



Eastern Partnership TA Trust Fund (EPTATF) Strategic Orientations & Operational Plan 2014 - 2016

The EPTATF is playing a valuable role in endowing the EIB with a dedicated instrument delivering appropriately-scaled advisory services and capacity building support to enhance the development impact of the Bank's activity in the countries of the Eastern Partnership. The present document offers a look on the way forward, setting out the Strategic Orientations of the EPTATF and outlining its Operational Plan.

1. The Institutional Framework

The EIB, as the **EU Bank**, is active in supporting EU policy objectives by directing its lending to projects that promote prosperity and increased regional integration, which in turn contribute to stability and help forging stronger intraregional partnerships.

The EU policy for the Eastern Partnership countries is defined in the **European Neighbourhood Policy (ENP)**, which aims at the stability, security and prosperity of the common neighbourhood whilst respecting the specificity of individual countries and their own reform path. The strategy for the Eastern Neighbourhood, a region of high strategic importance for the EU also in view of its role with regard to long term stable and secure energy supply and transit, is to foster democratic development and good governance, regulatory reform and administrative capacity building, poverty reduction and economic growth. The launching of the **Eastern Partnership**¹ in 2009 as a specific dimension of ENP provides for a substantial upgrading of the level of engagement with the partner countries in the East, creating the conditions to accelerate political association and further economic integration between the European Union and the countries concerned.

The EIB financing in support of EU policy objectives, both globally and in the specific region, is essentially through the **External Lending Mandate (ELM)**. Its current high level objectives, which will continue under the new 2014-2020 ELM, apply across all eligible regions and concern:

- local private sector development, including support for small and medium-sized enterprises (SMEs);
- development of social and economic infrastructure;
- climate change mitigation and adaptation, with an expectation that climate change mitigation and adaptation account for at least 25% of total EIB financing operations.

It is within this framework that the Bank sets its strategy and operational plans both globally and for each individual region. Consequently, it is within this framework, and within EPTATF's Rules, that EPTATF's strategic orientations and operational plan are set.

¹ Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. However, the EIB is not operational in Belarus and its potential activity there is subject to a decision by the Council and the European Parliament and the subsequent conclusion of a Framework Agreement between Belarus and the EIB.

2. Objectives and general principles

The EPTATF's general objective remains to enhance the quality and the development impact of projects in the Eastern Partnership Countries.

To achieve this objective, EPTATF operations follow a set of general principles, notably:

- Value added: The EPTATF focuses on areas where it can bring value added.
- Complementarity: The Trust Fund works in complementarity with other EU available blending mechanisms.
- Flexibility: The EPTATF funding may cover Technical Assistance (TA) needs at any point of the project cycle as well as upstream work and horizontal activities towards capacity building.

All the above principles are ensured through the Bank's rigorous project appraisal/approval procedures, its long cooperation ties with the European Commission, as well as other International Financial Institutions (IFIs) and Development Finance Institutions (DFIs) present in this region and its strong in-house expertise, able to identify and direct TA to well defined targets.

3. Strategic Guidelines

The strategy of the Fund continues to be based on the following pillars:

Eligibility: All EPTATF proposals need to demonstrate their full alignment with the Bank's Operational Plan for Eastern Partners and the Eastern Partnership Countries in particular. It is, however, important that EPTATF is also used as a precursor of the Operational Plan, with upstream work of potential high importance for future activity in priority areas.

Ownership: The involvement of partner countries and local beneficiaries is essential for successful operation and such involvement should be ensured from an early stage and throughout the duration of an EPTATF supported operation.

Knowledge-sharing: Knowledge-sharing, in whatever form, is critical in ensuring production and transfer of both public and private knowledge.

Cooperation: The EPTATF is committed to a strengthened cooperation with other donors and multilateral or bilateral financial institutions active in the Eastern Partnership Countries.

4. An overview of sector needs, planned lending and required TA activity

In pursuing the high level objectives assigned to the Bank under the External Lending Mandates and in view of the very significant investment needs in all Eastern Partnership Countries emphasis will be given to the core sectors where the EIB has already established an operational presence. In parallel, the Bank will seek appropriate opportunities to increase its support to other sectors that contribute to the ELM's high level objectives. EPTATF support will be expected to facilitate the achievement of these goals.

It is important to recall here that, with climate change being a cross-cutting issue, climate change mitigation and/or adaptation issues require investments in practically all sectors. The EIB is fully aware of this situation and is committed to the fight

against climate change and to low carbon, climate resilient growth throughout its activity.

4.1. Development of the local private sector and support to SMEs

This is a relatively new sector for the Bank in these countries, but its activity in this area has developed rapidly and is mainly directed to SMEs.

