



## EBRD financing and Financial Instruments for water infrastructure in Bulgaria

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# Outline



1. Presenting EBRD
2. The ESIF Water Instrument in Bulgaria
3. Challenges & innovations in Bulgarian instrument



# EBRD Objective and Key Statistics

## Section 1 Presenting EBRD

**Objective:** To foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative.

### Key facts

Established in **1991**

Capital base of **EUR 30 billion**

Owned by **67 countries** + EU + EIB

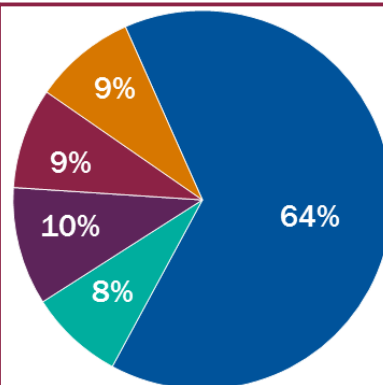
Active in **38 countries**

**Triple A** rating

Private sector & policy reform

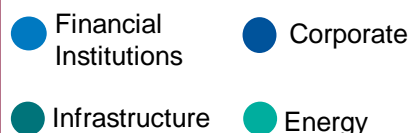
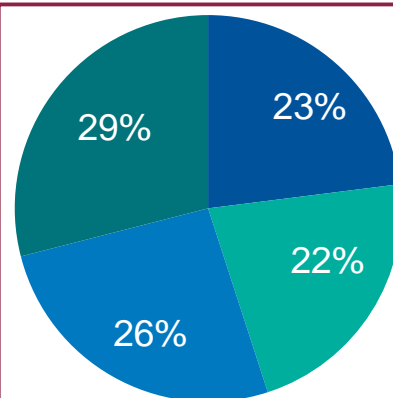
80% of investment in **private sector**

