

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

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# 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

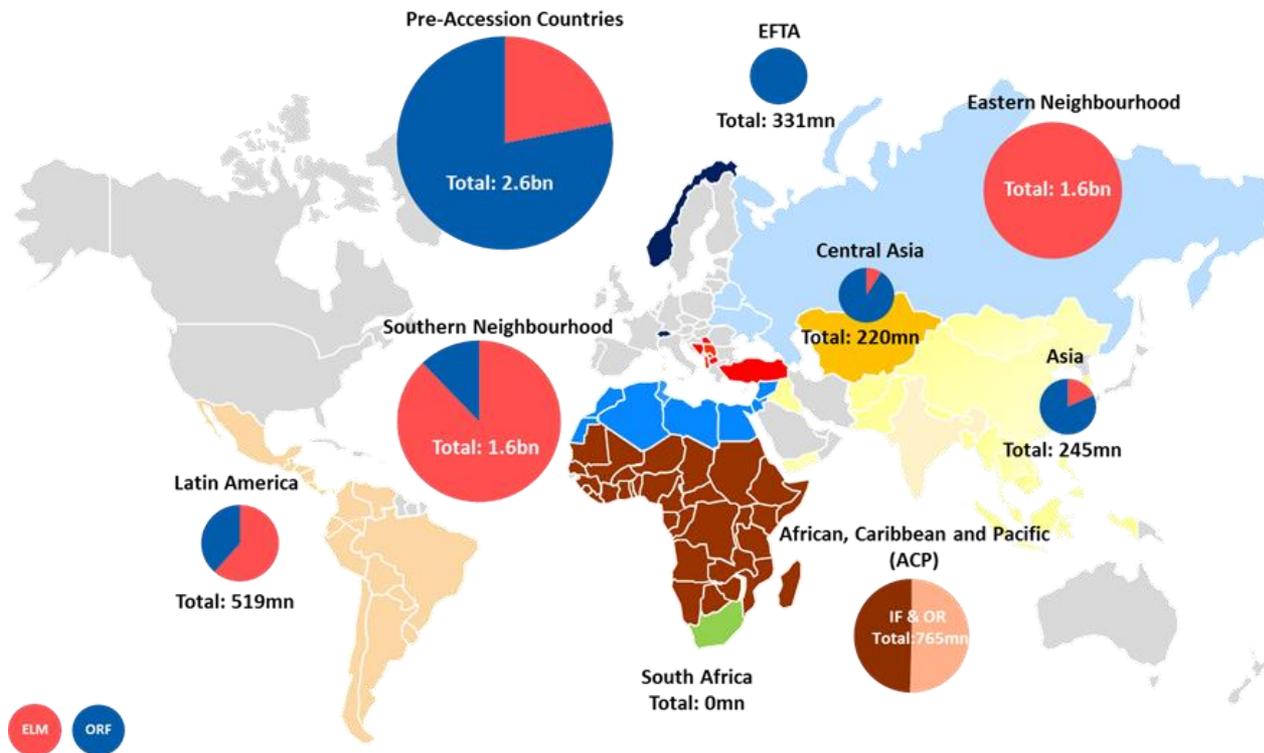
For investment-grade operations in Pre-Accession and Neighbourhood countries, and globally in support of Climate and Strategic Investments.

## 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



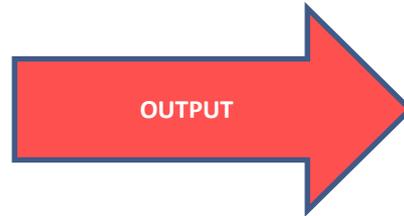
## Framework for EIB Operations outside the EU

