Neighbourhood Investment Facility

Operational Annual Report 2016

DG Neighbourhood and Enlargement Negotiations

European Commission
Directorate-General for Neighbourhood and Enlargement Negotiations
Title: Neighbourhood Investment Facility (NIF) Operational Annual Report 2016
Catalogue number: EZ-AI-17-001-EN-N
ISBN: 978-92-79-67820-2
ISSN: 2443-9045
DOI: 10.2876/145433
Pictures: © Shutterstock/Radovan1: pages 17, 23; © Kim Run Yeul / World Bank Photo Collection: page 14 © AFD: page 15 © Shutterstock: pages 1, 4, 11, 16, 17, 18, 19, 21, 22, 24, 25;

Luxembourg: Publications Office of the European Union, 2016

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Printed on certified 100% recycled paper

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Foreword

I am pleased to present to you the 2016 Operational Annual Report of the Neighbourhood Investment Facility, the largest blending facility of the Commission.

Economic development is central for the political stability of the countries in our neighbourhood and the EU supports its partners to achieve it in many ways. The Neighbourhood Investment Facility is one of them, providing affordable access to funding for Small- and Medium-sized Enterprises (SMEs) and support to long-term infrastructure projects with a strong impact on development.

In 2016 the NIF has again provided a substantial amount of funding, bearing witness to the growing needs for sustainable investments of our Neighbourhood partner countries. The overall volume of NIF funding decided in 2016 was ca. €170 million. This generated projects amounting to almost €2 billion, which equates to roughly 1% of public expenditure of the beneficiary countries. The NIF leverages European funds by enabling and improving the quality of investments extended by partner finance institutions to beneficiaries in the region. It is a unique instrument, in its action, size and diversity of sectors reached.

This booklet illustrates the activities we have jointly financed with NIF partners in the course of the last year. A strong focus in 2016 was support to SMEs, along with assistance to the environmental sector.

When supporting such investments, the EU is determined not to crowd out other financial actors, but on the contrary to crowd in new ones and to create new forms of finance. For example, the NIF aims to stimulate more domestic sources of finance, independent of European financial partners. Moreover, when it comes to improving access to finance for small enterprises, the activities co-financed by the NIF are designed to intervene in underserved situations and for a limited time, breaking the ground for activities that can later be replicated by domestic finance institutions.

I would like to thank the NIF financing partners – the banks, the authorities in beneficiary countries and the participating private sector – for their contributions and cooperation. Their participation is a powerful reassuring signal to citizens that their countries do offer economic opportunities for those willing to seize them.

In the course of the year and in line with the External Investment Plan, put forward by the Commission on 14 September 2016, the Commission expects the NIF to become an integral part of the new European Fund for Sustainable Development (EFSD). Within this new comprehensive setup, the NIF will be managed together with the Africa Investment Facility. It will be complemented by a new guarantee facility that will enhance credit and ultimately benefit the final investments, as well as allowing risk sharing with other investors, notably private actors. It will leverage additional financing, in particular from the private sector, by addressing the key factors that enable crowding-in private investment.

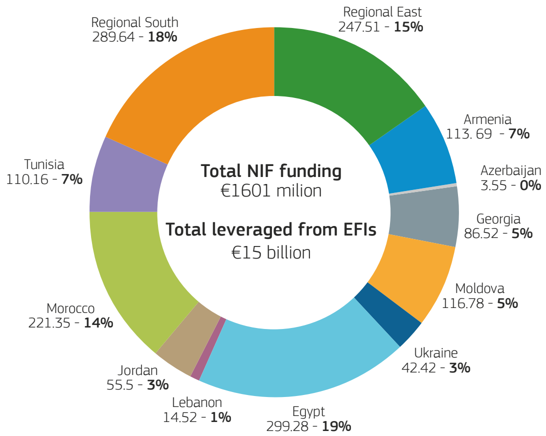
All existing and future operations are embedded in a policy dialogue with partner countries which seeks to create a legal and economic environment conducive to the success of these projects and to other investors following suit. It is in the EU´s and our neighbours' best common interest to create investment opportunities that contribute to the virtuous circle of economic and political stability.

Johannes Hahn
Commissioner for Neighbourhood and Enlargement Negotiations

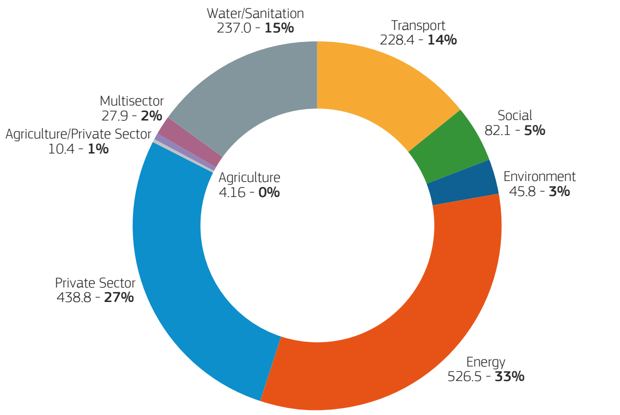
2008-2016

NIF at a glance

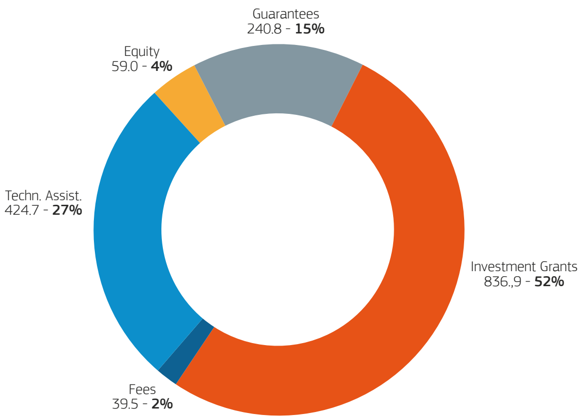
by Country 2008-2016



by Sector 2008-2016



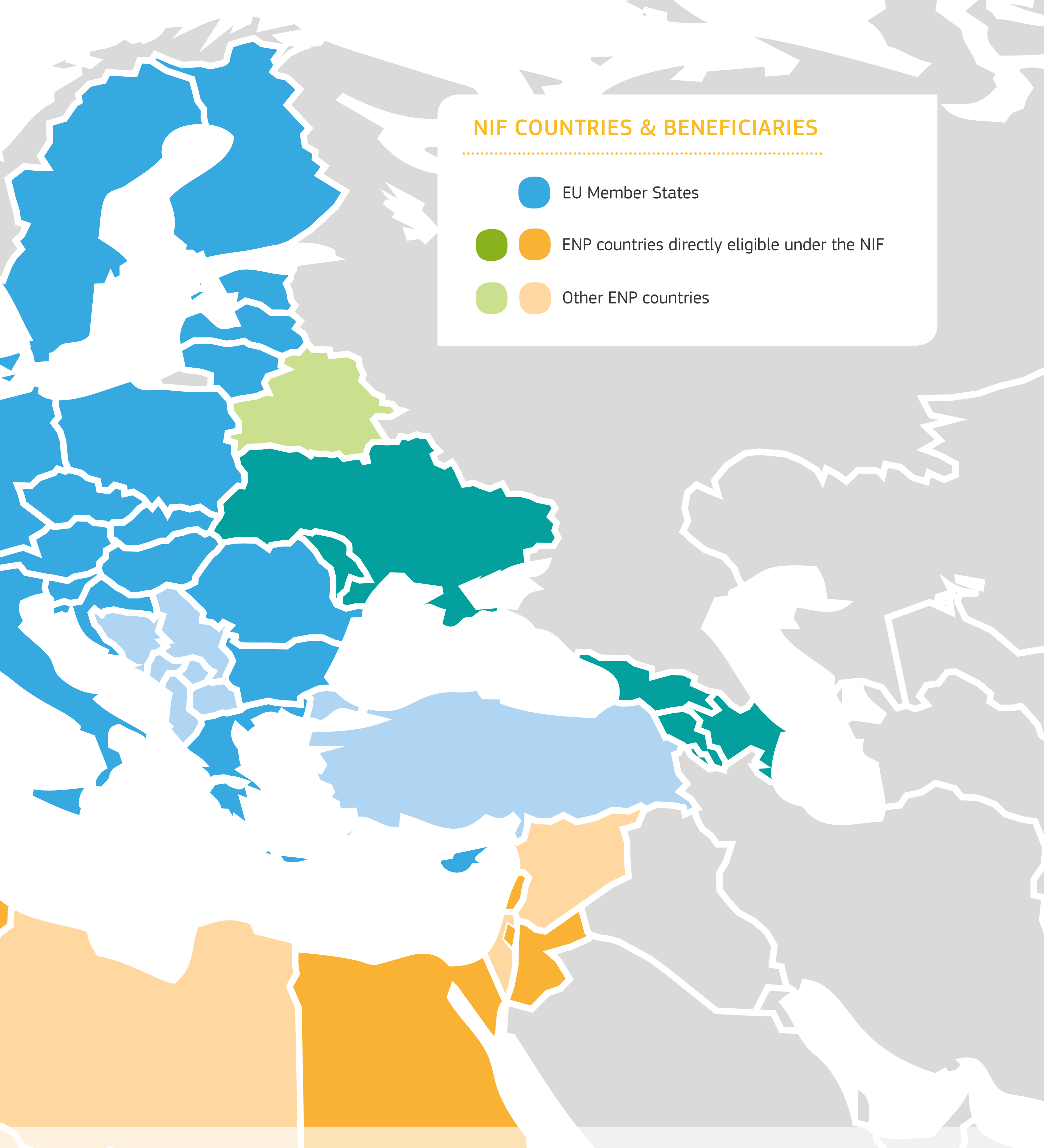
by Type of Support 2008-2016



All amounts in millions of euros

NIF CORE FUNDING FROM THE EU BUDGET

The EU budget provides the core funding of the NIF. Since its inception in 2008, the **EU budget has provided € 1,678 million** under the NIF. In total, the NIF has enabled an **investment volume from IFIs of ca. €15 bn.**



THE NIF TRUST FUND

The NIF Trust Fund allows EU Member States to complement the NIF resources provided from the general budget of the European Union. 15 EU Member States have committed a **total of €84m** to the NIF Trust Fund. Their contributions are managed by the European Investment Bank. The approval process follows the same NIF project appraisal and approval procedures.

FUNDS PROVIDED TO THE NIF TRUST FUND

Austria
EUR 3 million

Bulgaria
EUR 1 million

Czech Republic
EUR 2 million

Estonia
EUR 3 million

Finland
EUR 3 million

France
EUR 27 million

Germany
EUR 34 million

Greece
EUR 1 million

Italy
EUR 1 million

Luxembourg
EUR 1 million

Poland
EUR 3 million

Portugal
EUR 1 million

Romania
EUR 1 million

Spain
EUR 2 million

Sweden
EUR 1 million

NIF Operations in 2016

OPERATIONAL OVERVIEW

In 2016, 12 projects in the Neighbourhood region received final approval from the Board for a **total NIF contribution of €169m.** This is close to the average yearly contribution from 2008 to 2015, around €179m, and likely to increase again in 2017.

The **geographical allocation** of the NIF grants leant towards the South, which is also the larger region. 7 projects in the Southern region (plus 1 new phase of an existing NIF-funded project) and 4 projects in the Eastern region were approved. In terms of the NIF contribution, over four fifths of the funds were awarded to projects in the Southern region (€138m or around 82%) and about one fifth to projects in the Eastern region (€31m or around 18%).

