From concept to construction: EIB lessons learned from selecting and financing a bankable projects

Emmanuel Chaponniere
Senior Water Sector Engineer
Water Management Division
ENVIRONMENT & SUSTAINABLE TERRITORIAL DEVELOPMENT
EUROPEAN INVESTMENT BANK
CONTENTS

1. Short introduction to EIB
2. EIB Water Sector lending policy and Climate Strategy
3. EIB project cycle and appraisal procedures
4. Implications for project identification / preparation
5. Concluding remarks
Short introduction to EIB including water lending policy and Climate Strategy
EIB, the EU bank

- Shareholders of EIB are all EU memberstates
- 90% of activity in Europe, 10% outside EU in more than 150 countries
- Annual lending volume: 84 bn€ in 2016
The EIB financing outside EU: EUR 8 bn in 2016

EIB Own Risk
For investment-grade operations in Pre-Accession and Neighbourhood countries, and globally in support of Climate and Strategic Investments.

External Lending Mandate (ELM)
an EU Guarantee is provided by the EU budget to cover country/sovereign risk in Pre-Accession, Neighborhood, Asia, Latin America regions and South Africa, except in the case of investment-grade operations

ACP-EU Cotonou Partnership Agreement
in ACP partners, EIB manages the ACP-Investment Facility or lends from its own resources, with support from a Member State Guarantee

Framework for EIB Operations outside the EU
EIB financing key features for outside EU funding

Financing key features

The EIB contribution is capped at 50% of the project total cost.

OUTPUT

- Framework Loan
- Investment Loan
- Multi Beneficiaries Intermediated Loan
- Guarantee
EIB’s Water Sector Lending Policy

- River basin approach (IWRM)
  - Promote IWRM + water services provision in a project
  - Support transboundary cooperation
- Sector development
- Adaptation to climate change
- Water efficiency
- Development of new water supply
- Wastewater and sanitation services
- Research and Innovation
A large variety of projects

Statistics…

- 300 projects last 10 years
- 4 b€ a year
- 30% of project cost

Delfland Waste Water Treatment Plant (NL)

Water supply for Dakar (KMS 3)

St. Petersburg Flood Barrier

21/06/2017

How to prepare bankable projects for financing climate change adaptation in transboundary basins Workshop Dakar Senegal
Help implement the Paris Agreement inside and outside the EU by focussing on three key-areas:

- Reinforcing the **impact** of climate financing
- Building **resilience** to climate change
- Further **integrating climate change** considerations across EIB standards, methods and processes

**EIB’s Climate Strategy**

We want to demonstrate the climate impact (adaptation and/or mitigation) of all projects!

EIB is member of the European Financing Institutions Working Group on Adaptation to Climate Change (EUFIWACC)
In the lead up to COP-21, the EIB committed to increase its climate finance for developing countries to 35% by 2020.

EIB’s 2015 Climate Strategy
We are increasing our climate commitment:
USD 100bn over next 5 years
Adaptation: Dominica – Coping with Hurricane Erika.

Climate Action Line of Credit to Caribbean Development Bank (CDB) – accompanied by grant facilities using EU Cotonou TA funds. We are using the facility, together with CDB and the grant-funded consultants, so that infrastructure can be built back post-Erika in a more climate-resilient way.
EIB project cycle and appraisal procedure
EIB project cycle

Timing of procedure: from several months to several years according to maturity
Projects must:

• Meet at least one of the EIB’s objectives
• Be technically sound
• Be financially viable
• Show an acceptable economic return
• Comply with environmental protection, social standards and procurement regulations
Four main policy objectives

- Private Sector Development
- Social and Economic Infrastructure development
- Climate change mitigation and adaptation
- Regional Integration.
Other strategic priorities (ACP region)

- **SDGs**

- **Increase value added** through TA (project selection, preparation)

- **Migration**: tackling the root causes
Appraisal process

...... by all the Bank’s operational services ..... to assess whether the project is bankable
Headlines of appraisal report

1. Description
2. Market, Demand
3. Implementation
4. Procurement
5. Operation
6. Investment costs, Financial/ Economic justification
7. EIB Environmental and Social standards
Implications for project identification / preparation
Lessons learned
A transboundary project on CC adaptation is first a project
…. for this reason it will require:

An alignment with some of the bank objectives

A promoter: the entity that will implement the project and borrow the money
=> need operational and financial capacity

A revenue stream: EIB is a bank, when lending money to a promoter it needs to verify that the investment will generate revenues or can be sustainable

A sound technical approach: the project design must be based on solid and reliable analysis

An environmental and social sound approach
The project must meet at least one of EIB objective and priority

Project aiming at Climate Adaptation => will very likely meet EIB objective

Careful on “labelling” abuse:
Climate Adaptation objectives must be sustained by solid climate change evaluation, risk assessment, vulnerability status and proposed adaptation measures.

Generalization of Climate Risk and Vulnerability Assessment studies
**Promoter implementation capacity**

Promoter implementation capacity is key.

Procurement procedures can be a major blockage during project implementation.

*The EIB guide to procurement is not prescriptive as such but the implementation of procurement procedures has to pass through several stringent due diligence steps.*

*TA for project implementation can be funded through the project loan or through grant.*
**Revenue stream to ensure financial viability and economic rate of return**

The project must rely on an income generating mechanism. It can be a challenge:

- Project aiming at public service utilities (water, wastewater, electricity) or production infrastructure (irrigation, industry) => generally ok
- Project aiming at flood defense, renovation/restoration of ecosystem services => less tangible income generation

**With a sovereign guarantee a financially non viable project can still fly => Spain illustration**

**There are more and more publications on ecosystem services evaluation, but still a pioneer sector with few concrete examples => water funds / NCFF**
Objective: water cycle / Dam safety / Flood protection / water quality monitoring / Compliance with EU regulation
Project cost: 1,400 M€
EIB (700) / Gov. (700)
Borrower: Gov. of Spain
Promoter: Ministry of agriculture and environment and interregional Basin organizations.