# EIB financing key features for outside EU funding

## Financing key features



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



Framework Loan

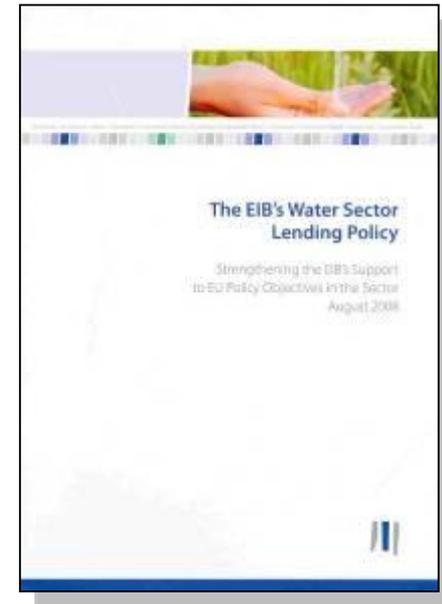
Investment Loan

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

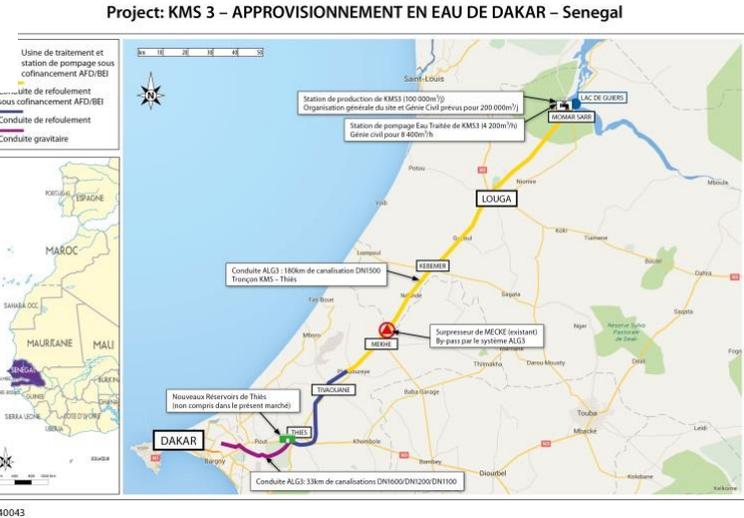


# A large variety of projects

**DRAFT**



**Delfland Waste Water Treatment Plant (NL)**



**Water supply for Dakar (KMS 3)**

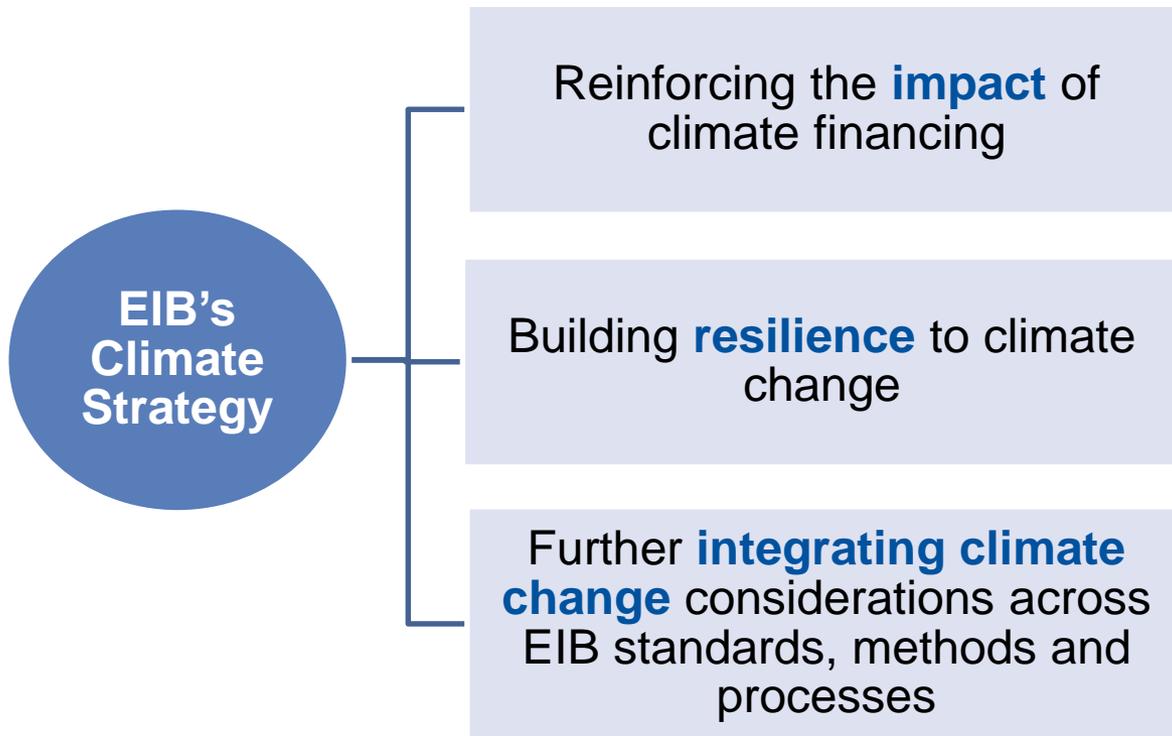
## Statistics...

