



Investment in the Neighbourhood East

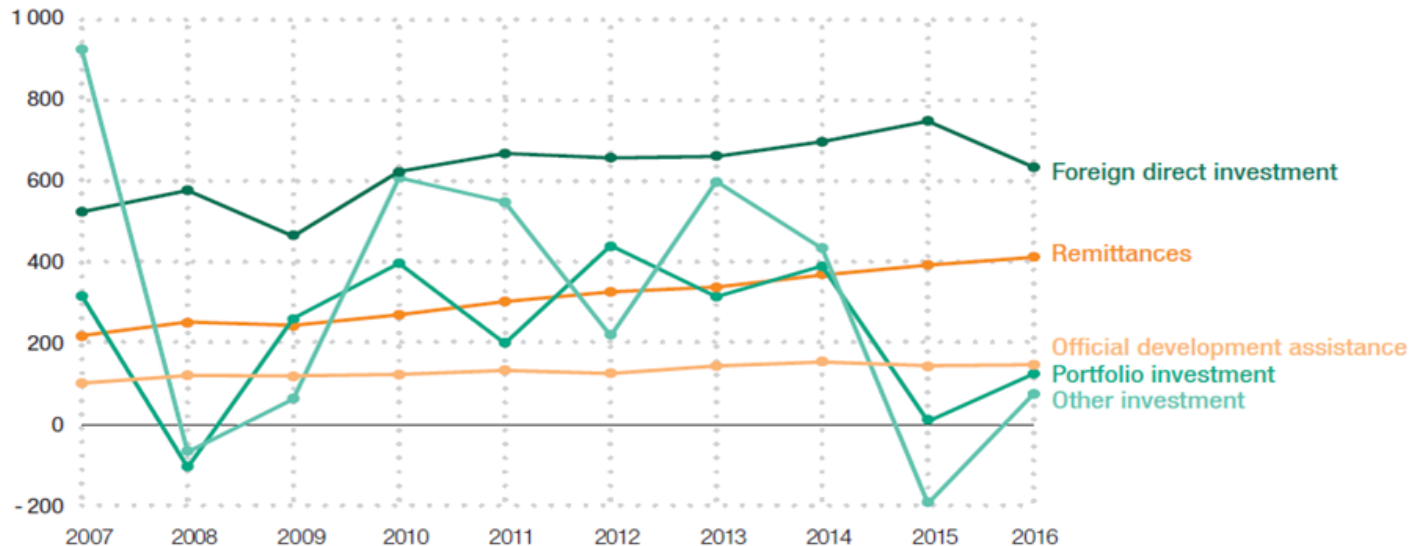
Orest Tokač

**Policy Officer, Blending and Financial
Instruments, DG NEAR.A3**



Shifting trends in international capital flows

**External development finance to developing economies,
2007–2015** (Billions of dollars)



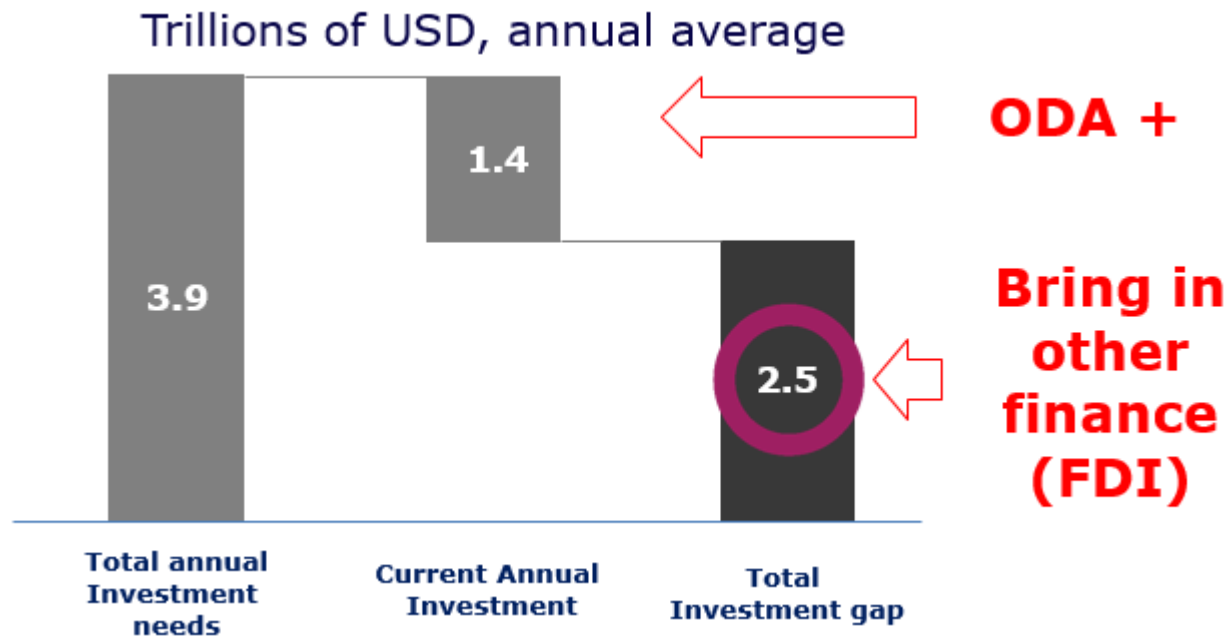
Source: ©UNCTAD

Note: Other investments include loans among unaffiliated enterprises.



New challenges – financing gap

- *Estimated global investment gap in key sectors working to achieve SDGs between 2015-2030:*
- *UNCTAD estimates global investment needs at annual USD 3.9 trillion. At current public and private investment levels of USD 1.4 trillion, there is a gap of USD 2.5 trillion.*