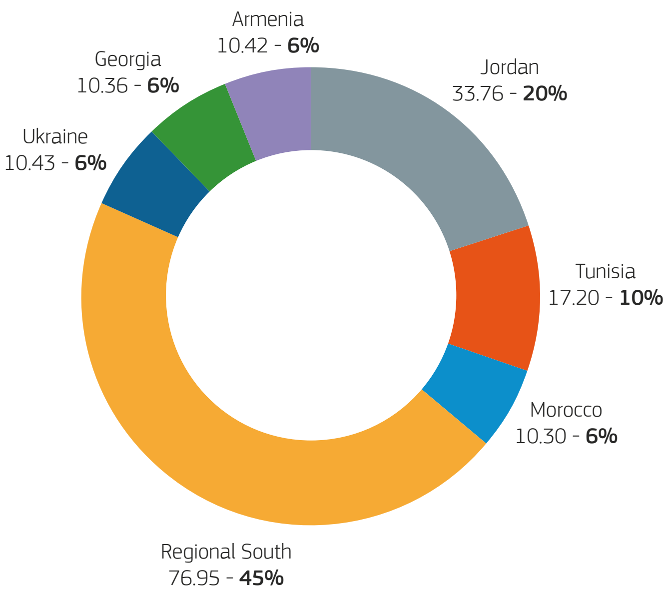
New projects were approved in 6 **countries** last year: Armenia, €10m; Georgia, €10m; Jordan, €34m; Morocco, €10m; Tunisia, €17m; and Ukraine, €10m. Countries in the Southern Neighbourhood will also benefit from several new regional projects that have been approved. NIF support for regional projects[1] in the South amounted to €77m (€51m for Morocco and Tunisia and €26m for Egypt and Jordan), while, after significant amounts in the previous year, there were no new regional projects in the East.

With regard to **sector distribution**, the largest individual share of NIF support, with grants totalling €77m (45%), was for investments to enhance access to finance for medium and small enterprises. This was followed by the environment sector (€35m or 21%) approved and water and sanitation projects (€19m or 12%). Support for the energy and transport sectors was €14m (8%) each and the agricultural sector (€10m or 6%) complete the picture.

The **type of support** awarded by the NIF in 2016 focused mostly on investment grants (€84m or around 50%), which is the most direct way to lower the costs of financing for the borrower. These were regularly accompanied by technical assistance (€55m or around 32%), including feasibility studies, support for project implementation units and works supervision, and by guarantees (€26m or around 15%)[2].

The **financial leverage** effect of NIF contributions in 2016 was 1:8.6. In other words, for every euro provided by the NIF, €8.6 of lending or investment was mobilised from European Financial Institutions (EFIs). Overall, €169m of NIF grants will leverage over €1.45bn of loans from EFIs, which in turn are expected to lead to total investments in these projects of almost €2bn, including potential direct investments by sovereign and private-sector co-financiers.

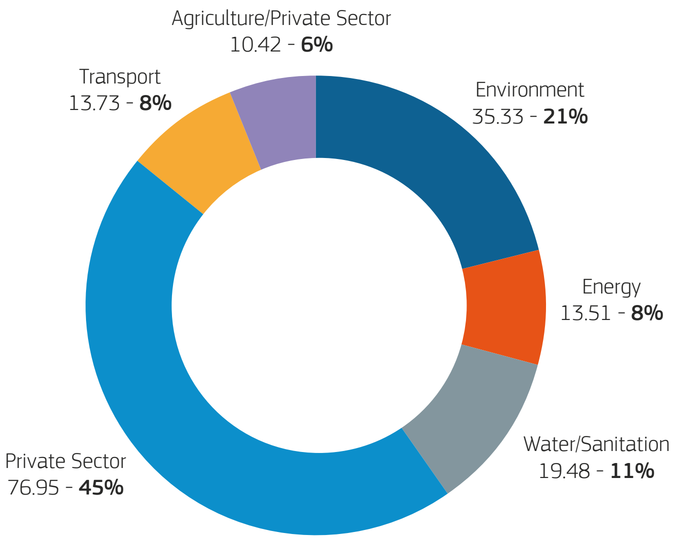
by Country (million EUR)



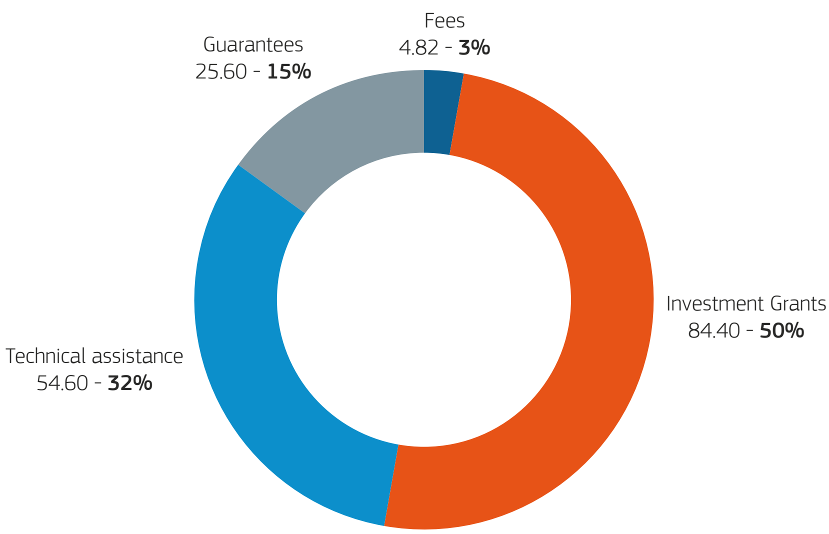
1 Regional projects are NIF projects that benefit more than one country.

2 The total NIF amount of €169m mentioned above includes €5m or about 3% of remuneration fees.

by Sector (million EUR)



by Type of Support (million EUR)



NIF in the South

With NIF support Mediterranean partner countries can attract investments while keeping their sovereign debt at sustainable levels.

The EU's Southern Neighbourhood comprises Algeria, Egypt, Israel, Jordan Lebanon, Libya, Morocco, Palestine[1], Syria and Tunisia. Although just four of these countries experienced the 2010-2011 'Arab Spring' uprisings directly, all have been enveloped in the ensuing political instability and economic downturn. The EU is supporting political and economic reform processes through bilateral and regional support programmes. It is also establishing Deep and Comprehensive Free Trade Area agreements (DCFTAs) in the region to promote gradual economic integration with the EU market. Negotiations are most advanced with Morocco, Tunisia and Jordan, and are gaining pace also with Egypt.

The NIF contributes to key Union for the Mediterranean (UfM) initiatives, as well as other EU policies. The UfM, which was set up in 2008, aims to boost cooperation between the EU and Mediterranean partner countries and to encourage regional cooperation. Regional UfM projects address themes such as entrepreneurship and small business development, a Euro-Mediterranean University, transport over land and sea, civil protection, environmental protection, solar energy and depollution of the Mediterranean Sea.

Many of the programmes supported by the NIF in 2016 contribute to UfM goals, including the trade and competitiveness programmes, one project to upgrade transport infrastructure, two water and sanitation programmes and one specifically aimed at reducing the pollution of the coastal and marine environment.

TRADE AND COMPETITIVENESS

The NIF has partnered with EBRD and EIB on three programmes to boost trade and competitiveness in Tunisia, Morocco, Jordan and Egypt. The four countries are already partners in the Agadir Free Trade Agreement and members of the Euro-Mediterranean Partnership, which promotes economic integration in the region more widely.

All countries in the region have a youthful population, which means human resources, energy and creativity are plentiful. On the other hand, without decent jobs young people may fuel social conflict and instability. NIF-supported programmes are helping Egypt, Jordan, Morocco and Tunisia to address structural weaknesses and high youth unemployment, by bolstering the small and medium-sized enterprises (SMEs) that generate most of the jobs and wealth. Enhancing competitiveness has important ramifications for social and political stability, as well as economic growth.

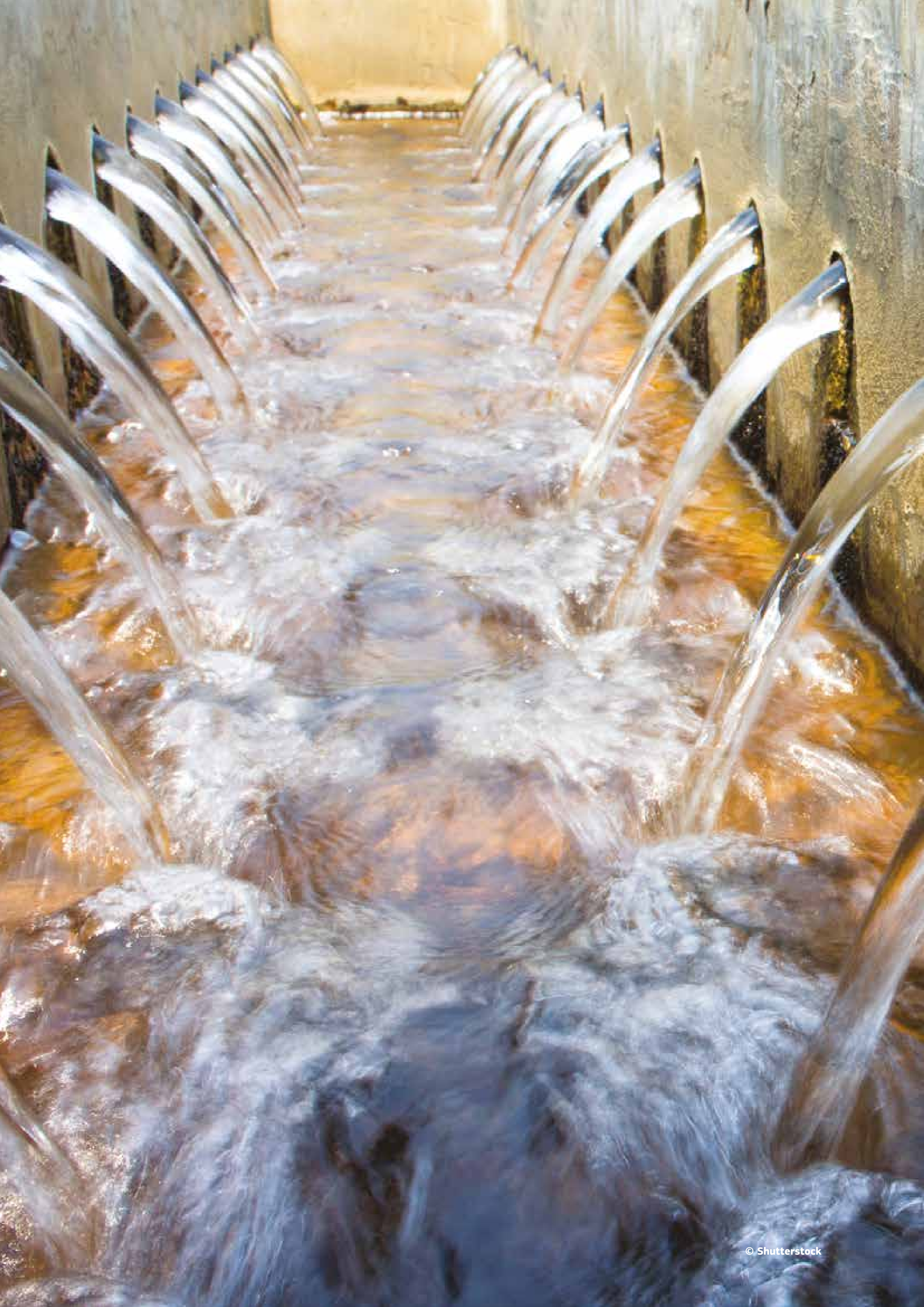
WATER AND SANITATION

Water is scarce in the whole of the Southern Mediterranean region and climate change is likely to exacerbate an already precarious situation. Progress has been made in increasing access to drinking water, in some cases reaching 100% coverage in urban areas. Access to water is more limited in rural areas and communities that have grown exponentially as a result of refugee arrivals. Collection and treatment of urban and industrial wastewater have also lagged behind, with a devastating impact on the environment and serious implications for human health.

