



Eastern Partnership Platform 3 on Energy Security

**Workshop with International Financing Institutions
"Enhancing infrastructure and interconnectivity investments"**

18 June 2015, Brussels, Belgium

Meeting Report

Summary:

The workshop had the objective to look into the challenges and opportunities on further enhancing infrastructure and interconnectivity among the Eastern partners and between the Eastern partners and the EU with the help of IFIs. The perspective of the Eastern partners and the IFIs were presented as well as EU Neighbourhood Investment Facility (NIF) as an appropriate cooperation instrument in order to mobilise additional funding to cover the investment needs including in the energy sector. Discussions revealed that progress is made in setting the legal framework right and in creating incentives for investment. But many partners would still benefit from receiving support notably in the implementation of secondary legislation. Stability and predictability, meaning long term strategies are very important notably when it comes to investments in major infrastructure projects. Investment incentives are considered one important element to overcome the lack of investment. Coordination among IFIs also came out as an important aspect.

All PowerPoint Presentations of this workshop are available at:

<https://ec.europa.eu/energy/node/2710>

1. Opening session:

The meeting was chaired by **Marion Schiller-Probst** of the European Commission, DG Energy. In her welcoming words, she referred to the informal Eastern Partnership Ministerial dialogue on energy in Baku of September 8 and to the last Eastern Partnership Platform meeting in October 2014, where the idea of an ad-hoc workshop on interconnectivity and infrastructure investments was raised. Ms Schiller-Probst in particular welcomed the International Financing Institutions and noted that this workshop was organized back-to-back with the European Sustainable Energy Week and the 13th Eastern Partnership Platform meeting on energy security. Ms Schiller-Probst briefly informed about the [Energy Union Framework Strategy](#) that was adopted by the Commission and received strong support from the European Council in March and that will have implications for European energy investments.

2. From the perspective of Eastern Partners: Investment needs for infrastructure and interconnectivity within the region and with the EU

Sonja Likovic (International Energy Agency) presented the outcomes and the recommendations related to investment attraction in the Eastern Partner countries, one section of a compendium on a peer review process of on energy policy of Eastern Europe, the Caucasus and Central Asia which was steered by the IEA. She gave a general overview of the energy markets in the EaP countries and made specific recommendations to strengthen EaP energy markets. She highlighted common challenges for all countries like the need to improve secondary legislation, the persistence of subsidized energy prices, aging infrastructure and a non-optimal investment climate. Ms Lekovic underlined the great potential for all countries to attain progress in sustainable development. She finished her presentation with specific recommendations for every separate country.

3. EU support via the Neighbourhood Investment Facility (NIF)

Mathieu Bousquet, Deputy Head of Unit at DG Neighbourhood and Enlargement Negotiations of the European Commission, presented the Neighbourhood Investment Facility (NIF) as a possible instrument to leverage further funding for energy investments. Mr Bousquet explained that the energy sector of the EaP countries is indeed a big beneficiary, both through grants and through loans. In the future, energy will remain among the important cooperation sectors covered by the NIF. Mr Bousquet emphasized that the Commission is exploring means to increase local ownership of the NIF in order to enlarge local involvement. The NIF partners with several European Public Finance Institutions, some of which were present. Apart from its main tasks of leveraging important financial resources, one of the added values of the NIF is certainly that it facilitates joining forces and increasing coordination among different IFIs and the partner countries

4. Discussion round

During the first discussion round, Armenia wished to distinguish between subsidies and social policies. A representative of an Armenian NGO inquired about the possibilities for the private sector to receive funding through the NIF. Mr Bousquet replied that the national governments and local banks the NIF normally works with could decide to cooperate with NGO's, but generally there is another track for NGO's to receive funding. Dimitar Dimitrovski, policy and legal specialist of the International Finance Corporation, added that the IFC especially works with the private sector. In response to a question from Ioannis Rampias, key expert responsible for Platform 3, about sovereign guarantees, Mr Bousquet underlined that due diligence is always conducted but that technical monitoring is done by the bank.