The 'new paradigm' – External Investment Plan



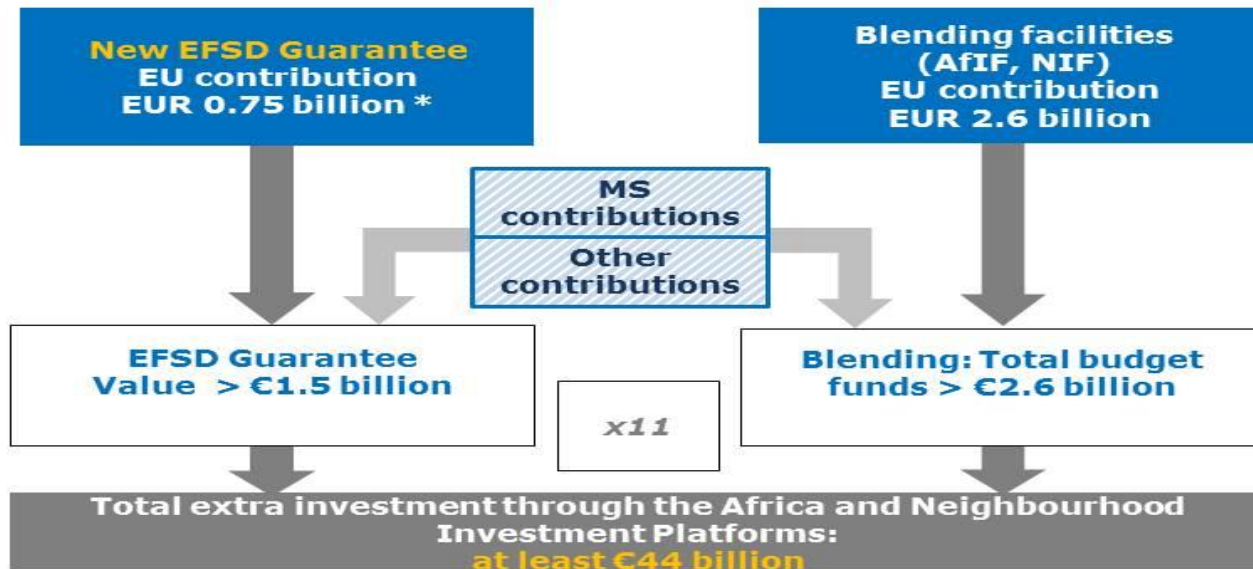
- **Pillar 1:** *Blending grants & guarantees and de-risking financing (Neighbourhood Investment Platform + European Fund for Sustainable Development Guarantee);*
- **Pillar 2:** *Bringing in necessary investment-related expertise in form of technical assistance to prepare and implement projects;*
- **Pillar 3:** *Improve business environment and investment climate by linking investment with reforms and policy dialogue.*



External Investment Plan – Resources

NEW PARTNERSHIP FRAMEWORK – EXTERNAL INVESTMENT PLAN

European Fund for Sustainable Development (EFSD)



* Plus a EUR 0.75 billion contingent liability.



