EIB presentation at the Energy Efficiency Platform for the Arab Countries (EEP)

De-risking of Energy Efficiency investments

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The EIB: the bank of the European Union

EIB Group financing in 2020

- **Largest multilateral lender** and borrower in the world
- Shareholders: 27 EU Member States
- HQ in Luxembourg with 51 offices around the world
- Around 3500 staff (finance professionals, but also engineers, sector economists and socio-environmental experts)
- Around **450 projects each year** in over 160 countries
- AAA-rated by the three major rating agencies

EIB Priorities (PPG) in 2020 : € 64.6 billion

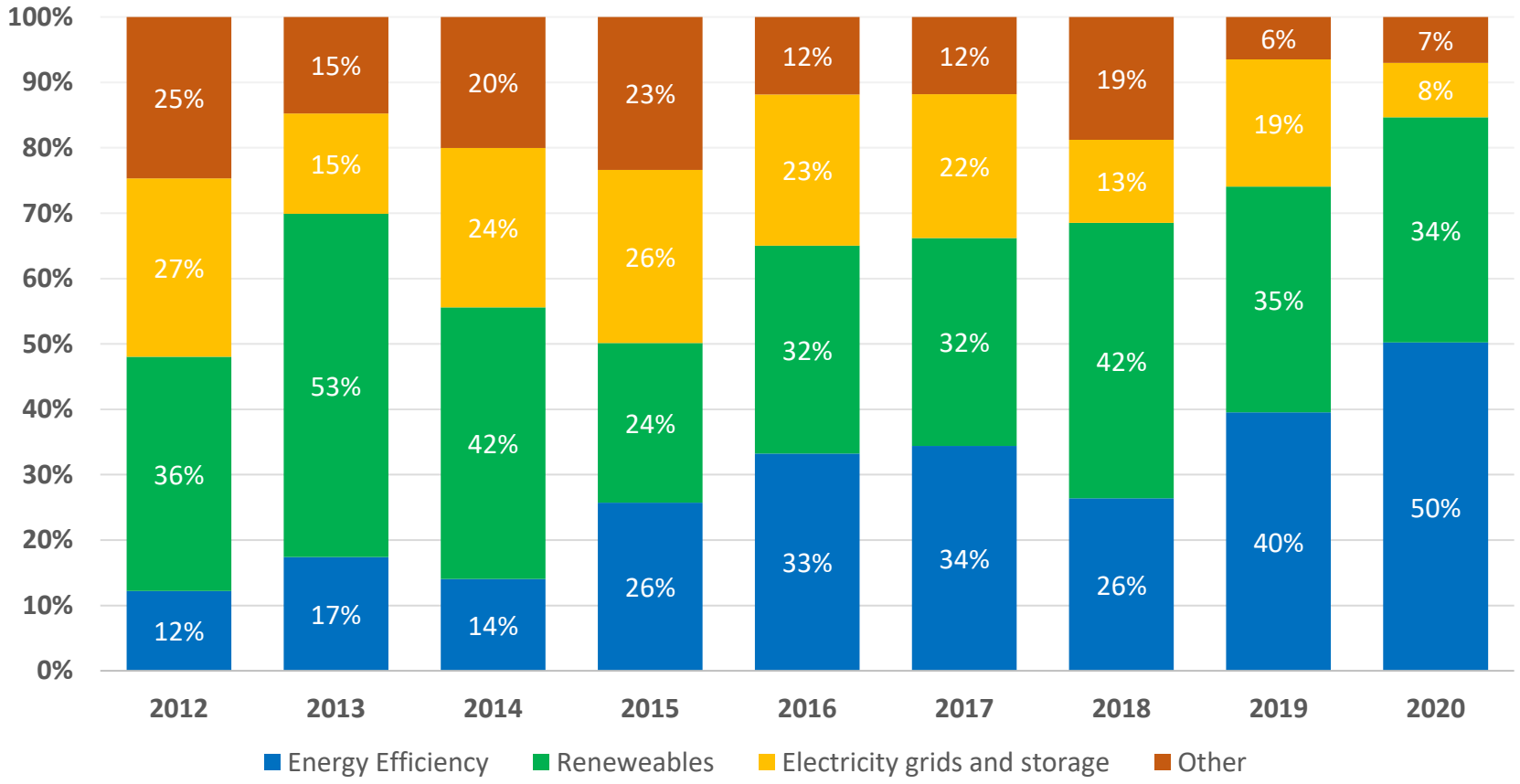
INNOVATION	ENVIRONMENT	INFRASTRUCT	SMEs
€ 14.1 billion	€ 16.6 billion	€ 14.9 billion	€ 19.0 billion