5. From the perspective of the International Financing Institutions, NIF partners: Needs and challenges for an attractive, effective and result oriented investment climate

Manuela Naessl, advisor to the managing director at the Energy and Natural Resources Department at the EBRD and **Lionel Rapaille** of the European Investment Bank gave a joint presentation on the energy related activities of the EBRD and the EIB in the EaP countries. For both banks, enhancement of security, efficiency, affordability and sustainability are key objectives. The banks explained that the process of lending can be a lengthy procedure since it includes project risk- and finance assessments, environmental and social impact assessments and NGO, civil society and stakeholder consultations. A key objective by this lengthy

preparatory process is to mitigate risks on the project, the financing as well as in relation to environmental and social aspects.

6. Case study: "Caucasus Transmission Network", a high voltage direct current connection between Armenia and Georgia

Sandra Lutz, Energy and natural resources project manager at the Eastern Europe, Caucasus and Central Asia department of the KfW shared experience in the context of the Caucasus Transmission Network. It is currently the KfW's biggest energy project in the region and is co-financed with Armenia, Georgia, the EIB, the EBRD and the EU-NIF. It aims at closing a missing link in the regional electricity market and thus improving energy security significantly. Ms Lutz described the practical implications of an investment in connecting infrastructure between two EaP countries. Special attention was given to training and capacity building measures as this was identified as an aspect which deserved to receive more attention in the cooperation with IFIs. **Hayk Harutyunyan**, Armenian Deputy Minister for RES and Energy Efficiency emphasized the significance of the project and stated that it also opens possibilities for Armenia as transit country.

7. Attracting additional International Financing Institutions, not being partners of the NIF

Dimitar Dimitrovski, policy and legal specialist at the International Finance Corporation gave a presentation on the IFC and its activities regarding funding of energy projects. He explained that the private sector is a main beneficiary of IFC funding and that clients in the energy sector are especially active in RES development. Mr Dimitrovski stressed in line with previous speakers that sound conditions for investments are of utmost importance. In its undertakings, the IFC faces similar challenges than other IFIs which are also linked to the implementation of the legal framework and political risks. In addition a major obstacle encountered by the IFC is related to the perceived lack of technical capacity among the developers and sponsors of a project, including in the local banks. The IFC therefore also provides advisory services.

8. Discussion round

During the second discussion round, Armenia wanted to know from the IFC what the minimal limit was of equity required. Mr Dimitrovski responded that it depends on the project but that in general it is around 30%. Ukraine asked the KfW if advice of the European Commission was needed for funding the back-to-back Armenia-Georgia and Turkey-Georgia interconnectors. Ms Lutz replied that the project was based on feasibility studies and that other advice was not needed. Ms Lutz inquired into RES incentives among the partner countries. All countries had instruments or plans in place but acknowledged the potential of improvement.

9. Conclusions and next steps

In conclusion, discussions revealed that progress is being made in the area of setting the legal framework right and in creating incentives for investment. But many partners would still benefit from receiving support notably in the implementation of secondary legislation. Stability and predictability, meaning long term strategies are very important for IFIs notably when it comes to investments in major infrastructure projects. Investment incentives are considered important but IFIs emphasized that they are only one element in order to overcome

the lack of investment. During the workshop, all IFI's underlined the importance of a favourable investment climate and acknowledged the necessity to coordinate activities among each other further.

Marion Schiller-Probst thanked all participants and speakers for their contributions and expressed the hope that in the future further steps can be taken by the participants in order to stimulate infrastructure and interconnectivity investments in the region. Therefore, she highlighted the need to find flexible arrangements that could meet the specific requirements and specific conditions of the EaP countries. Marion Schiller-Probst also expressed the hope that IFI's and EaP countries will continue to engage actively with each other, also through informal channels, to enhance infrastructure and interconnectivity investments in the region.

Enclosures: Agenda, Participants list