective measures are put in place, could reach the Baltic Sea. The Assembly agreed to earmark a €2 million grant for this project subject to receiving further information on the PIU structure.

The availability of new funds prompted a discussion on the future orientation for the NDEP non nuclear window with respect to new sectors and partners. Russia supported NEFCO's initiative in the agricultural sector which coincides with the priorities set by HELCOM for the Baltic Sea Action Plan. Russia as Chair of HELCOM also informed on their preliminary discussions with Belarus on future cooperation and encouraged contacts with Belarus as a potential new partner. The Assembly agreed that wastewater treatment in the ND area remains a priority for NDEP, however new projects in the agricultural or energy efficiency sectors will also be considered on a case by case basis.

Regarding the nuclear window, Mr Evgeny Evstratov, Deputy Director General of Rosatom, welcomed the progress achieved in 2008 with the four new Grant Implementing Agreements and advised the donors of the establishment of the new co-ordinating structure, the Federal Centre for the Nuclear Radiation Safety (FCNRS) whose role would be to enhance the implementation of the Strategic Master Plan and improve coordination of the international cooperation programmes. The EBRD informed that tendering had been initiated on the four signed projects: Lepse, Andreeva Bay, defuelling of Papa class nuclear submarines and Radiation monitoring and emergency response system in Archangelsk region. Also an invitation for expression of interest for the international consultant for Lepse and Papa projects was launched in November 2008.

The next meeting of the Assembly of Contributors is planned for 30 November 2009.

NDEP welcomes a new contribution from Sweden to the non nuclear window (December 2008)

Following the Assembly, Sweden made an additional contribution to NDEP for the non-nuclear window in the amount of 10 million Swedish Kronor. The contributions from Sweden now total €18.4 million, which makes Sweden the third largest contributor to the non nuclear window after Russia and the European Commission.

The resources of the NDEP Support Fund stand at €275 million with €149.7 million earmarked for nuclear window and €125.3 million for environmental projects.

Kaliningrad Project Steering Committee meeting (19 February 2009)

5th Project Steering Committee meeting was held in the offices of the Kaliningrad Regional Administration on 19 February to assess the progress and make decisions on the NDEP projects in Kaliningrad. The Russian participants included Vice Governor of Kaliningrad Region, Mr Sergey Buchelnikov and Deputy Mayor of Kaliningrad, Ms Danuta Smirnova, as well as representatives from the Russian Ministry of Finance, Northern Dimension Foundation (NDF), management and PIU of the Kaliningrad Vodokanal and Kaliningrad District Heating Company. The IFIs attending the meeting included the EBRD, NIB, NDEP, Sida and NEFCO.

The NDF - funded by the city administration and €3 million NDEP grant - is coordinating and helping to implement three projects in Kaliningrad: (1) water and wastewater (2) district heating (3) solid waste. In March 2008 NDF employed CIPPI Prospect and COWI, Russian-Danish consultants whose task is to provide technical assistance for the preparation and implementation of tenders. These consultants are also involved in NDEP projects in Leningrad oblast, Syktyvkar and Vologda.

Regarding the water component, the reconstruction of the Eastern Water Works and Moskovskaya Pumping Station had to be re-tendered in late 2008 as only one bid was received which significantly exceeded the available funds. Consequently 11 tenders have now been received from Russia, Lithuania, Denmark, Czech Republic, France and Slovenia. CIPPI Prospect and COWI completed the tender evaluation process and have made their recommendations which are yet to be approved by the financiers and the City by mid March 2009.

The NDEP funded rehabilitation of the wastewater treatment plant is also moving ahead. The tender documents for the general contractor are ready, although there are still some outstanding issues to be approved by the financiers: EBRD, NDEP and Sida before the contractor is selected in accordance with the Russian law by auction. The Russian Ministry of Finance confirmed the availability of federal funds for this component and urged all the parties involved to avoid any delays as the first disbursement of federal funds is to be made in 2009.

