

## NDEP News

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### NDEP Grant and IFI loans are signed for the St Petersburg Neva Programme

Despite the current economic climate, the State Unitary Enterprise (SUE) Vodokanal St Petersburg is moving ahead with its ambitious investment programme to achieve full wastewater treatment efficiency in line with the European and HELCOM standards. At the start of the year, the SUE Vodokanal St Petersburg, the NIB - as the lead implementing agency - and a team of consultants updated and prioritized the investment plan in such a way as to deliver the maximum of the environmental benefits.

The final investment plan now totals €546.4 million and is split into two stages: Part A, which will commence now and Part B to go ahead when the full financing is confirmed. Within the overall programme, the Vodokanal has already carried out the construction worth €176.5 million consisting of new tunnel lines and associated works thus closing off 31 points of direct discharges. The first tunnel line as a gravity collector was taken into

operation in October 2008 (see previous Newsletter issue 17).

Part A totaling €322.6 million will consist of a construction of a sewage pumping station for the first tunnel and upgrading of the Northern Wastewater Treatment plant. The IFIs (EBRD, NIB and EIB) will jointly provide €60 million in loans, in addition to the €24 million from NDEP and a €6 million grant from the EBRD Shareholder Special Fund. Bilaterally, Finland and Sweden will support the first part with €10.8 million in grant funding for the necessary studies and equipment.

Part B will be implemented by and large by Vodokanal's own resources and financing from the City of St Petersburg when the financing is confirmed. The €223.8 million package will be used to finance full upgrading of the Northern Wastewater Treatment plant, completion of the second tunnel line and closing of a number of direct discharges by micro-tunnels.

It is estimated that when Part A is completed by 2012, 94% of municipal wastewater generated by the City will be treated, thus fulfilling the EU and HELCOM recommendations. With completion of Part B, St Petersburg will treat 98% of its wastewater.



Signing of the NDEP Financing Agreement (from left) **Feliks Karmazinov**, Director General of SUE Vodokanal St Petersburg, **Niels Emilson**, NIB First Vice President, **Heikki Cantell**, NIB General Counsel

The NDEP Grant Agreement signed in Helsinki on 14 April 2009 was a major breakthrough and a confidence boost for all the investors involved in the Neva Project. With this positive signal from NDEP, the EBRD and NIB loans were signed with SUE Vodokanal St Petersburg on 20 May in Helsinki. The EIB loan and the Project



Support Agreement with the City were signed during the St Petersburg Economic Forum on 4-5 June 2009.



Signing of the EBRD loan (from left) **Thomas Maier**, EBRD Business Group Director, and **Feliks Karmazinov**, Director General of SUE Vodokanal St Petersburg

The SUE Vodokanal St Petersburg and the IFIs are now finalising the terms of reference for various consultants who will start working in autumn to prepare tender documents for procurement of goods and services to commence in early 2010.

### Contract signing under the NDEP nuclear safety grant for Archangelsk region (6 March 2009)



Contract signing for NDEP nuclear safety grant for Archangelsk region (from left) **Ilja Michalchuk**, Archangelsk Governor and **Leonid Bolshov**, Director of IBRAE, Nuclear Safety Institute, Russian Academy of Sciences

NDEP Grant Agreement 8 is one of the five nuclear safety grants totalling over €70 million signed in June 2008. Grant 8 in the amount of €5.1 million is to finance the radiation monitoring and emergency response system in the Archangelsk region. The grant recipient, the Archangelsk Region Administration, has appointed the Nuclear Safety Institute of the Russian Academy of Science (ESAC IBRAE) as general contractor for the project. The contract between the two entities was signed on 5 March 2009.

A similar project has already been successfully implemented for the Murmansk region and the

International Atomic Energy Agency (IAIE) carried out a positive review of the project.

