Comment Response to Trust Fund Committee Member Comments			
1. Country/Region	Ukraine	**2. CIF Project ID#**	PCTFUA085A
3. Project/Program Title	Ukraine Sustainable Energy Lending Facility (USELF) Replenishment		

Comment	**EBRD Response**
GER Comments	
Up to our knowledge there have been some difficulties in Phase I of USELF: in spite of a time extension and an increase in the volumes disbursed per project compared with ones initially intended, disbursements have been rather sluggish. How will this be addressed in Phase II?	The current level of disbursements under Phase I of USELF has reached 70%, which is quite satisfactory indicator taking into account the current shaky Ukrainian economic climate. Phase II will continue to use the existing PIU consultants, thereby obviating the need for a lengthy start-up phase. It will also benefit substantially from the lessons learned in Phase I, in particular in relation of renewable project risk mitigation in Ukraine.
We appreciate the efforts of EBRD on lifting restrictions as for the Local Share Content (LSC). Still we are concerned that LSC could hamper successful deployment of RE technologies in the Ukraine. Are there any positive signals that progress will be made on this issue? What would be the impact on the USELF project pipeline if no change could be reached?	The new management of the Ministry of Energy is pushing forward a draft amendment to the “Electricity Law of Ukraine”, which sets the LSCR at 30% level going forward for all types of renewable technologies, for which the current legislation envisages 50% LSCR level. The Ministry believes that adoption of the proposed changes will take place in April 2014. In any case the Bank is actively promoting LSCR elimination through its policy dialogue with all Ukrainian authorities.
According to the proposal "until recently the legislative and regulatory framework have not been adequate" (p. 5). Has this improved in the meantime? Is there at least any governmental commitment to do so?	There are improvements in the works, such as the revision to the LSC requirements outlined above. The EBRD continues to work with the government on further improvements. Due to the changes in government, now there is full commitment to work with the IFIs in removing such obstacles.
According to the proposal there is a "technical potential for a total of 218.3 TWh per year" (p. 5). Isn't that an estimate too optimistic?	The economic potential is of course lower than the technical potential, but is much harder to estimate, and also fluctuates. For this reason, we simply stated the technical potential.
CAN Comments	
We would appreciate further insight from the EBRD on the outlook for the country's banking sector, in particular the lending appetite and the medium-term prospects for long-term commercial financing and project finance.	At present, the local banking sector is not in a position to provide significant volumes of finance for this sector. We believe however that with the expected additional support to the country and the continued development of projects through facilities such as USELF, a track record will be established that will enable local banks to become involved in the future.
In addition, the project proposal indicates that the EBRD is seeking to mobilize either an IFI partner or local commercial institutions to co-finance some of the projects under this facility. We would appreciate further information on the indicative financing plan, in terms of the availability of funds from other donors.	At present no funds from other donors or local commercial institutions have been identified. These discussions are at an early stage.

UK Comments	
Would you be able to provide further details of market distortion analysis ('eligibility criteria' referenced on page18) that the EBRD will perform given the LSC requirements? What is the impact of the increase in the LSC requirements on project pipeline and selection decisions?	Any instance of a legal requirement for local content in projects in order to receive the feed-in tariff implies a distortion, the level of which will vary depending on the threshold and project specifications. The construction of renewable energy projects usually comprise a certain amount of local content. How much depends on the project, but it is not unusual to see as much as 35% local content due to civil works and assembly works with use of local supplies and labour. Therefore, the very fact that there are local components in a project may not necessarily mean a disadvantage to foreign investors, whether they are developers or equipment providers. An assessment has been done for the projects under USELF that were commissioned after 1 July 2013 and thus had to comply with the 30% local content requirement. For these projects we have taken stock of sources of local content in the project and their share under project costs. We have analysed whether it would make sense for the sponsors to source these components locally. Thus far the projects have not been impacted by the local content requirement as the construction and civil works were sufficient to qualify for the local content requirement, the main project equipment (boilers and turbines) have been imported. If the local content requirement is not reduced or removed, distortions could be seen in projects commissioned on or after 1 July 2014/1 January 2015) that have to comply with 50% local content requirement (50% LSC will apply from 1 July 2014 for wind, solar, biomass and from 1 January 2015 for biogas). The assessment is an interim solution in short term so that the longer term strategy on policy dialogue can take effect. Until successful removal of the local content requirements in the country, financing will be provided only to those projects for which the assessment demonstrates the local content requirement is not a binding constraint. The extension of the facility will allow EBRD's continued engagement in policy dialogue with the Government in an attempt to eliminate the LSC provision.
Given the successful track record of phase 1 and the significant improvements to the enabling environment for RE/EE in Ukraine, do you expect the second phase of projects to be financed at lower levels of concessionality?	This will be explored on a project-by-project basis, but is subject to the development of the situation. It should be noted however that the floor pricing outlined in the proposal is comfortably above the CTF's minimum return requirements (200 BP vs. 75 BP for harder concessional), meaning that the facility will be profitable to the CTF.
Why is the facility not yet financially sustainable, given that this was the original objective? To what extent have other financial institutions entered into this market? Why has the originally envisaged	The facility implementation was delayed, due to the learning that took place at the outset, and the need to revise the structure of support offered by the facility to project developers. The promising pipeline

market transformation not taken place?	that was built up in the course of this work is in continued need of support due to the changed environment in Ukraine, and the continuing absence of appropriate long-term financing from other sources.
Will the impact on soil fertility of the biomass projects be investigated when the environmental safeguards are triggered?	Potential impacts on soil fertility will be analysed for each biomass project in the frames of environmental due diligence/impacts assessment. In many cases in Ukraine it is not a significant issue because of the combination of baseline high soil organic matter content+ high availability of biomass raw materials.
What is the current status of the Regulator and the other energy related institutions in the light of the current political dynamics in Ukraine?	There has been no major change to the regulator/institutions until now, and we keep monitoring the situation closely.
Why is further policy dialogue required? Was this not previously adequately covered?	Further policy work would focus on clearly identified remaining barriers, such as the LSCR and creation of favourable investment climate in the sector.
Are there any new risks, in the light of the current political context in Ukraine?	This is difficult to assess, but it should be noted that the situation is also offering opportunities, e.g. with a strong focus on the need to improve energy independence, which is in favour of renewable energy development. EBRD remains fully committed, and is in fact expanding, its activities in Ukraine and the sector.