

Engaging the Private Sector

Leveraging Private Finance for Climate Change Mitigation and Adaptation (Part 1)

Beyond Paris: Driving Solutions for the Next Decade

Austrian Climate Change Workshop, 19 February 2016

Martin Berg

Engaging the private sector is key

- There is no doubt that the bulk of the investment needed to address climate change will have to come from the **private sector**
- As part of its Climate Strategy, EIB will identify operation types with a particularly **high financial impact** and/or **high mitigation or adaptation gains**, focusing on:
 - **Financial innovation** and mobilisation of private resources.
 - **Capital markets investors**.
 - Blending with **public funds**.
 - Increased pipeline of climate action projects



The graphic features the EIB logo at the top left, followed by a blue square with a white book icon and a photograph of a modern glass and steel architectural structure. Below these elements, the text 'EIB Climate Strategy' is displayed in blue, with the subtitle 'Mobilising finance for the transition to a low-carbon and climate-resilient economy' in a smaller black font. At the bottom, a blue hyperlink is provided.

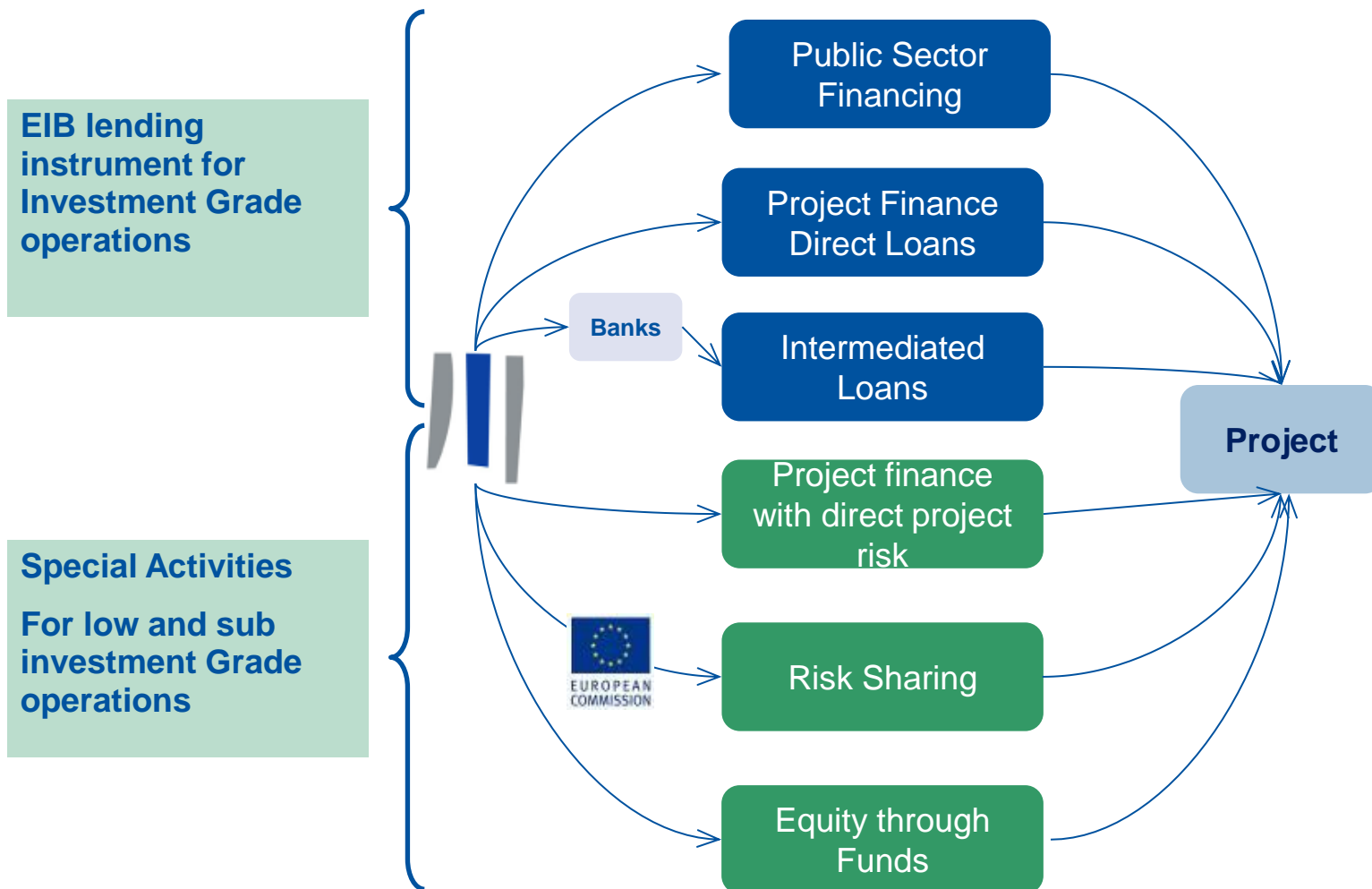
European Investment Bank
The EIB bank

EIB Climate Strategy
Mobilising finance for the transition to a low-carbon and climate-resilient economy

<http://www.eib.org/info/centre/publications/all/eib-climate-strategy.htm>

What is on offer? – EIB financing instruments

The EIB has an **extensive range of instruments** to finance public and private sectors at investment and sub-investment grades of risk to its disposal.



Why innovative products?

In addition to the more traditional financing products, EIB offers a number of **innovative climate finance products** coupled with technical and financial advice to engage the private sector to achieve:



How to best engage the private sector?

1

Do not crowd out other sources of funding
(public and private!)

2

Enable the private sector to do things that it
otherwise would not be able to do

3

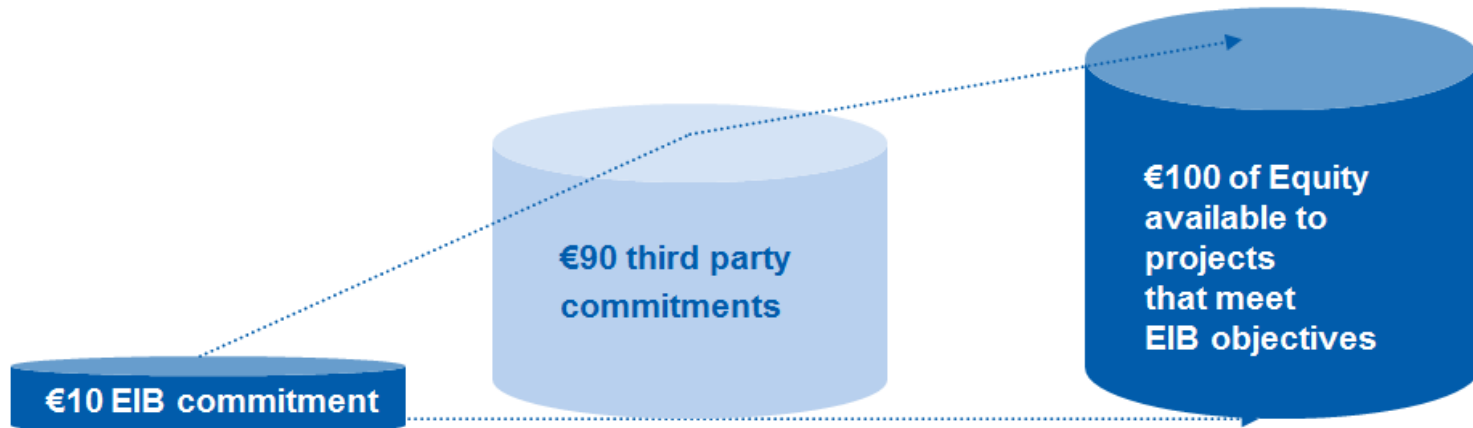
Focus on leveraging public funds to engage
the private sector

4

BUT: do not re-invent the wheel
→ many mechanisms already exist!