EIB Cross-cutting objectives:

Climate Action : 37.4 %

Cohesion : 35.2 %

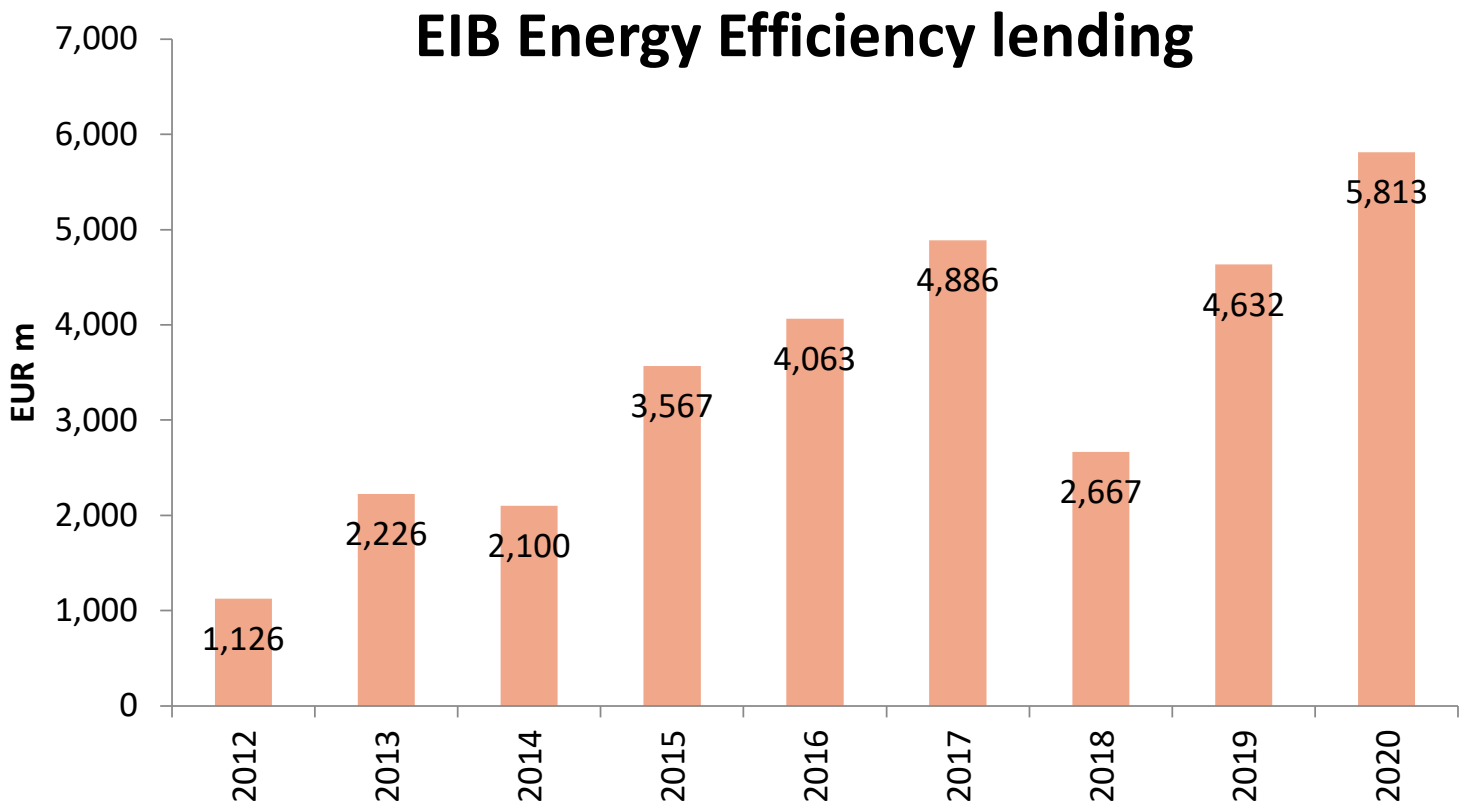
EIB lending to the energy sector



- **ca. EUR 12bn per year (2012-2020)**
- **Focus on RE, EE and networks**
- **Increase of EE over last years**