AFD has been the NIF's main partner in the water and sanitation sector during 2016, proposing investment projects that also involve KfW and EIB. One project improves access to water and sanitation for Syrian refugees in Jordan and the communities that host them. Efforts are being made to ensure equitable distribution so that the poorest and most vulnerable households can access water at affordable prices. Another project supports the Moroccan government in its efforts to upgrade its water treatment infrastructure and improve public hygiene. Finally, in Tunisia, the DEPOLMED project will upgrade water treatment plants and pumping stations near the coast, so that urban and industrial waste no longer makes its way to the Mediterranean Sea.

At a time when economies are still fragile and public finances are particularly stretched, NIF grants make it possible for partner countries to bring basic public services up to acceptable levels and protect the environment, including our shared sea. With NIF support Mediterranean partner countries can attract investments while keeping their sovereign debt at sustainable levels. In addition, technical assistance funded by the NIF is building capacity within national water agencies to manage investment projects, operate and maintain infrastructure, and involve the public in meaningful discussions about how best to manage this most precious of resources.

1 Palestine: this designation shall not be construed as recognition of a State of Palestine and is without prejudice to individual positions of the Member States on this issue.



EU TRADE & COMPETITIVENESS PROGRAMME IN MOROCCO AND TUNISIA

Better vertical and horizontal integration will help SMEs in Morocco and Tunisia reap the benefits of free trade with European and Mediterranean markets.

Tunisia is an upper-middle income country that is business-friendly and boasts a young, educated workforce and high ratings in the UN human development index. The country has been hard hit by political instability and social tensions following the 2010 revolution and by security concerns that have critically damaged the tourism sector. As a lower middle income country, Morocco starts from a lower base, but has been praised for prudent handling of the economy. It was virtually untouched by the Arab Spring.

Both countries suffer from structural weaknesses and high youth unemployment. Private sector companies are likely to drive wealth and job creation, particularly the small and medium-sized enterprises (SMEs) that form the backbone of the economy and create between half and three-quarters of employment. Enhancing competitiveness has important ramifications for social and political stability, as well as economic growth.

In 1995, Tunisia signed an Association Agreement with the EU envisaging free trade in certain sectors. Morocco followed suit in 2000. The EU is both countries' largest trading partner. Negotiations now focus on establishing a Deep and Comprehensive Free Trade Area (DCFTA) extending trade to include services and government procurement, and developing common rules in areas such as competition and intellectual property rights. DCFTAs aim to modernise trade relations, and promote economic growth, greater transparency and a more effective regulatory framework in partner countries. Tunisia and Morocco are also part of the Agadir Free Trade Agreement, with Jordan and Egypt, and the Euro-Mediterranean Partnership, which promotes economic integration in the 16 countries in the EU's southern Neighbourhood.

For many years EU cooperation with Neighbourhood countries has emphasised the need for inclusive economic growth and job creation, driven by the private sector. Entrepreneurship and a strong small and medium-sized enterprise (SME) sector are seen as central to achieving this. In the NIF Strategic Orientation 2014-2020, 'Promoting smart, sustainable and inclusive growth' is one of three strategic objectives and direct reference is made to DCFTAs and to SME development and financing. EIB and EBRD are playing a key role in helping SMEs make a success of the DCFTA, and both have developed initiatives to support the EU Trade and Competitiveness Programme and are receiving grant contributions from the NIF.

Access to investment capital remains an issue for SMEs in Morocco and Tunisia, although they do have better access to credit their regional counterparts: Moroccan SMEs have a 24% share of total loans, and Tunisians 15%, compared to 10% in Jordan and 5% in Egypt. Nevertheless, a quarter of Tunisian and a third of Moroccan SMEs feel their growth is constrained by a lack of credit and high collateral requirements of banks.

Value chains are another important driver, particularly for export growth. Companies that are part of structured value chains and clusters, with strong vertical and horizontal linkages, are more resilient, better able to invest in productivity, training and technology, and to exert a pull-up effect on other businesses in the chain. Small businesses can benefit from stronger links to larger, more experienced companies already familiar with exporting to the EU market. This will provide a much-needed boost to traditional sectors.

The EIB programme has 3 mutually reinforcing pillars. Firstly, EIB will provide long-term loans to the tune of €120m to local Financial Intermediaries (FIs) for on-lending to strengthen value chains in particularly relevant sectors: manufacturing and agri-food in Morocco, and vegetable oils, fruits and vegetables in Tunisia. This investment is expected to leverage another €120m from local private financial institutions. The second pillar 2 is a Risk Sharing Facility with first-loss cover funded by a EU grant of €20 million. This reduces risk for local FIs and so increases their propensity to lend. SMEs still need a robust investment proposal to secure a loan, but the cost and conditions of the loan - e.g. collateral requirements - will be more favourable.

Finally, an Expert Support Facility (ESF) will provide services to both FIs and SMEs. Business development services to SMEs, part-financed by the companies themselves, covering aspects such as planning, management, accounting, reporting, EU product standards and compliance. Services to banks and other local intermediaries will centre on evaluating and managing risk, and on developing and promoting innovative financial products targeting the SME sector. The ESF may also facilitate networking platforms and events, identify and help share best practices and provide region- and country-specific guidance on policy options to improve the investment climate and enhance business competitiveness in Morocco and Tunisia.

EU Trade & Competitiveness Programme – EIB component

Private Sector - Morocco, Tunisia
Total cost: €265m

NIF grant: €25m (investment grant €20m; technical assistance €5m)

Lead Financial Institution: EIB with €120m

Other funding: €120m (public and private sector promoters)

The EBRD component is comprised of 2 linked instruments: one analytical and the other financial. The first will provide practical, sector-specific diagnostics of the challenges facing private sector firms related to competitiveness and value-chain development, complementing this with an analysis of the regulatory framework that may help or hinder competitiveness and functional value chains. The analysis will be used to support policymakers as well the actors directly involved in value chains.

The second instrument directly supports value-chain development in the agribusiness, manufacturing and services, logistics/distribution and ICT sectors, using an EU grant of €16.5 million and EBRD investment of around €140 million over 4 years. A total of 200 SMEs will be encouraged to invest in improved production, processes and services to add value to their products for the export market, channelling them through local aggregators such as expert-oriented buyers and processing companies. A further 600 SMEs will benefit from technical assistance, provided by EBRD and funded by the NIF, offering advisory services, support for quality upgrades, and transfer of technologies and know-how.

The EBRD and EIB initiatives are designed to support the DCFTA process and, more generally, trade and competitiveness in Morocco and Tunisia. EU support through the NIF will enable SMEs to compete in foreign markets and trade profitably not just with the EU, but also with their Mediterranean partners.

EU Trade & Investment Programme – EBRD component
Private Sector - Morocco, Tunisia
Total cost: €165m

NIF grant: €25m (investment grant €16.5m; technical assistance €8.5m)

Lead Financial Institution: EIB with €140m

EU TRADE & COMPETITIVENESS PROGRAMME IN EGYPT AND JORDAN

Robust value chains and dynamic and innovative financiers help provide a framework for more competitive small businesses and more sustainable growth in Egypt and Jordan.

With a population of around 95 million, 65% of whom are under 30, Egypt is guaranteed a steady flow of people into the workforce for decades to come. The challenge is to ensure the economy can create jobs for them. The 2011 revolution demanded 'bread, freedom and social justice'. Six years on, despite a return to modest economic growth and the launch of several large infrastructure projects, unemployment stands at 13% overall, higher for women (25%) and youth (40%). 27.8% of the population lives below the poverty line, and 50% risk falling below it. Mega-projects make the headlines, but it is micro-, small and medium-sized enterprises (MSMEs) that create most jobs (90%) and wealth (55% of GDP). The MSME sector lacks competitiveness partly because small businesses are undercapitalised and lack access to credit. Dedicated SME credit lines have been set up, but further financing is needed, particularly for innovative SMEs just starting out. MSMEs also need to interact with local aggregators and other export-oriented businesses in stronger value chains.

Jordan has a much smaller population and higher standards of living than Egypt. Poor in natural resources, it has always been a trading nation. Although Jordan itself has been a beacon of stability, regional instability has put immense pressure on public finances, with a dramatic decline in tourism and a large number of refugees to house and care for. Jordan is currently the world's second largest host to refugees. Unemployment stands at 15% and is growing; youth unemployment is almost twice that. Economic participation is very low: under 40% of over-15s - and only 14% of women - are in work or actively seeking it. There is a marked urban-rural divide, with job opportunities concentrated in the capital and industrial centres like Aqaba. MSMEs account for 71% of the private sector workforce, 40% of GDP and 45% of total exports. Access to investment capital is an issue for SMEs, and collateral is often needed to access loans. Venture capital, while promising, is not widely available.

Both Egypt and Jordan are members of the Euro-Mediterranean free trade area and the Agadir Free Trade Agreement. Both countries have trade association agreements with the EU and are involved in negotiations on the Deep and Comprehensive Free Trade Area (DCFTA), which will harmonise standards, liberalise trade and investment in goods and services, and boost export opportunities with the EU, in particular for SMEs. However, businesses will need to become stronger if they are to compete at home and in foreign markets.

The EBRD's EU Trade and Competitiveness Programme in Egypt and Jordan aims to boost MSME competitiveness. Each of its three components is supported by an EU grant. The first focuses on value chains in industry, agribusiness, and information and communication technologies (ICT) sectors. EBRD is offering MSMEs loans to finance process innovation, resource efficiency

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and quality improvements. EU investment grants encourage uptake of the loans by reducing the overall cost, and technical assistance strengthens linkages between MSMEs, aggregators and other experienced local exporters. A second area of activity is sector-specific analyses of obstacles facing would-be MSME exporters, together with policy recommendations to overcome them. The third component aims to bolster venture capital (VC), incubators and accelerators in Jordan and Egypt. It will invest in equity in a VC fund to help innovative Egyptian SMEs find the early-stage financing they need to emerge and thrive.

The programme supports national development priorities in both Jordan and Egypt, as reflected in their Association Agreements. It is aligned with the Single Support Framework for EU support to the two countries: in Egypt contributing to 'Governance, Transparency and Business Environment' and 'Improved Quality of Life and Environment'; and in Jordan to 'employment and private sector development'. Private sector development and increased economic integration with the EU's single market are key objectives of European Neighbourhood Policy, making this programme an excellent partner for the NIF.

EU Trade & Competitiveness Programme in Egypt and Jordan

Private Sector - Egypt, Jordan

Total cost: €171m

NIF grant: €25 (investment grant €11m; technical assistance €14m)

Lead Financial Institution: EBRD with €109m

Other investors: €37m

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PUBLIC TRANSPORT UPGRADE IN TUNIS CITY CENTRE

Reengineering of the central loop of the light rail network, the Métro léger, improved intermodal connections and renovated public spaces in and around Place de Barcelone, in Tunis city centre.

Tunis metro is not an underground system; its tracks are at street level. In 1985, the new light rail design connected the city to its suburbs relatively quickly and easily. Today, with a much larger city area and vastly increased numbers of commuters, the network is showing signs of strain. Many are choosing private cars rather than public transport, resulting in heavy congestion, delays and poor air quality. Inner city businesses risk losing customers due to poor access, and some have relocated to other areas.