Both projects in Murmansk and Archangelsk regions are of vital importance to the local population due to large scale decommissioning projects currently taking place in the north-west of Russia. Especially in the Archangelsk region, the two main shipyards: Sevmash and Zvezdochka are in close proximity to two main towns of Archangelsk and Severodvinsk with a combined population of over 500,000. The modern equipment for radiation monitoring and emergency response systems will allow for early warning and reaction of the local authorities and hence minimize the effects of potential radiation incidents on the local population and the environment. The project will also establish communication systems with relevant authorities in Moscow and St Petersburg.

### NDEP meeting with the Government of Belarus in London (1 May 2009)



Belarusian Delegation (from left) **Alexandr Mikhnevich**, Ambassador of Belarus to the UK, **Vladimir Semashko**, First Deputy Prime Minister, **Nikolai Zaichenko**, Minister of Economy, **Alexandr Ozerets**, Minister of Energy

Following the NDEP Assembly's recommendation to establish a dialogue with Belarus, a round table meeting on NDEP was held with the representatives of the Belarusian Government on 1 May 2009 in the offices of the EBRD. Earlier in February this year, the NDEP Manager travelled to Belarus to visit Ministries in Minsk, municipal authorities and communal water services in Vitebsk and Grodno.

The Belarusian delegation included Vladimir Semashko the First Deputy Prime Minister, Nikolai Zaichenko, Minister of Economy, Alexandr Ozerets, Minister of Energy, Vladimir Sosnovsky, Minister of Transport, Alexandr Mikhnevich, Ambassador of Belarus to the UK and Alexander Sidoruk, Counsellor at the Embassy of Belarus. The EBRD as the NDEP Fund Manager was represented by Horst Reichenbach, EBRD Vice President and NDEP Steering Group Chair, Thomas Maier, Business Group Director, Alistair Clark, Corporate Director of Environment and Sustainability Department, Jari Gustafsson, Director for Norway, Finland and Latvia, Elena Kotova, Director for Russia, Mikhail Maslov, Adviser to the Russian office and Jaakko Henttonen, NDEP Manager.

The Belarusian delegation wished to discuss in detail their potential cooperation with the NDEP Support Fund. The EBRD made a presentation on the terms and

conditions of participation in the Fund, preferred sectors for project development, project structure and the need for combining grants with IFI loans and local financing.

The participation of Belarus in the NDEP would be a welcome step towards reducing the pollution load to the Baltic Sea, the primary objective of the NDEP environmental window. A number of cities in Belarus are listed as environmental hot spots in HELCOM's Baltic Sea Action Plan currently under implementation.

### **Kaliningrad Project Steering Committee meeting (4 June 2009)**

Representatives of Kaliningrad Vodokanal, Kaliningrad Regional Government, Russian Ministry of Finance, EBRD and NIB met on 4 June to review the progress of the NDEP Kaliningrad Environmental programme.

Finally a success was achieved on the district heating component when the loan agreement was signed between the EBRD and the Kaliningrad Teploset on 14 May in the Russian Ministry of Finance in Moscow. As a result a consultant financed by Sida can now start working on updating the original feasibility study. The NDEP Grant Agreement is now being finalised and is expected to be signed on 14 July.

Regarding the water and wastewater component, the tender negotiations on the Eastern Waterworks and Moskovskaya Pumping Station have been completed but the funds available would only allow for the Eastern Waterworks to go ahead. It was proposed to proceed with the contract as it will take about 3 years to complete. In the meantime financing will be sought for the Pumping Station, which would only take 1 year to implement. For the wastewater treatment plant, indications of interest for the auction for the main contractor were invited by 24<sup>th</sup> June. For the solid waste component, the Kaliningrad Oblast is to sign shortly a contract with a consortium led by a Russian company "Stroykompleks". Possible NDEP involvement in the solid waste component will be considered separately.

However as emphasised by the new Director General of Kaliningrad Vodokanal, Sergey Melnikov the implementation of the whole programme is seriously jeopardized as the EBRD and NIB loans - which expired at the end of December 2008 - have not been extended. The decision is resting with the Russian Ministry of Economy. In the meantime, there are no funds to pay for the work carried out within a contract for upgrading of the Eastern Waterworks.