Challenge: not possible to lend directly to Basin Organization

Gov. of Spain through its ministry is the borrower
Illustration: Water funds for source water protection

Water source protection through watershed restoration and improved management can yield **positive return on investment** for downstream users (especially **municipalities, hydropower company**) and multiple additionalities (including **Climate Change mitigation and adaptation**, human health and biodiversity). *Communication from Nature conservancy.*

**Other initiative: NCFF – Natural Capital Financing Facility**

“A new joint (EIB/EC) financial instrument ….”

“The primary aim of the NCF is to provide a proof of concept to demonstrate, through the financing of **pilot projects**, that **natural capital and nature-based climate adaptation projects** can be financed also through innovative and sustainable market-based mechanisms in addition to grant-based financing.”
The project must be **technically sound**

Concept, feasibility and design must be sustained by thorough studies that will be reviewed during the appraisal phase.

Transboundary effects/impacts must be clearly described and evaluated.

*Transboundary means consultation, coordination and consensus reaching with impacted countries: without consensus, the project will not fly.*

**EIB is eligible for applying to various funds for TA as grant (EU Investment Facility, ITF, etc...)**
Objective of project: Hydro Power Plant on the Ruzizi River

Challenge: third HPP on the river, coordination of water rights between various HPP

EIB provided through EU Africa Infrastructure Funds upstream TA for setting up a transboundary basin organization for the catchment area of the river.

Primary objective: manage water rights at a basin level for HPP for existing two HPP and projected ones.
Sound environmental and social approach

The project must comply with various sets of environmental and social regulations:

• The various countries environmental and social regulations where the investments will be carried out;
• The EIB standards.

*When there are discrepancies between EIB standards and national regulations, the EIB standards will prevail if more stringent.*

*In transboundary project, we would check whether the EIA is approved by both countries (example of Slovenia).*
Objective: HPP dam and flood projection
Project cost: 270 M€
EIB (135) / Gov. (135)

Challenge: downstream impact of flood protection infrastructure

Coordination between Slovenia and Croatia: EIA has been approved by both country
Two other projects…

- Lake Victorian Water and Sanitation Initiative (Tanzania, Kenya and Uganda).

- Emergency flood protection reconstruction in Bosnia Hezegoniva (Sava river Basin, interlinkages with Servia and Croatia).
Initiated in 2004 by Gov. of Kenya, Tanzania and Uganda with UNHabitat

The Lake Victoria basin commission joined the initiative during second phase of investment

The initiative created a dynamic for investment projects

EIB is part of 3 distinct projects (Kampala, Kisumu and Mwanza) that will bring cumulative sanitation impacts on Lake Victoria
Kampala Water
Utility project
Project cost: 212 M€
EIB (75) / AFD (75) / KfW (20) / Gov (34) / EC (8)
Promoter: National Water and Sewerage Corporation

Kisumu
Utility project
Project cost: 70 M€
EIB (35) / AFD (20) / Gov (10) / EU grant (5)
Promoter: Lake Victoria South Water Services Board / operator: Kiwasco
TA for project preparation / downstream studies, master plan and implementation

Mwanza
Utility project for Mwanza, Bukoba and Musoma
Project cost: 114.5 M€
EIB (45) / AFD (45) / Gov (14.5) / EU grant (10)
Promoter: MoWI and Mwauwasa
TA for project preparation / master plan / implementation and detailed design
Emergency flood protection in Bosnia Herzegovina

Floods of 2009 and 2010 => important damages due to lack of infrastructure maintenance since dismantling of former Yugoslavia

Objective: reconstruction of short term and certain mid term flood protection infrastructure
Project cost: 94 M€
EIB (74) / RS (20)
Promoter: Water agency under aegis of Ministry of agriculture, water management and forestry

Challenge: coordination between riparian countries

TA consultants managed to ensure coordination at technical level
Strengthening flood protection at basin level

Sava river basin shared by 4 countries

Former conflict area after dismantling of Yugoslavia

Challenge: necessity of having an overall mapping, modeling and planning exercise

EIB manages TA for flood mapping and investment plan at the basin level funded by EU trust fund
Concluding remarks
Potential role of a RBO in EIB project cycle

RBO has an upstream positioning in the project cycle:
- Define overall objectives and strategy, create enabling env.;
- Planning and coordination role;
- Catalyzer of funds and initiatives, identification of actors;

RBO can have a downstream role:
- impacts monitoring;
- consolidation of results at basin level;
- closing the planning cycle;

Unlikely to be considered as a project promoter / borrower:
- Limited revenue stream and thus “banking eligibility”;
- Limited infrastructure operation role;
EIB keen to partner with RBO on transboundary CC adaptation

The thematic matches perfectly EIB objectives:
• Climate Change adaptation;
• Integration;
• Social and economic infrastructures;

EIB interested to participate / be informed upstream:
• Important for building a pipeline of bankable projects;
• We can mobilize upstream TA funds (grant) for project preparation;
• We have multi sectorial transboundary issues experience;
THANK YOU FOR YOUR ATTENTION!

For more information please contact:
Emmanuel Chaponniere (e.chaponniere@eib.org)
Tel: (+352) 43 79 82 336
EUROPEAN INVESTMENT BANK
http://www.eib.org/