### Ownership



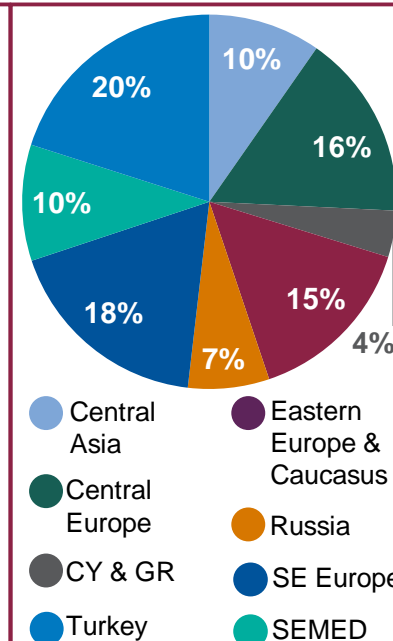
As at January 2019

### Sector focus



As at December 2017

### Region focus



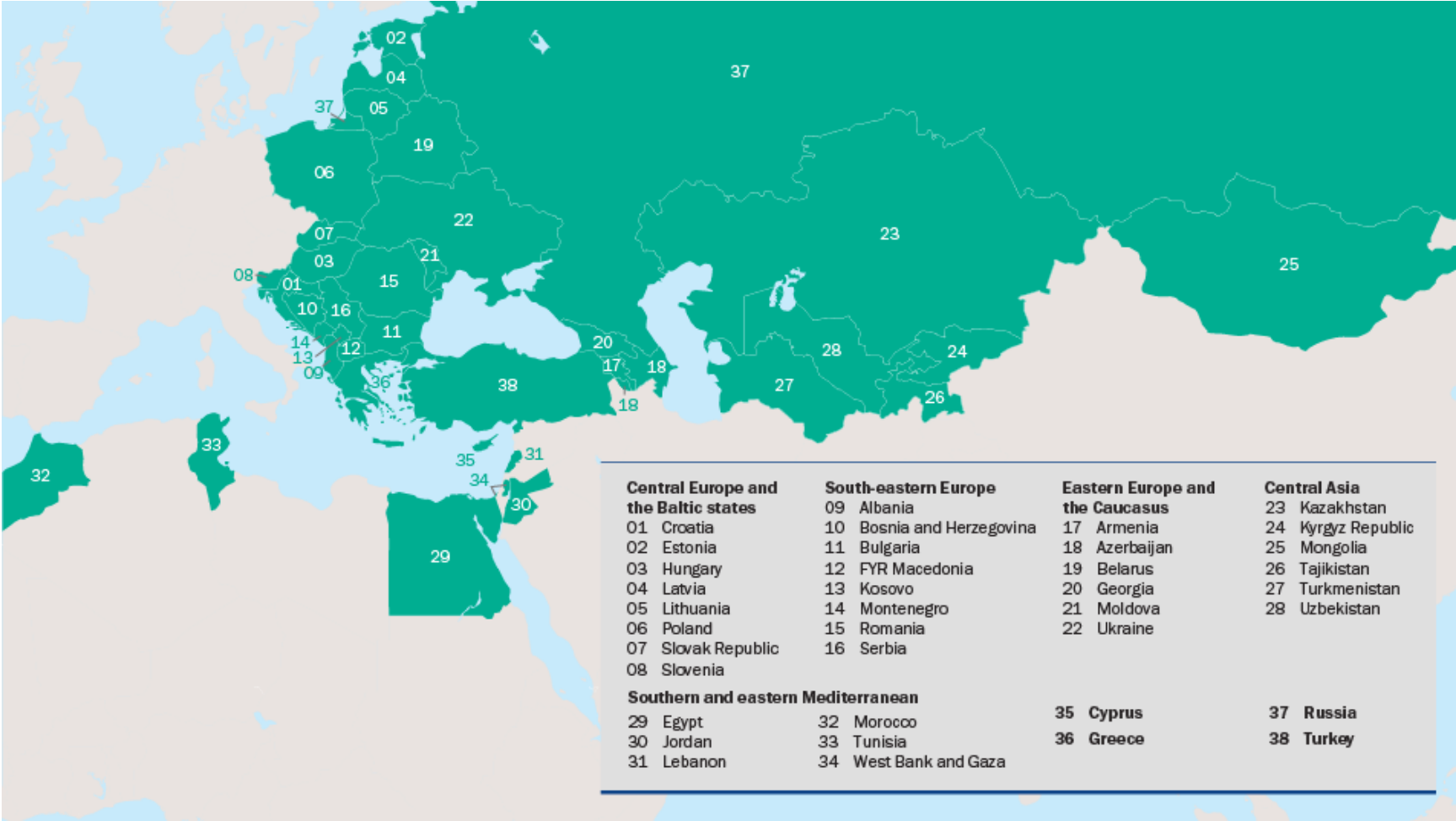
As at October 2018

# EBRD Countries of Operation



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**Section 1**  
Presenting EBRD