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

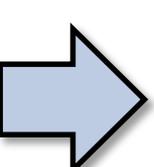


**St. Petersburg Flood Barrier**

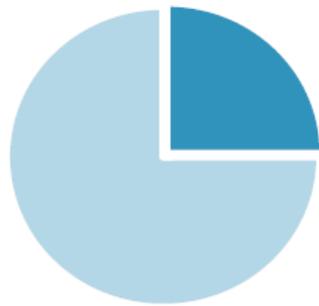
Help implement the Paris Agreement inside and outside the EU by focussing on three key-areas:



  
 EIB is member of the European Financing Institutions Working Group on Adaptation to Climate Change (EUFIWACC)

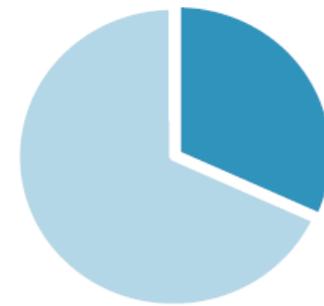

***We want to demonstrate the climate impact (adaptation and/or mitigation) of all projects!***

In the lead up to COP-21, the EIB committed to increase its climate finance for **developing countries** to 35% by 2020.



**>25%** worldwide

2015 → 2020



**35%** in world's  
developing regions

EIB's 2015 Climate Strategy  
We are increasing our climate commitment:  
**USD 100bn** over next 5 years

## How does it translate on the ground

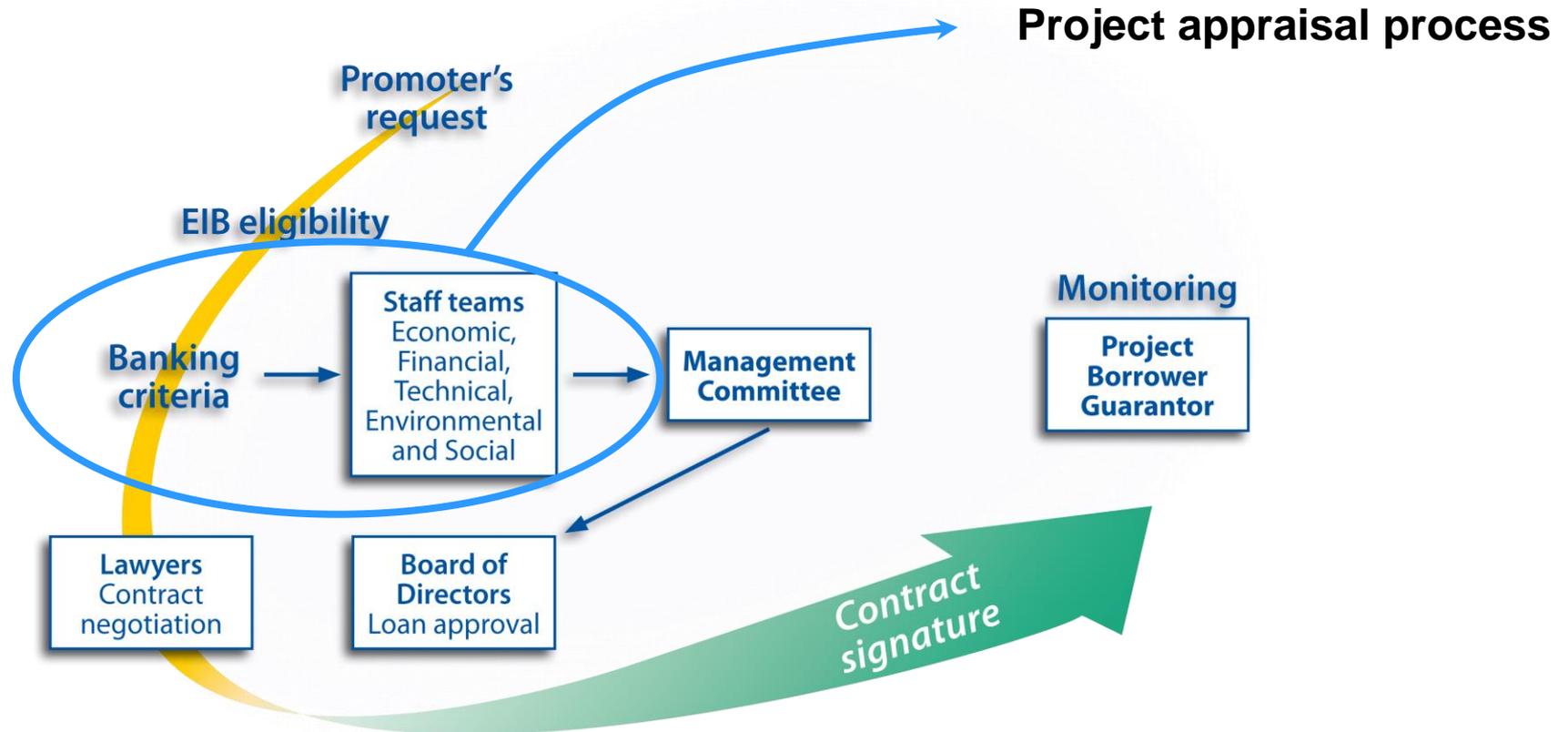
**Adaptation:** Dominica –  
Coping with Hurricane Erika.