Example 1: Funds

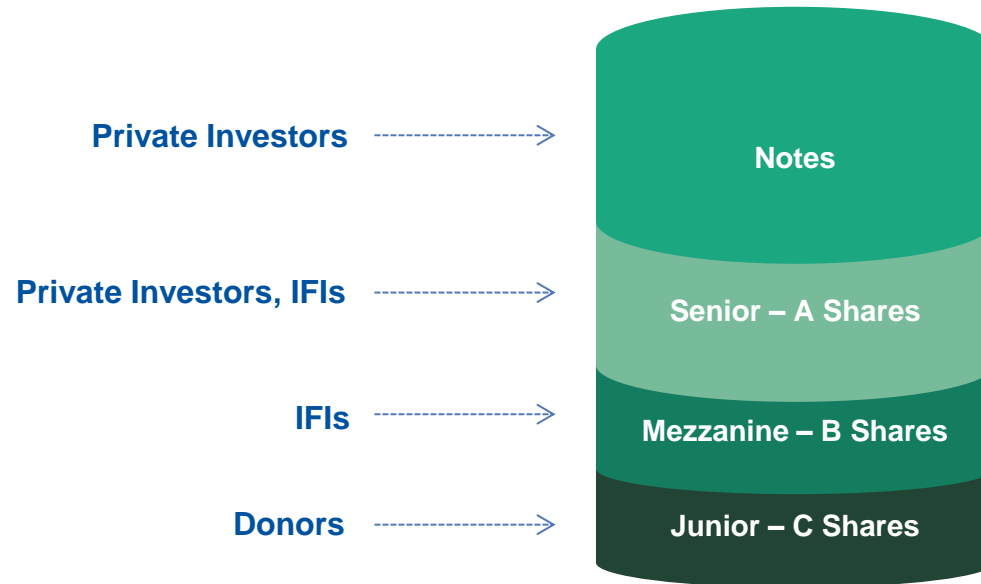
Fund investments demonstrate EIB's catalytic effect & leveraging capacity



- **Policy test upfront and 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
- Can play different **management roles** alongside investment

Example 2: Layered-risk funds

- **Layered-risk funds** allow the issuance of different share tranches and notes to offer investors different risk-return profiles.
- The capital structure of such an investment vehicle typically rests upon the provision of a **first loss piece** (termed junior C shares in the figure below) by donors.
- Once the asset side of the fund develops, this structure allows the possibility to issue notes to **private investors** who remain most senior in the cash waterfall.



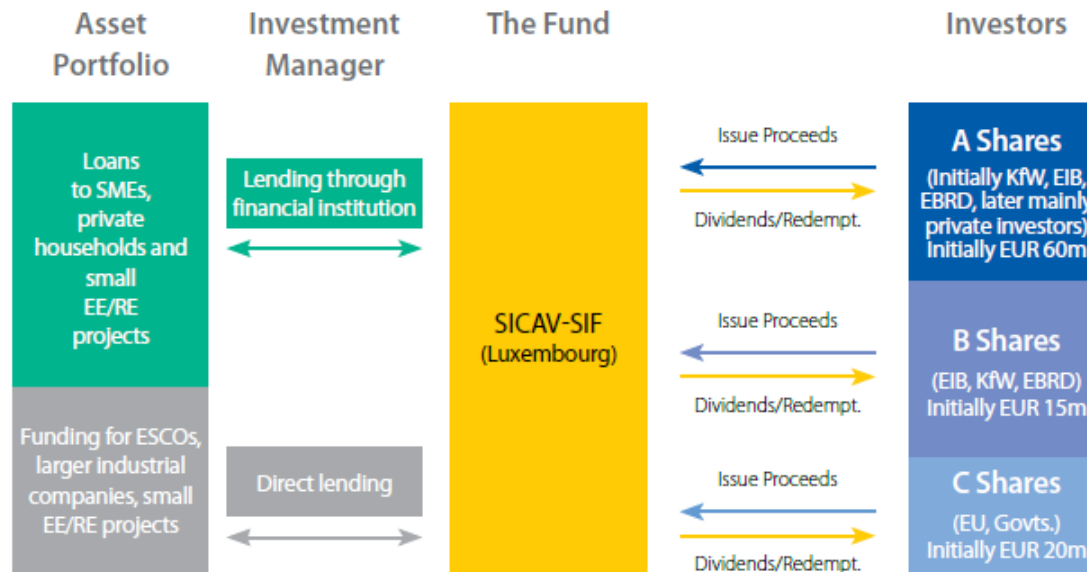
Example 2: Green for Growth Fund (GGF)