Evolution of EIB EE lending in recent past

Energy Efficiency (EUR 5.8bn in 2020) has rapidly increased since 2012 (EUR 1.1bn)



Unlocking Energy Efficiency – EIB Products

Direct financing

- To public and private borrowers
- Project finance operations and PPPs

Indirect financing

- Indirect financing to financial institutions which on-lend to eligible borrowers
- Private and public sector financial institutions

Special products

- Equity investments in Climate, Infrastructure, Environment, SME funds
- Risk sharing structures
- Guarantees
- (Quasi-)equity investments
- Management of grants and Technical Assistance
- Microfinance

Advisory

- Large range of advisory offers from project preparation support to design of financial instruments and support to governments
- Typically drawing from EU donor funds

EE investments often suffer from additional layers of perceived risks

Different challenges depending on the specific setting

Project

- Performance risk due to limited familiarity with technology / equipment
- Implementation risk due to limited track record of technical solution (provider), fragmentation of projects
- Complex measurement and verification of energy savings
- Sometimes long amortization periods

Counterparts

- Implementation partners with limited history and financial strength
- Innovative business models, e.g. EPC, ESCO models

Financiers

- Limited experience with EE lending
- Difficulties to recognize financial benefits of energy savings

Market environment

- Evolving regulatory frameworks for EE
- Non-EE specific risks (currency, macro environment, etc.)

De-risking instruments are often key to unlocking some EE investments

EIB projects cover a full range of de-risking instruments

Project preparation, implementation support	Risk-sharing instruments	Supporting enabling frameworks
TA to support (potentially less experienced) promoters in developing high quality project development, taking into account technical, commercial and bankability barriers. Aggregation of small project into larger schemes (e.g. one-stop shops for building renovations). For larger projects: implementation support through independent experts.	Risk-sharing facilities • Providing partial insurance to financiers against payment defaults • Providing performance guarantee for project sponsors Investment of risk capital through equity or quasi-equity investments, improving risk profile for senior lenders	Support in development of enabling framework conditions • Programmatic interventions addressing sector issues • Designing bankable EE products / market standards

De-risking instruments are often key to unlocking some EE investments

Project examples

Project preparation, implementation support	Risk-sharing instruments	Supporting enabling frameworks
1 **ELENA** programme providing project preparation grants in EU	5 **Equity** investments in EE companies (e.g. ESCOs) unlocking further financing	6 Development of **EE mortgage product** with UCI
4 **FELICITY** supporting development of climate action projects outside EU		
7 **DESIREE** programme including support to ESCO sector and Demand Side Mgmt schemes		
2 **PF4EE** providing TA and partial risk guarantees to commercial banks to encourage EE lending and dedicated EE products		
	3 **Indirect equity** investments, e.g. **Green For Growth** providing risk capital	

ELENA

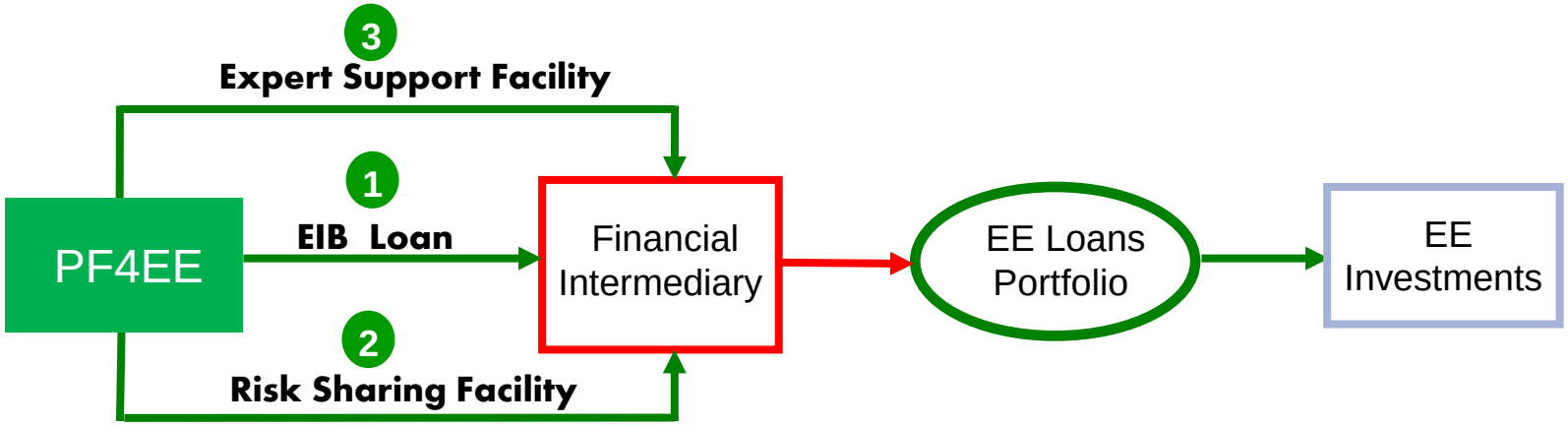
European Local ENergy Assistance (EU countries)