**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.

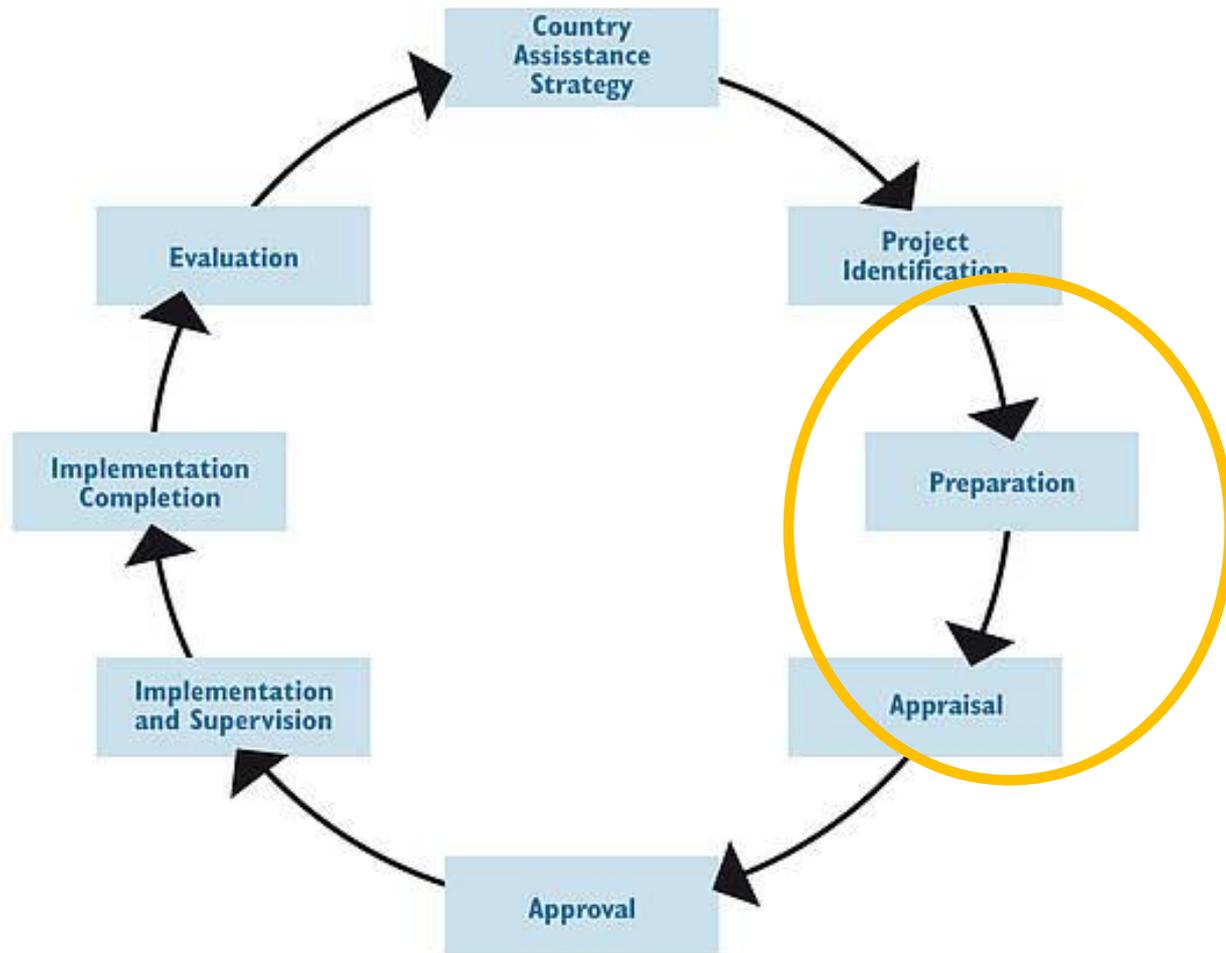
# EIB project cycle and appraisal procedure