# EBRD Transition Qualities



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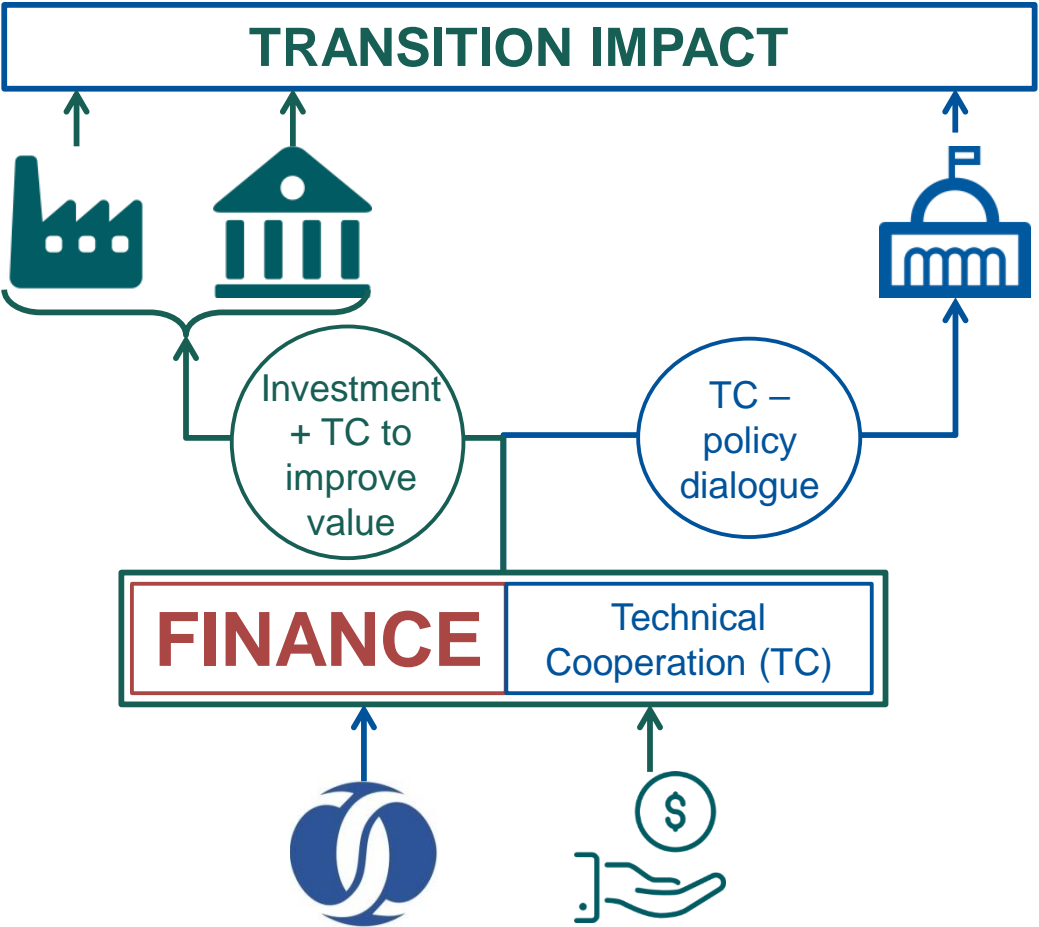
## Section 1 Presenting EBRD



EBRD methodology for **Assessment of Transition Qualities** checks transition gaps related to the six qualities, and each investment is rated according to its potential contribution to overcome them.

Each year, EBRD has a **target transition impact score** at Bank level.

Section 1  
Presenting EBRD



## Transition concept

With each client, EBRD seeks to bring about a **change in the way economic decisions are made**, i.e. transition to a sustainable market economy.

Transition is measured via the **six transition qualities**, assessed in each project.

**Inclusive** means **promoting a fair and equitable access to economic opportunity**. EBRD includes inclusive conditions with each investment or project.

## European Structural and Investment Funds (ESIF)

- **EUR 2.15 million** to implement an “Advice for Small Businesses” (ASB) programme in Cyprus, launched with ESIF in 2017;
- Advisory services provided to INVEGA and ALTUM in Lithuania and Latvia, to help implement ESIF financial instruments and more specifically equity instruments;
- EBRD manages **EUR 63.4 million** of ESIF from Bulgaria in a financial instrument for the water sector, alongside **EUR 5 million** technical assistance programme.

## European Investment Advisory Hub (EIAH)

- **EUR 6 million** signed with EIB in 2017 to implement EBRD’s ASB programmes in Bulgaria, Greece and Romania;

## Horizon2020

- **EUR 20 million** programme agreed in Sep 2018 to help innovative SMEs & mid-caps in Bulgaria, Latvia & Romania.
  - **EUR 12.5 million** in grants to Romania, alongside EBRD credit lines;
  - **EUR 7.5 million** for advisory services for SMEs and mid-caps in the three countries, to prepare firms for EBRD financing;
  - Aim is to help companies make use of innovative technologies, reduce emissions, and be more resilient to climate change effects.

