EBRD’s Experience in the Water Sector in Romania

Challenges for the future period
EBRD - Three Key Principles

- **Promotes transition to market economies, private ownership and good governance with respect for people and environment.**
- **Supports, but does not replace, private investment. Provides financing otherwise not available, at reasonable terms.**
- **Invests in financially viable projects, together with the private sector.**
MEI Portfolio Geographical Split

- Ukraine: 21%
- Romania: 18%
- Russia: 14%
- Serbia: 8%
- Western Balkans: 5%
- Central Asia: 3%
- Kazakhstan: 4%
- Turkey: 4%
- Hungary: 4%
- Others: 19%

Western Balkans (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, Kosovo)
Romania – 8 regions, 42 counties
How we do business in Romania

- Investments have beneficial effect on local economy
- Long term finance on self supporting basis at project level - no “soft loans”
- Commercialisation of companies and services
- Tariff reform with cost recovery, collection, metering
- Technical assistance to promote institutional reform and commercialisation
- Technical assistance with project preparation and implementation
- Key donor partners: EU and various countries on multi/bi-lateral basis
- Compliance with national and EU environmental standards
- First bank to finance the municipal sector – active since 1995 in financing water and wastewater sector
- Focus on local utilities
Municipal finance in CEE – matching client capacity

- Sovereign-backed loans - Cheap but politicised
- Municipality loans
  - Self-financing independence for cities
  - Higher cost and burden on city debt book
- Utility loans supported by cities
  - Off-balance sheet borrowing for the city
  - Need to be backed by PSC + MSA
- Utility corporate loans or bonds
  - Self-financing independence for utilities
  - Entirely based on company creditworthiness / PSC
- PPP/concessionaire loans - Private sector indebtedness
### EBRD role in water sector of Romania

#### MUDP* I&II (1995-1999)
- Financing of priority investment programmes in 15 cities
- First loans by an IFI in the water sector
- Water utility corporatisation programmes
- Introduction of credit for municipal financing
- Implementation of creditworthiness enhancement programmes

#### MELF** (2000-2009)
- Move towards lifting sovereign guarantee for selected cities and replacing it by municipal guarantees
- Water sector capital investments
- Utility corporatisation and implementation support programmes (FOPIP)
- Continued support to strengthen creditworthiness

#### R2CF I&II*** (2010-ongoing)
- Limited recourse non-sovereign lending to water utilities
- Assist utilities in their regionalisation process
- Prepare ground for private sector participation
- Facilitate private sector involvement through outsourcing selected services
- Regionalisation, Benchmarking

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**LIOP – Consolidation, Eficientisation, PSP/JVs**

* Municipal Utilities Development Programme
** Municipal Environmental Loan Facility
*** Romania Regional EU Cohesion Fund Cofinancing Framework
Romania: EU Cohesion Fund Co-Financing Framework

- 2010-2015: €330 million EBRD framework to co-finance EU Cohesion Fund projects in water/wastewater
- Major investments by Regionalised Water Companies in wastewater connections and treatment
- EBRD Loans on a corporate basis to public utilities without recourse to central or local governments
- Project Support Agreement with key city/county, underpinning obligations under the Delegation Management Contract
- EBRD reviews delegated management contracts to ensure they are structured to balance the needs of the operator and its client base
- Benchmarking programme to improve transparency and increase competitiveness of the regionalised water companies
- Tariff policy – essential; FOPIP – case by case
- 15 years maturity with 4 years grace
- To date, 23 loans signed for over €300 million

7 October, 2016
R2CF – Key objectives

- Promote environmental standards to be fully in compliance with EU directives
- Assist on-going regionalisation process in Romania resulting in a modern water utility, which has expanded services into smaller cities and towns and improved water and wastewater services
- Promote a framework for markets and economic efficiency through sector-wide benchmarking
- Further improve performance standards at utility level (productivity, service quality, decreased water losses)
- Commercialise water and wastewater services in smaller towns/areas recently absorbed by regional water operators
- Create a platform for potential private sector participation through outsourcing certain services, including billing, collections, maintenance, etc
R2CF– Contractual Arrangements