While stressing the important differences among countries, the recent EPTATF supported study has confirmed significant market failures and identified demand and supply gaps. The orientation of the future EIB activity should build on these results by continuing to support SMEs with senior long term loans, and exploring – as and where appropriate – the use of other instruments.

EIB support for the sector is expected to have a significant impact on the final beneficiaries with consequent benefits for sustained employment.

4.2. Economic and Social Infrastructure

The Eastern Partnership Countries inherited from the Soviet era a legacy of extensive interconnected infrastructure facilities, all sharing similar features common in all infrastructure sectors. Of particular relevance for the Bank's activity in this key priority area are (i) the poor design of such infrastructures, with features such as lack of efficient insulation or the lack of system controls resulting in considerable technical losses; (ii) inadequate or even absence of maintenance of infrastructures, both during the Soviet era and in the years since, making any plan for rehabilitation a too expensive alternative; and (iii) poor organisation and management of such facilities.

It is widely accepted that not only the needs to invest in infrastructure are huge and urgent in order to meet current growth needs, but there is also a high need to reform the sectors and to make infrastructure facilities more efficient and environmentally sustainable. However, economic and regulatory constraints are significant impediments to infrastructure investment in the region. Significant macroeconomic constraints imply riskier and more expensive finance while regulation issues range from capital controls to tariffs regulations and poor transparency in the transactions.

Most of the above challenges are present – and more difficult to solve – in the case of cross-border projects and interconnections. Yet, appropriate interconnections are critical to each country's development and, in the context of EU's Eastern Partnership, a vital component for reaching its main target of economic integration. The EIB, with long experience in cross-border infrastructure development in EU, stands ready to support the Eastern Partner countries in their efforts.

Whether national or regional, EIB's interventions may require significant TA components but can have an equally significant catalytic role and high development impact.

Energy

It is recalled that a long-term stable and secure energy supply and transit is a key objective of the Eastern Neighbourhood policy of the European Union. This underlines the strategic importance of the sector and the priority attached by the Bank.

Investment needs in production capacity and distribution networks vary among the Eastern Partnership Countries and each one's role on the energy map, which may also entail important geopolitical implications. This requires a careful approach to large scale mostly cross-border investments but the EIB could be an important

partner, both in advisory and in lending. With energy intensity high throughout, there is a widespread and urgent need to improve Energy Efficiency and the Bank is – and will continue to be - heavily engaged in this field, which will also continue to require intense TA input from the early identification and design of the investments to the implementation and monitoring.

Transport

Poor transport infrastructure is an obstacle to the achievement of the Eastern Partnership objectives, preventing the effective integration of Eastern Partner countries with European markets and delaying sustainable development of the region. At the same time, absorption capacity and the ability to generate bankable projects are constrained in part by the different rates of progress with the necessary reforms. The situation is especially challenging with cross-border projects and interconnections.

The joint declaration of Transport Ministers meeting in Luxembourg on 9 October 2013 emphasised the importance of good transport connections and endorsed an indicative map of the regional transport network showing how the Eastern Partnership countries will connect with each other and the trans-European networks. The meeting also identified a list of priority projects which sets the scene for the creation of bankable projects over the medium term.

EIB has already made a significant contribution to the improvement of road infrastructure in Eastern Partnership Countries, enhanced by safety audits in Moldova and in Ukraine, an element that the Bank plans to mainstream in all its road operations and will need to rely on appropriate TA support. Road safety, together with security and environmental protection as well as social and economic impact need to converge with EU standards. They will all continue to get high attention and require both project related TA and capacity building initiatives. The Bank is also supporting the development of sustainable transport, with urban transport operations close to their implementation and an operation in the Railways sector to be concluded soon. Other short to medium term operational priorities of equally high importance will need to respond to the need for better transport links in line with the above mentioned Ministerial decision. TA will also be required to help identify priority investments and accelerate their implementation, thus bringing forward expected benefits.

Water and Sanitation and Environmental protection

EU priorities for the water and sanitation sector imply a focus on projects that impact on coastal waters as well as support for wastewater and waste management projects that have more general social and economic benefits. The Bank will continue to support projects which target improved environmental impact on the coastal waters, whether these projects are located in coastal areas or the connected river basins. While parts of a wider municipal infrastructure programme or individual operations, these projects face significant challenges both of technical (incl. long-time neglected maintenance) and institutional (such as poor management, lack of metering and inadequate tariffs). TA will be indispensable in preparing bankable projects in the sector and in ensuring proper implementation and knowledge transfer.

Education and Research

At this early stage of EIB involvement in social infrastructure in the Eastern Partnership countries the focus will remain on education infrastructure. It is thus to be expected that most of these operations will include a significant component of Energy Efficiency and, therefore, have an important climate action dimension. As with similar

investments, successful preparation and implementation of operations in the sector will require significant TA support.