## Section 2 The ESIF Water FI in Bulgaria

- **Fund:** Cohesion Fund financial instrument under TO6 (environment)
- **Targeted recipients:** Regional water and wastewater operators (RWOs), i.e. entities that signed a delegated services contract with regional water associations to manage their water assets for 15 years. RWOs will have consolidated (i.e. merged), in line with the Bulgarian water sector strategy, so that one RWO services each of Bulgaria's 28 regions.
- **Type of projects:** Upgrade, rehabilitation or construction of **water and wastewater infrastructure** in areas with 10,000+ people, to achieve compliance with EU standards. Infrastructure network in Bulgaria is on average 36 years old, and 60% of water in the network is “non-revenue” (lost).
  - *Examples of projects: construction of wastewater facilities, rehabilitation of water pipes, construction of water mains.*
- **Type of assistance:**
  - **Direct loans:** ~80% of funding is allocated to direct loans, i.e. loans extended by EBRD to RWOs. 50% of funding from ESIF and 50% EBRD (pari-passu). Pricing is concessional (half commercial, half zero, so ESIF benefit fully transferred to RWOs), tenors up to 15 years, in EUR.
  - **Loan-by-loan guarantees:** ~60% coverage of banks' risk when lending to RWOs. Of this, 50% ESIF, 50% EBRD (pari-passu). Banks pre-selected by EBRD => full benefit of ESIF goes to RWOs. Tenors up to 15 years, in EUR/BGN, guarantee fee only on EBRD portion.
  - **Technical assistance:** ~EUR 8m in TA funded by ESIF, available to all eligible RWOs.



# Overview of Work Streams



**Section 2**  
The ESIF Water FI in Bulgaria

**Financial Instrument**

2 product facilities (loan facility and guarantee facility) to finance 16 water operators. ESIF EUR 64m will be matched by EBRD funds. Additional leverage from banks

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FMFIB

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Operational Agreement (OA)

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Performance-based fees, as per EU's methodology

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Implementation: Due diligence of water operators, selection of banks

**Ex-ante assessment**

The market assessment and investment strategy that shapes the financial instrument. Drafted in Sep 2014, it has been updated by EBRD in Dec 2018.

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Managing Authority (MA)

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Project Implementation Support Service Agreement

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Advisory services fee policy

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Finalised

**Technical Assistance**

Additional assistance given by EBRD to water operators so that they can improve their operational/financial efficiency, and properly implement the CAPEX that the loans finance.

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FMFIB

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Financial and Operational Improvement Programme

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EBRD Donor Fee Policy

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ToR almost final, and soon to be launched

