

**EBRD UKRAINE RENEWABLE ENERGY DIRECT LENDING FACILITY**  
**EBRD ANSWERS TO COMMENTS FROM SPAIN**

*1. The Ukraine Sustainable Energy Direct Lending Facility seems to be a kind of Fund where the CTF is going to invest. We would like to know if other investors such as bilateral donors or foreign private companies have been considered. We think this could be an interesting way to explore at least in a project by project basis. We understand there is room to add new projects on demand apart from those identified by the consultant.*

The Facility is not a fund but a process for the EBRD to manage in an efficient way the due diligence for smaller renewable energy projects in Ukraine and to organise the significant levels of technical assistance needed to prepare projects and support the government in developing the regulatory framework. Each transaction (from EBRD or CTF) is directly into each project and not to a fund and there is no formal limit on the number of projects that can be supported up to the total amount of the facility of €50 million. New projects will certainly be considered in addition to those identified by the consultant and the EBRD will consider increasing the size of the facility if the project pipeline justifies this.

The EBRD will seek to bring in commercial banks, other IFIs or other investors to co-finance in individual projects throughout the implementation of the facility - indeed this is a core objective of the programme so that Ukraine banks are encouraged to provide project finance for renewable energy projects in Ukraine. The EBRD has discussed the programme with IFC which has decided not to participate at this stage. We understand this is because it already has several similar facilities in other countries (not just renewables) and prefers to focus on larger project transactions. The facility is open and would welcome co-financing by bilateral development institutions as well, in order to increase its impact.

*2. We would appreciate an explanation of the subordination of the CTF loan to the other sources of finance, including EBRD funds. We understand that our main contribution lies in the very soft terms of the CTF lending.*

There are very limited sources of capital in Ukraine at the current time. This is because: (i) Ukraine banks have very little experience of project finance and even before the crisis had hardly any exposure to this market; (ii) post-crisis with much reduced liquidity and increased risk aversion the banks are simply not prepared to consider this kind of financing. It is hoped this as the economy recovers and the EBRD helps establish the first projects under the DLF that commercial banks may be prepared to participate alongside the EBRD.

The justification for the use of CTF money is because of this shortage of capital and that the CTF allows very valuable flexibility in scheduling repayments to match project cash flows and encourage co-financing from local banks. For the facility CTF funds will be deployed in one of two ways:

- In the majority of cases as debt ranking equally with the EBRD but usually with a longer tenor, extended grace period or back-ended repayment profile. While

not subordinate to the EBRD this flexibility in repayment will be important to ensure the repayment profile is appropriately matched to projected cash flows; or

- In exceptional cases where a project has particular merits, both technically and commercially, but where the investors are unable to provide the required level of equity to meet normal gearing ratios it is proposed that CTF funding may be considered on a subordinate basis in order to ensure senior debt is not over-gearred. This use would be based on the situation outlined in paragraph 15 of the Clean Technology Fund document: *Financing Products, Terms, and Review Procedures for Private Sector Operations* and would only happen when the EBRD considered that use of CTF funds in this way is both (i) necessary in order to enable a commercially viable debt structure to be established and (ii) would be beyond 'business as usual' as a transaction for the EBRD as described in the CTF document, i.e. in essence where the normal levels of risk/reward required by the Bank cannot be met because the required levels of return on a commercial basis would exceed what the project could pay but which could meet the required returns of concessional CTF financing. Such decision would also be taken with support from the EBRD's Office of Chief Economist (OCE) which would assess the project for its transition impact and consider if this would justify the proposed use of concessional finance. OCE operates independently from the banking teams responsible for originating and executing EBRD transactions.

Use of CTF funds on a subordinate basis would be the exception not the norm and would only happen if the EBRD considered that the project had sufficient transition impact to justify this approach, such as to establish a first project in a particular technology sector or where the use of subordinate funding would be required in order to attract co-financing from commercial banks.

