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IIB and EDB open a RUB 8.15 billion loan facility for Nord Hydro - White Threshold to construct small hydropower plants in Karelia

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On March 27, 2017, the International Investment Bank (IIB) and the Eurasian Development Bank (EDB) entered into a loan agreement with LLC Nord Hydro - White Threshold (NHWT) to finance the construction of small hydropower plants, Beloporozhskaya HPPs 1 and 2, in Karelia. The loan totalling RUB 8.15 billion was provided for a period of twelve years. The total project value is RUB 11.8 billion

The agreement was signed on April 3, 2017 in Moscow. The signatories were Denis Ivanov, Deputy Chairman of the Board, for the IIB; Konstantin Limitovsky, Deputy Chairman of the Management Board, for EDB; and Alexei Vinogradov, General Director, for NHWT. Artur Parfenchikov, Acting Head of the Republic of Karelia, took part in the signature ceremony.

Eurasian Development Bank is the arranger, credit agent and collateral manager.

The project was initiated by Nord Hydro, a Russian private hydro generation and engineering management company engaged in the construction, reconstruction and upgrading of hydropower facilities.

The financial investors in the project are the Russian Direct Investment Fund (RDIF) and its foreign partners, including leading Middle Eastern sovereign funds and SINOMEC, China's state-owned corporation. The Federal Corporation for the Development of Small and Medium-Sized Enterprises (SME Corporation) will provide a RUB 4.07 billion guarantee as security for NHWT's loan of RUB 8.15 billion. The participation in the transaction of three development institutions (the SME Corporation, the IIB and EDB) ensures risk distribution among the parties and makes it possible to offer good commercial terms to domestic and foreign investors.

The aggregate capacity of Beloporozhskaya HPPs 1 and 2 will be 49.8 MW. They will supply electricity to the wholesale market as eligible generating facilities using renewable energy sources under respective power supply agreements. The project is among the top priorities of the Federal Targeted Programme for the Development of Karelia until 2020.

In October 2016, the lenders and the borrower signed a letter of intent setting forth the general terms and conditions of the transaction, which has become a starting point for investors. By now, the temporary facilities necessary to begin the dam construction have been built and a cement facility is being installed. Construction is planned to be completed by the end-2019. The project aims to enhance electricity generation in a region that lacks sufficient power resources. The new power plants will create hundreds of jobs. Government budgets at different levels expect to receive over RUB 2 billion in fiscal revenues over the project period.

The signatories emphasised that the project would promote the building of the infrastructure necessary to develop other industries and ensure the efficient use of the hydro potential of small rivers. The construction of the Karelian plants is expected to advance the domestic manufacture of equipment for small hydropower.

One of peculiarities of the project fulfilling the requirements for eligible generating facilities using renewable energy sources is that it will encourage to a greater degree the localisation of manufacture both equipment and construction materials in Russia (over 65%). The project suppliers will be Russia's largest producers of power generators, turbines and hydropower equipment. The initiators involved the sector's leading enterprises to select necessary equipment since 24.9 MW power plants are not typical of the Russian hydropower sector.

The construction of small hydropower plants in Karelia is the first project in Russia, for which the New Development Bank (NDB) established by the BRICS countries, will extend finance.

"This is at present the IIB's flagship project: it is largest and 'greenest' infrastructure project in Russia in which the Bank is involved. In addition to its significant innovative and social components, the construction of Beloporozhskaya HPPs will be important both to people living in Karelia and the international investment partnership. The scheme of multilateral cooperation used in this project guarantees risk coverage and will ensure the most efficient use of the finance provided.

The project is compliant with all the environmental responsibility criteria to which the IIB adheres, as it in the first place concerned renewable energy sources and the efficient use of water resources. At the same time, the bank helps to support integration taking into consideration that construction of the plants will involve the use of complementary high-tech solutions offered by manufacturers from Russia and other IIB member states," **Denis Ivanov**, Deputy Chairman of the IIB Board, commented.

"It is important that the construction of new generation facilities in a region that lacks sufficient power resources will be with the use of renewable energy sources," **Konstantin Limitovsky**, Deputy Chairman of the Management Board at Eurasian Development Bank, said. *"This will help to limit man-made effects on the environment and preserve Karelia's attractiveness for domestic and foreign tourists. It is planned that Eurasian Development Bank's competencies and experience in arranging project finance for and fulfilling the Beloporozhskaya HPPs project will be utilised in similar projects in other Russian regions as well as other member states of the Bank, and will boost the advancement of small hydropower and comprehensive use of the hydro potential of small rivers in the EAEU."*

"The government of Karelia supports the construction of Beloporozhskaya HPPs in the republic," **Artur Parfenchikov**, Acting Head of the Republic of Karelia, said. *"The growing prices and lack of conventional energy sources, as well as apparent environmental challenges associated with their use make us search for alternative energy sources. Our task is to make the most efficient use of the existing potential of renewable energy sources, including wind generation. Our task is to make the most efficient use of the existing potential of renewable energy sources, including wind generation."*

"The construction of new power plants in the republic will give an additional impetus to the development of new projects in priority economic sectors as well as small and medium-sized enterprises," **Sergei Suchkov**, Member of the Board of the SME Corporation, stated. *"The Corporation plans to enhance the provision of guarantees for high-tech investment projects*

initiated by small and medium-sized enterprises, including with the use of instruments with preferential interest rates for investment credits,” he added.

“It was joint work by the region, development institutions and investors that made it possible for all of us to approach one of the key phases of the project,” **Alexei Vinogradov**, General Director of NHTW, commented. “We’ll need to continue to work in a similar, coherent manner in the future to achieve project objectives. We hope that the construction of Beloporozhskaya HPPs will help to solidify trust of foreign investors who plan to invest in Russia.”

Reference:

Eurasian Development Bank (EDB) is an international financial institution founded by Russia and Kazakhstan in January 2006 with the mission to facilitate the development of market economies, sustainable economic growth, and the expansion of mutual trade and other economic ties in its member states. EDB’s charter capital totals US \$7 billion. The member states of the Bank are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan. Read more at <http://eabr.org/>

The Russian Direct Investment Fund (RDIF) was established in 2011 to make equity co-investments, primarily in Russia, alongside reputable international financial and strategic investors. The Fund acts as a catalyst for direct investment in the Russian economy. Its management company is based in Moscow. Read more at <http://www.rdif.ru>

The SME Corporation is an institution fostering small and medium-sized entrepreneurship and providing assistance to SMEs as envisioned by Federal Law of the Russian Federation 209-FZ dated 24 July 2007 On the Development of Small and Medium-Sized Entrepreneurship in the Russian Federation. The Corporation’s key areas of operation include the provision to SMEs of credits, guarantees, information, marketing research, property and legal assistance, and enhancing their access to procurement by companies with state ownership. Read more at <http://corpmsp.ru/>