# EIB project cycle



EIB project cycle

**Timing of procedure:** from several months to several years according to maturity



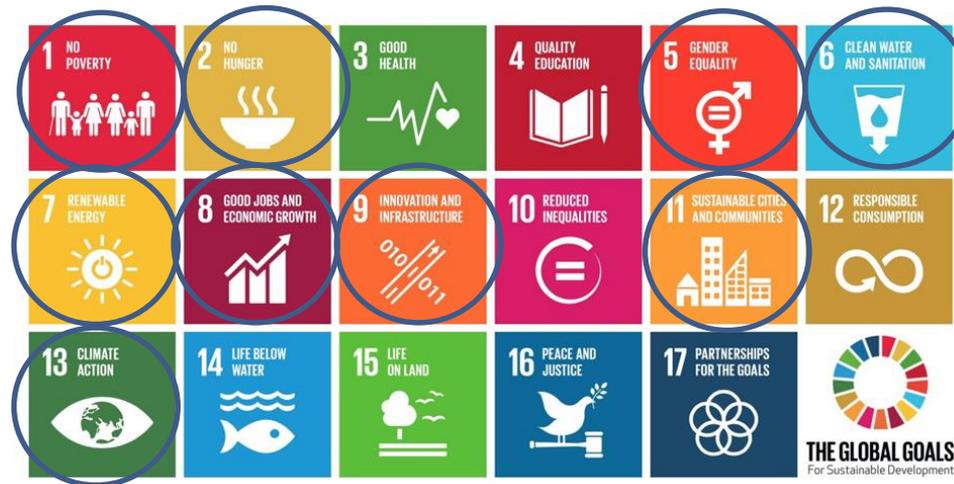
Projects must:

- 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

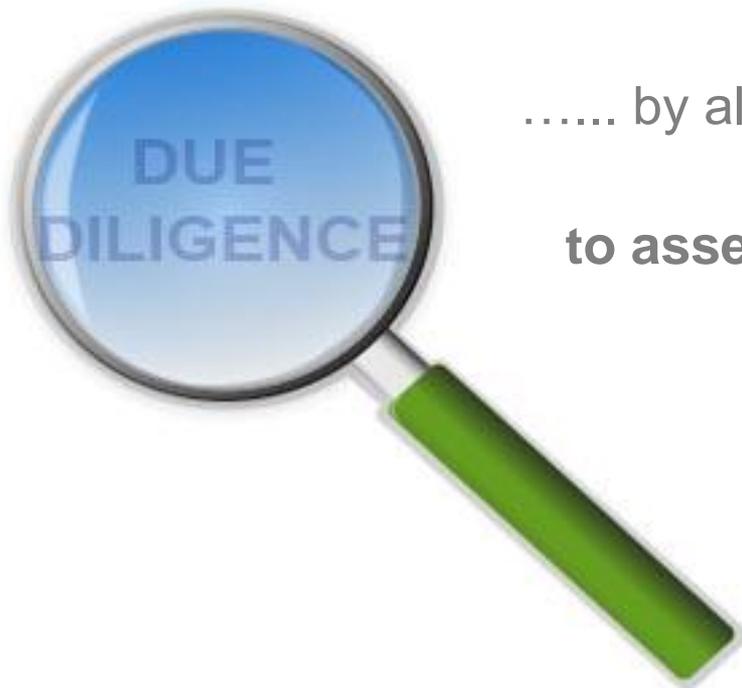
- **Private Sector Development**
- **Social and Economic Infrastructure development**
- **Climate change mitigation and adaptation**
- **Regional Integration.**

