Financing Market Transformation: The Case of Energy Efficiency

EIB experiences

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Venice, 3 October 2013
EIB’s Climate Action 2008-2012

Total c. EUR 79.2 bn
EIB has at its disposal an extensive range of instruments to finance public and private sectors at investment and sub-investment grades of risk.

**EIB Financing Instruments**

- **Public Sector Financing**
- **Project Finance**
  - Direct Loans
- **Intermediated Loans**
- **Project finance with direct project risk**
- **LGGT/RSFF (Mezzanine)**
- **Equity through Funds**

**EIB lending instrument for Investment Grade operations**

**Special Activities**
- For low and sub investment Grade operations
EIB ... A Different Type of Fund Investor:

- Policy test upfront
- Project driven
  (i.e. primary focus on the underlying assets in terms of fit with EIB objectives and economic benefit)
- Can invest time to work with a fund manager from concept stage
- Can go into segments not quite mainstream yet
  (e.g. bio-diversity, land decontamination, land use/carbon)
- Can support start-up teams and new concepts
  (e.g. Post 2012, Green for Growth)
- Can play different management roles alongside investment
  (e.g. Marguerite, GEEREF, GGF/EEEF)
The Big Prize in Private Capital: Institutional Investment

Table 21 - Institutional investor assets under management (figures in billions of 2010 USD)

<table>
<thead>
<tr>
<th>INVESTOR GROUP</th>
<th>INVESTOR TYPE</th>
<th>GLOBAL AUM</th>
<th>OECD AUM</th>
<th>DRIVEN BY LONG-TERM OBLIGATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>INSURANCE COMPANIES</td>
<td>Life and Composite</td>
<td>-</td>
<td>17,360</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Non-Life</td>
<td>-</td>
<td>3,456</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Reinsurance</td>
<td>-</td>
<td>1,199</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>24,600</strong></td>
<td><strong>22,015</strong></td>
<td></td>
</tr>
<tr>
<td>PENSION FUNDS</td>
<td>Defined Benefit and Hybrid Funds</td>
<td>-</td>
<td>11,813</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Defined Contribution Funds</td>
<td>-</td>
<td>7,397</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Sovereign Pension Funds</td>
<td>2,699</td>
<td>2,127</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>22,829</strong></td>
<td><strong>21,337</strong></td>
<td></td>
</tr>
<tr>
<td>FOUNDATIONS AND ENDOWMENTS</td>
<td></td>
<td>1,500</td>
<td>1,500</td>
<td>Yes</td>
</tr>
<tr>
<td>SOVEREIGN WEALTH FUNDS</td>
<td></td>
<td>3,868</td>
<td>587</td>
<td>Yes</td>
</tr>
<tr>
<td>INVESTMENT MANAGERS</td>
<td></td>
<td>30,399</td>
<td>28,679</td>
<td>No</td>
</tr>
<tr>
<td>NON-FUND PENSION ASSETS</td>
<td>Social Security Reserves in Risk-Free Assets</td>
<td>-</td>
<td>2,721</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Book Reserves</td>
<td>-</td>
<td>237</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Insurance Contracts</td>
<td>-</td>
<td>3,497</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Other Assets (e.g. IRAs)</td>
<td>-</td>
<td>5,139</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>11,594</strong></td>
<td><strong>11,594</strong></td>
<td></td>
</tr>
<tr>
<td>ESTIMATED DOUBLE-COUNTING</td>
<td></td>
<td>15,000</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Total assets excluding double-counted assets</td>
<td></td>
<td><strong>79,789</strong></td>
<td><strong>70,713</strong></td>
<td></td>
</tr>
<tr>
<td>Total assets driven by long-term institutional obligations</td>
<td></td>
<td><strong>52,796</strong></td>
<td><strong>45,439</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: Estimated double-counting of $15tn, based on pension insurance contracts and pension assets potentially invested in mutual funds, ETFs, hedge funds and private equity funds. This estimate is based on an assumption that roughly $11.5 trillion in pension assets, both those managed by a fund and non-fund assets, are invested in third-party investment funds.
Green for Growth

New Types of Infrastructure Fund (debt)

- Issuance of different share tranches (A, B, C and later Notes)
- Offering investors different risk-return profiles
- Managed by FIM

Asset Portfolio
- Loans to SMEs, private households and small EE/RE projects
- Funding for ESCOs, larger industrial companies, small EE/RE projects

Investment Manager
- Lending through financial institutions
- Direct lending

The Fund
- SICAV-SIF (Luxembourg)