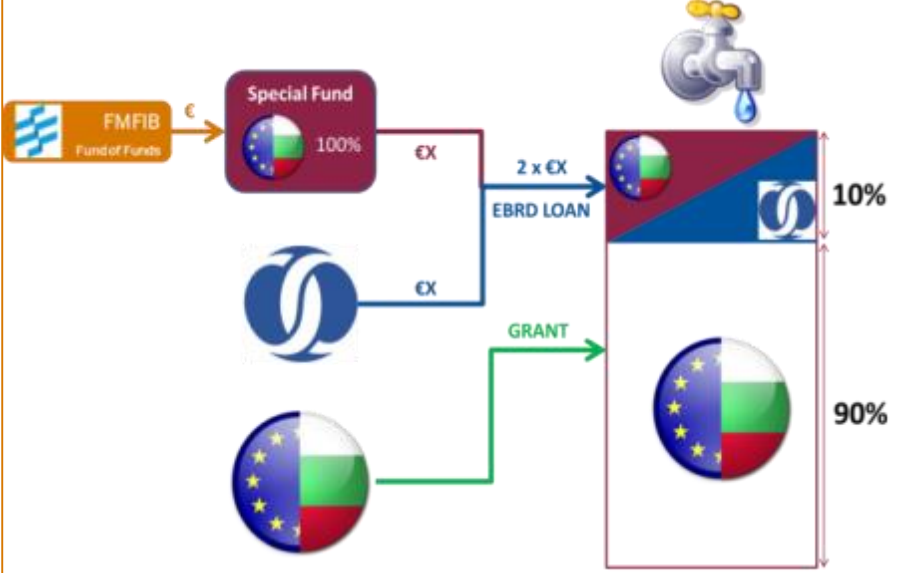
# Financial products offered



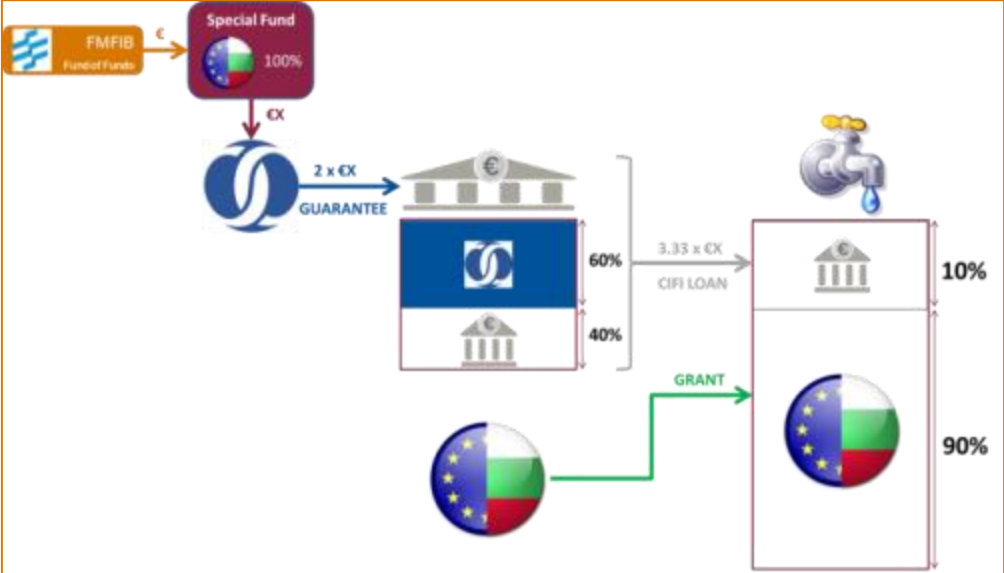
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## Section 2 The ESIF Water FI in Bulgaria