GREEN FOR GROWTH FUND
SOUTHEAST EUROPE

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

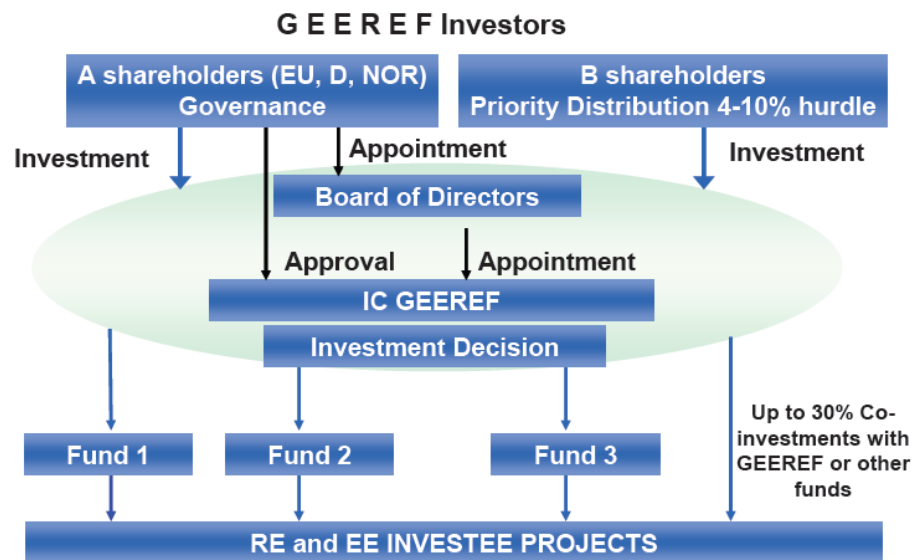
- The **Green for Growth Fund (GGF)** aims to foster energy efficiency and renewable energy investments in South-East Europe and Turkey.
- Initiated by the EIB and KfW and supported by the European Commission, GGF works predominantly through the provision of dedicated financing to businesses and households directly or through partnerships with financial institutions.
- GGF was able to issue first notes to mobilise additional financing from **private investors**.



Issuance of different share tranches (A, B, C and Notes) offers investors different risk-return profiles

Example 3: GEEREF (fund of funds)

- GEEREF is a fund of funds and provides **global risk capital** to energy efficiency and renewable energy projects in developing countries and economies in transition.
- GEEREF is sponsored by the European Union, Germany and Norway and advised by the European Investment Bank Group focusing on a triple bottom line of **people, planet and profit**
- GEEREF completed a fundraising campaign in June 2015 and raised over EUR 110m in private capital in addition to the EUR 112m contributions from the sponsors



GEEREF is one of the first instruments that has demonstrated that it is possible to mobilise private financing by using public funds a risk capital in a financing structure

Example 4: EIB Climate Awareness Bonds



Financial

- ✓ **First green bond:** EIB was the first issuer to introduce labeled green bond in 2007
- ✓ **Scale:** Largest Green Bond issuer to date (EUR 12.6bn)* and 2016 ytd (EUR 1.3bn)*
- ✓ **Liquidity:** Largest Green Bond in EUR (3bn), liquid size in USD (1bn) and GBP (1.8bn)
- ✓ **Green Bond curve in EUR:** three references in 4-, 8-, and 11-yr tenors
- ✓ **Exposure to EIB credit not projects:** CABs pari passu with other EIB bonds (Triple A)
- ✓ **No premium charged** - priced like other EIB bonds of same size & maturity
- ✓ **No refinancing:** Project allocations are made only once upon disbursement

Transparency & Accountability

- ✓ **Aligned with Green Bond Principles:** clear reporting on alignment (see next slide)
- ✓ **Clear sector focus:** Projects in **Renewable Energy** and **Energy Efficiency**
- ✓ **Quality:** Project due diligence expertise, applying high EU standards
- ✓ **Transparency:** Detailed reporting on use of proceeds (Newsletter/Sustainability Report)
- ✓ **Verification / audit:** external audit of reporting on use of proceeds
- ✓ **Reporting project impact + linking bonds to projects:** Both launched in 2015