Investors
- A Shares
  - (initially KfW, EIB, EBRD, later mainly private investors)
  - Initially EUR 60 mil
  - 107
- B Shares
  - (EIB, KfW, EBRD)
  - Initially EUR 15 mil
  - 19
- C Shares
  - (EU, Govts.)
  - Initially EUR 20 mil
  - 69
European Energy Efficiency Fund

- EUR 265 million (EUR 125 Mio EERP, EUR 75 Mio EIB, EUR 60 Mio CDP and EUR 5 Mio DB)
- Managed by Deutsche Bank (www.eeef.eu)
- Beneficiaries: Local & regional Public authorities, but PPPs are possible.
- Financing in form of loans, guarantees, forfeiting schemes (to finance ESCO projects)
- Technical Assistance (grant) is available to structure projects (EUR 20 Mio).
- 70% of the investment shall be targeted towards Energy Efficiency

September 2013: 8 loans, €80m committed
DEEP Green Initiative

- Banks Compartment
- Public sector Compartment
- ESCOs Compartment
- Utilities Compartment

- New EE products.
- Aggregation & de-risking.
- More lending to EE.

- Debt for Energy Efficiency Projects Green (DEEP Green) is an EIB initiative that aims at developing a suite of new financial products for four key groups of players in the EE market, namely, banks, public sector, ESCOs and utilities.

- DEEP Green targets aggregation and de-risking of energy efficiency (EE) projects, which are key barriers to the financing of EE investments.

- These new products will increase debt financing availability for EE projects by further developing EIB and commercial bank lending activity to EE.
The Green Deal is a UK Government initiative aimed at improving the energy efficiency of the UK’s building stock.

The Green Deal’s underlying idea is rather simple: install new green technology into a property with no up-front costs to the occupant.

The installation costs are paid back through the energy bill over a period of time.

Key feature of a Green Deal Plan is that it remains attached to a property’s electricity meter, not to the person taking out the Plan.
EE through Private Equity

- EIB also invests in EE through private equity model: main objective is to attract private investors to provide equity to EE projects

- First operation co-investing with Green Investment Bank and private investors in UK
  - Targeting non-residential energy efficiency projects in the UK
  - Amount approved GBP 20m.
  - Currently negotiating legal documentation.

- An Italian EE fund currently under due diligence:
  - Focus on ready to build projects, including the renovation of privately-held lighting infrastructure, as well as public street and other outdoor lighting systems
  - Partnership with ESCOs for the implementation of EE projects originated by private counterparts or large municipalities
  - Investments mainly through minority shareholdings in SPVs dedicated to specific energy efficiency projects
GEEREF is …

• Luxembourg based Fund of Funds, supported by

• Renewable Energy, Energy Efficiency focused
• Africa (special focus), Asia and Latin America
• Asset Finance (Hydro/Solar, EE, etc.)
• Small/medium size projects (~EUR 10m equity)
• Triple bottom line: People, Planet and Profit
Securitisation of energy efficiency receivables

- Innovative solution to provide financial support to:
  - Energy efficiency projects
  - Originated by local authorities and other public bodies
  - Performed by private ESCOs.
Contacts

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Environmental Funds

INTERNATIONAL CARBON FUNDS
- Multilateral Carbon Credit Fund (MCCF)
- Carbon Fund for Europe (CFE)
- EIB/KfW Carbon Purchase Programme (I&II)
- Post 2012 Carbon Fund
- Fonds Capital Carbon Maroc

RENEWABLE ENERGY FUNDS
- Enercap Power Fund I
- DIF Renewable Energy
- Espirito Santo Infrastructure Fund
- Platina European Renewable Energy Fund
- Hg Capital
- Green for Growth SEE

OTHER FUNDS
- Dasos Forestry
- Gingko Soil Decontamination
- EcoEnterprises Partners II
- Bio Diversity

OTHER FUNDS UNDER PREPARATION
- REDD+/PES (payment for ecosystem services)
- Waste Recycling
WHAT IF IT’S A BIG HOAX AND WE CREATE A BETTER WORLD FOR NOTHING?

- ENERGY INDEPENDENCE
- PRESERVE RAINFORESTS
- SUSTAINABILITY
- GREEN JOBS
- LIVABLE CITIES
- RENEWABLES
- CLEAN WATER, AIR
- HEALTHY CHILDREN
- ETC. ETC.
EIB: expected lending programme 2013-2015

![Graph showing expected lending programme 2013-2015 with various bars representing different categories and years.](image)