European
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Neighbourhood and
Enlargement Negotiations

Eastern Partnership – Riga Priorities

- Cooperation structured according to the priority areas identified at Eastern Partnership Summit in Riga in 2015:
 - i. Economic development and market opportunities;**
 - ii. Strengthening institutions and good governance;**
 - iii. Connectivity, energy efficiency, environment and climate change;**
 - iv. Mobility and people-to-people contacts.**



Eastern Partnership – Riga Priorities

Priority I	Priority II	Priority III	Priority IV
Economic development and market opportunities	Strengthening institutions and good governance	Connectivity, energy efficiency, environment and climate change	Mobility and people-to-people contacts
<ul style="list-style-type: none">• Gaps in access to finance and financial infrastructure• Trade and DCFTAs implementation• Harmonisation of digital markets• Regulatory environment to unlock the growth potential of SMEs	<ul style="list-style-type: none">• Rule of law and anti-corruption mechanisms• Implementation of key judicial reforms• Implementation of public administration reform• Resilience	<ul style="list-style-type: none">• Extension of TEN-T core network• <u>Security of energy supply</u>• <u>Energy efficiency, Renewable energy and reduction of CO2 emissions</u>• Environment and adaptation to climate change	<ul style="list-style-type: none">• Youth, education, skills development and culture• Visa liberalisation Dialogues and Mobility Partnership• Research and innovation



Investment in Eastern Partnership – Connectivity, energy efficiency and climate finance

- *Transport and energy connectivity:*
 - **Road, rail and ports infrastructure in the Trans-European Transport (TEN-T) network;**
 - **Electricity grid infrastructure – synchronizing electricity transmission in Europe;**
- *Energy efficiency, renewables and CO2 reduction:*
 - **Energy efficiency in public and private buildings;**
 - **District heating including with renewables;**
 - **Wind and solar energy;**
- *Environment and adaptation to climate change:*
 - **Complex projects in waste and water sectors; infrastructure, toxic waste, depollution of mines.**