The next PSC meeting is planned for September 2009.

### **NDEP Steering Group meeting in London (15 June)**

The NDEP Steering Group convened on 15<sup>th</sup> June in London in the offices of the EBRD to examine the progress of NDEP projects since the Assembly in December 2008. The EBRD chaired the meeting before the EIB takes over this role in July until 2010.

The participants included the Steering Group members: the European Commission, Russia and the IFIs (EBRD, EIB, NIB and NEFCO), while Denmark, Finland,

Germany, Poland and Sweden attended the meeting as observers. The Steering Group welcomed representatives from Belarus who joined this NDEP meeting for the first time.



(from left) the Belarusian delegation to the NDEP Steering Group: **Alexander Sidoruk**, Counsellor at the Belarusian Embassy, **Alexandr Mikhnevich**, the Ambassador of Belarus to the UK, the Russian delegation: **Andrey Avetisyan**, Ministry of Foreign Affairs, **Maria Smirnova**, Ministry of Finance, **Igor Zotov**, Ministry of Natural Resources and Ecology

The Steering Group welcomed the news on the recent communication with Belarus regarding their participation in NDEP and encouraged further discussion to develop projects in the wastewater treatment sector to reduce cross border pollution in the Baltic Sea Basin.

In this context, it was very useful to receive the information by Anne-Christine Brusendorff, the Executive Secretary of HELCOM on the Baltic Sea Action Plan (BSAP) adopted by all 9 Baltic Sea States including Russia and the European Community. The plan sets targets for nutrient reductions to be achieved by individual countries in order to restore good environmental status of the Baltic Sea and reduce eutrophication. For Russia these reduction targets are 2,500 tonnes of phosphorous and 6,970 tonnes of nitrogen per year. For Belarus the figures are also significant: 1,660 tonnes of phosphorous and 3,780 tonnes of nitrogen per year. The purpose of the HELCOM's BSAP is to raise awareness and mobilise polluting countries to bring in measures to achieve the required reductions. HELCOM - currently chaired by Russia - recognizes the success of NDEP and considers the Partnership to be a good model for concrete project implementation in the Northern Dimension Area.



(from left) Swedish delegation to the NDEP Steering Group, **Lars Eklund** SIDA, **Birger Karlsson**, Ministry of Foreign Affairs, **Sven Hegelund**, EBRD Director for Sweden and **Anne Christine Brusendorff**, Executive Secretary of HELCOM

The Steering Group examined the progress of the on-going projects. The main achievement was the signing of loans and NDEP grant for the Neva Programme. The first tranche of NDEP grant for Syktyvkar Vodokanal is almost fully disbursed while the grant for Archangelsk Vodokanal is fully contracted. Also the €4 million NDEP grant for Lenoblast project will be fully utilised this year. Vologda Vodokanal will launch a tender for the rehabilitation of the wastewater treatment plant in the coming days. A new structure and a possible grant increase were discussed in relation to the NIB project in Novgorod, providing that a loan agreement can be signed with the local municipality. The Steering Group welcomed good progress on the district heating project in Kaliningrad but was very concerned about the lack of decision on the IFI loan extensions delaying the water and wastewater component.

Regarding new projects, NEFCO presented an update on their proposals for Petrozavodsk and the agricultural project for Lenoblast. The NIB proposed to extend the Lenoblast programme to include new cities: Vyborg, Tosno, Volosovo and Mga. The EBRD informed of a new project idea in Vsevolozhsk. These proposals will be developed further and presented at the next Steering Group meeting.

The EBRD Nuclear Safety Department reported on the activities in the nuclear window since the last Assembly which concentrated on following up on the on-going projects and preparation of procurement under the Grant Agreements signed last year. The EBRD is working closely with the Federal Centre for Nuclear and Radiation Safety (FCNRS).