A large scale investment programme was launched in 2002 to upgrade the Greater Tunis transport network, including new lines and the refurbishment and electrification of existing lines. The Tunisian government is funding the various work packages with multi-donor assistance involving AFD, KfW, EIB and the EU NIF. AFD has been working with national and city transport authorities (TRANSTU) for over a decade, and donor assistance has become ever more vital in the wake of the Tunisian revolution, which put great pressure on public finances.

The present project, supported by AFD and by an EU NIF grant, is to upgrade the transport system in the area around Barcelone, Bab El Khadra and République metro stations, at the very heart of the capital. The 300 000 passengers using these facilities every day begin their journeys on mainline trains, alighting at the central railway station at Place de Barcelone, or on one of the capital's light rail lines or bus routes. Most journeys involve at least one connection. The planned Fast Rail Network will increase passenger travel options further.

The project will optimise track layout and upgrade station facilities so that passengers can connect seamlessly between the different forms of transport moving through well-designed public spaces that are safe for vulnerable groups, especially women. A modern intermodal transport system in Tunis will improve passenger experience, cut travel times and reduce road traffic and related greenhouse gas emissions, benefitting the economy and improving quality of life for Tunisians. Moreover, a safe, affordable public transport system will reduce social disparities and help women to engage in public and economic life.

In a challenging economic environment, the Tunisian government is pushing forward with the ambitious five-year Tunisia 2020 plan to relaunch key sectors of the economy through private and public efforts. Public investment in the country's transport infrastructure is vital, but financial constraints make it difficult to justify investment in intangibles, such as capacity building or overall contract management, even though these are essential for the long-term success of the initiative. The AFD investment, and in particular the EU NIF grant, enables these important tasks to be carried out without increasing Tunisia's sovereign debt. The project contributes to the objectives of the EU-Tunisia Single Support Framework 2014-2020, specifically for local economic and social development, and low-carbon, environment-friendly growth. It is also aligned with the NIF strategic objective to combat climate change through better public transport.

Public transport upgrade in Tunis city centre

Transport - Tunisia

Total cost: €89.1m

NIF grant: €6.2m for technical assistance

Lead Financial Institution: AFD with €76.5m investment plus €0.5m grant

Other investors: Tunisian state €5m and TRANSTU €1.4m

WADI AL ARAB WATER SYSTEM II

Bringing water to Jordanian and refugee communities in and around Irbid.

The Hashemite Kingdom of Jordan is one of the world's most arid countries. Per capita water availability is around 200 m^3 per year, about one-third of the global average. Irbid governorate is situated in the northern part of the country, and is the second most populous after Amman, with just over one million residents. With very limited surface water, groundwater has been extracted to meet local needs. However, water levels are dropping sharply and extraction from local wells is unsustainable in the long run.

The influx of refugees from neighbouring Syria has swollen Irbid's population, aggravating already serious problems of water scarcity and putting severe strain on other public services, such as education and healthcare provision. Irbid governorate is host to an estimated 143 000 refugees, mostly living alongside Jordanians in villages, towns and cities. Jordan's economy has also been hard hit by the Syrian crisis: regional trade, inward investment and tourism have declined steeply, while energy costs have risen. Although the economy is still growing - in 2015 and 2016 it hovered at around 2% - continued regional instability weighs heavily on public finances and makes it harder for the government to attract investment for sorely needed infrastructure. NIF support is helping to secure these investments.

Wadi al Arab Water System II is a large-scale infrastructure project, with blended finance combining a NIF investment grant with long-term loans from European development banks, EIB and AFD. The NIF grant covers approximately 14% of the €100-million investment. Implemented together with the Ministry of Water and Irrigation and Water Authority of Jordan, it supports Jordan's Water Strategy and the aims of the Single Support Framework for EU support to Jordan (2014-2017), notably for improved public service delivery, poverty reduction, environmental protection, climate change resilience and low-carbon development. The project also complements a number of water initiatives funded by EU Member States, notably Germany, Spain and France.

The project will enable water to be pumped from the King Abdullah Canal (KAC) in the northern Jordan Valley, treated and conveyed through a new pipeline to the Zabda Reservoir (Irbid governorate). Construction works and equipment financed by the project include a water intake and low-lift pump station next to the KAC, a water treatment plant and pumping station, a 25-km pipeline to Zabda Reservoir, and three pumping stations along the way to raise the water from an altitude of -200 m at KAC to +600 m at the reservoir. Since pumping water uphill is energy intensive and all parties are committed to reducing carbon emissions, pumping stations have been designed to maximise energy efficiency. Procurement for the construction works will follow transparent procedures and external supervision will ensure they are carried out to specification, minimising negative social and environmental impacts. Financial control and reporting will also follow EU standards.

Thanks to the project, residents of Irbid and surrounding areas will have an additional 30 million m^3 of drinking water per year, which in future could rise to 45 million m^3 using the same infrastructure. In a complex social and humanitarian context, increased water supplies will make local communities more resilient to factors beyond their control, like climate change and regional instability, as well as having a positive effect on the local economy and on social stability.

Wadi Al Arab Water System II

Water - Jordan

Total cost: €101.15m

NIF grant: €14m investment grant

Lead Financial Institution: EIB with €48.41m

Co-investor: AFD with €38.74m

IMPROVING ACCESS TO WATER FOR SYRIAN REFUGEES AND HOST COMMUNITIES

Bringing water to Jordanian and refugee communities in and around Irbid.

The Hashemite Kingdom of Jordan sits strategically at the crossroads of Africa and Asia, bordered by Saudi Arabia, Israel, Palestine, Iraq and Syria. Since natural resources, notably energy and water, are scarce, Jordan has relied largely on trade and tourism and is now focusing on a knowledge-based economy, IT and financial services to provide jobs for its young population. Jordan's political stability makes Amman a good base for international organisations and they are major contributors to the economy.

Since the beginning of the Syrian crisis in 2011, Jordan has seen trade and inward investment decline dramatically and tourism slow to a trickle. Already home to more than 2 million Palestinian refugees from the 1948 and 1967 wars, Jordan has accepted a further 655 000 refugees from Syria. The 2015 census estimates a total of 1.3 million Syrians are resident in Jordan. Most have settled alongside the local population in cities like Amman, Irbid, Al-Mafraq and Jerash, and a fifth live in refugee camps such as Za'atari, Marjeeb


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al Fahood and Al-Azraq. Whether in cities or camps, the new arrivals are overstretching Jordan's capacity to deliver basic services like water and sanitation. Jordan was already water scarce, and after the influx of Syrian refugees, availability fell to around 50-60 litres per person per day, half the target set in Jordan's Water Reallocation Strategy 2010.

The EU is one of the largest providers of humanitarian assistance in Jordan, funding primary medical care, food, basic household items and psychosocial support for the most vulnerable, as well as infrastructure to increase water supply. The present project, led by AFD with KfW as co-investor, and with EU support through the NIF and the MADAD fund for the Syrian Crisis, bridges the gap between humanitarian aid and development. Implemented together with the Government of Jordan, it is designed to bring improved public service delivery, better social protection, poverty reduction, and environmental protection, climate change resilience and low-carbon development, which are all aims of the Single Support Framework for EU support to Jordan (2014-2017). At a time when public finances are tight, the NIF grant enables Jordan to guarantee reasonable levels of service to refugees and host communities.

The project will upgrade the water distribution networks in Irbid and Ramtha and extend access to wastewater collection and treatment networks, preventing pollution and enabling treated water to be recycled for irrigation and power generation. Equitable distribution, especially to the poor and most vulnerable, is another key project aim. Women head almost 40% of Syrian refugee households in Irbid, so gender is an important dimension, too. The project's extension team will specifically target schools, community health centres, and vulnerable households that currently rely on expensive truck-delivered water supplies, offering access to water and sanitation services at an affordable price. Water meters will promote rational use of this precious resource, help reduce water-related tensions within the community, and ensure the long term sustainability of the service.

A technical assistance component will build capacity within the Yarmouk Water Company to manage the new infrastructure and ensure optimal performance. The company manages networks in the four Northern Governorates of Irbid, Mafraq, Jerash and Ajloun, so benefits of new skills will be felt beyond the immediate project area. The project will run from 2016 to 2021, with the component financed by MADAD ending by 2019 in line with the duration of the Trust Fund. Works will be staged to deliver services to the most vulnerable households as early as 2019.

Improving Access to Water for Syrian Refugees and Host Communities

Water - Jordan

Total cost: €140m

NIF grant: €19m (investment grant €14m; technical assistance €5m)

Lead Financial Institution: AFD with €30m

Co-investor: KfW with €20m loan, plus €50m investment grant

Other funding: EU MADAD fund with €21m

IMPROVING SANITATION IN MOROCCO

Investing in Moroccan efforts towards 100% water collection treatment and recycling by 2030, with sustainable results starting from today.

Water scarcity is a major issue for Morocco and its neighbours. Demand grows year on year, renewable water resources are dwindling and climate change is likely to exacerbate the situation. Morocco's 1995 Water Law was one of the first in the region to promote efficient water use by establishing user payments and the 'polluter pays' principle. The Ministry of Energy, Mining, Water and Environment is responsible for managing water resources and bulk water supply, and the Ministry of Interior's Direction de l'eau et de l'assainissement (DEA) for assisting local authorities, which manage distribution, collection and treatment at the local level. The Office National de l'Electricité et de l'Eau Potable (ONEE) is the national public water utility.

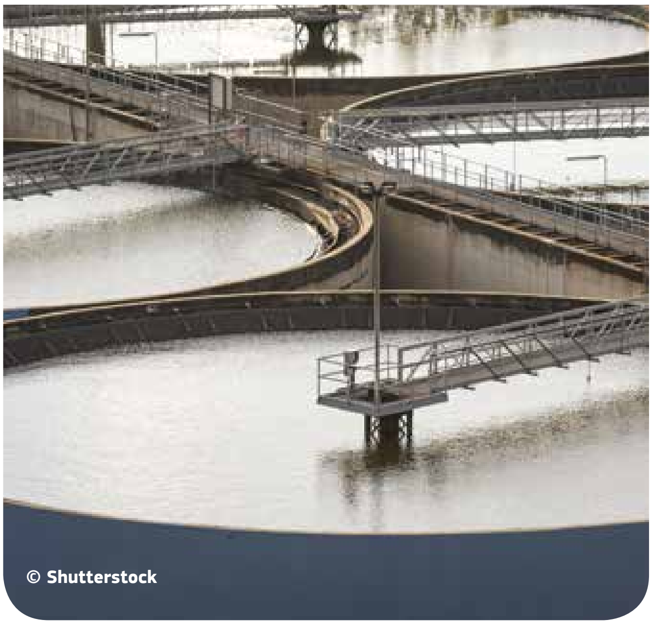
Good progress has been made in recent years in terms of access to water, particularly for urban dwellers: 100% have access to improved sources, 94% inside their houses, compared to 94% and 30% respectively for the 2 in 5 Moroccans living in rural areas. Access to sewage networks is more problematic, with 73% coverage in urban areas, and only 36% in the countryside. Untreated wastewater pollutes surface and groundwater and, together with poor hygiene, is a major factor in the spread of diseases. Around 50% of municipal wastewater ultimately arrives at the Mediterranean Sea, endangering the coastal environment.

Morocco's Programme national d'assainissement (PNA, national sanitation programme) aims to collect, treat and recycle 100% of municipal wastewater by 2030, with ONEE as the main implementing agency. European partners, including the EU NIF, EIB, KfW, AFD and the Belgian Development Agency, CBT, are already are already supporting Moroccan authorities with investments for the first phase (PNA1). A separate programme for rural areas, the PNAR, is also planned and may involve EU investors.