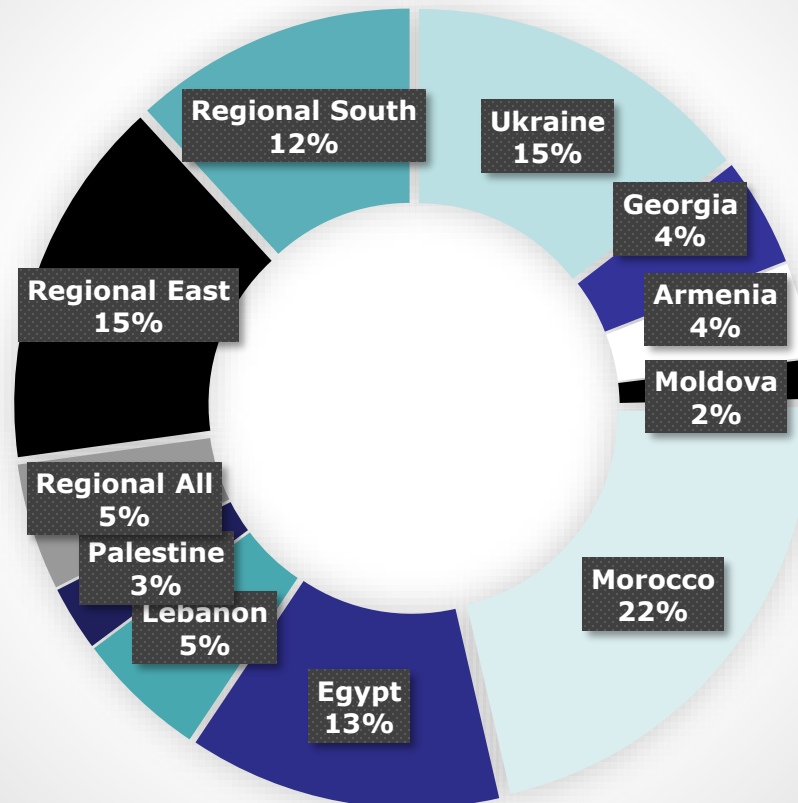
Funding – ‘more-for-more’ principle

- *Regional allocations on annual basis;*
- *Bilateral ‘top-ups’ from country envelopes;*
Partners most engaged in reforms benefit more from their relations with the EU;
 - **Increased bilateral-cooperation assistance;**
 - **Increased financing for investment;**
 - **Greater access to EU markets;**
- *Distribution of annual bilateral funding envelopes:*
 - Ukraine, Georgia, Armenia, Moldova, Belarus, Azerbaijan;



Track-record in the Neighbourhood Investment Platform in 2018 – countries

NIP in 2018 by country





Track-record in the Neighbourhood Investment Platform in 2018 – sectors & instruments

- *The main sectors were: MSMEs/private sector (32%) of funding, **energy 26%**, transport (12%), water/sanitation (8%) as well as the **environment and local currency lending (5% each)**.*
- *In terms of instruments: 51% of the assistance was provided in the form of an **investment grant**, 25% as **technical assistance**, 16% as **guarantees** and 7% was used as **equity**. The fees awarded to the IFIs represented 2% of the amount contributed by the EU.*



Energy sector in Eastern Partnership in the Neighbourhood Investment Platform

- *Since the inception of the Neighbourhood Investment Platform – 31 projects worth around EUR 1.7 billion in EU funding + 14.7 billion in loans by IFIs;*
 - **Electricity transmission systems (12 operations);**
 - **Energy efficiency (9 operations);**
 - **Climate and energy assess to finance (5)**
 - **Hydro-power plants (3 operations);**
 - **Wind and solar energy (1 operation);**
 - **Gas sector (1 operation).**
- *Need for more operations, in particular in the renewables sector, thus far underrepresentation.*



Example – Investment Grant for power connection between Moldova and Romania (2017 Chisinau – Vulcanesti / Isaccea)

- *Context: diversifying the sources of electricity supply in Moldova which was 80% dependent on imports from Ukraine and Transnistria to cover its electricity needs;*
- *Integrate Moldova's power system to other European power systems through Romania and foster opportunities to cross-border electricity trade in the region including from Hungary, Bulgaria, Serbia to Moldova and Ukraine.*
 - Sovereign loan of EBRD EUR 80 million + EIB 80 million and WBG 70 million;
 - EU: EUR 40 million – will allow for the end-user tariffs to be more affordable and to increase only to an acceptable level and will also have an impact on the debt repayment capacity;



Example – Technical Assistance for integration of Ukrainian Power Grid into the Synchronous Area Continental Europe (2018)

- *Context: Ukraine's electricity market is not yet fully compliant and aligned with the EU directives, regulations and best practices;*
 - Support to physically modernise the transmission infrastructure and to undertake legal and regulatory alignment with EU rules and regulations;
 - EU: 8.6 million for preparation of feasibility studies and legislative drafting and monitoring;
 - KfW: 35.6 million in loans for substation automatization project in the South-Western Power Grid of Ukraine to become a lighthouse investment project



Example – Equity investment in funds for climate finance – Green for Growth (2012 + 2017)

- *Specialised fund for renewable energy and energy efficiency, including private sector, IFIs and donors;*
- *EU participates with around EUR 25 million earmarked for the Eastern Partnership;*

How GGF mobilizes private capital

A proven public-private partnership with committed funds of EUR 412m



The capital structure increases the effectiveness of donor funding by bringing in additional capital that might not otherwise be attracted to the sector and the region



Governance of the Neighbourhood Investment Platform – role of the Governments

- *Project identification with a structured pipeline of projects based on market and policy demand;*
- *Technical Assessment of project proposal on numerous aspects: i) strategic fit; ii) additionality; iii) financial leverage; iv) sustainability and reform.*
- *Ahead of approval Letters of Endorsement are required by the beneficiary authorities;*
- *Approval and implementation, including review by EU Member States;*



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THANK YOU FOR ATTENTION!