

Enhancing infrastructure & interconnectivity investments

Needs and challenges for an effective investment climate

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Mandate

- Projects must have the potential to **positively impact the transition of the local economy to a more robust market economy.**
- **Additionality:** Support, but not replace, private investment:
- Apply **sound banking principles** to all projects (market based pricing, structures and covenants)
- Achieve **environmentally sound** and sustainable development

Energy Sector

- The Bank works to help the energy sector further transition to a market-oriented one, which delivers **energy that is more secure, affordable and sustainable** .
- EBRD invests c. **€1.8bn in energy projects** across the region.

- Lending under the EIB External Lending Mandate 2014-2020
- **EUR 4.8 bn** for **Eastern Neighbourhood and Partnership Countries**
- Mandate objectives: support to EU policy goals
 - Social and economic infrastructure
 - Climate change mitigation and adaptation
 - Local private sector development
 - Regional integration among countries is an underlying objective
- Priority objectives for EIB lending in the energy sector:
 - Increasing **energy efficiency**
 - Increasing **domestic energy production** and **diversifying supply** to reduce dependence on energy imports. Notably further deployment of renewables and sustainable production of energy.
 - Completing the **integration of energy markets** and building missing infrastructure links.

Examples of ongoing and prospective interconnection infrastructure projects



Past & ongoing projects

**Black Sea
Transmission Line**
EUR 230m loans
EBRD, EIB, KfW, NIF
2010

**Moldelectrica Transmission
Rehabilitation Loan**
EUR 43m loans
EBRD, EIB, NIF
2012

**Ukraine Gas transit system
modernization**
EUR 300m loans
EBRD, EIB
2014

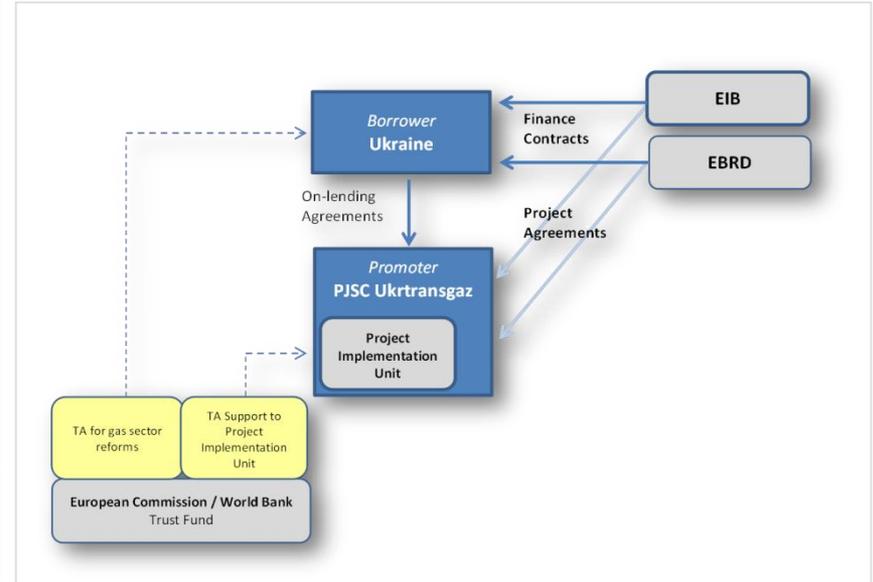
Prospective projects

**Moldova Romania Power
Interconnection Phase I**

**Moldova Romania Gas
Interconnection**

Southern Gas Corridor

Ukraine Gas Transit System



Strong cooperation between Ukraine, Naftogaz / Ukrtransgaz and the EC, EBRD, EIB and World Bank

Extended due diligence performed by the Banks' services supported by technical assistance on economic, technical, environmental issues

Ukrainian gas sector required to move towards EU acquis (Energy Community Treaty / Association Agreement)

Project implementation by the promoter to be supported by experienced consultants

Key lesson 1: Project risks

Multi-country political risk - multiple jurisdictions require formal (Host Government Agreements) and informal (IFIs mediation) mitigants

Multi-party credit risk - a large consortium and public/private partnership involves a heterogeneous credit mix impacting borrowing costs

Construction / Operation risk - a strong project promoter & operator with clear responsibility accountability is needed

Reserve / Throughput risk - a strong transportation contract and assurances on the availability of energy (gas, oil, electricity) are essential

Key lesson 2: Financing process

Project finance with multi-source borrowing takes time

Environmental & social due diligence is on the critical path

Coordination is essential - among governments, sponsors, contractors, suppliers, shippers, commercial banks and external stakeholders

Need to harmonize lenders' requirements (local, EU, IFIs) and identify sources of funds (IFIs), NIF support, export credit

Key lesson 3: Environmental assessment

Early scoping drives terms of reference

Early and robust analysis of alternatives and routing

Cumulative impacts

Early IFI guidance can save time and efforts

Key lesson 4: NGO and civil society interaction

Growing scrutiny - wide range of issues and different focus by international and local NGOs

Engage with NGOs from an early stage- be active and provide systematic response

Draw on the experience of IFIs like EBRD and EIB:

- Dealing with NGOs (specialized team)
- Reaching out to communities (multi-stakeholder forums)
- Rolling-out sustainable development programmes

Key lesson 5: Sustainability and social matters

Sustainability - managing expectations vs. realistic possibilities

Community development programmes to share the benefits

Transparency on governmental agreements and revenues

Direct risks for workers' safety and indirect risks for surrounding population health cannot be overemphasised

Special care with sensitive sites (urban, natural, archaeological)

Land compensation to land owners and land users

Consultation of stakeholders and robust recourse mechanism

Aspects of successful financing of large interconnection infrastructure

- **Consensus** amongst governments
- The voice of **all stakeholders** must be heard,
- Economic and commercial **sustainability**
 - Using the right financial instruments
 - The regulatory framework needs to be stable, reliable and transparent
 - Projects need to take into account the interests of the entire value chain

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