### Loan product



### Guarantee product

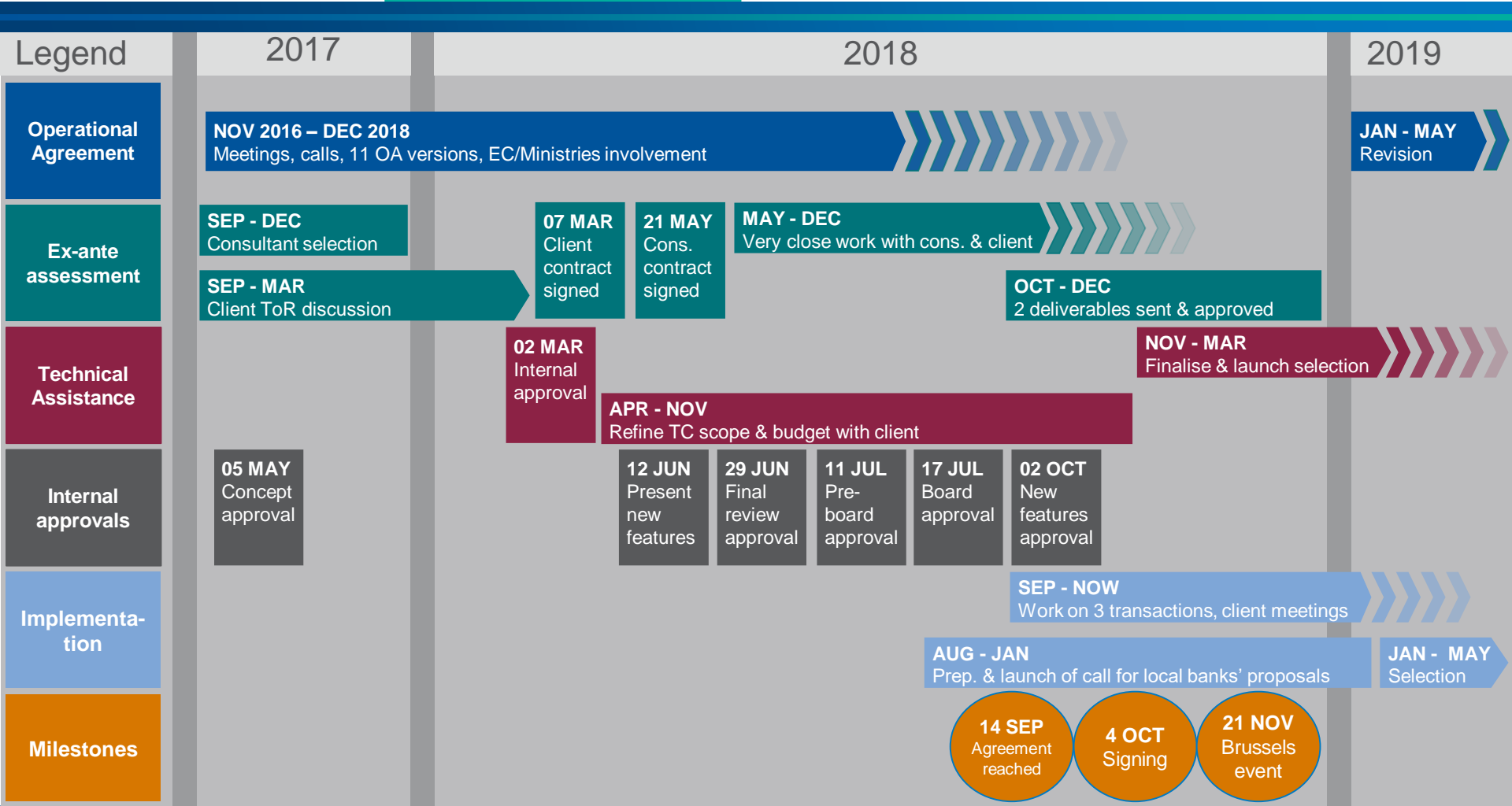


# Progress timeline



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## Section 2 The ESIF Water FI in Bulgaria

