Opportunities for financial institutions to get involved in co-financing EU Environmental projects

From ISPA to Cohesion Fund

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Pre-accession funds – annual allocation:

- **ISPA** ~ 240 MEURO
- **SAPARD** ~ 150 MEURO
- **PHARE** ~ 240 MEURO

- ISPA: Infrastructure, Transport and Environment
- PHARE: Pre-accession + Regional Development
  (regional infrastructures: 134 MEuro 2004-2006)
**ISPA Strategy**

**Some key elements:**

- National priorities: - water management
  - solid waste management

- National involvement – **maximum grant rate 75% of eligible cost, based on 100% coverage of the Financial Gap Analysis**

- Large-scale projects – more than 5 M Euro

- Balance between sectors

- Contracting according with PRAG

- Implementation as per FIDIC Rules – based on British system
Total allocation - 40 FMIs signed = 1,4 B€
Water field - projects
- Treatment & distribution of potable water
- Collection and treatment of sewage
- 33 Measures – 1,228,951,045 €

Waste field - projects
- collection, sorting at source
- recycling, landfilling
- 7 Measures – 147,282,805 €
**Main differences**

- Strong increase of funds under Structural Instruments
- Different legal basis and purpose
- Decentralised management of the programmes in the case of Structural Instruments
- Strong Partnership principles and structures for programming, management and implementation of the Structural Instruments
**Perspectives BEFORE and AFTER accession:**

- ISPA allocation **2004 – 2006** increased with 10% each year.
- Substantial increase after accession within 2007-2009
- ISPA will be transformed into Cohesion Fund
- Preparation of projects for Cohesion and structural funds should start
- Capacity to absorb EU assistance has to be increased

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Cohesion Fund - Infrastructure

Priority projects for Environment

- Drinking water & sewerage networks,
- Water and wastewater treatment plants,
- Solid waste management
How?

- **Programming framework:**
  - *National Development Plan:* priorities at national level (not only for EU funds)
  - *Sectoral Programmes* (SOPs) – MESD

- **Commitments during negotiations:**
  - WWTP (incl. tertiary treatment) - 2018 (2015 for >10k)
  - Directive on Municipal waste - 2017
**SOP ENVIRONMENT – PRIORITY AXES**

**SOP ENVIRONMENT**

Global Objective – *Improvement of living standards and environment, focusing in particular on meeting the environmental acquis*

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**Specific Objective 1**  
*Improve the access to water infrastructure, by providing water supply and wastewater services in most urban areas by 2015*

**Specific Objective 2**  
*Improve soil quality, by improving waste management and reduction in the number of old ecological burdens in min. 30 counties by 2015*

**Specific Objective 3**  
*Reduction of negative environmental impact caused by old municipal thermal plants in most polluted localities by 2015*

**Specific Objective 4**  
*Protection and improvement of biodiversity and natural assets by supporting NATURA 2000 implementation*

**Specific Objective 5**  
*Reduction of the incidence of natural disasters for the population, by implementing preventive measures in most vulnerable areas by 2015*

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**Priority Axis 1**  
*Extension and modernization of water and waste water infrastructure*

**Priority Axis 2**  
*Development of integrated waste management systems and rehabilitation of old ecological burdens*

**Priority Axis 3**  
*Improvement of municipal heating systems in selected priority areas*

**Priority Axis 4**  
*Development of management systems for protected areas*

**Priority Axis 5**  
*Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas*
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**Priority Axis 6**
Technical Assistance

Euro 160 million (ERDF)
Cohesion Fund Application

- Master Plan at county/regional level
- Feasibility study
- Institutional analyze – Regional Operating Company = ROC, mainly for water sector
- Ec-Fin analysis including Financial Gap Analysis
- EIA
- Application itself
Institutional analyze

- Institutional analyze will look over the capacity of the ROC to implement the project from at least 3 points of view: project management, technical and financial skills – PIU

- Involvement of Financial organizations: soft loans for capacity building on local level
Financial Gap Analysis

Financial Gap Analysis will look at the difference between needs (WTP, networks/sewers, WWTP) as shown in Feasibility study – a good estimation need to be done – and funds which could be raised by Project owner through increase of tariffs and loans with local or central guarantees.

Involvement of Financial Institutions: Credit worthiness analyse

Cohesion Fund will co-finance up to 85% of financial gap.
Various IFI – various conditions

- EIB – 3 main conditions
  - Sovereign guarantee – main Borrower – Ministry of Economy and Public Finance + subsidiary loan agreement with local authority
  - PIU composition
  - MRD Fund – Why such fund? – to avoid the “No money for consumables / maintenance” syndrome
  - common appraisal mission EC +EIB – Project Directorate under ISPA
Various IFI – various conditions

- EBRD
  - Municipal Guarantee based on audit of the local operator done by “in house” consultant
  - Escrow account – as a guarantee for 2 tranches
  - Periodic review of implementation

- DEPA
  - Project management and reporting requirements paid under Danish Fund
  - Twining approach between DEPA and PIU
Various IFI – various conditions

- What is common and what differs?
  - A particular attention is given by all IFI in the appraisal phase in order to reach “the right project value”
  - A certain control over implementation by reporting requirements / periodic project assessment / MRD

- Variables: loan period / conditions of loan in terms of interest and grace period – infrastructure 3-4 years !!
- Jaspers – EC+EIB+EBRD – appraisal of applications with no strings attached
Does IFI need to look over implementation? **YES**

No Ro Banks in ISPA – However BCR – main role in MUDP 2 – Phare water infrastructure

Issues to be looked at

- Programming of Design/ Works took in calculation the amount of time needed for admin issues?
- Are all your activities on the critical path?
- Need of a float! Allow for unforeseen situations
Lessons learnt - Property over land

In case of landfills

- Real property issue
- Right of use the land
- Not in my back yard – possible residential area
- Possible development of a neighboring airport
Lessons learnt - Technical issues

- Point of discussion: Does the Employer Really knows in great detail what he needs? Red v. Yellow FIDIC

- How accurate are input/site data? Effects of floods ’05? BOD$_5$ / Suspended solids / Flow? .... Real consumption around 130 l/capita/day

- Composition of solid waste? Does a 700,000 cu.m landfill will fit your needs for the next 5 years?

- Does the separation at source will work?

- Could a by-product market be established?
Then how do we do?

- **EU always support those who are prepared**
  - Prepared projects: feasibility studies completed, including option analysis, EIA, design, land acquisitions
  - Choosing the best IFI/Bank agreement in terms of financial conditions and help towards the Client during implementation
  - Tendering: basic principles of transparency, proportionality, non-discrimination and equal treatment
  - ... A close eye over Implementation of the contracts
  - PPP – possible source of co-financing
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