The present project, proposed to the NIF by AFD and with EIB and KfW as co-investors, covers the second phase of the urban programme (PNA2). New water treatment stations will increase treatment capacity by 28 000 m^3 per day, connect an estimated 65 000 households to sewage networks, and create a large number of jobs in construction and maintenance of infrastructure. A technical assistance component, funded in part by the NIF, will monitor and report on progress of works and compliance with quality standards. It will also facilitate inter-ministerial dialogue on improving governance in the water and sanitation sector and making it more sustainable. Finally, it will coordinate public outreach activities with ONEE on personal hygiene and environmental protection.

The project supports the aims of the Single Support Framework for EU support to Morocco (2014-2017), notably for equitable access to basic public services and employment and sustainable, inclusive growth. It is also aligned with two of the NIF's strategic objectives: to promote sustainable and inclusive growth, also by developing municipal infrastructure; and to address climate change and environmental threats, including pollution reduction and integrated water management. Finally, the project contributes to the EU's Horizon 2020 initiative to depollute the Mediterranean.

Investing in clean drinking water, good hygiene and wastewater collection and treatment has considerable benefits for the wellbeing of ordinary Moroccans. As long as citizens are unable to cover all of the costs, the government must finance the needed infrastructure. At a time when public finances are stretched, intangible activities like health education or policy dialogue can be harder to justify than fixed assets. With the NIF contribution, Moroccan partners can undertake these ancillary, but vital, activities, contributing to a healthier society.



Improving sanitation in Morocco

Water - Morocco

Total cost: €178m

NIF grant: €10.3m for technical assistance

Lead Financial Institution: AFD with €34m

Co-investors: EIB with €34m and KfW with €20m

Other funding: Government of Morocco with €80m

DEPOLMED

Upgrading sanitation infrastructure and services in Tunisia to improve public health, protect the integrity of coastal areas and help depollute the Mediterranean.

The word 'Mediterranean' comes from the Latin 'medius-terra' (middle-land); in Arabic it is also the 'middle sea'. For Europeans and North Africans alike, the Mediterranean has historically been the centre of the known world. The Mediterranean is home to a rich biodiversity: over 7% of known marine species in an area less than 1% of total surface waters. Almost half a billion people live in the 22 countries surrounding it. In the south, 65% of the population, 120 million people, live and work in coastal hydrological basins. Industrial effluent and urban solid waste and wastewater make up around 80% of marine pollution.

40 years of international efforts to protect this fragile ecosystem have included the Mediterranean Action Plan (MAP), the Barcelona Convention, and the Euro-Mediterranean Partnership – now called Union for the Mediterranean – which, in 2006, launched the Horizon 2020 Initiative to depollute the Mediterranean by 2020. The Mediterranean Hot Spot Investment Programme - Project Preparation and Implementation Facility, managed by EIB, includes marine pollution as a priority, and has supported preparation of the present project.

Over 70% of Tunisians live on the coast, and all major industrial centres are located there. 1 in 10 households in coastal areas are not connected to the main sewage system. Outside Tunis, where dedicated treatment services are in place, few industries have any choice but to discharge effluent into the general sewage network without pre-treatment. Untreated or insufficiently treated effluent pollutes the Mediterranean, threatening Tunisia's tourism industry as well as ecosystems and human health.

The National Sanitation Utility (*Office National d'Assainissement - ONAS*) has been building and operating sanitation infrastructure in Tunisia since its founding in 1974, often with international donor funding. Compared to other countries in the region, sanitation services are advanced, but more treatment stations are needed to treat 100% of the wastewater produced, and more care is needed to maintain the assets and monitor the quality and chemical or organic load of water that has been through the treatment process.

ONAS needs infrastructure, but also investment in capacity to better manage, maintain and monitor the sanitation services it provides. DEPOLMED responds to both these needs with a total of almost €130m in investment from AFD and EIB, and a €10m grant from the EU through the NIF. The project supports EU Neighbourhood policy priorities, a bilateral programme for water resources management, and the NIF strategic objectives on environment and climate change, which specifically reference H2020 and depollution of the Mediterranean.

DEPOLMED will build or upgrade 4 water treatment plants and 53 pumping stations in South Méliane, Sousse Nord, Jedaida and Kelibia, laying 540 km of pipes and 29 000 connections. In addition, it will strengthen governance in the sector by building capacity within ONAS to manage investment projects, operate and maintain infrastructure, perform rigorous in-house monitoring of water post-treatment, tackle the issue of industrial effluents, and conduct meaningful public consultation and communication.

DEPOLMED will help depollute the Mediterranean, protect Tunisian coastal waters and public health, and enable Tunisian authorities to manage sanitation in a more effective and transparent way.

DEPOLMED

Water - Tunisia

Total cost: €140m

NIF grant: €10.4m (investment €6.8m; technical assistance €3.6m)

Lead Financial Institution: AFD with €60m

Co-investors: EIB with €69.6m

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NIF In The East

2016 was another challenging year in the region. The NIF responded with projects focusing on energy security, connectivity, market integration, free trade and mitigating climate change.

The EU's six eastern neighbours - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine - are collectively known as the Eastern Partnership countries. 2016 was another challenging year in the region: the protracted crisis in eastern Ukraine continued to cause severe economic pain not just to Ukraine, but to other countries, too. Many experienced an economic recession in 2015–2016 due to a combination of external and domestic factors: abroad, tighter monetary policy in the United States and a collapse in international commodities prices; and at home, the need for faster progress in reining in public finances and deficits, removing structural distortions and improving the business climate. The European Union remains committed to helping its eastern neighbours.

In 2016 the focus was on energy security, connectivity and market integration, free trade, and mitigating climate change and other environmental threats. The projects approved reflect the key priorities set out in the NIF Strategic Orientations (2014-2020), as well as those established by the 2015 Riga Summit. They address the need to translate into practice the Sustainable Development Goals and the Paris Climate Agreement. The projects also contribute to concretising the Association Agreements, which form the policy framework for EU support to partner countries. Finally, they take account of contingent challenges, while responding to the longer-term needs and ambitions of partner countries.

Two of the four projects focus on connectivity: energy transmission in Georgia and rail transport in Ukraine. Strategically, these projects fill in missing links that will enable both countries to integrate into EU and regional networks. Connectivity projects contribute also to environmental and climate change-related aims, as does the project to upgrade the irrigation infrastructure in the Ararat and Armavir regions of Armenia. Irrigated agriculture using modern, water-efficient technologies can also significantly improve livelihoods in rural communities, even more so when farmers work together to pursue common interests. With the right support, local communities can reap more economic benefits by having food processed locally. The project to introduce energy efficiency in Ukrainian universities, outlined below, shows how rational energy use can improve the quality of education as well as the environment.

Energy efficiency in higher education

Ukraine's Ministry of Education and Science of Ukraine has achieved good levels of enrolment in tertiary education and is now focusing on increasing quality in education and academic research. With public finances stretched, all available resources should be directed at improving teaching, curricula and facilities, and not wasted on excessive heating bills. Most universities in Ukraine were built in the Soviet era when artificially low energy prices meant draughty buildings could be heated 24/7 without difficulty. With political independence came the need for energy independence: for some observers, energy security has become intertwined with national security.

EIB is the lead investor in the first large-scale energy efficiency project in the Ukrainian higher education sector. The project will improve energy efficiency and reduce running costs in seven state universities, freeing up resources for higher quality teaching and academic research. A large number of universities were asked to submit energy efficiency proposals to the Ministry of Education. The seven universities selected, all of whom have faculties dealing with energy issues, are involved in this energy upgrade project. Four are located in cities that have signed up to the EU-supported Covenant of Mayors initiative.

After carrying out energy audits to identify appropriate energy efficiency measures, 147 buildings covering 820 000 m^2 are to be renovated. The works will be contracted out to qualified suppliers using transparent procurement procedures, also benefitting local providers of energy efficiency services and technologies. Technical assistance will be given to the universities to help them with project design, procurement and monitoring of the works, as well as with final energy certification. Overall, the project is expected to reduce final energy consumption by 71 gigawatt hours/year and reduce emissions equivalent to 30 kilotons of CO_2 per year.

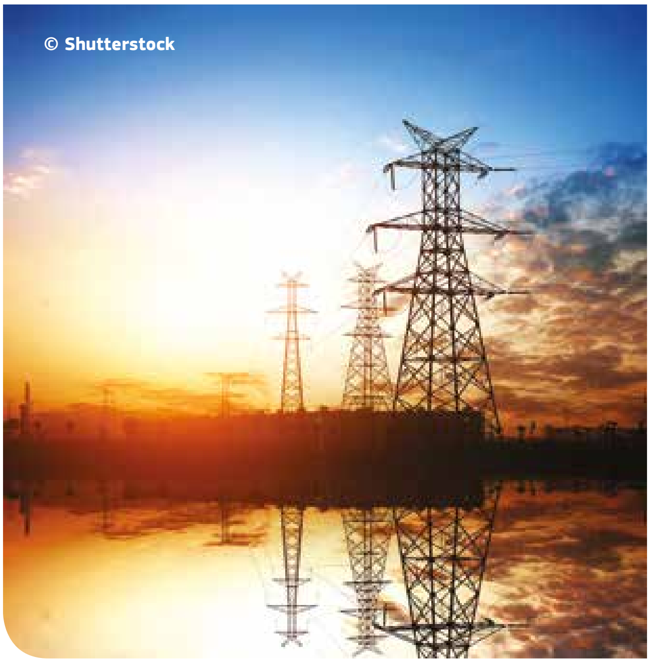
The seven universities are in many ways pioneers and the project is hoping for a strong demonstration effect: communication and public awareness activities will focus on demonstrating the cost and energy savings achieved, stimulating other universities to replicate their success and promoting the gradual mainstreaming of energy efficiency in the education sector.

EXTENSION OF GEORGIAN ELECTRICITY TRANSMISSION NETWORK

Upgrading the electricity grid to provide businesses and consumers with a safe, reliable and efficient power supply, in part generated sustainably from Georgia's abundant water resources.

Georgia has a long history of electricity generation from renewable sources: its first hydro-electric power station was built at the Borjomi Gorge, about 150 km west of the capital, in 1898. The country's exceptional potential for hydropower generation, coupled with its strategic location at the intersection between Europe and Asia, make it ideally suited as a regional energy hub. Despite growing domestic and international energy demand, Georgia has been unable to reach its hydropower potential, largely because the electricity grid could not cope with increased loads. Two-thirds of energy resources are located in the north west of the country while two-thirds of demand is in the east. Similarly, an inadequate energy transmission infrastructure frustrated Georgia's ambitions to act as a regional energy hub. The most promising export markets are in countries to the south, such as Turkey, Armenia, Iran and Iraq, where energy demand is increasing rapidly. Exporting to any of these markets requires a reliable, high-voltage transmission network. Additionally, the seasonal nature of hydropower means that while supply outstrips demand in the summer, there is a shortfall in the winter that needs to be imported.

