



## CHAPTER 4

# Practical recommendations for preparing investment projects



# 4. Practical recommendations for preparing investment projects

International and local financial institutions are ready **to actively engage with private companies in Ukraine that are interested in implementing energy projects** and provide financing to support the functioning of the energy system and the development of new energy initiatives.

Projects financed through financial institutions **must meet bankability requirements** and **have a measurable positive impact**. Additional requirements for projects may include:

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- creation of new jobs
  - increase in tax revenues
  - providing net benefits to the environment
  - promoting local infrastructure development and positive changes in the energy sector.

It is recommended to identify potential sources of funding (IFIs, Ukrainian banks, private partners) at the initial stages of project preparation and consider their requirements in structuring the project

## Key steps in the financing process

Today, IFIs are interested in financing large investment projects implemented by both private and state-owned companies in the energy sector. This typically includes projects with a budget of more than \$20 million. To finance smaller projects, companies usually cooperate with financial intermediaries in the Ukrainian market, namely commercial banks. **It is possible to obtain financing for individual projects (project finance) or for a business based on its operational and financial performance (corporate finance).**

economic indicators, etc.). In the case of **corporate financing, the key factor is company performance** (profitability, structure and size of capital, debt burden, etc.). In general, both types of financing are available: debt and equity.

The process of **obtaining financing** from banks can take **from several months to a year, depending on the complexity of the project**. Typically, the timeframe for obtaining financing from Ukrainian banks is shorter than from IFIs.

When obtaining **project financing, the key factor in the evaluation is project performance** (planned capacity,

It is recommended to identify funding sources based on the timeframe and project needs to ensure timely and effective mobilisation of the necessary resources.

Once the basic compliance requirements have been met, the **decision-making process typically consists of three main stages:**



To successfully complete each stage, the applicant company must:

- have a clearly developed investment proposal with technical and financial justifications;
- demonstrate experience in implementing similar projects or engage a strategic partner that possesses such experience (if the applicant company does not have it);
- understand the specifics of the Ukrainian energy market;
- have reliable partners: designers, equipment suppliers, contractors for the construction and installation of equipment, etc.

## Requirements for investment proposals and related milestones

- For a project to be considered for funding by financial institutions, it must meet a series of **key requirements**. **In particular, the project should:**
  - be implemented in Ukraine.
  - have prospects for profit.
  - meet the demand for energy services or products and have a scientifically grounded technical approach.
  - promote the development of local energy infrastructure and the economy as a whole.
  - meet environmental standards and energy security requirements.
  - be initiated by a financially stable company that has the appropriate organisational capacity and/or experience to implement the project (in the case of a corporate loan rather than project finance).
- **Investment proposals should contain the following key elements:**
  - **Organisational competence** – information about sponsors, current and future shareholders, financial position, management and technical aspects (availability of appropriate infrastructure, agreed terms, etc.).
  - **Market potential** – a description of the market size, competitive environment and commercial model for generating revenue, as well as a description of the legal framework and regulatory requirements applicable in the energy sector that affect the company's financial performance.
  - **Technical feasibility** – technical approach, operational costs, quality and reliability of technologies, and environmental measures.
  - **Investment profile** – financing structure, project profitability, and expected ROI.
  - **Country context and development impact** – government support, energy regulation and contribution to energy sector development.
  - **Risks** – identification and algorithms for mitigating project risks.
  - **Timeline** – a project implementation plan with the key stages clearly defined.
- After an initial review of the concept, the next step is a **thorough assessment of the business plan and/or FS of the project**, including a review of the possible risks and benefits of implementation.

## Recommended steps

In order to obtain financing from IFIs and/or commercial banks, **a properly structured FS must be prepared. The FS should demonstrate the viability of the project**, taking into account potential risks and meeting the requirements of investors/financial institutions.

**Below is a structured approach to preparing an effective FS:**

- Start with a **Project Summary** that provides a brief overview and clear statement of the project objectives (e.g., construction of a new power plant, modernisation of existing infrastructure, transition to RES). It should include the purpose and expected outcomes, key financial indicators such as NPV and IRR, a brief description of the target market, and an overall implementation schedule.

Next, provide a **Project Description** that explains in detail the background, rationale, and scope of the project. Include information on the location, infrastructure and roles of stakeholders in the project as well as relevant information about the company planning to implement the project, its experience, competence, and personnel involved.