- Operational since 2009, ~130 projects supported with ~EUR 220m grants, ~EUR 7.5bn investments mobilized
- **Technical Assistance** facility: managed by EIB; funded by EU budget (H2020 programme, in the future InvestEU)
- Project development **support for energy efficiency; local renewables; clean urban transport** situated in EU
- Examples: **energy audits, tender preparation, financial advice** etc.
- Grant covers up to 90% of costs related to project development support
- **Obligation of investment implementation** - leverage factor required:
  - 20 for sustainable energy projects
  - 10 for residential buildings and urban transport
- In case the leverage not achieved: grant may be clawed back

PF4EE - Structure

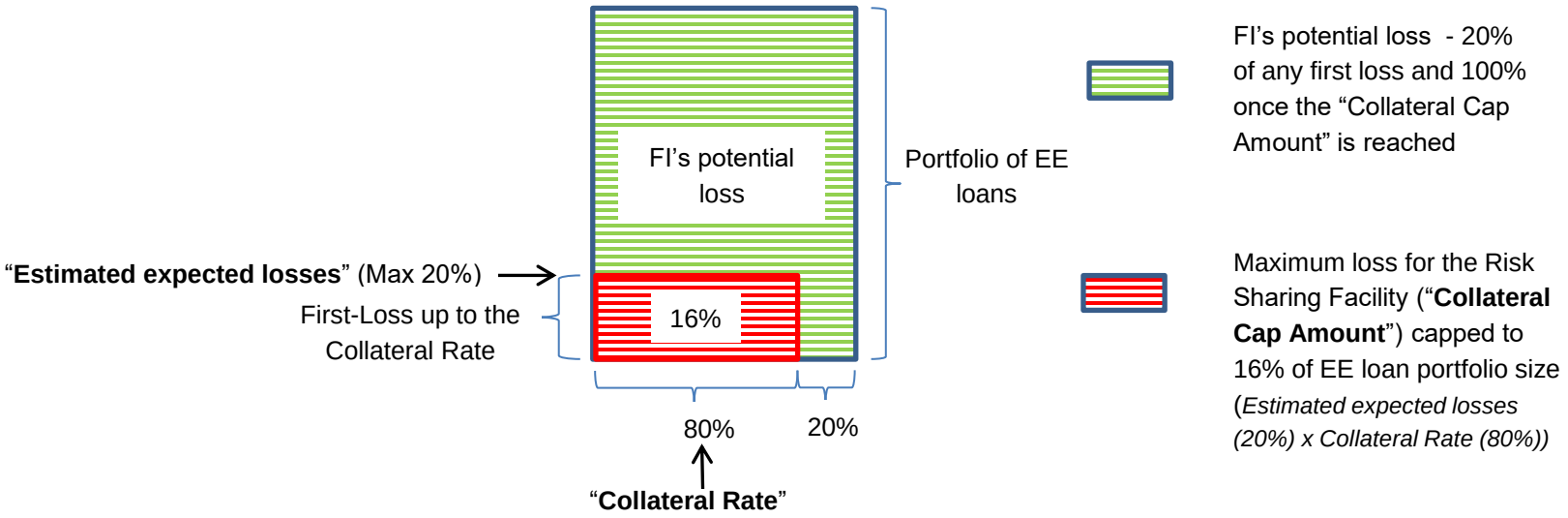
Private Finance for Energy Efficiency (PF4EE) comprises three components (10 EU countries)