Energy is fundamental for both social and economic development. The Government of Georgia began considering the issue of energy security after independence from the Soviet Union in 1991, and has welcomed foreign investment in the energy sector for over a decade. The EU-Georgia Association Agreement, signed in 2014, envisages progressive adoption of European standards in the energy sector. Georgia is expected to achieve full membership of the Energy Community by the end of 2017, pending the Georgian parliament´s ratification of the accession agreement, signed by the government in October 2016. In 2015, the national utility Georgian State Electrosystem developed the Ten Year Network Development Plan 2015-2025 (TYNDP), which identified measures towards compliance with international standards and upgrading of energy infrastructure and generation capacity.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A number of energy projects in Georgia have been carried out with NIF support and financing from European financial institutions, notably KfW, EBRD and EIB. The present project, Extension of Georgian Transmission Network, follows on from the Black Sea Transmission Network and the Jvari-Khorga Interconnection. It comprises three sub-projects, all of which are included in the TYNDP: construction of a 500kV transmission line from Tskaltubo to Akhaltsikhe and onward connection to Tortum (Turkey); reinforcement of the Transmission Infrastructure of Guria; and the first phase of the North Ring Tskaltubo. The extended network will connect new hydropower plants under construction in western Georgia, and enable existing plants to add to their generation capacity.

A technical assistance component, supported by the NIF, includes engineering and consulting services, mitigation measures to reduce environmental impact, and capacity building for the Georgian partners executing the project. KfW is lead financier, EBRD co-investor, and the Government of Georgia is contributing 12% of the overall cost of €225m. A NIF-funded investment grant of €6m enabled the project to go ahead immediately; without it Georgia feared excessive indebtedness and could not commit to the investment schedule.

This project contributes to key priorities of the NIF Strategic Orientations (2014-2020), notably energy connectivity, renewable energy production and energy security, environmental threats and climate change. It is needed to satisfy growing demand from Georgian businesses and consumers for a safe, reliable and efficient power supply. It also helps guarantee energy security and promotes regional integration, as well as strengthening the ties between Georgia and the European Union.

Extension of Georgian Electricity Transmission Network

Energy - Georgia

Total cost: €225m

NIF grant: €10m (investment grant €6m; technical assistance €4m)

Lead Financial Institution: KfW with €125m

Co-investors: EBRD with €63m

Government of Georgia own contribution: €27m

ENERGY UPGRADE OF HIGHER EDUCATION INSTITUTIONS IN UKRAINE

Showing how energy efficiency measures can improve quality in education, as well as making the learning environment more pleasant and comfortable.

Ukraine has the highest rate of per-capita energy consumption in Europe. Much of its housing stock and most public buildings date back to the Soviet era when central planning dictated what would be built and how, and highly-subsidised Russian oil and gas gave Ukrainians little incentive to consider energy efficiency. Like many states of the former Soviet bloc, Ukraine faces the major challenge of obsolete, energy-intensive infrastructure and very limited public funds to renovate or replace it. Energy efficiency is being promoted in a variety of sectors and Ukrainian cities are heavily involved in the EU Covenant of Mayors initiative.

The Ministry of Education and Science of Ukraine boasts high levels of student enrolment in higher education, but more disappointing ratings as far as quality is concerned. Quality has many different facets, and learning environment is one of them: research shows that excessive heat or cold negatively impacts student performance. Maintaining a steady, comfortable temperature in large, draughty lecture theatres is prohibitively expensive with Ukraine's long, cold winters and stifling summers, so introducing energy efficiency measures, such as double-glazing and thermal insulation, saves energy and improves education.

This energy upgrade project aims to increase energy efficiency and reduce the running costs of seven universities, freeing up resources for enhancing the quality of teaching and academic research. The seven universities are all publicly owned and well-established. Four of them are located in cities that have signed up to the Covenant of Mayors – Lviv, Cherniviv, Poltava and Vinnitsa – and all of them carry out academic projects in energy savings and efficiency issues, giving them a strong potential multiplier effect.

This is the first large-scale energy efficiency project in the Ukrainian higher education sector. Teaching, research and support facilities in 147 buildings for a total of 820 000 m^2 are to be renovated. This is expected to reduce final energy consumption by 71 gigawatt hours/year, that is 71 billion watts saved every year, equating to 30 million kilograms less CO_2 released into the atmosphere.

EIB is the lead financial institution for the project, with grants from Eastern Europe Energy Efficiency and Environment Partnership and EIB's Eastern Partnership Technical Assistance Trust Fund as well as from the NIF and the Government of Ukraine. A Programme Monitoring Unit will be set up in the Ministry of Education and a Project Implementation Unit in each university to monitor activities closely.

The first stage of the process is to carry out energy audits to identify appropriate energy efficiency measures. Project plans will then be drawn up, and the works put out to tender. Technical assistance will be provided to support the universities in this


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phase, and for procurement, monitoring of project quality and performance, energy certification, and communication and public awareness activities to encourage others to become more energy efficient.

The works themselves will be carried out by qualified contractors, selected through an open and transparent procurement process. Works may include installing heating, ventilation and cooling systems, upgrading boilers and heating units, installing biomass heating systems and thermal insulation of buildings. Where appropriate, existing systems may be refurbished and new equipment may be purchased.

Future project phases are envisaged, enabling larger numbers of universities to improve their energy efficiency credentials, the learning environment and student performance, since scarce resources can be allocated more productively to enhance teaching, curricula and facilities. Mainstreaming climate resilient technologies could radically alter Ukraine's carbon footprint, in line with national strategies, as well as the EU-Ukraine Association Agreement, Paris Climate Agreement and NIF strategic priorities.

Energy Upgrade of Higher Education Institutions in Ukraine

Energy - Ukraine

Total cost: €163.25m

NIF grant: €3m for technical assistance

Lead Financial Institution: EIB with €108m

Government of Ukraine contribution: €42m

Other contributions: E5P with €10m; EPTATF with €0.25m


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IRRIGATED AGRICULTURE IN ARARAT AND ARMAVIR

From simply increasing crop yields to supporting sustainable livelihoods in rural communities and fostering collaborative and inclusive socio-economic development.

Food security is a vital issue in Armenia, a landlocked country with just over 3 million inhabitants. 72% of the country's land area is agricultural land and around 16% is arable. The agri-food sector accounts for 21% of GDP and 46% of employment. That said, the average farm size is just 1.4 ha and productivity is low. As a result, Armenia is a net food importer. The 2007-2008 global financial crisis dealt the country a double blow: food prices spiralled, and foreign investment and remittances fell. Accessing adequate food and nutrition is a struggle for the 30% of Armenians living below the poverty line and one child in five has stunted growth.

Agricultural development is intrinsically linked to water resources management: 80% of agricultural production in Armenia depends on irrigation. Most irrigation infrastructure dates back to the Soviet era; it is old, poorly maintained and was designed for collective farms, not today's small family farms. The Government of Armenia has been working with the World Bank, IFAD and others to upgrade infrastructure and improve governance in the sector, but much more investment is needed.

The Armenian government has welcomed European investments in reservoirs and irrigation networks in river basins where agricultural potential is high but rainfall is low: AFD is investing in the Ararat region, and KfW and EIB in Armavir. The present project, proposed by AFD, is linked to works on the Vedi reservoir and irrigation network that will bring a reliable supply of pressurised water to 4 500 farmers on the Ararat plain. The EU-NIF contribution is funding a combination of pilot actions, technical assistance and capacity building, which will support the KfW and EIB investments in Armavir, too.

The aim is to ensure that the extra water resources increase agricultural production, but also improve the livelihoods of rural communities more broadly. Along the lines of the EU ENPARD programme, the project will support food processing and marketing operations, often micro- or small businesses owned by women, and encourage the formation of farmers' cooperatives. This facilitates access to extension services and credit to boost productivity, as well as sharing of equipment, storage facilities and know-how. Finally, financing will be extended to small farmers to invest in modern and efficient technologies, such as drip irrigation.

Around 65% of all irrigable land is in the Ararat and Armavir regions, so innovations that are successful here are likely to spread throughout Armenia. Dialogue with and between key public and private actors, including the Ministry of Agriculture, State Committee on Water Economy, water users, farmers' groups and lenders, will help disseminate good practice and improve governance and policymaking.

The project is in line with the Government of Armenia's Development Strategy (2014-2025) and its Strategy for Sustainable Rural and Agricultural Development (2010-2020). It contributes to the EU's Single Support Framework for Armenia (2014-2017) notably regarding private sector development, improving the business and investment climate for small and medium-sized enterprises, strengthening the agricultural sector and increasing the competitiveness of Armenian regions. It also contributes to NIF strategic objectives 2) to reduce environmental threats and combat climate change, and 3) to promote smart, sustainable and inclusive growth.

The NIF grant complements the infrastructure investments made by AFD, KfW and EIB, strengthening Armenia's public and private institutions to manage water and agriculture in a more integrated fashion, capitalising on available opportunities to benefit the environment as well as rural communities.

Irrigated Agriculture in Ararat and Armavir

Agriculture/Private Sector Development - Armenia

Total cost: €100m

NIF grant: €10m (investment grant €5.6m; technical assistance €4.4m)

Lead Financial Institution: AFD with €75m

Government of Armenia contribution: €15m

RAILWAY MODERNIZATION IN UKRAINE

Electrification and upgraded signalling equipment will lead to faster, safer rail connections for passengers and freight, helping Ukraine's economy and its environment.

Ukraine covers about 600 000 km^2, making it the largest country entirely within Europe. Its rail network of almost 22 000 km is the third longest in Europe, connecting all major ports, urban and industrial centres, as well as neighbouring countries. Railway lines to Ukraine's Black Sea ports and to Belarus are particularly strategic. Heavy industry and agriculture are key economic sectors, and their voluminous outputs are shipped largely by rail. Freight volumes are high relative to GDP, also because Ukraine is an important transit country for bulk traffic. Under half of the network is electrified, tracks are poorly maintained and signalling equipment needs upgrading, all of which negatively affects the safety, quality and efficiency of passenger and freight transportation.

Russia's annexation of Crimea and political instability in the east of the country have had a disastrous impact on Ukraine's economy, which contracted by 6.8% and 9% in 2014 and 2015 respectively. Continued uncertainties and trade disruptions with Russia led to volatility in the banking system in 2015, and a fivefold increase in domestic gas prices caused inflation to soar. While estimates for 2016 are more positive, the Government of Ukraine is facing severe economic as well as political challenges.

Connectivity is a key EU priority; it stimulates trade and investment as well as bringing peoples closer together. The Trans-European Transport Network connects EU countries, north-south and west-east. In 2013, the EU and ministers from partner countries, including Ukraine, agreed to create the Eastern Partnership Regional Transport Network, essentially extending the TEN-T network. The 2014 EU-Ukraine Association Agreement envisages further cooperation on transport and gradual convergence with EU standards and policies. Transport connectivity is also among the NIF's strategic objectives. Rail network modernization and electrification are also in line with the Government of Ukraine's National Transport Strategy and National Target Program on Railway Reform 2010-2019.

The present project will electrify a total of 253 km of track on the Dolynska – Mykolaiv – Kolosivka line in Southern Ukraine, also upgrading signalling and telecommunication systems. Mykolaiv is a Black Sea port to the east of Odessa; upgrading this line will take some of the pressure off the main Kiev-Odessa line. The project will result in increased traffic capacity and higher speeds, relieving congestion and reducing transit times. It will also increase safety, improve fuel efficiency, and lower operating and maintenance costs. Fuel costs for electricity-powered trains are under half of those powered by diesel. CO_2 emissions are also significantly lower.

EIB, lead investor in the Ukraine Railway Modernization project, has already financed works on the rail network and has a consolidated relationship with Ukrainian Railways, which will implement the project. EBRD joins EIB as co-investor and

a NIF grant covers technical assistance. Technical courses and on-the-job training will build capacity within Ukrainian Railways to procure and manage large infrastructure projects in a timely, efficient and transparent manner. This competence is vital given the number of interventions that will be needed to modernise the entire rail network in Ukraine. The NIF is also funding international third-party supervision of engineering works, which has been found to increase quality and reduce time and budget overruns. This is standard practice in the EU, but not yet in Ukraine, and it would not have been possible without NIF funding.