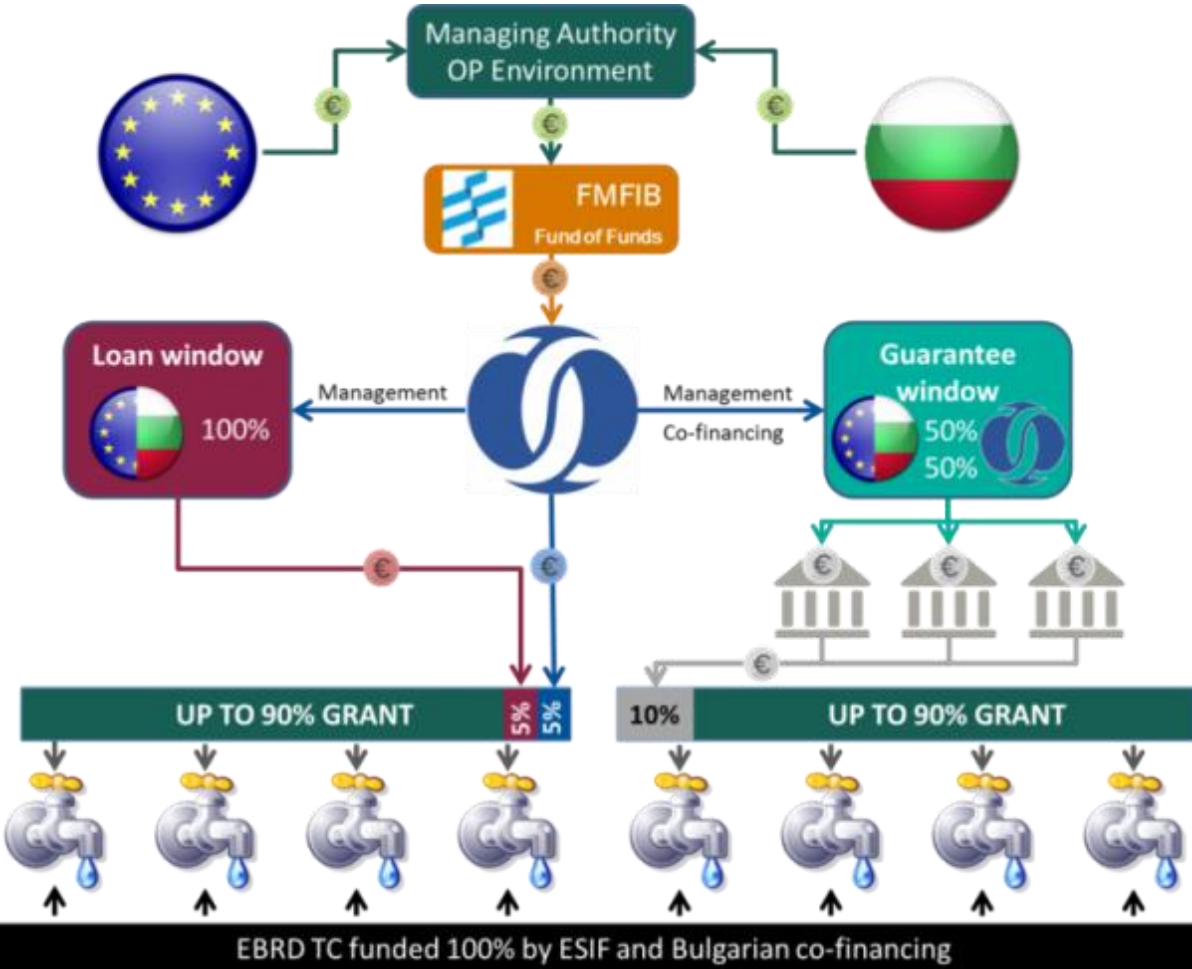


# The ESIF-EBRD water framework in Bulgaria



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## Section 2 The ESIF Water FI in Bulgaria



### LEGEND

- ESI Funds allocated to Bulgaria from the EU
- 15% national co-financing, topping up EU ESIF
- Co-investing financial institution (CIFI)
- Combined ESIF and national co-financing, called "ESIF"
- Regional Water Operator (RWO)
- Contractual relationships, incl funding/operational agreements

## Section 3 Challenges & innovations

### Innovations

- A fully embedded FI into a wider reform process.
- Tailoring the FI to the specific needs of a well defined pipeline.
- A first FI dedicated to the water sector.
- Well framed FI with updated ex-ante assessment and feasibility studies of underlying investments.
- Complementary to a grant programme, the FI is generating leverage and achieving concessional pricing.
- A good example of streamlined and integrated use of different forms of support (FI-Grant-Technical assistance)

### Challenges

- Decoding the EU Regulations, and the role of EBRD in a complex FI.
- Aligning EU and EBRD rules in terms of fees, procurement, verifications, reporting.
- Managing parallel and co-dependent negotiations streams.
- Creating documents/financial models from scratch, with no available templates.
- Careful coordination with the grant programme.
- Dependent with the overall reform process
- Addressing all state aid issues in time.

# Thank you

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financial instruments capacity building Farming  
 Rural development funding agreement EU guidance  
 added value technical support co-financing ex-ante assessment final recipients  
 seminars governance intermediaries investments  
 leverage EAFRD case studies  
 Agriculture fi-compass  
 business plan thematic objectives Targeted coaching  
 advisory services Thank you equity  
 RDP guarantees life cycle private investors  
 conferences banks revolving combination of support  
 fund of funds loans microfinance CAP  
 manuals managing authorities factsheets  
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