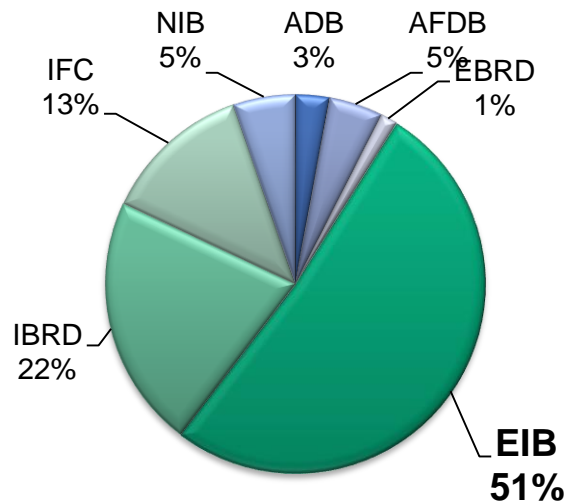
* As of 29 January 2016

Example 4: EIB CAB issuance

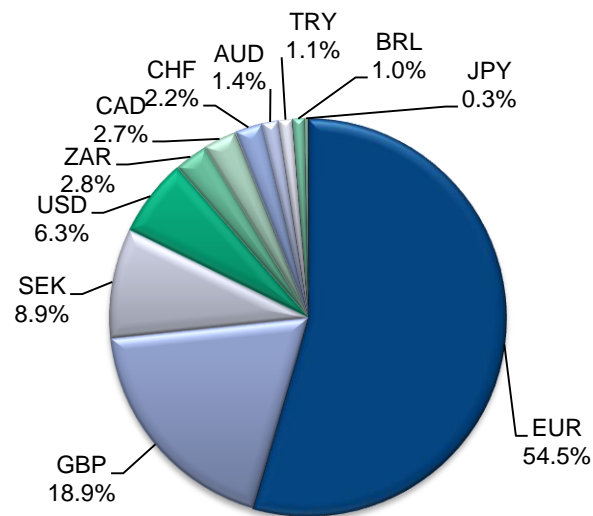


- 2016 ytd*: Issues EUR 500m (ECoop CAB 2023) and GBP 500m (Sterling CAB Mar 2020)
- 2015: Volume EUR 4.0bn, first SSA CAB in CAD (CAD 500m)
- 2014: First EIB CAB in USD (USD 1bn), GBP (GBP 1bn), CHF and JPY (Samurai format)
- EUR CAB due 11/2019 - largest outstanding Green Bond in the market (at EUR 3bn)
- Building the Green Bond curve in EUR: EUR 3.00bn (Nov 2019); EUR 1.50bn (Nov 2023); EUR 1.25bn (Nov 2026);