With investment costs of over €300 million, NIF funding of €7 million will not affect project scale. It will, however, make a significant contribution to increasing quality in the execution of this and future railway infrastructure projects in Ukraine.

Railway Modernization in Ukraine

Transport - Ukraine

Total cost: €309.4m

NIF grant: €7m for technical assistance

Lead Financial Institution: EIB with €150m

Co-investor: EBRD with €150m

Government of Ukraine contribution: €2m

Other: EPTATF €0.4m

List of projects approved between 2008

(all amounts in millions of euros)

Year	Project	EFIs	Sector	Total cost	NIF contribution	Type of Support
Egypt						
2008	IWSP (Improved Water and Wastewater Services Programme)	KfW EIB AFD	Water/ Sanitation	295.1	5.2	Grant
2008	200 MW Wind Farm in Gulf of El Zayt	KfW EIB	Energy	340	10.2	Grant
2010	Master plan (combined RE) + FS for CSP in Egypt	KfW AFD EIB	Energy	500	3.2	TA
2010	Egyptian Power Transmission	EIB AFD KfW	Energy	762	20.5	Grant/TA
2010	TA 20 MW PV grid connected Power Plant	AFD EIB KfW	Energy	100	0.9	TA
2010 & 2011	IWSP II - Upper Egypt	KfW EIB AFD	Water/ Sanitation	303	13.5	TA
2011	Alexandria public transport project FS	AFD	Transport	0.5	0.5	TA
2011, 2012 & 2014	Cairo Metro Line 3 Phase 3	AFD EIB	Transport	2075	44.0	Grant/TA
2012 & 2014	Integrated and Sustainable Housing and Community Development Programme	EIB AFD	Social	175	44.5	Grant/TA
2013 & 2015	Kafr El Shekh Wastewater Expansion (KESWE)	EIB EBRD	Water/ Sanitation	163.5	32.7	Grant/TA
2014	Egyptian Pollution Abatement Programme III	EIB KfW	Energy/ Environment	187.0	10.4	Grant/TA
2015	Egypt Natural Gas Connection Project	AFD	Energy	1710	69.1	Grant/TA
2015	Southern and Eastern Mediterranean (SEMED) Regional Sustainable Energy Finance Facility: Phase 2	EBRD AFD EIB	Energy	180.6	23.9	Grant/TA
2015	200 MW Wind Farm Project Gulf of Suez	KfW EIB AFD	Energy	344	30.7	Grant/TA
Jordan						
2010	Jordan Electricity Transmission	EIB AFD	Energy	150	2.4	TA
2013	AFD Sustainable Credit Facility harmonization with SEMED SEFF	AFD	Energy	38.5	1.6	Grant
2015	NEPCO Green Corridor	EIB AFD	Energy	146.1	17.8	Grant/TA
2016	Wadi al Arab Water System II	EIB AFD	Water/ Sanitation	28	14.3	Grant
2016	Improved water access, distribution and sewage disposal in Irbid Governorate for host communities and Syrian refugees	AFD	Water/ Sanitation	140	19.5	Grant/TA
Lebanon						
2012	Lebanon Energy Efficiency and Renewable Energy Global Loan	EIB AFD	Energy	151	4.2	TA
2009 & 2012	Kesrwan Wastewater	EIB AFD	Water/ Sanitation	214	10.4	Grant
Morocco						
2008	National rural road-building programme	EIB AFD	Transport	397	10.0	Grant/TA
2008 & 2009	Rabat tramway	AFD EIB	Transport	346	8.2	TA
2009	Support Programme for the Education Sector	AFD EIB	Social	1900	15.4	Grant/TA
2010 & 2016	National Sanitation Programme (PNA & PNA 2)	AFD KfW EIB	Water/ Sanitation	176	20.5	Grant/TA
2011	Ouarzazate Solar Plant	EIB AFD KfW	Energy	807	30.6	Grant
2011	Drinking Water Efficiency Programme	KfW AFD	Water/ Sanitation	101	7.2	Grant/TA
2012	Electricity transmission grid upgrade	AFD KfW	Energy	411	15.3	Grant/TA
2013	Integrated Wind Programme	KfW EIB	Energy	859	15.3	Grant
2014	Ville nouvelle de Zenata	AFD EIB	Social	560	4.2	TA
2014	Noor II: Second parabolic through CSP Ouarzazate	KfW EIB	Energy	1070	40.8	Grant
2014	Noor III: Tower plant of the Ouarzazate Solar Complex	EIB AFD KfW	Energy	855	43.7	Grant
2014	Vocational training institutes on renewable energy and energy efficiency (IFMEREE)	AFD	Social	26	10.2	Grant

and 2016 in Neighbourhood South

Year	Project	EFIs	Sector	Total cost	NIF contribution	Type of Support
Tunisia						
2008	Feasibility Study for Solar Thermal Power Plant in Tunisia	KfW AFD EIB	Energy	90	1.1	TA
2008 & 2009	STEP (Part I & II)	KfW AFD	Water/ Sanitation	127	8.2	Grant
2009 & 2010	High speed urban rail network in Tunis	AFD KfW EIB	Transport	550	28.6	Grant/TA
2011	Study for the waste water sewerage of industrial zones	KfW	Water/ Sanitation	1.6	0.9	TA
2013	Integrated Depollution Programme (Lake Bizerte)	EIB EBRD	Water/ Sanitation	90	15.4	Grant/TA
2014	School modernisation	EIB KfW	Social	213	20.5	Grant/TA
2015	Vocational training support programme (PAFIP)	AFD	Social	28.4	3.2	TA
2015	Sustainable Use of Natural Resources and Energy Finance in Tunisia (SUNREF)	AFD EBRD EIB	Energy	133.2	13.6	Grant/TA
2015	Tozeur Solar Power Plant	KfW	Energy	16	1.6	TA
2016	Depollution of the Mediterranean (DEPOLMED)	AFD EIB	Water/ Sanitation	140	10.8	Grant/TA
2016	Renovation of the Tunis city centre transport hub and mobility connections at Place de Barcelone	AFD	Transport	89.1	6.4	TA
Regional						
2011 & 2015	SANAD - MENA Fund for Micro-, Small and Medium Enterprises	KfW	Private	235.4	30.6	TA/Equity
2011	Implementation of EBRD Turnaround Management and Business Advisory Services in Egypt, Morocco and Tunisia	EBRD	Private	5	5.2	TA
2011	Southern and Eastern Mediterranean Project Preparation Framework to fast-start EBRD support to the region	EBRD	Private	15	15.3	TA
2012	Renewable Energy and Energy Efficiency Project Preparation Initiative in support of the Mediterranean Solar Plan (MSP-PPI)	EIB AFD KfW AECID	Energy	5	5.2	TA
2012	SME Guarantee Facility	EIB AFD	Private	320	24.5	Guarantees
2012	Mediterranean Urban Project Finance Initiative (UPFI TA)	AFD	Mixed	5	5.2	TA
2013	SEMED Sustainable Energy Financing Facility	EBRD	Energy	141.7	16.8	Risk Capital
2013	PPP Project preparation "MED 5P Initiative"	EIB	Mixed	5	5.2	TA
2013	EU Neighbourhood Programme Management and Support in the Transport sector	EIB	Transport	7.1	5.2	TA
2014 & 2015	Risk Capital Facility for the South Neighbourhood	EIB	Private	1000	50.9	TA/ Guarantees
2014	EBRD SBS in South and East Med Countries (Phase II)	EBRD	Private	24.4	20.9	TA
2015	SEMED Micro-, Small and Medium Enterprises Financial Inclusion Programme	EBRD	Private	353.5	27.6	TA/Risk Capital
2016	EU Trade and Competitiveness Programme for Morocco and Tunisia – EBRD component	EBRD	Private	145	25.6	TA/Grant
2016	EU Trade and Competitiveness Programme in Morocco and Tunisia – EIB component	EIB	Private	265	25.6	TA/ Guarantees
2016	EU Trade and Competitiveness Programme in Egypt and Jordan - EBRD component	EBRD	Private	171	25.7	TA/Grant/ Guarantees
			Total	**19,687.7**	**990.5**	

List of projects approved between 2008

(all amounts in millions of euros)

Year	Project	EFIs	Sector	Total cost	NIF contribution	Type of Support
Armenia						
2009	Yerevan Metro	EBRD, EIB	Transport	16.6	5.2	Grant
2009	Armenia Small municipalities water project	EBRD, EIB	Water/Sanitation	20.8	7.8	Grant/TA
2011	Kotayk Solid Waste project (Armenian Solid Waste Management Programme)	EBRD	Water/Sanitation	38.3	3.7	Grant
2012	Border Crossing and Infrastructure	EIB, EBRD	Transport	60.6	12.2	Grant
2012	Yerevan Metro - 2nd phase	EBRD, EIB	Transport	17.1	5.2	Grant
2013	Yerevan Water Supply Improvement Project	EBRD	Water/Sanitation	17.2	5.7	Grant
2013	Communal Infrastructure Programme	KfW, EIB	Water/Sanitation	87.5	15.4	Grant/TA
2013	North-South Road Corridor	EIB	Transport	381.0	12.4	Grant/TA
2013	NMC Social & Energy Efficiency Housing Finance	AFD, KfW	Social	11.5	1.6	Grant/TA
2014	Caucasus Transmission Network Stage 1	KfW	Energy	134.0	10.4	Grant/TA
2014	Yerevan Armenian Solid Waste Management Programme	EBRD, EIB	Water/Sanitation	25.9	8.2	Grant
2015	SME Finance and Advice Facility in Armenia	EBRD	Private	136.2	15.4	TA/Risk Capital
2016	Irrigated Agriculture Development in Ararat and Armavir Marzes	AFD	Agriculture/Private	100.3	10.4	Grant/TA
Azerbaijan						
2012	Regional Road Reconstruction Project	EBRD	Transport	681.0	3.6	TA
Georgia						
2008	Black Sea Energy Transmission System	KfW, EIB, EBRD	Energy	280.0	9.3	TA
2009	Tbilisi Railway Bypass Environmental Clean up	EBRD	Transport	253.5	2.7	TA
2010	Enguri / Vardnili Hydro Power Cascade Rehabilitation	EBRD, EIB	Energy	47.0	5.2	Grant/TA
2010 & 2012	Water supply and sewage of Batumi and surrounding villages (phase I and III)	KfW	Water/Sanitation	67.0	8.9	Grant/TA
2010 & 2012	Water Infrastructure Modernisation (I & II)	EIB	Water/Sanitation	86.0	12.4	TA
2011	Georgia East-West Highway	EIB	Transport	592.1	20.4	Grant
2013	Jvari-Khorga Interconnection (Transmission line and substation)	KfW, EBRD	Energy	71.4	8.2	Grant
2015	Kutaisi Waste Water Project (KWWP)	EIB	Water/Sanitation	280.0	5.0	Grant
2015	ENPARD - Access to Agricultural Finance for Small-scale Family Farmers and Cooperatives	AFD	Agriculture	28.0	4.2	TA
2016	Extension of the Georgian Transmission Network	KfW	Energy	225.0	10.4	Grant/TA
Moldova						
2008	Capacity assessment and modernisation of the Republican Clinical Hospital (RCH)	CEB	Social	18.0	3.1	Grant/TA
2008	Chisinau Airport Modernisation Project	EBRD, EIB	Transport	46.3	1.8	TA
2008	Feasibility Study for Improvement of Water/Sanitation Systems in Chisinau	EBRD, KfW, EIB	Water/Sanitation	59.0	3.2	TA
2008, 2011 & 2013	Moldova Road Rehabilitation project (2nd, 3rd and 4th Phase)	EBRD, EIB	Transport	496.7	44.1	Grant/TA
2010	Chisinau Public Transport project	EBRD, EIB	Transport	15.5	3.2	Grant
2010	Water Utilities Development Programme in the Republic of Moldova	EBRD, EIB	Water/Sanitation	31.5	10.2	Grant
2010	Filière du vin Upgrading	EIB	Private	391.3	2.1	TA
2011	Moldovan Residential Energy Efficiency Financing Facility (MoREEFF)	EBRD	Energy	41.8	5.2	Grant/ Guarantees
2011	2nd Phase of the Moldova Sustainable Energy Efficiency Finance Facility (MoSEFF2)	EBRD	Energy	23.3	4.7	Grant/TA

