

Ex-ante assessment update for the use of Financial Instruments under the OP Environment

Monitoring Committee of Operational programme Environment 2014-2020

Sofia – 14 March 2019



European Bank
for Reconstruction and Development

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Aim and context of the exercise

Section 1 Objective

Identity of the study: Update the Ex-ante assessment and investment strategy covering Priority Axis (PA) 1 water, PA 2 waste and PA 5 Improvement of Ambient Air Quality.

Objective: Re-analyse the three markets to better estimate the market failures, financing gaps, and improve the investment strategy, taking into account the relevant market developments.

Initial ex-ante assessment completed in **September 2014**. Since September 2014,

- a) **Oct. 2015:** FMFIB is established by the Ministry of Finance
- b) **Nov. 2015:** EBRD updates Investment Strategy after OP is adopted
- c) **Jan. 2017:** FMFIB and MA sign funding agreement to implement FIs under PA2-Waste
- d) **Jul. 2018:** FMFIB and MA sign funding agreement to implement FIs under PA1 – Water
- e) **Oct. 2018:** EBRD and FMFIB sign operational agreement for FI in water sector
- f) **End 2018:** 16 water operators have consolidated, initial JASPERS results ready.

Updating findings with new market realities



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Section 2 Methodology

In line with the **EC Ex-Ante Assessment Methodology of Apr 2014**, but adapted to the needs of an ex-ante update. The main components of the analysis:

- Conducted extensive interviews with market stakeholders and desk research
- Initial findings were put to test and checked against market developments
- Recent implementation arrangements needed to be taken into account such as the set up of FMFIB and the signing of funding agreements
- More attention given to ongoing reforms and identified project pipelines
- Did not rely only on proxies to estimate supply or demand, but takes into account market reality such as borrowing capacity and investment needs of end users
- Took into account the late timing into the programming period and attempts to provide more practical suggestions for implementation (more accurate definition of state aid situation, combination of FI and TA under a single operation).

Example: water sector methodology



Section 2 Methodology

Market
Assessment
Deliverable I

Investment
Strategy
Deliverable II

1. Segment WSSOs
Analyse the institutional context - Water reform progress and WSSOs' progress towards eligibility of OPE 2014-2020 criteria.

2. Analyse WSSOs financial performance
Understand the market situations of WSSOs through the prism of financiers by analysing WSSOs' key financial ratios

3. Estimate borrowing capacity
Gather and consolidate all data and define WSSO borrowing capacity deriving from their financial performance

4. Estimate Investment Needs
Analyse RFS and identify investment needs relevant to OPE 2014-2020

5. Define FI products
Definition of two products based on the market situation of individual WSSOs

6. Estimate ESIF FI budget and expected leverage
Estimate OPE 2014-2020 contribution in the FI, taking into account the willingness of co-financiers to participate in the FI

7. Define FI governance structure
Based on the market assessment and additional analysis of FI products and characteristics, structure FI governance structure

8. Define other implementation arrangements
Outline state aid considerations and combination with grants

Findings of market assessment

Section 3 Findings

Cross-cutting

Sector-specific



- Banking sector is much more stable.
- Macroeconomic outlook is more positive.
- Some experience with ESIF FIs has been gained, in the previous and current programming period but mainly in SME financing.

However,

- Supply of financing remains very limited in all sectors, so quantification is difficult.
- Commercial banks are not really targeting the sectors.
- Municipalities have limited experience with FIs.
- The analysis identified some interesting potential projects which do not fall within the scope of the OP, but could be targeted in case the OP is reviewed or in the next programming period.



- Water reform is being implemented, with good progress.
- Some initially-identified market failures related to WSSOs have been mitigated (such as the lack of incentives to invest in infrastructure, the weak operational and financial performance).
- However, some additional market failures were identified.
- Demand for financing was quantified by segmenting the WSSOs according to their financial performance, borrowing capacity and investment needs.

- Demand estimated from programming documents (e.g. municipal or national waste management Plans).
- But also, potential private actors on demand side were considered.
- The main limitation in the market is the lack of mature projects, however market players highlighted that the existence of a financial instrument could incentivize project promoters.