EBRD

- Project Support Deed
  - Loan Agreement

REGIONAL WATER COMPANY

GOR

- Delegated Management Contract

EU COHESION FUND

Municipality/County (majority shareholder)
Constanta Water Company

- 1997 – US$ 17.1 million under MUDP II which was provided to Constanta Water Company through Romania’s Ministry of Finance to co-finance the EU Phare Investment programme of US$ 38.1 million
- 2000 – €20 million contracted under MELF backed by financial guarantee provided by Constanta County to co-finance the EU ISPA Investment programme of €81 million
- 2010 – €33 million provided by EBRD under R2CF Framework directly to Constanta Water Company on a non-recourse basis to co-finance the EU Cohesion Funds Investment programme of €182 million
- 2014 – €10 million provided by EBRD under R2CF Framework directly to Constanta Water Company on a non-recourse basis to co-finance the EU Cohesion Funds Investment programme of additional €70 million
Numarul de UAT-uri conectate la servicii

- Numarul de UAT-uri conectate la apa
- Media apa
- Satu Mare
Targets of Regionalisation

- Improved operation of existing regional systems
- Investment planning
- Optimisation of available resources
- Capability of meeting EU W & WW Directive
- Improved management performance
- Improved lending capability; Access to EU investments
- Limitation of political involvement in the supply of water and wastewater services
- Regional Operator as the mechanism for provision of service to small communities
- Availability of more similar companies for benchmarking comparisons

Overall target – to provide population with water and wastewater services at required quality
Transition periods / financial constraints for water Directives

- **Waste water (Directive 91/271/EEC)**—sewage systems and waste water treatment plants
  - 2015 – 263 agglomerations of more than 10,000 p.e.
  - 2018 – 2346 agglomerations of between 2,000 and 10,000 p.e.
  - Sensitive area – advanced wastewater treatment

- **Drinking water (Directive 98/83/EC)**
  - 2015 – compliance with quality parameters for drinking water

**Financial Constraints**

- Compliance with the EU legislation estimated to **12 bil. Euro by 2018**
  - Only 2.5 bil. Euro available under SOP for the period 2014-2020

- Need for a very strategic approach to optimise the available EU funds
- Need for other financing sources to leverage the EU funds
Today – water sector picture

- Highly varied picture across the country
- Capital cities – more advanced, chances to comply
- Cities with higher p.e than 10,000 – struggle to complete investments
- The rest of the country - old and deteriorating infrastructure
- Regional operators remain key actors
So:

- ROC/IDA - the new implementation couple
- EU funds available but not enough

What else helps?
Approach: sustainable investments

Financing linked with the following:

- Sustainable investments
- Economies of scale
- Good asset management plan
- Improved operational and financial performance of ROCs
- Improved overall management (ROCs and IDA)
- Improved ownership and governance
- Additional financing
- Private sector expertise
EBRD - Technical Assistance

- EBRD’s TC grants – own investments
- MoU with the Romanian Government
- Water sector – two areas
  - PSP options
  - Extended benchmarking and support to IDAs
Technical Cooperation

- Technical Cooperation (TC) remains key to project success
- Supports mitigation of risks
- Types of TCs:
  - **Pre-signing (preparation)**
    - IFRS Auditing
    - Feasibility Study
    - Technical; Financial; Environmental Due Diligence
  - **Post-signing (implementation)**
    - Creditworthiness Enhancement Programme (CEP)
    - Financial and Operational Performance Improvement (FOPIP)
    - Project Implementation Support (PIU)
    - Corporate Development
Financial and Operational Performance Improvement Programme ("FOPIP")

- Improve company’s operational and financial management in order to strengthen the capacity to service debt while providing high quality water and sewerage services

  - establishment of indicators for measurable improvements of operational efficiency and levels of service
  - increased revenue collection rates
  - development of a tariff formula which will over time eliminate subsidies
  - facilitation of private sector participation
Creditworthiness Enhancement Programme ("CEP")