Outstanding environmental bonds issued by MDBs (size > USD 100m)*



EIB CAB issuance by currency*



*Source: market data collected by Credit Agricole CIB; as of 7 September 2015

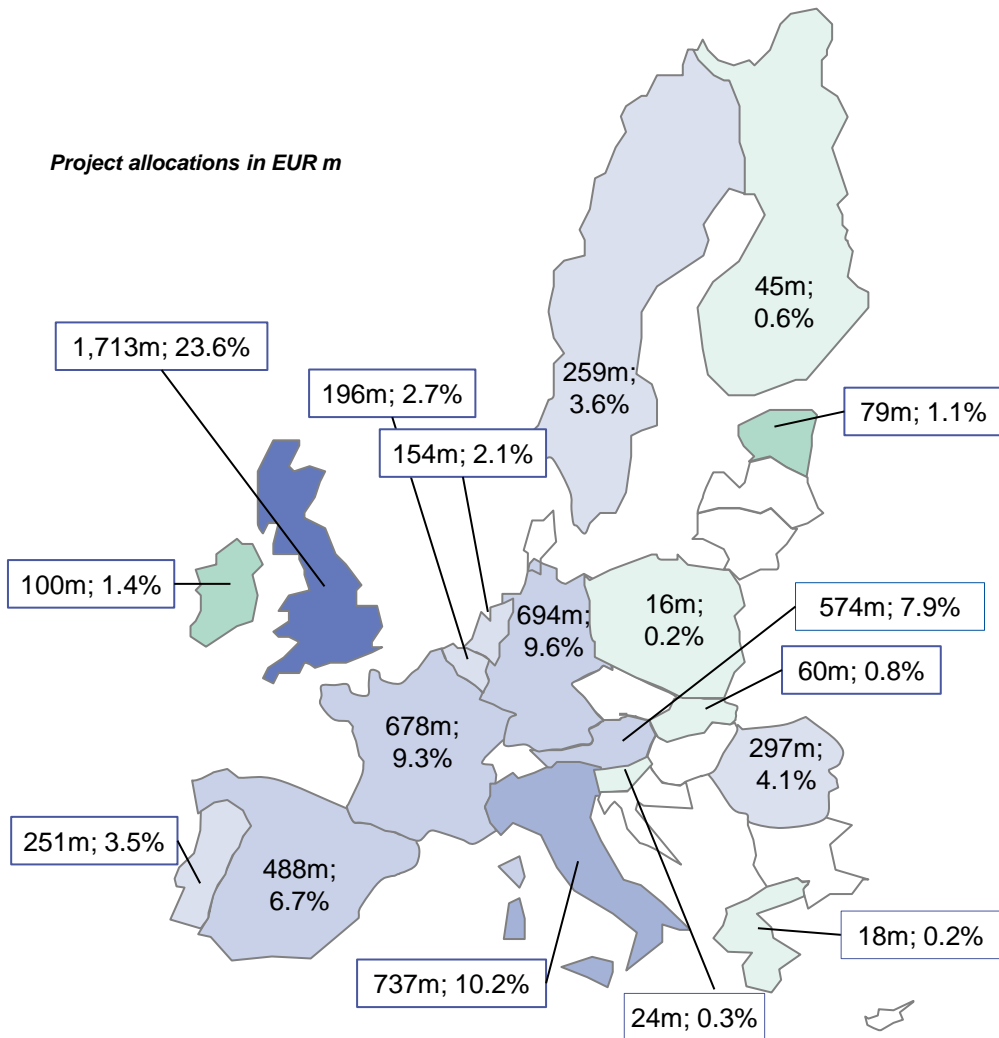
*As of 5 February 2016

Example 4: EIB CAB projects



104 projects in 41 countries within and outside of the EU*

Project allocations in EUR m

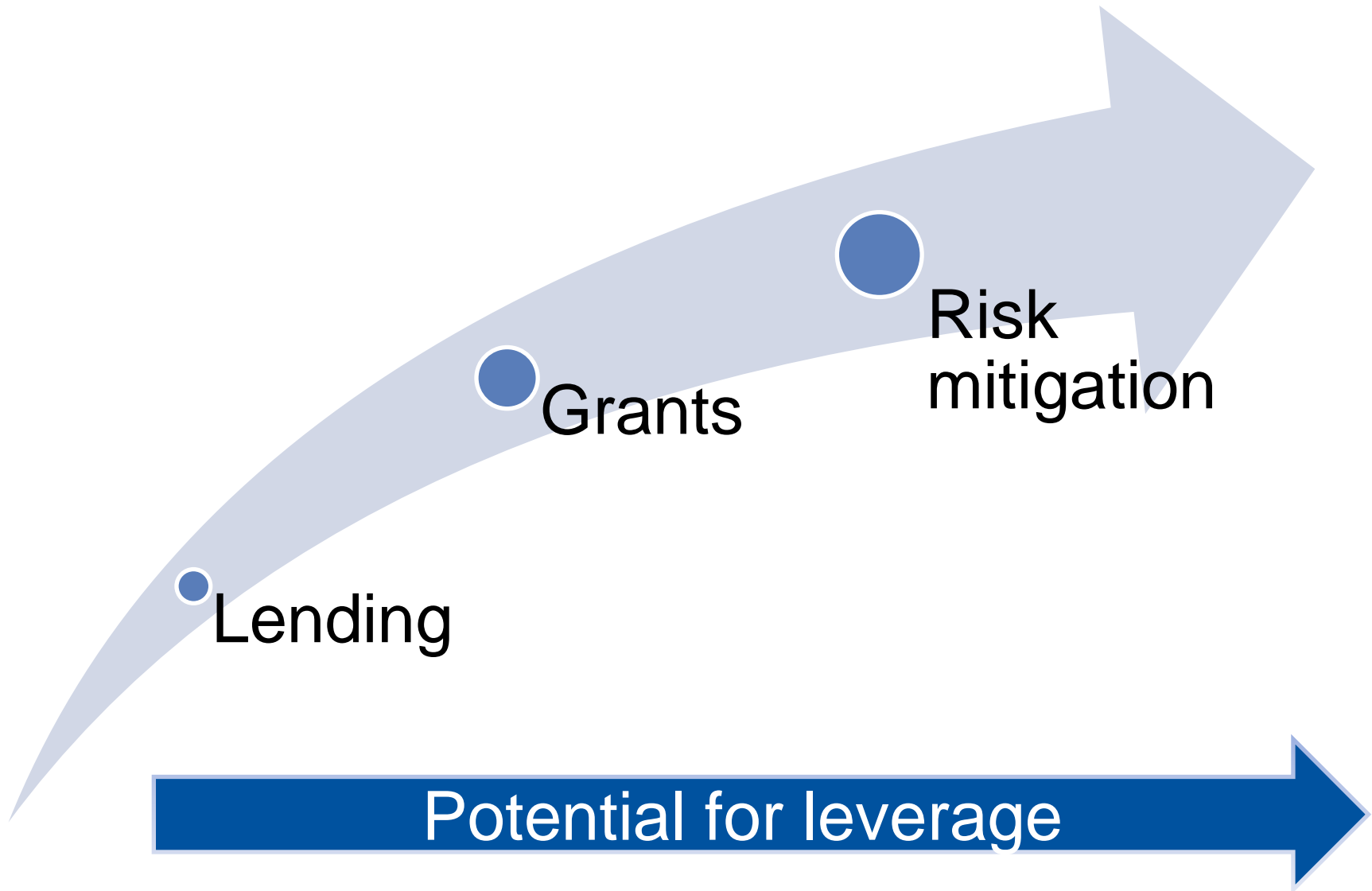


Non-EU represents EUR 878m (12.1% of total CAB allocations)

Country / region	CAB allocation (EUR m)
Chile	17
Dominican Republic	2
DRC (Congo)	5
Egypt	19
Georgia	17
Iceland	173
India	54
Israel	55
Jordan	45
Kenya	49
Latin America	20
Liberia	30
Mexico	79
Morocco	40
Nicaragua	24
Russian Federation	58
South Africa	186
Zambia	7

* As of June 2015

Conclusion



More information (please click on the pictures)



Climate
in everything we do



Pina Foundation, Ecuador



Finance for climate action

As the EU bank, the European Investment Bank (EIB) has put climate action at the top of its agenda. We have committed to invest at least 25% of our lending portfolio in low-carbon and climate-resilient growth. Our funding supports sustainable projects in over 160 countries and acts as a catalyst to mobilise private finance for climate action, encouraging others to match our long-term investment.

Over **90 bn** 5-year climate action lending (2010-2014)

Making a difference
Our 2014 lending supports:

545 million additional passengers per year travelling by public transport



27 million people benefiting from more reliable and resilient drinking water

3 000 GWh of energy savings

12 000 GWh of electricity generated from renewable sources per year, powering over **1 million** homes



Innovative climate finance products