The district heating project is expected to be signed shortly once the EBRD loan agreement is approved by the Kaliningrad Regional Duma, possibly by the end of March. The NDEP Grant of €7.3 million will be signed soon after. As the original feasibility study was conducted in 2004, an update would be required to assess the financing needs. Sida offered to cover the costs of this extra assessment (approx. €70,000) after the loan agreement had been signed.

For the solid waste project, the Kaliningrad oblast has already selected the main contractor. The participation of the IFIs or NDEP will be decided in due course based on an eventual proposal from the Oblast.

NEFCO's project pipeline for NDEP



As it has been over a year since NEFCO joined the NDEP Steering Group, we present a short interview with **Mr Kari Homanen, NEFCO's Senior Investment Manager** on their project development

and current challenges.

• **What would you say is the added value that NEFCO brings into NDEP? What is your niche in the market?**

NEFCO's strength and competence is in the small and medium-size environmental projects in north-west Russia in the public and private sectors. NEFCO's portfolio currently comprises over 250 small and medium sized projects spread across different sectors, including sectors relevant to NDEP such as wastewater treatment, waste management, municipal services and nuclear remediation. At the same time, similarly to NDEP, NEFCO can be a catalyst for large scale investments. Although our size and resources are limited, NEFCO has often been in a position to leverage larger projects through its well-developed network of financial, business and environmental partners at federal, regional and local levels in Russia, as well as with international and commercial financial institutions, funds, Nordic authorities, companies, researches and NGOs. One example was the construction of South Waste Wastewater Treatment Plant in St. Petersburg, where NEFCO was as equity investor in Public-Private-Partnership Project.

• **It was pointed out during one of our NDEP Steering Group meetings that the time for big environmental projects may be over. Do you agree with this statement?**

There are still some big projects in the north-west of Russia, for example St Petersburg Neva Closure of Direct Discharges and Kaliningrad wastewater treatment project, but those are already at least in early implementation. But looking at the municipal waste water sector as a whole, the individual projects are getting smaller. On the other hand major investments are needed in solid waste and district heating sectors, but development is slow. There are still many underinvested wastewater treatment plants in small municipalities, and it is their combined cumulative impact that significantly affects the pollution of the Baltic Sea. As addressing smaller projects separately is administratively time consuming, those have to be looked at as a group of projects to increase the size of project and effectiveness of implementation.

• **What projects is NEFCO preparing for NDEP grant funding?**

Sosnovyi Bor wastewater has already been approved by NDEP Assembly. Two projects for Petrozavodsk, water and wastewater and solid waste and poultry manure project in Leningrad Oblast have been discussed at the NDEP Steering Group. We hope they will be approved in the next meeting as local commitment is high. Also other projects are being prepared. In Karelia, possibly 3-4 smaller towns, Kaliningrad small town project with EU and just recently we have been approached by Pskov, city of 200 000 people close to Lake Peipsi on Estonian boarder. Indeed, there are quite a number of smaller towns which are interested in improving their environmental conditions.

• **Undoubtedly, we are now living in a different financial climate than last year. How does this affect your project development?**

The interest in our financial instruments has increased as the cost of local financing in Russia has sky-rocketed. MosPrime runs at 25% or above and long term loans are not available. The new budget code introduced in the beginning of 2009 does not allow Oblasts or Municipalities to guarantee Euro based loans but only rouble loans. But in the current situation fixing an interest rate for a rouble loan is a challenging task. Loan negotiations with public sector projects take more time than expected. I do understand the Government's concern and attempt to limit uncontrolled use of foreign exchange loans. At this point, however, considering that this also delays the use of NDEP funds, a solution should be found. Here NDEP could play an important role having close relations with the Russian Ministry of Finance.