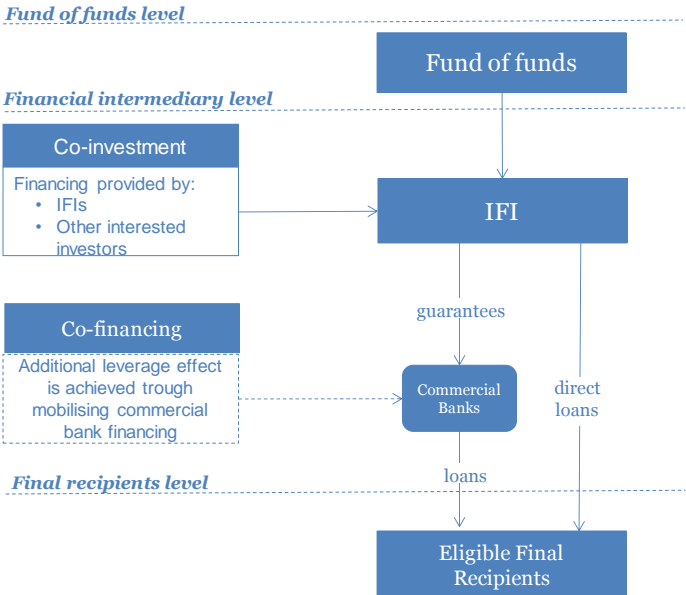


- Demand estimated from programming documents (e.g. SNAQMP for 5 municipalities, and municipal waste management plans).
- Project maturity remains low but some potential projects identified in areas such as replacement of heating systems and modernization of public transport which however also fall under the scope of OP Regions in Growth.

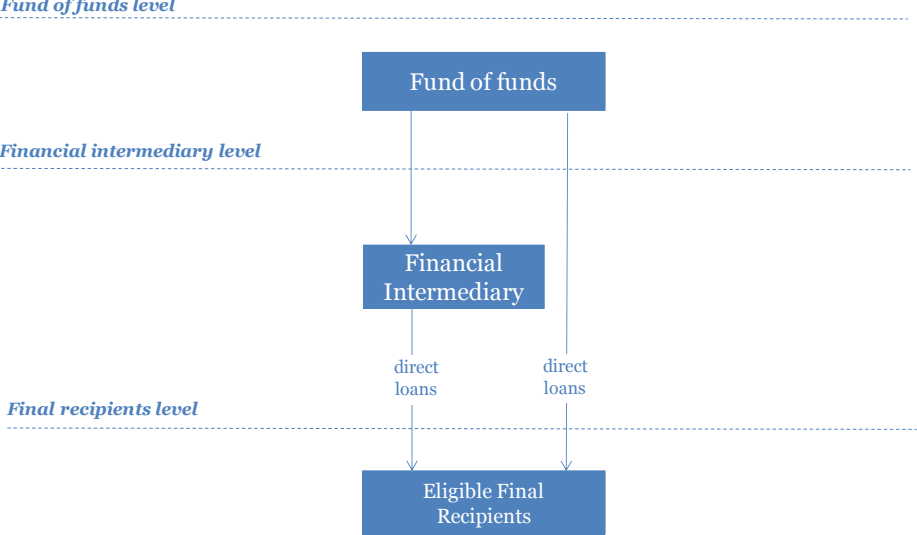
Investment Strategies in the 3 sectors

Section 4
Investment strategy

Water & wastewater



Waste





Air quality

	Water	Waste	Air quality
FI budget	BGN 266m	BGN 26.4-61.6m	BGN 5m
TA budget	BGN 22m	BGN 3-7m	BGN 0
Exp leverage	1.41x	1.1x	1.1x