3. *The CTF share of the projects cofinancing will be up to 20%. However, our share in the admin budget is 28% (Annex B). Could you please explain this difference?*

During the development of the proposal paper we made an error related to currency conversion (assuming that the 27m US\$ were 28% of the total facility volume, and not 20%, as is correct). The corrected budget figure is given in the table below. This has been calculated as a 20% share of total EBRD project management cost for the facility

<b>Project Management Cost EBRD Ukraine Renewable Direct Lending Facility</b>	<b>Full Project Cost</b>	<b>CTF Share of Project Cost</b>
<b>Summary Table</b>	100%	20%
<b>1. Project Implementation (pre-signing)</b>	<b>USD</b>	<b>USD</b>
(Due diligence; legal review; contractual and site visits)	210,000	42,000

(Staff costs - fund management; overall project preparation; project and programme management)	210,000	42,000
<i>subtotal</i>	420,000	84,000
<b>2. Project Supervision (post signing)</b>		
(Contractual and site visits)	420,000	84,000
(Fund's and Financial Controls; monitoring & reporting; site visits; restructuring; evaluation)	420,000	84,000
<i>Subtotal</i>	840,000	168,000
<b>Total</b>	<b>1,260,000</b>	<b>252,000</b>

4. *I am not sure I have understood correctly the tables on the cumulative reductions. It seems to me that the direct reductions for the first 5 or 10 years are not that sizeable. I would appreciate a clear explanation on the expected cost per tonne.*

The estimates of potential GHG emission savings have been calculated on a conservative basis. We have used a GHG emission factor for the entire Ukrainian power sector (including average network T&D losses), excluding savings from heat, and assumed that the first renewable energy projects only start operation (generating power and making GHG savings) from year 3. The conservative emission factor reflects the fact that about 40% of Ukraine's power comes from nuclear sources, and 10% from hydropower sources. It is conservative since new generation capacity is likely to be fossil based in the absence of investments in renewable energy, so the emissions displaced in reality are very likely to be substantially higher than the figure we have used.

From each investment the cumulative reductions should be determined over the entire equipment lifetime (20 years). Thus renewable power generation that comes into operation in year 5 of the project will generate savings from that year and for the next 20 years (i.e. until the end of year 25). To determine total direct cumulative emission reductions from the entire project we therefore must add up annual savings over a 25-year period. Over 25 years the emission savings from the power projects that will come on-stream in the 5 year investment period is conservatively estimated to be 7 million tonnes CO<sub>2eq</sub>.

For a CTF investment of USD 27 million the cost per tonne is thus estimated to be 3.8 USD from 90 MW of installed capacity.

The total framework cost of USD 140 million, the cost per tonne is 20 USD from direct investments. This is consistent with EU market prices for carbon over past years, and is cost effective considering this is a new market. The approach we have used is conservative as stated above and it could be argued that real cost per tonne is

likely to be half this figure. Since this project is a market creation project aiming to kick-start a self-sustaining and rapidly growing local market the total project impact is even more cost effective.

*5. In Page 2 we see NERC has been preparing detailed implementation procedures for renewable energy that should have been finalized by the end of 2009. Are they ready? Although the CTF is not financing the TC, we know that the potential of carbon finance has not been exploited in Ukraine due to regulatory framework and market environment barriers. We think it could be interesting to promote this aspect since it would increase the viability of the projects undertaken with the CTF support.*

NERC is responsible for administering the regulatory framework for renewables in Ukraine but it is the government that has to prepare and implement the basic legislation. This has now been done and NERC now has the task of preparing the secondary legislation and various regulations and procedures to give all these effect. The EBRD is providing substantial technical assistance support to NERC (funded by the GEF) to help it do this. This will be implemented over the next 1 to 2 years and will very much revolve around the practical experience from developing each of the projects selected by the EBRD for finance under the DLF.

The potential for carbon finance will be assessed for each project and steps taken to coordinate with the appropriate agencies and institutional programmes to ensure the possibilities for sale of carbon credits from DLF projects are encouraged and supported.