and 2016 in Neighbourhood East

Year	Project	EFIs	Sector	Total cost	NIF contribution	Type of Support
Moldova						
2012	Moldelectrica Power Transmission Network Rehabilitation	EBRD, EIB	Energy	36.6	8.4	Grant/TA
2012	Balti Trolleybus Project	EBRD	Transport	5.0	1.7	Grant
2013	Chisinau Water Development Programme	EBRD, EIB	Water/Sanitation	62.1	13.8	Grant/TA
2013	Moldova Railways fleet renewal	EBRD, EIB	Transport	66.5	5.2	Grant
2014	Fruit Garden of Moldova	EIB	Private	300.0	8.6	TA/ Guarantees
2014	Moldova North Water PPP	EBRD, EIB	Water/Sanitation	32.5	10.2	Grant
Ukraine						
2008	TA Support for Ukrainian Municipalities	EBRD	Mixed	135.0	5.2	TA
2008	Ukrenergo Corporate Sustainable Development	EBRD, EIB	Energy	301.3	0.9	TA
2009	Ukraine Power Transmission Network	EBRD, EIB	Energy	1110.0	10.3	TA
2009	Hydropower rehabilitation project	EBRD, EIB	Energy	398.6	3.8	TA
2010	Preparatory studies for modernisation UA gas transit and storage	EBRD, EIB	Energy	2000.0	2.7	TA
2011	Power Transmission Efficiency Project	KfW	Energy	78.3	1.9	TA
2013	Modernisation and Rehabilitation of Municipal Infrastructure	KfW , EIB	Water/Sanitation	42.4	3.2	TA
2015	Financing Technologies against Climate Change – FINTECC	EBRD	Energy	79.8	4.2	TA
2016	Ukraine Higher Education Energy Efficiency	EIB	Energy	81.0	3.2	TA
2016	Ukraine Railway Modernisation	EIB, EBRD	Transport	309.4	7.3	Grant
Regional						
2008	Framework for support Financial Intermediaries	EBRD	Private	38.3	3.0	TA
2009	ENBF - European Neighbourhood Small Business Growth Facility (Parts I & II)	KfW, OeEB	Private	70.0	10.2	Equity
2009	Financial sector Institutional building and crisis response	EBRD	Private	12.0	12.3	TA
2009	Regional Energy Efficiency Programme for Corporate sector	EBRD	Energy	302.0	2.1	TA
2010 & 2014	SME Finance Facility (Phase I & II)	EBRD, EIB, KfW	Private	240.0	30.6	TA/ Guarantees
2012	Integrated Solid Waste Management in the Southern Caucasus	KfW	Water/Sanitation	66.0	6.2	TA
2012	Green For Growth Fund for Eastern Region	KfW, EIB, EBRD	Energy	166.1	13.4	TA/Equity
2012 & 2014	SBS Programme and EGP and BAS (Phase I & II)	EBRD	Private	21.1	16.0	TA
2013	Caucasus Sustainable Energy Finance Facility	EBRD	Energy	64.6	5.3	TA/Risk capital
2013	SME Direct Support Facility	EBRD, SIMEST	Private	61.5	10.2	TA/ Guarantees
2014	E5P Expansion to other Eastern Partnership Countries	EBRD, EIB, NIB	Energy	210.0	39.0	Grant
2014	Municipal Project Support Facility (MPSF)	EIB, KfW	Mixed	520.0	12.3	TA
2015	Deep and Comprehensive Free Trade Agreements (DCFTA) Facility	EBRD	Private	380.0	19.4	TA/ Guarantees
2015	Deep and Comprehensive Free Trade Agreements (DCFTA) Initiative East	EIB	Private	681.0	62.4	TA/ Guarantees
2015	Women in Business Programme in the Eastern Partnership (EaP)	EBRD	Private	53.3	5.0	TA/ Guarantees
			Total	**12405.7**	**610.4**	

Feature: Local Currency Lending

The high level of foreign currency (FX) debt in many economies is a major risk. Although there have been many innovative solutions to reduce FX risk in developing countries, few have been successful at scale. As a donor, the European Commission is already working with financial institutions to reduce FX risk in partner countries in two ways: by reducing the percentage of cross-border flows where the borrower bears sole FX risk; and by working with local stakeholders on policy reforms to increase the amount of domestic financial intermediation in local currency.

Across the Neighbourhood regions, many corporates and households are highly exposed to movements in exchange rates. Small and medium-sized enterprises (SMEs) selling their goods and services predominantly in the domestic market and earning revenue in local currency should borrow in that same currency. However, in situations where domestic lending markets are under-developed, SMEs may be tempted to borrow in hard currency. Moreover, borrowers often perceive the terms of foreign exchange loans as better, considering the higher immediate cost of local currency loans, but not the potential future cost of devaluation. SMEs often chronically underestimate worst case scenarios of FX borrowing and are unwilling to pay the full local currency premium to reduce FX risk.

Countries in the Eastern Neighbourhood are particularly affected. In Georgia, for instance, public and private sector debt denominated in a foreign currency equates to well over 70% of GDP, while the Georgian Lari has depreciated against the USD by over 30% in the last couple of years. Over the same period, the Ukrainian Hryvnia has lost more than 40% of its value against the USD, yet over 50% of banking sector loan books are still FX denominated. The EU has just launched a new programme with EBRD, EIB and KfW to foster local currency lending to SMEs to reduce this exposure. The SME Finance Facility aims to rebuild the confidence of partner financial intermediaries (PFIs) to extend financing in local currency to SMEs in Ukraine in the wake of the financial crisis.

BLENDING INSTRUMENTS THAT CONTAIN FX RISK MITIGATION ELEMENTS

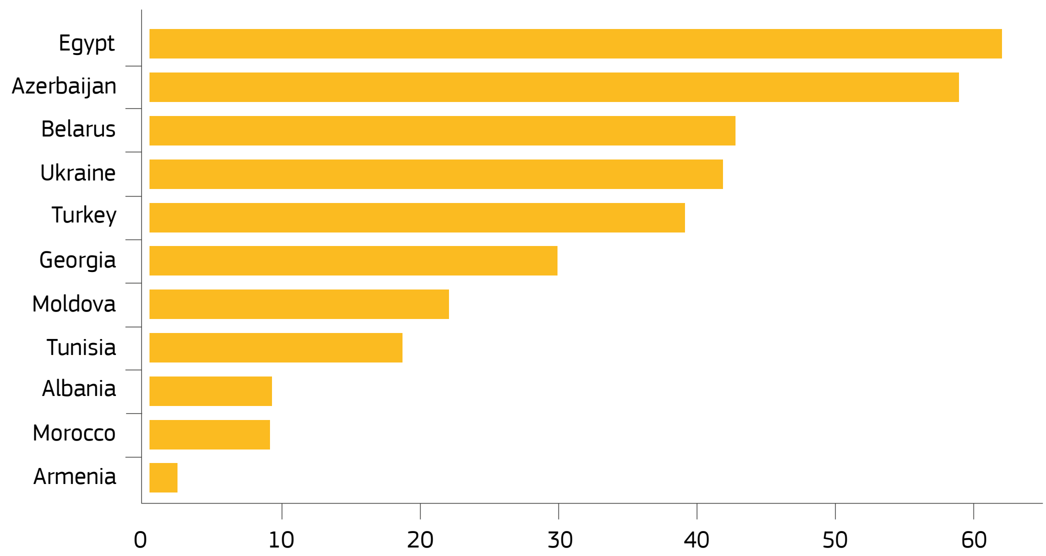
Neighbourhood South

1. KFW's SANAD fund to support micro-small and medium-sized enterprises (MSMEs) in Southern Nieghbourhood (part of the EU financial inclusion Initiative)
2. EBRD initiative to support MSME financing in SEMED (part of the EU Financial Inclusion Initiative)

Neighbourhood East

1. EBRD direct finance facility and DCFTA facility
2. EBRD SME finance facility phase II

Local currency depreciation vs USD in % (between Jan 2015 and Jan 2017)



About the Neighbourhood Investment Facility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The Neighbourhood Investment Facility (NIF) was set up in 2008 to enable countries in the EU´s Neighbourhood to access loans to finance critical infrastructure, public services and private sector development, in particular small and medium-sized enterprises (SMEs).

Financing long-term investments is a challenge for many governments in the region because a lack of private investors means interest rates are high. Technical expertise to manage projects is often limited, too. The NIF offers grants and technical assistance for projects funded by European financial institutions and other public and private partners, which would be unlikely to materialise without NIF support.

Risk-sharing arrangements funded by the NIF are a particularly effective way to involve the private sector, 'crowding in' private investors who would otherwise consider the risks too high. NIF grants also fund technical assistance to improve project implementation and build institutional capacity to manage both infrastructure and investment projects.

The NIF itself is funded under the EU's European Neighbourhood Instrument (ENI), which supports implementation of EU policy in the Neighbourhood in a wide range of interventions to reduce social, economic and political barriers between the EU and its neighbours. Besides this, Member States may contribute to the (smaller) NIF Trust Fund.

STRATEGIC ORIENTATIONS

The NIF's Strategic Objectives for the period 2014-2020 are: 1) energy security, connectivity and market integration, including Deep and Comprehensive Free Trade Areas (DCFTAs); 2) combatting climate change and environmental threats more broadly; and 3) promoting sustainable, inclusive growth, by boosting small and medium-sized enterprises, and by supporting the social sector and municipal infrastructure.

GOVERNANCE

The NIF´s central body is the NIF Board, chaired by the European Commission. It draws voting members from the EU Member States, the European External Action Service and the Commission and lists public financial institutions (FIs) as observers. This composition promotes effective donor coordination.

PROJECT ASSESSMENT AND FUNDING PROCESS

The NIF Secretariat, located in the European Commission Directorate-General for Neighbourhood and Enlargement Negotiations, acts as the single entry point for grant requests and follows up the entire assessment and decision-making process. Projects are presented to a technical assessment group chaired by the Commission and including all eligible FIs. Projects are assessed for relevance to NIF strategic priorities, EU Neighbourhood policy objectives and individual country Action Plans. The group then considers how the NIF grant would add value and quality to the project.

Once mature, the FIs present their grant requests to the NIF Board, which issues an opinion. Where funding is to come from the EU budget, its opinion is subject to a subsequent financing decision by the Commission. If the project is to be funded from the NIF Trust Fund, the Board's approval is final.

NIF

Neighbourhood Investment Facility

ISBN: 978-92-79-67820-2
ISSN: 2443-9045
DOI: 10.2876/145433

THE NIF IS IMPLEMENTED IN PARTNERSHIP WITH:

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European Commission, Directorate-General for Neighbourhood and Enlargement Negotiations

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