- **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**

- 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

# Tips for project identification

**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 / NCFE*



## 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: NCF – 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...)***

# Illustration: Technical Assistance for setting up a transboundary basin organization for Ruzizi river



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).*

# Illustration: Brezice hydropower and flood management project

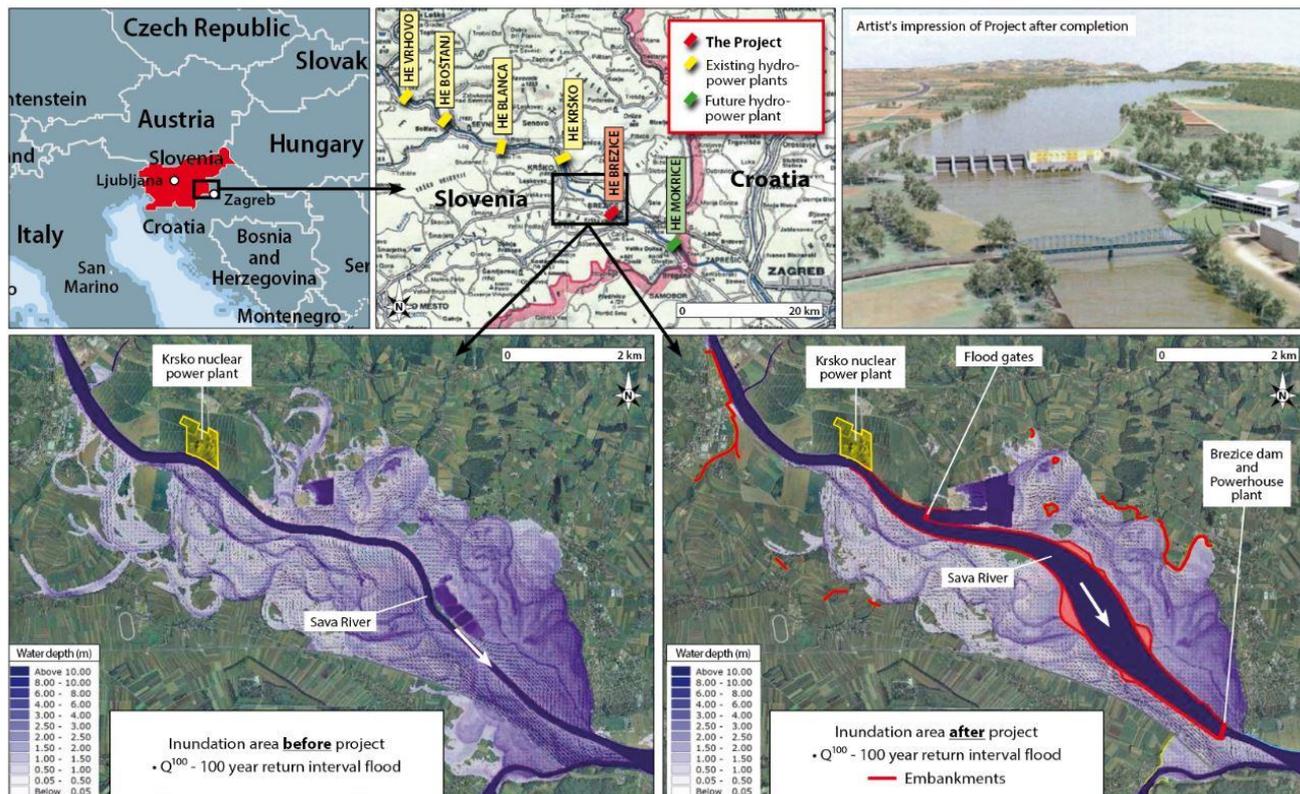
Component	Promoter	Borrower
HPP	State owned electricity company	
Flood protection	Public company under ministry of agriculture	Ministry of finance

Objective: HPP dam and flood protection

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**



- Lake Victorian Water and Sanitation Initiative (Tanzania, Kenya and Uganda).
- Emergency flood protection reconstruction in Bosnia Herzegovina (Sava river Basin, interlinkages with Serbia and Croatia).