Nuclear Window update

Since the Assembly of Contributors, the activities in the nuclear window focused on procurement of the projects signed in June 2008 with the following results achieved so far:

- The EBRD has given its non-objection to the procurement plan for the Transportation of SNF system in Andreeva Bay project. The first step is the direct selection of Nuvia Limited as the International Consultant to be finalised by end of March.
- Open tender has been launched for the recruitment of the International Consultant for the decommissioning of the Lepse and the de-fueling of the Papa Class submarine projects. The first stage, consisting in the establishment of a shortlist of tenderers, has been completed and the requests for proposal will be sent out to shortlisted bidders in the coming weeks.
- The EBRD has issued its non-objection to the evaluation report of the tender for the implementation of the Archangelsk project and the related contract is planned to be signed early March between the Grant Recipient, the Administration of the Archangelsk Region, and ESAC IBRAE as contractor.

NDEP Visit to Belarus (25-27 February)

Following the Assembly's proposal to establish a dialogue with Belarus, the NDEP Manager travelled to Minsk to meet with the Belarusian Ministry of Economy, Ministry of Municipal Services and Housing and Ministry of Natural Resources and Environmental Protection. The initial response from the Government authorities was positive. They will now consider and formulate their response on possible cooperation with NDEP. Further meetings were held with municipal authorities in Vitebsk and Grodno which informed of their investment needs in the wastewater sector.

ND Events

"Financing Infrastructure, Municipalities and Regional Development in Russia 2009" (16-17 December 2008)

The key focus of the conference was how to ensure continued regional investment growth in north-west of Russia and the sources of funding for Russian cities and municipalities. The NDEP Manager took part as a key speaker in the panel discussion on "Infrastructure Investment and Project Finance Trends" by highlighting investment opportunities through NDEP and IFIs.

HELCOM Baltic Sea Action Plan events

The Baltic Sea Action Plan (BSAP) is an innovative and long term programme currently being developed by HELCOM. The main objective is to restore the good ecological status of the Baltic marine environment by 2021. The innovative approach is based on clearly defined objectives such as: clear water, an end to excessive algal blooms, and viable population of species. The most serious environmental challenge is the continuing eutrophication of the Baltic Sea caused by excessive input of nutrients, phosphorous and nitrogen in particular.

NDEP and HELCOM are on the same mission to cut down pollution loads to the Baltic Sea. Significant reductions of nutrients have already been achieved by eliminating pollution at major point sources, such as big sewage treatment plants and industrial wastewater outlets. What is required now is a concerted action to reduce nutrient loads from smaller wastewater treatment plants in the whole of the Baltic Sea basin including Belarus. Another new hot-spot area identified by HELCOM is agricultural pollution, which produces nutrients as run-off from over-fertilised lands and intensive animal farming.

The objectives of the HELCOM's BSAP are based on the best available scientific knowledge. However the success of reaching these targets depends solely on the good political will and commitment of all the countries round the Baltic Sea basin. For this purpose HELCOM continues with its programme of engaging and committing all the stakeholders in the region. Recent events included an Implementation Group meeting in Helsinki on 2-3 December 2008 and First Stakeholders Workshop on the implementation of the BSAP for the Leningrad Oblast in Russia on 11-12 February in St Petersburg. The NDEP Manager participated in the events presenting the financing opportunities through NDEP for concrete project implementation in the region.

For more information on HELCOM BSAP, click on <http://www.helcom.fi>

5-6 February 2nd Stakeholder Conference on the preparation of the EU Baltic Sea Strategy

In relation to the EU Strategy for the Baltic Sea Region, currently being developed by the European Commission, a 2nd Stakeholder Conference was held in Rostock. The main objective of the Strategy is to improve the environmental state of the Baltic Sea Region, especially of the Sea itself, and to boost economic development in the Region. The European Commission will present the EU Strategy for the Baltic Sea Region by June 2009 with an action plan identifying lead partners, funding sources and timeframe. Around 400 representatives of the Baltic governments, local authorities, business, NGOs and academia took part in this two day conference.

