



CITY OF SOFIA

SOFIA, BULGARIA

Rolling stock renewal with a loan from the European Bank for Reconstruction and Development (EBRD)

Background/context

The high age of the public transport rolling stock, unreliable service and high maintenance costs were the main factors in the City of Sofia's decision to build transport infrastructure and to buy new vehicles. In so doing, the city could meet European environmental standards and stimulate the development of public transport services.

The City of Sofia sought financing through an international financial institution because state guarantees needed for loans from commercial banks were not available. Also, the international financial institutions provided better loan conditions.

Description of the case

After road improvements and water utility privatisation programmes, in April 2002 the City of Sofia signed a loan agreement with the European Bank for Reconstruction and Development (EBRD) to finance the Sofia Public Transport Project. The project focused on priority investments to improve public transport services. The loan allowed operating companies to refurbish part of the tram fleet and to buy 111 new buses. An additional project component was

the introduction of a new and efficient passenger ticketing system to reduce fare evasion and increase revenues. The ticketing system was funded through a grant from the Dutch government, administered by EBRD.

The project was realised with four international tenders:

- In 2003 – purchase of 50 new articulated buses – Euro 3. (Mercedes Benz O 345 G). These vehicles are in operation.
- In 2005 – purchase of 61 new low-floor solo buses – Euro 3. (BMC 220 SLF). These vehicles are in operation.
- In 2006 – two-stage tender for refurbishment of 18 trams – AC motors (95% new components; four AC motors; 16% middle low-floor section.) First refurbished tram was accepted for operation on April 3, 2008.
- In 2006 – two-stage tender for supply and installation of a public transport ticketing system. The system has been in pilot operation with trams and trolley-buses since September 2008.

The main partners in this project are the creditor (EBRD), the borrower (City of Sofia) and the beneficiaries: municipal bus and tram operating companies.

Legislation and policy issues

Each tender was carried out under the EBRD's procurement policies and rules. These are based on the fundamental principles of non-discrimination, fairness and transparency. They are designed to promote efficiency and effectiveness and to minimise credit risk. The proven procurement practices of the bank led to time and money savings for the city and helped to ensure successful project implementation and operation.

Cost and financing

EBRD is not a commercial bank. This made for better loan conditions (interest rates, financial guarantees, etc.).

Parameters of the Loan:

- Amount – EUR 29.5 million
- Repayment period – 10 years
- Grace period – three years

Credit ratings strongly influence the cost of financing.

City of Sofia generates a quarter of Bulgaria's gross domestic product and attracts almost 60% of foreign direct investments in Bulgaria. The unemployment rate in Sofia is 2.4%, less than a third of the Bulgarian average (9%).

In March 2008 Standard & Poor's credit rating agency upgraded the credit rating of Sofia municipality from stable to positive. The agency affirmed the city's rating at BB+. Due to the credit rating upgrade, the interest payments of Sofia Municipality on the EBRD loan will decrease.

Results

- Reduced maintenance costs
- Improved quality of service
- Restored production of trams in Sofia
- Capacity building for refurbishment of trams by Sofia tram factory.
- Participation of the Sofia tram factory in international tenders for production of new or refurbishment of old trams
- Improvement of institutional framework (local level)
- Introduction of public service contracts (PSC) with the transport operators, based on international best practice – ensured by EBRD
- Experience gained in development of EU projects
- Simplified procedures for additional financing

The introduction of the new fleet will also reduce pollution. The new buses are more fuel efficient and run cleaner than the replaced rolling stock.

Problems

The main problems could be summarised as follows:

- Limitations for co-financing by the City of Sofia of the ticketing system project due to specific regulations under Bulgarian Public Procurement Act.
- Certain obligations under the loan agreement (annual covenants, conditions for other loans, changes in the

public transport institutional framework, prior approval by EBRD of all tender documents and evaluation reports, etc.) which at times slowed down the procedure.

Transferability and success factors

The approach is transferable to other cities as well as transport operators. The key success factors were:

- Virtually no financial risk for the both parties
- Transparent tender procedures under EBRD procurement policies and rules
- Signing of new public service contracts with the transport operators. The contracts defined the rights and obligations of each party, including the quantity and quality of services to be provided by the operator in return for service payments by the City.

Lessons learnt

- The existence of public service contracts makes it easier to get financing from the EBRD
- It is preferable if the operator rather than the municipality applies for the loans and oversees the procedural matters
- Political interference should be avoided in order to ensure fast and effective procurement, evaluation and awarding procedures
- For such projects additional administrative capacity is needed

Conclusions

Through the EBRD loan the public transport fleet is being upgraded through a six-year renewal programme, the most significant investment in Sofia public transport since the 1980s. The EBRD loan formed the basis of a long-term improvement programme for Sofia's transport system.

References and contacts

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