Agriculture and Rural Development

The agriculture sector plays a special role in EU engagement in the Eastern Partnership due to its social and economic importance for the partner countries as well as its significance in trade and cross-cutting environmental issues. In addition to the opportunities for EIB to support direct investments in the agriculture sector, there is also the possibility to reach smaller operations in the sector through intermediated SME lending. TA needs will depend on the type of operation and the promoter.

Urban Infrastructure

Urban infrastructure projects face challenges over and above those implied by the subsectors involved, namely water, wastewater and sanitation, urban transport, energy/district heating and municipal solid waste. In particular, municipal operations must overcome issues including both financial capacity and also managerial and project management capacity.

Yet, energy efficiency / climate mitigation are important dimensions of municipal investments. Improvements in the energy efficiency of buildings, renovation of district heating and other energy distribution systems and provision of sustainable urban transport all have direct impacts on greenhouse gas emissions. The recent Energy Efficiency Study² financed by EPTATF confirmed the potential for investments in Energy Efficiency but also the lack of capacity of municipalities to prepare and handle large scale IFI funded projects. Substantial TA is therefore indispensable for the development and implementation of these projects and for reinforcing the capacity of municipalities. The recently approved TA in support of the Municipal Infrastructure Programme in Ukraine demonstrates the high TA needs of this specific multi-sector activity with clear Climate Action objectives.

The Bank attaches high priority to urban infrastructure as a means to open up the potential for the Bank to intervene in much needed rehabilitation and upgrading of projects in all of the relevant infrastructure subsectors. Whilst these multi-sectoral projects are complex and heavy in TA requirements, they are an opportunity for the Bank to bring significant value added. Combining TA and investment to address the problems of financial structuring of municipal enterprises and affordability of services is seen as crucial in un-blocking large scale and economically viable infrastructure investments with high Climate Action impact.

4.3 Climate Action

Since Climate Change is a cross-cutting issue, climate action and climate resilience are two matters that need to be part of any investment plan consideration. Climate action is therefore mainstreamed in all EIB's project assessment work with appropriate mitigation or adaptation measures forming part of the Bank's proposal.

Due to their legacy of energy intensive industry from the soviet era, the Eastern Partnership countries have a substantial potential for mitigation measures. However, the national authorities have not gone as far as the EU in adopting targets and providing feed-in tariffs or other financial support and therefore the project pipeline is constrained. Nevertheless, energy efficiency, renewable energy, sustainable transport, urban infrastructure and water have all been identified as areas with substantial investment needs in the region and are viewed as high priorities by the national authorities.

² Approved by the EPTATF Contributors Committee in 2012.

Appropriate capacity building, in addition to any project related TA, will be instrumental in developing the necessary climate awareness and required action. Similar efforts are required for climate adaptation, where the main challenges in the region are linked to the water management and water use for agriculture.

5. Expected results

The above analysis includes, under each heading, indications of the areas where TA, whether project related or for upstream work or for capacity building, is critical for achieving the high level objectives of the EIB activity in the Eastern Partnership countries. The EPTATF, in complementing other available blending mechanisms, will play a key role in realising the objectives set.

It is expected that well-targeted TA, such as this provided under EPTATF, will continue to be instrumental for the Bank to identify, prepare and implement projects that will also benefit from EIB lending and support the realisation of the ELM's high level objectives while helping in the capacity building of the beneficiary countries and the institutions involved.

While attention will be paid to the development of activity in all eligible countries, proposed TA will need to respond to identified priority needs in the country/sector concerned in order to maximise the EPTATF's Value Added and produce results. "Ownership" remains essential.

6. Further action on Capacity Building

A number of TA operations include a capacity development component as a means to help improve the promoter's skills in implementing and operating the investment project concerned. The Bank will continue to systematically pay attention to such needs. In addition, and in a more general way, the Bank will continue to pursue its regional EPTATF capacity building programmes, namely the already successfully run Eastern Partnership Internship Programme and the recently launched and already promising Eastern Partnership Secondment Programme. It must be underlined that in the case of the Eastern Partnership Internship Programme, which is open to young graduates or students close to their degree, the Bank aims to encourage the interns' successful re-integration to their home country. In the case of the Eastern Partnership Secondment Programme, secondees remain in the payroll of their employers throughout the secondment period and commit to their re-integration there.

7. Dissemination and Fundraising

Dissemination activities will continue, with the Bank's Services using every occasion to make the EPTATF and its role in the Eastern Partnership Countries better known. The establishment of the Eastern Partnership Committee will provide a new Forum where the discussion of operational issues of relevance to Eastern Partnership Countries will also raise the profile of the EPTATF activity and will enhance the visibility of the EPTATF Contributors.

The Bank counts on EPTATF Contributors for the continuation of all the above activity. It also expects that new Contributors will join the Fund during 2014 to enhance and ensure long-term sustainability to an instrument that has already proven its value.