It is recommended to include in the FS staff with relevant experience in implementing similar projects and to showcase their experience in the project description

**Market analysis** is essential to assess the market situation and demand. Include an overview of market size and growth trends, analyse competition and identify growth opportunities. Where possible, provide forecasts based on relevant data.

It is recommended to carry out a detailed commercial analysis that identifies future consumers. It is advisable to have signed letters of intent or other documents with potential consumers

**In the legal and regulatory framework** section, share information on all necessary permits and licences to operate in the Ukrainian electricity market and the arrangement of lease/property rights for the project's core components. In addition, define in detail the roles and responsibilities of institutions and assess potential legal risks.

It is recommended to develop a clear communication strategy for public consultations with communities at the early stages of the project and follow through during the implementation phase

In the **FS** section, describe the technical design and technologies to be used (selection of technologies and equipment), as well as the development of technical schemes and project structures (project specifications), including calculation of the planned capacity, performance and expected service life of the equipment. Clearly justify and describe the interaction with the electricity grid operator, connection conditions, contracts, certification tests, etc. Evaluate the suitability of the implementation site, describe alternative technical solutions, and explain why the declared project implementation model was chosen. For example, wind monitoring i.e., measuring wind speeds and directions, taking into account seasonal changes, is important for WPP projects. In addition, identify

potential technical risks and propose mitigation strategies. It should be noted that some financial institutions have a ban on financing the purchase of equipment manufactured in certain countries. There are also restrictions on financing certain technologies based on their environmental impact (fossil fuels, mining, etc.). These restrictions are usually published on the respective financial institutions' websites.

When applying for funding to IFIs, it is recommended to engage international consulting engineers at key technical stages, as this will simplify the due diligence process

**The financial analysis** should include a detailed breakdown of the project's revenue and expenses, including capital expenditures (CapEx) and operating expenses (OpEx). Outline the sources of funding, such as equity or loans, and calculate key financial indicators such as NPV, IRR, and ROI. Include a sensitivity analysis to show how the project will perform under different conditions and provide a detailed cash flow forecast. The financial performance of the project must reflect profitability potential. However, depending on each financial

institution's criteria, projects can be evaluated not only for financial but also for other non-financial benefits, such as environmental or social impact.

When applying for funding to IFIs, it is recommended to engage experienced audit/consulting companies to develop or review the financial model, as this will simplify the due diligence process



- ◉ Include an **economic impact** section to highlight the wider benefits of the project.

Carry out a CBA and estimate the number of jobs that can be created.

It is recommended that the project be aligned with regional or national development priorities to emphasise its alignment with strategic goals and to secure additional support from government agencies and stakeholders

- ◉ **Assessing environmental and social impact** is essential, especially when obtaining funding from IFIs. Assess **environmental impact**, such as impact on air, water and biodiversity, as well as **social impact**, including net benefits to the community and the potential need to resettle local populations. Confirm compliance with the environmental and social standards of IFIs and propose a sustainability plan that will ensure the long-term benefits of the project.

When applying for funding to IFIs, it is recommended to conduct an ESIA (environmental impact assessment of the company's activities according to international standards)

- ◉ **A risk assessment** should also be conducted to identify financial, technical, market, environmental, social and military risks. Assess their potential impact and likelihood, and develop strategies to mitigate or manage them.

It is recommended to insure the key stages of the project (logistics to transport the necessary equipment, installation work, etc.)

- ◉ Present a clear **implementation plan** that includes a timeline with milestones, a procurement strategy that meets the requirements of IFIs, and a monitoring and evaluation system with well-defined and quantifiable key performance indicators (KPIs).

The estimated average timeframe for the implementation of greenfield projects for WPP is 4-5 years. This includes 2-3 years for project development (preparation), up to 1 year for raising funds, and 1-2 years for the construction phase.

- ◉ Finally, include an **appendices** section with supporting documents such as detailed financial models, technical drawings, market data and drafts of the legal documents.

## Key recommendations

01

Align the FS with investor priorities, including sustainability and social benefits

02

Ensure that all forecasts and assumptions are supported by reliable data

03

Use a clear and professional structure with visuals to enhance readability

By following these recommendations, the project proposals are more likely to meet the requirements of IFIs and commercial banks. In turn, this will significantly increase the chances of obtaining financing and successful project implementation.