

May 28, 2010

**Comments from the United Kingdom
Ukraine: Renewables Direct Lending Facility**

Dear Patricia,

We have a number of questions related to the above project proposal that has been circulated for perusal. These are as follows:

1. Under the heading "Country and Sector Description" on page 2 of the proposal, mention is made of the potential of various renewable energy sources. It mentions 120TWh/year for biomass. We would like to understand this more fully. Where does this potential lie? What is the source of the biomass? It seems like a very high figure (compared for example with the potential for solar energy). Could we get some more detail and information on this? What are the downsides to the use of biomass for energy in Ukraine? If organic waste is going to be used for energy generation then it will not decay as it would do naturally to form organic material for composting. Could this not impact both soil structure and soil fertility in Ukraine? Could this not be a case of solving one problem and creating another?
2. The proposal makes clear that CTF funding will be subordinated to commercial finance and to EBRD loans. We would like to have the case for doing this made clear and motivated in greater depth. For example - How frequently do is it expected that CTF financing will rank as subordinated. Currently, there seems to be a presumption that it will always be subordinated - surely not every renewable project in Ukraine needs subordinated financing from public sources? Why is EBRD financing (either some or all) not being ranked pari-passu with CTF financing as will be done by the IFC in the recent project in Thailand? If EBRD cannot rank some or all of their finance pari-passu do EBRD have to invest on similar terms to CTF investments at a later stage of the project or in future projects? What would be the critical steps along this path? What modelling has been done on the potential losses that could be incurred? What modelling has be done on the tipping point needed to be reached before private sector investments are likely to enter the market and concessional financing is no longer required? One or two projects into the facility? Later? What will the indicators be?
3. A brief analysis of the Proposed Feasibility Project Pipeline (page 5) shows quite a wide variation in Investment \$/MW generated. It seems some projects will deliver greater value for money than others. For example, the Eko Optima Wind Park requires an investment of Euro 1.75 million per MW while the Zaporizhya Fat and Oil Enterprise project requires an investment of Euro 3.13 per MW generated. While we recognise that projects are designed to take account of the specific circumstances and conditions prevailing is there a compelling reason why the technologies that offer best value for money are not being advocated more fully?
4. We are unclear why there is such a strong emphasis on the rehabilitation of hydro facilities and why they necessitate being funded with CTF concessional funding. We would like a stronger case to be made for this. Why can't they be funded from operational budgets? How were they funded originally?
5. With regard to the additional 12 projects in the pipeline for a later stage, we would like a stronger motivation for the kind of project mentioned. In what way is this transformational?
6. Under the heading "Implementation Potential", mention is made of the low level of activity being attributable to the legislative and regulatory frameworks not being sufficient to allow for the implementation of potential projects. What mitigating actions are being taken to ensure that the

regulatory environment does not pose this sort of risk to the projects mentioned in the proposal? This risk is mentioned under the risk table where it is stated that it may take some time before the regulatory framework is sufficiently developed to facilitate the realisation of RE projects. Is there a compelling reason why this proposal should not wait until this framework is satisfactory and the risk mitigated?

7. Related to the Administrative budget (page 23), how was the CTF share of the project cost determined?

Kind regards

Simon