To read more on the EU Baltic Sea Strategy, check: http://ec.europa.eu/regional_policy/cooperation/baltic/ind_ex_en.htm

NDEP Projects in brief

Project	Lead IFI	Total cost	NDEP grant	Progress
1. St. Petersburg Southwest Wastewater Treatment Plant	NIB	€193.6 million	€5.8 million	Project completed - plant in operation
2. St. Petersburg Flood Protection Barrier	EBRD	€2000 million	€1 million	Under construction
3. St. Petersburg Northern Wastewater Treatment Plant Incinerator	EBRD	€90.4 million	€6.35 million	Project completed - plant in operation
4. Municipal Environment Investment Programme in the Leningrad Oblast, Phase 1	NIB	€23.2 million	€4 million	Under construction
5. Komi Municipal Services Improvement Project	EBRD	€31.8 million	€6.035 million	Under construction
6. Kaliningrad District Heating Rehabilitation	EBRD	€21.8 million	€7.3 million	Approved by Assembly Grant yet to be signed
7. Archangelsk Municipal Water Services Project	EBRD	€25.5 million	€8.2 million	Under construction
8. Murmansk District Heating Project	NIB	€29.6 million	€5 million	Approved by Assembly Grant yet to be signed
9. Novgorod Cross Municipal Rehabilitation	NIB	€14 million	€2 million	Approved by Assembly Grant yet to be signed
10. Kaliningrad Solid Waste Management Project	NIB	€49.2 million	€10.1 million	In preparation
11. St. Petersburg Neva Closure of Direct Discharges of Untreated Wastewater	NIB	€890 million	€30 million	In preparation
12. Ladoga Environmental Programme	NIB	€100 million	n/a	Under construction
13. Kaliningrad Water and Environmental Services	EBRD	€110 million	€10 million	Under construction
14. Vologda Municipal Water Services	EBRD	€18.4 million	€3.5 million	Grant signed Implementation started
15. Kaliningrad Project Implementation Unit	EBRD	€3.8 million	€3 million	Grant signed Implementation started
16. Sosnovyi Bor Municipal Water Services	NEFCO	€2.9 million	€0.5 million	Approved by Assembly Grant yet to be signed

Also note...

- 3 March 2009 – HELCOM BSAP Stakeholder conference in Helsinki with Russian and Finnish Ministers
- 5 March 2009 – 7th Meeting of the Northern Dimension Steering Group in Oslo organised by the Norwegian Ministry of Foreign Affairs
- 18-19 March 2009 – Baltic Sea Days in St Petersburg
- 19 March 2009 Swedish-Russian Seminar on waste management – part of Baltic Sea Days in St Petersburg
- 15-16 May 2009 – EBRD Annual Meeting
- 9-10 June 2009 – Conference on Finnish cooperation with St Petersburg Vodokanal held in St Petersburg
- 15 June 2009 – NDEP Steering Group meeting in London
- The NDEP brochure is available on request. Write to info@ndep.org with your name, organisation and postal address to receive a copy.

The **Northern Dimension Environmental Partnership** was developed in response to calls from the Russian Federation and the international community for a concerted effort to address environmental problems in Northwest Russia. The most pressing relate to water, waste-water, solid waste, energy efficiency and nuclear waste.

The NDEP evolved from this initial idea into a fully established partnership whose Support Fund, managed by the EBRD, provides grant co-financing to key investments in environmental and nuclear safety projects in this area. NDEP projects are implemented by the EBRD, the NIB, NEFCO, the EIB and the World Bank.

The European Union, the Russian Federation, Belgium, Canada, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden and the United Kingdom are the sponsors of the NDEP Support Fund, which currently stands at close to €275 million.

For more information, visit www.ndep.org, or contact Jaakko Henttonen at Henttonj@ebrd.com or NDEP Secretariat at Manike@ebrd.com