# Lake Victoria Watsan initiative (2/2)

## 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

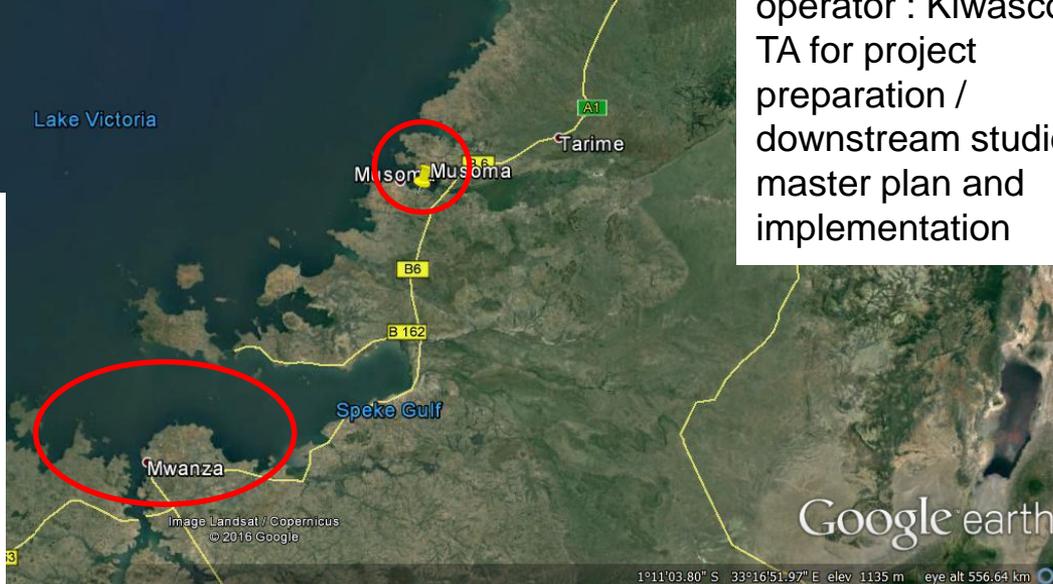


## Mwanza

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

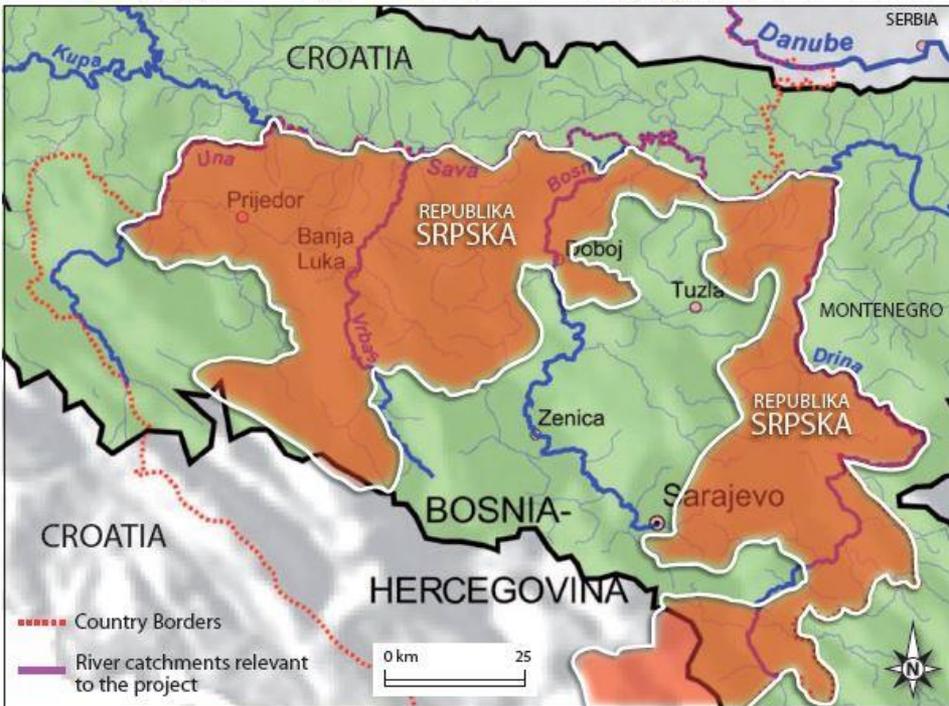
Project cost: 94 M€

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!



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