1. A EIB loan to the financial intermediary (**"EE Loan"**)
2. A risk sharing facility, which covers losses incurred in the portfolio of EE loans granted by the financial intermediary (**"Risk Sharing Facility"**)
3. Expert Support Facility aiming at supporting the financial intermediary to create the EE loans portfolio (**"Expert Support Facility"**)



PF4EE – Risk sharing facility for commercial lenders

- "Cash-collateral" to financial intermediaries to cover losses incurred in relation to the EE loan portfolio
- It covers up to 80% ("Collateral Rate") of losses on a "loan-by-loan" basis, up to a maximum amount ("Collateral Cap Amount")



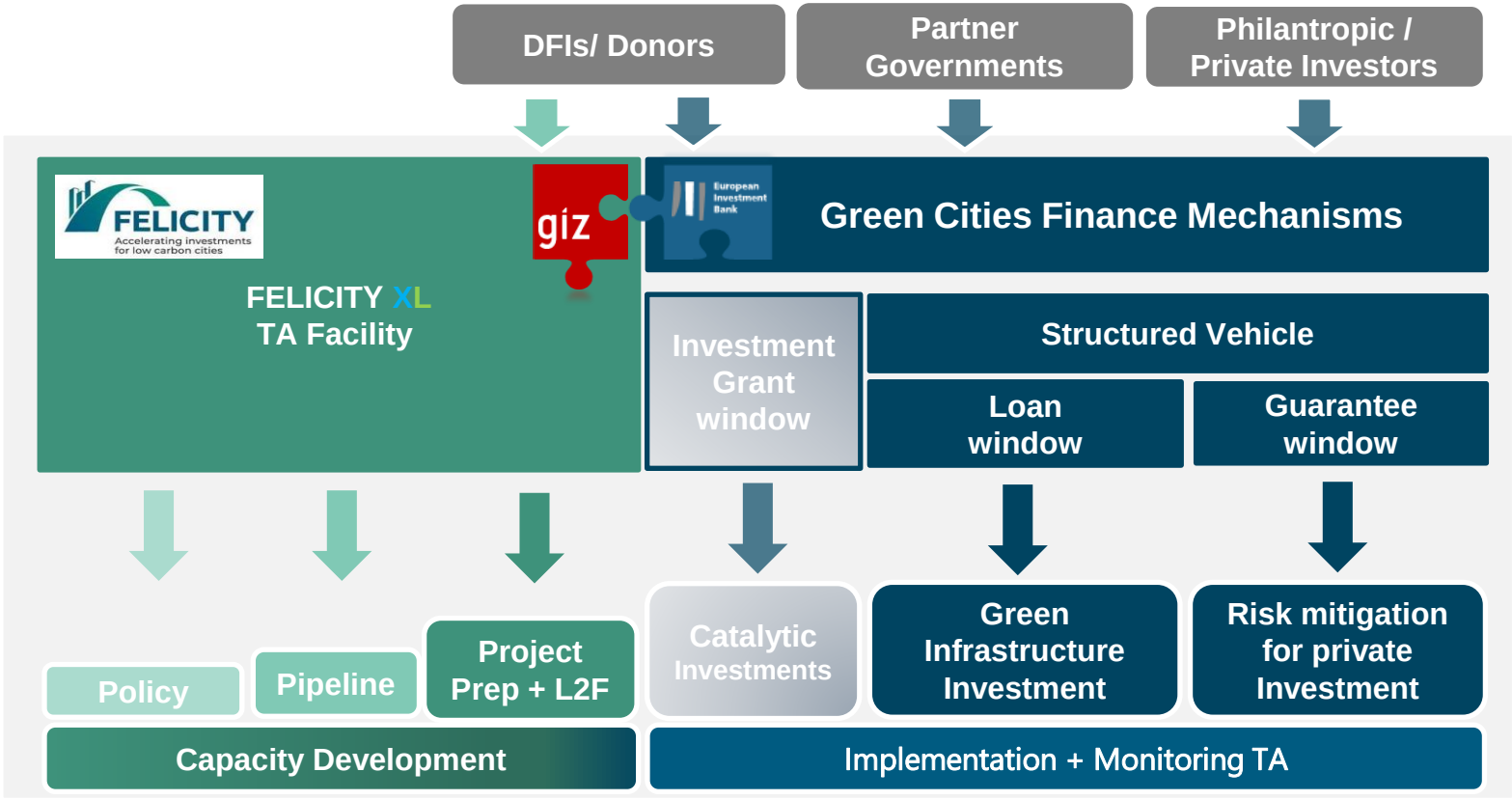
GREEN FOR GROWTH

Fund initiated by EIB and KfW (active in 17 countries)

