

Yerevan Energy Efficiency

DISCLAIMER

This indicative summary term sheet is an outline of the principal terms and conditions for a financing by the European Investment Bank, which are subject to change at any time and are non-exhaustive. This document is intended to provide a basis for discussions and does not constitute a binding commitment - either implicit or explicit – on the part of the EIB, and shall not be deemed as a legally binding agreement. A finance commitment can only be made after due diligence, approval of the transaction by the EIB Board of Directors, and finalization and signature of the required legal documentation. The rights, obligations and liabilities of the parties are subject to contract.

CONFIDENTIALITY UNDERTAKING

By receiving this term sheet, the Republic of Armenia acknowledges and agrees that this term sheet and its content are intended for the exclusive use of Republic of Armenia and shall not be disclosed by Republic of Armenia to any person other than the Republic of Armenia's legal and financial advisors for the purposes of the proposed transaction. Any other use of this document shall be subject to the prior written consent of the European Investment Bank. This undertaking is subject to English law.

1. PROJECT

The project consists of a framework loan to support sustainable Energy Efficiency Improvements in Yerevan (Armenia), focusing particularly on buildings thermal refurbishment.

The project is embedded into a long-term investment programme aiming at addressing the refurbishment of both public and residential buildings as was already initiated through a successful cooperation between UNDP and Yerevan Municipality. Thus, the programme consists of a “pilot phase”, the current project, and a “roll-out phase”.

The “pilot phase”, or current project, targeting only public buildings, has a total cost of around EUR 18 million which is expected to be financed by an EIB loan (c.a. EUR 11.1 million in several tranches), promoter own funds in accordance with capital reconstruction projects of annually approved budgets (c.a. EUR 4 million of parallel or in kind co-financing within frames of capital reconstruction projects earmarked in the Municipality's approved annual budgets) and grants contributions from the Green Climate Fund (c.a. EUR 1.4 million) and the E5P, subject to approval by the E5P contributors (c.a. EUR 1.5 million). The project will be implemented by the Municipality of Yerevan (supported by a Project Management Unit (PMU) within the Municipality and managed by UNDP).

The “roll-out phase” of the project is currently NOT defined but is expected to consist in extending the financing far beyond the EUR 18 million on municipal and residential projects. A detailed draft of design/scope/conditions/structure of the “roll-out phase” will be provided by the Project Management Unit and the Consultant of the Technical Assistance funded by the EU Municipal Project Support Facility (MPSF).

2. BORROWER / INTERMEDIARY

Republic of Armenia (RA) represented by the Ministry of Finance of the Republic of Armenia.

3. PROMOTER

The framework loan will be implemented by a Project Management Unit (PMU) to be created within the Municipality of Yerevan. It is expected that a PMU would be organized/established in form of a working group comprising engineering/energy efficiency and public procurement specialists, architects, designers and environmentalist that are employees of the Municipality or employees of

the subsidiary entities of the Municipality. The PMU will be reporting to a senior official of the Municipality and will be managed by the UNDP.

4. **LOAN**

Amount:

Indicatively up to EUR 11 million.

Currency

The loan will be disbursed in EUR.

Maturity

Given the technical features of the project, the Bank loan could have a final maturity of up to 25 years amortising, with a maximum grace period of 5 years.

Allocations

The framework loan may solely be allocated to finance sub-projects identified as eligible for financing under the Bank's framework loan, as will be set out in the technical description of the EIB finance contract. In order to qualify for financing hereunder, each allocation must meet the relevant criteria and parameters applied by the Bank to the type of allocation concerned.

The criteria for the selection of sub-projects acceptable to the Bank will be further described. One of the outcomes of the MPSF feasibility study will be a selection of buildings to be renovated; another will be a list of potential energy efficiency measures with short pay-back time that can be implemented independently of the building refurbishments. Both shall be carried out in close cooperation with the municipality. In the first step, the service provider and the municipality will develop a set of criteria to be used to prioritise the buildings for the renovation and the independent EE measures. These criteria may be of different nature and include some of the following e.g.:

- Location.
- Size.
- Energy consumption level.
- Technical condition.
- Year of construction.
- Year of last renovation.
- Type of building.
- Other

Allocation Period

Between the date of signature of a EIB finance contract and the date falling 48 months thereafter, the Borrower may submit to the Bank a request for allocation.

Disbursements Period

Between the signature date of the a EIB Finance Contract and the date falling 48 months thereafter, the Borrower may present to the Bank a request for the disbursement of a tranche.

Interest rate

Fixed or floating rate. EIB's lending rates are attractive as they are based on its own funding cost (AAA rated, one of the largest bond issuers in Europe):

Maturity and grace period

Given the technical features of the project, the Bank loan could have a final maturity of 22 years with a 5 years grace period.

Repayment

Repayment will take place in equal semi-annual installments of principal on each successive Payment Date.

5. **FEES & EXPENSES**

The Borrower shall undertake to pay a due diligence fee of EUR 50,000 to the Bank.

6. GREEN CLIMATE FUND

The UNDP aims at applying for a USD 1.5 million Green Climate Fund grant for investment support and project management in the “pilot phase” and for USD 18.5 million for the “roll-out phase”.

7. E5P INVESTMENT GRANT

The EIB aims at applying for a EUR 1.5 million investment grant (IG) from the Eastern Europe Energy Efficiency and Environment Partnership (E5P) Regional Fund to co-finance investments under the “pilot phase” and has started consultations with the Ministry of Energy and Natural Resources to secure the Armenian Government’s support of the application.

8. FLOW OF FUNDS

The flow of the EIB funds from the GoA to the Municipality of Yerevan and the related paybacks are currently being discussed between the GoA, the Municipality and the EIB.

Issues for consideration by the GoA include the following:

The replicability of the project can only be ensured if the EIB funds which are lent to the Ministry of Finance and on-lent to the Municipality (or a subsidiary entity 100% owned by the Municipality), are effectively paid back by the Municipality to the Ministry of Finance. In this context, one of the outcomes of the feasibility study will be the establishment of a payback mechanism (in terms of amount frequency, etc.) which will enable the transparent and fair flow of paybacks. As all schools, hospitals and some of sports facilities coordinated by the Municipality are partly funded by state budget, it is necessary to provide mechanisms/schemes that will consider repayment of spent funds resulting from savings of the implementation.

Terms of repayment. The tenor, grace period, annual percentage and currency of the repayments by Municipality would need to be set by the GoA, balancing the need to support the project by making the terms acceptable to Municipality, while ensuring adequate repayment revenues.

9. TECHNICAL ASSISTANCE (TA)

- EIB has mobilized a project preparation TA in the amount of EUR 250.000 funded by the EU Municipal Project Support Facility (MPSF) to prepare and the implement the “pilot phase” and define the “roll-out phase”.
- The implementation of the project will to a large extent rely on local support from UNDP, and the related GCF Technical Assistance, that is expected to participate in the project as EIB’s partner.

10. OTHER TERMS

Governing law: Laws of England and Wales.

Jurisdiction: Court of Justice of the European Union.

11. CALENDAR

The Project (pilot phase) is expected to be approved by the EIB Board of Directors mid-2016. The Finance Contract shall tentatively be signed by the end of 2016. EIB will seek E5P IG approval at the E5P December 2016 Board. The works will be implemented over 2017-2020.