The next Steering Group meeting under the EIB chairmanship will take place in St Petersburg on 8 and 9 October.

## Message from the EBRD Vice President, Horst Reichenbach on handing over the Chairmanship to the EIB



Before I leave as Chair of the NDEP Steering Group, let me comment on the NDEP achievements during this year. The new Russian replenishment of the NDEP Support Fund has given a new momentum to the Partnership and focused our activities. At the same time, the nuclear window made a breakthrough with signing 5 Grant

Agreements to the value of over €70 million in June 2008. The long awaited Neva Programme for St Petersburg received a €24 million NDEP grant unanimously approved by all the donors, and in addition, the EBRD - recognising the importance of the project - allocated a €6 million grant from its shareholders special fund.

Although we have not escaped the effects of the global financial crisis, it is very encouraging to see that our clients have managed to weather the storms and continue with their investment programmes. It is absolutely vital that the Neva revised programme is

going ahead. It will be very challenging for the IFIs to develop projects at the time when Russian municipalities are concerned about high cost of borrowing. The EBRD has signed the loan for the Kaliningrad District Heating project and hopes that the whole programme for the region, including the water and wastewater components will proceed smoothly.

We are pleased with the positive results of our dialogue with the Government of Belarus and trust this will lead to good cooperation to develop municipal infrastructure projects to benefit the ecology of the Baltic Sea and the Northern Dimension Area as a whole.

## ND Events

From the NDEP perspective, two important events took place in June. On 9-10 June a conference took place in St Petersburg to mark and celebrate the 20 years of cooperation between Finland and SUE Vodokanal St Petersburg. The Finnish Minister of Environment Paula Lehtomäki mentioned in her speech that the construction of the Southwest Wastewater Treatment Plant was the most important achievement in the past years. She also said that it not only delivered concrete results but helped all partners involved to gain mutual trust and experience thus providing solid grounds for future projects to be implemented within the NDEP framework.



(Above) Paula Lehtomäki, Finnish Minister of Environment and Feliks Karmazinov, Director General of SUE Vodokanal St Petersburg

On 18 June the 8<sup>th</sup> Northern Dimension Steering Group meeting took place in Reykjavik hosted by the Icelandic Ministry of Foreign Affairs. The four partners of the Northern Dimension: the European Commission, Iceland, Norway and Russia met to review progress on the common initiatives and policies for the Northern Dimension Area. The European Commission presented their Action Plan concerning the EU Strategy for the Baltic Sea Region. It identifies 15 various priority areas where improvements are needed including environment, transport, business opportunities, health, safety and security. Each hot-spot is addressed through a list of required actions and assigned a lead country. One of the recommended actions is to develop further cooperation with Russia and Belarus in the context of the NDEP to reduce the amounts of nutrients in the Baltic Sea. The NDEP is mentioned as a proven vehicle for delivering real benefits in the Northern Dimension Area. The strategy is to be adopted during the Swedish Presidency in second half of 2009.

## 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	€546.4 million	€24 million	Grant signed Implementation started
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	€3.3 million	€0.5 million	Approved by Assembly Grant yet to be signed

### Also note...

- 27 August 2009 – Kemira Baltic Sea Summit in Helsinki
- 29 September 2009 – 9<sup>th</sup> Northern Dimension Steering Group meeting in Moscow
- 24 September 2009 – Project Steering Committee meeting in Kaliningrad
- 8-9 October 2009 – NDEP Steering Group meeting in St Petersburg
- 14-15 October 2009 – 6<sup>th</sup> meeting of the HELCOM Baltic Sea Action Plan Implementation Group in Copenhagen
- The NDEP brochure is available on request. Write to [info@ndep.org](mailto: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](http://www.ndep.org), or contact Jaakko Henttonen at [Henttoni@ebrd.com](mailto:Henttoni@ebrd.com) or NDEP Secretariat at [Manike@ebrd.com](mailto:Manike@ebrd.com)