How the analysis defines the strategy: the water example



Section 4 Investment strategy

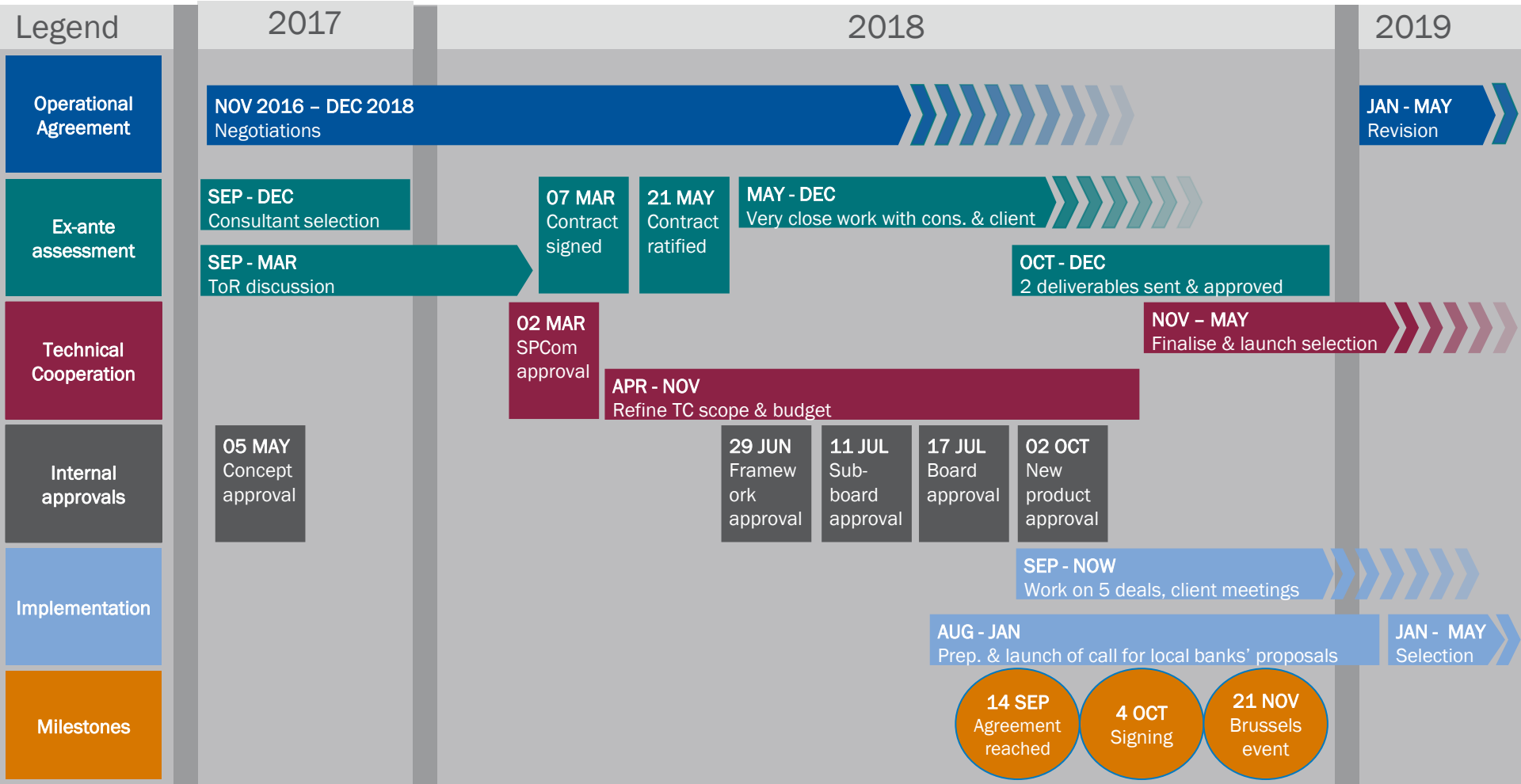
WSSO Segmentation	Estimate for Investment Needs (BGN million)	Estimate for Available Borrowing Capacity (BGN million)	Assessment of WSSOs Borrowing Capacity vs. Investment Needs	Estimate for Proposed ESIF FI Budget (BGN million)	Estimate for IFI Co-financing (BGN million)	Estimate for Commercial Banks Co-financing (BGN million)	Expected Leverage	Total Expected FI Resource to Final Recipients (BGN million)	Allocation of Financial Products to Final Recipients
WSSOs with stable performance and sufficient borrowing capacity vs. investment needs									
A	40	58	Sufficient	27	8	8		40	 Guarantee product FI ESIF Budget: BGN 93 m. Expected Leverage: 1.52x Total FI resources: BGN 140 m.
B	100	236		66	20	20		100	
Total	140	294		93¹	28	28	1.52	140	
WSSOs with volatile performance and limited borrowing capacity vs. investment needs									
A	102	65	Borderline	41	65	-		102	 Loan product FI ESIF Budget: BGN 173 m. Expected Leverage: 1.36x Total FI resources: BGN 235 m.
C	28	13		17	13	-		28	
Total	131	77		59²	77	-	2.23	131	
WSSOs with persistently poor performance and highly constrained borrowing capacity vs. investment needs									
A	62	21	Insufficient	68	-	-		62	
C	43	4		47	-	-		43	
Total	104	25		115³	-	-	0.91	104⁴	

The Water FI under implementation



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Section 5 Implementation



Thank you

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