TC support to assist to improve financial management and administration with focus on 5 key areas:

- Finance
- Capital investment
- Asset management
- Quality of services
- Management information systems
1. PSP options

**Analysis of the legal and institutional framework:**
- To create a more enabling environment for water sector investments;
- To enable more concentration aiming at reaching a critical mass of consumers

**Recommendations for PSP options:**
- New PSP experiences - focus on operational efficiency, knowhow transfer and organisational changes
- Between external consulting and full privatisation – a variety of PSP models are available nowadays

2. Extended benchmarking and support to IDAs

- Development and implementation of a benchmarking system at the level of all 43 ROCs in Romania
- Training to 42 ROCs/IDAs
- Working Procedures developed for each IDA and Action Plan developed for each ROC
- 4 national seminars and 8 study tours in the Netherlands, UK and Spain.
Benchmarking - Preliminary results

- Development of an appropriate benchmarking methodology
- Created reporting discipline
- Assist ROCs in compliance with financial and operational covenants
- Assist IDAs in monitoring progress of ROCs under DMA’s
- Improve institutional capacity of ARA
- Assess opportunities for cross-border water partnerships
- Ensure a sustainable benchmarking network
- Corporate governance, H&S, SEP and ESAP implementation and preparation of annual environmental reports
- Provide a credit rating for ROCs
MoU - Key EU principles/objectives

- Focus on results
- Maximise the impact of EU funding
- Contribution of CSF to achievement of Tos
  - 2020
- Arrangements for effective implementation
  - Ex-ante conditions, additionality, etc.
- Arrangements for efficient implementation
  - Adm. capacity and burden reduction, enabling environment, options for flexibility in programme management
- Switch from grant dependency to more sustainable ways of financing
- Leverage EU funding with other sources
- Sustainable investments
Benchmarking/ EU expectations

- To be used for the grant level calculation
  - OPEX benchmark

- First phase identified:
  - comparable set of assets
  - comparable levels of efficiency

- Second phase – expected to:
  - Include KPIs in the DMCs
  - Training to IDAs
  - Internal management tool – more and more
EBITDA (Euro)

10,000,000

tFi-RO-032 Perioada de incasare a creantelor (zile)

Media: 27/30
Profitul din exploatare inainte de amortizare si redeventa (Euro) - cumulat pentru 21 Operatori
New MoU

- Support for legal improvements to support sustainable investments (design&build works, ESCO/DBO, etc.)
- Corporate governance/ DMC/ Performance improvements
- Further consolidation of the sector
Challenges

- Administrative capacity issues
- Lack of coherent co-financing strategies
- Different procedures/different financiers
- Procurement
- Over-regulated environment/ insufficient legislation
- No long term sustainable financing strategies, no long term impact of EU funding on regional development
Challenges Ahead

2016-2020

• Significant investments still needed in the sector, in particular rural areas, where the marginal costs of investment are higher
• After 2020, how will asset renewal and maintenance be financed
• Tariffs cannot increase indefinitely and need to remain affordable
• Many ROCS are already at maximum debt levels
EBRD’S role in mitigating risks

• Improved creditworthiness of municipal/water utilities
  ✓ Provision of grant funding for external consultant support to enhance financial and operational improvements at utility level
  ✓ Assistance in establishing legal and regulatory environment; facilitate institutional strengthening through policy dialogue with various stakeholders

• Support to clients in project appraisal and structuring

• Provision of investment financing responsive to need
  ✓ Optimised and flexible structures
  ✓ Wide array of financial instruments

• Mobilisation of grant co-financing

• Support to clients during project implementation
Attributes of EBRD Finance

- Strong understanding of market and clients due to long history of working in the sector
- Long term flexible structures with suitable grace periods
- Pricing is competitive and in line with the market
- Active in all phases of project, ranging from project preparation to project implementation
- Direct access to EBRD bankers who provide on-going client support
Thank you!

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