- GFG is a fund established in December 2009 to **promote EE** and RE. GGF's investments seek to achieve a 20% reduction in consumption and/or CO2 emissions
- **Expansion 2016 to MENA**: (Egypt, Jordan, Lebanon, Morocco, Palestinian Territories, Tunisia)
- GGF provides funding to FIs (local banks, microfinance institutions, leasing companies) and direct lending to non-financial institutions
- GGF also seeks to increase awareness and to develop the capacity of its investees. This is achieved through dedicated projects financed by the Fund's Technical Assistance Facility.

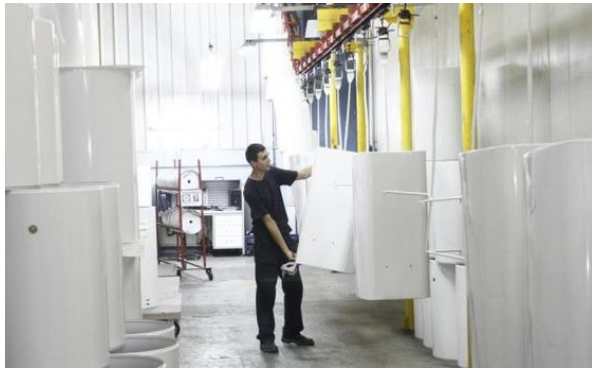
FELICITY - accelerating investments for low carbon cities

"Financing Energy for Low-carbon Investment Cities Advisory Facility" is an initiative of GIZ and EIB, funded by Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (Target countries: Mexico, Brazil, Indonesia, Ecuador)



Risk-capital investments

Quasi-equity investment in ESCO company in the Balkans; European Growth Finance Facility



- The borrower is an emerging ESCO company (~EUR 15m revenue, 60 employees) providing energy efficiency and energy management services\
- Energy Performance Contracts require significant upfront financing

- EIB provides **EUR 12m quasi equity financing** (warrant structure) to finance the expansion of ESCO business activities – project development and capitalization
- The **increased equity base reduces risks** for commercial lenders and at corporate and project level, increases confidence of potential clients in Energy Performance Contracts offered by the Borrower

UCI GREEN ENERGY MORTGAGES

Supporting the development of green mortgages (Spain)

- Financial Intermediary: Unión de Créditos Inmobiliarios S.A., specialized mortgage lender
- EIB participated in the senior tranche of a residential mortgage-backed security (“RMBS”) for EUR100m (2020) and a second investment of EUR 50m (2021)
- In exchange, UCI generates a new portfolio of green financing of at least EUR 250m, for building renovation (includes mortgages, loans to individuals and loans to HOA) and new construction
- Suma product: mortgage for acquisition with top-up for renovation
- Around 25,000 m2 of new buildings constructed and 800,000 m2 of properties refurbished. Total final energy savings of 60 GWh per year after implementation

DESIREE

EIB – EC programme to de-risk sustainable energy investments and scale up innovative business models in 5 focus countries (Kenya, Uganda, Cote d'Ivoire, India, Ecuador)

Three focus areas

- Support through Super-**ESCO** structures to prepare and de-risk EE projects implemented by ESCOs or other parties.
- **Demand side management** (DSM) through utilities and commercial banks to implement domestic and commercial consumer EE measures.
- Electrification and EE improvements of **social infrastructure.**

DESIREE instruments

- **Project preparation grants and TA** for development of high quality projects
- **Investment grants** to help alleviate affordability / viability gaps and capture additional benefits
- **Financial Instruments to provide de-risking** solutions potentially include
  - Risk sharing facility (e.g. first loss guarantee)
  - FX hedging
  - Quasi-equity investments
- Alongside: investment by EIB and other financiers

Thank you for your attention

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