Tackling climate change requires going beyond traditional financing approaches and sources to meet the challenge at a global and grassroots level.

As the world's largest multilateral lender and borrower, the European Investment Bank (EIB) recognises that this means scaling up innovative solutions adapted to the characteristics of the projects we finance in terms of size, sector and creditworthiness of the counterparties.

Driven by EU policy objectives, our innovative climate finance products aim to improve access to finance for enterprises and industry by mobilising additional long-term financing sources.

Covering market gaps, most of these products help to overcome risk barriers by supporting projects that are financially viable in terms of revenue-generating capacity, but are not necessarily bankable in their own right (difficult to attract finance from the market).

These innovative climate finance products may allow grants or different funding sources to be combined with EIB loans, which enables investment in new sectors and facilitates development of large-scale programmes with improved effectiveness, impact and replicability.

Our added value:

- **Flexibility** - allowing wider eligibility and different forms of financing such as equity, debt, mezzanine structures and guarantees.
- **Catalytic effect** - encouraging private and public sector investments alongside those of the EIB.
- **Leverage** - boosting project implementation and management experience through direct and indirect EIB financing.
- **Expertise and creativity** - helping to meet the highest standards and generating new ideas.

Over **90 bn** 5-year climate action lending (2010-2014)



For any questions, please contact:

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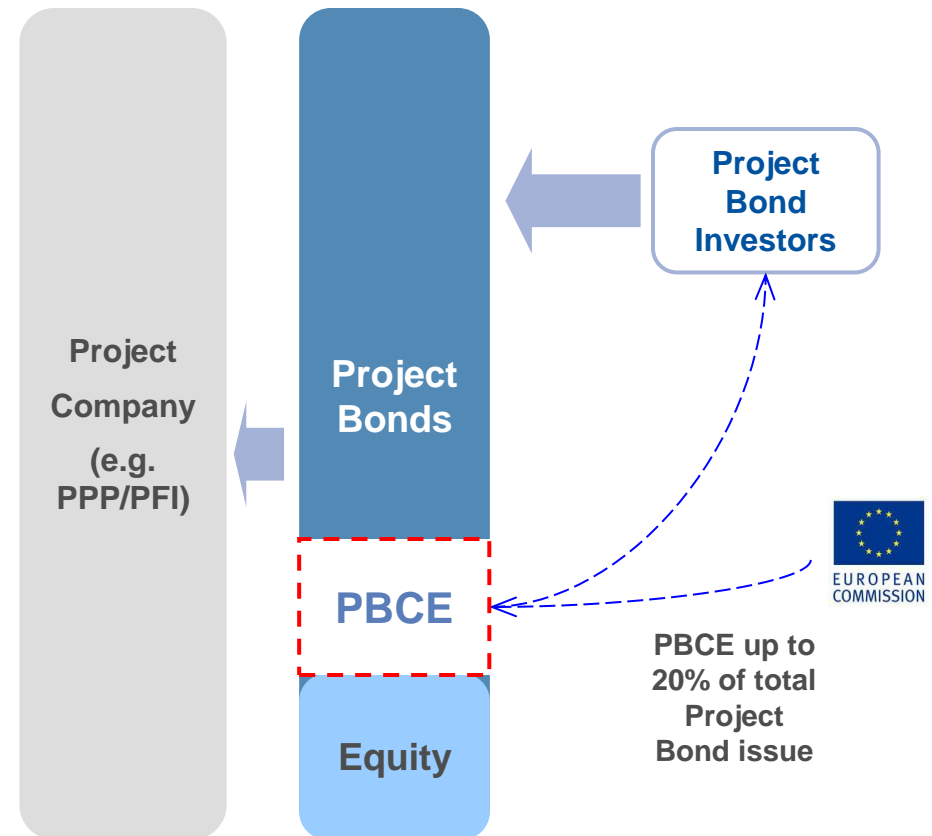
European Investment Bank
98, Boulevard Konrad Adenauer
L-2950 Luxembourg

Back-up slides

Example 5: Project Bond Credit Enhancement

The **PBCE** instrument:

- Ensures debt service for the Project Bond Investors up to the total size of the instrument
- Provides additional liquidity to avoid default, and acts as a first-loss debt piece
- Credit enhances project bonds from a typical BBB- rating by up to 3 notches (to A-)
- Can be provided as either a funded (subordinated loan) or unfunded (letter of credit) instrument
- Once drawn (unfunded), mezzanine debt repaid by junior cash sweep

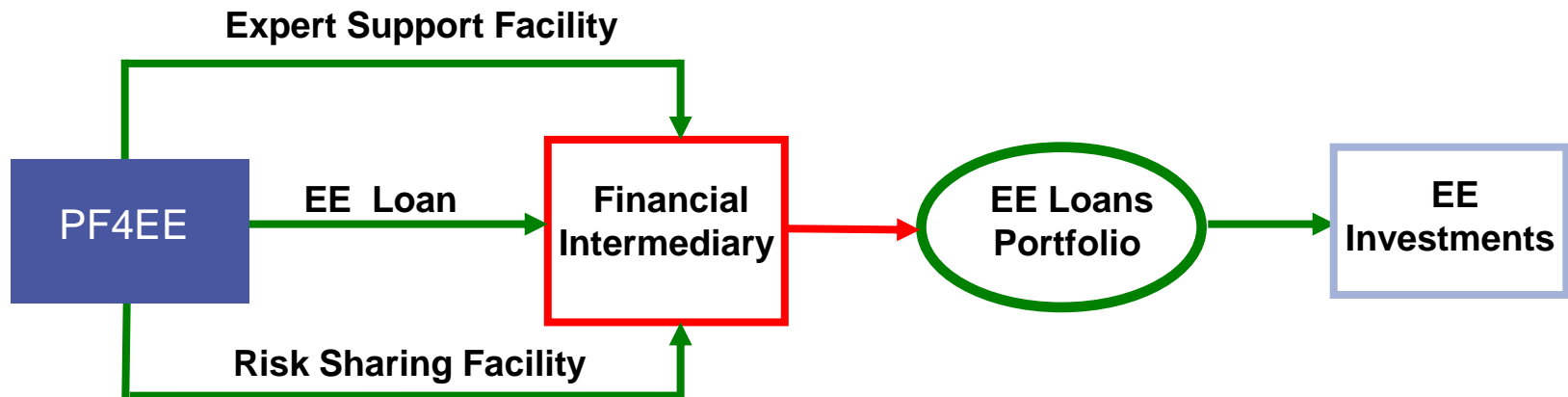


Example 6: Energy Efficiency - PF4EE (1)

Private Finance for Energy Efficiency (PF4EE) is a joint instrument of the EIB Group and the European Commission (EC) to support the financing of energy efficiency (EE) investments.

PF4EE
3
components

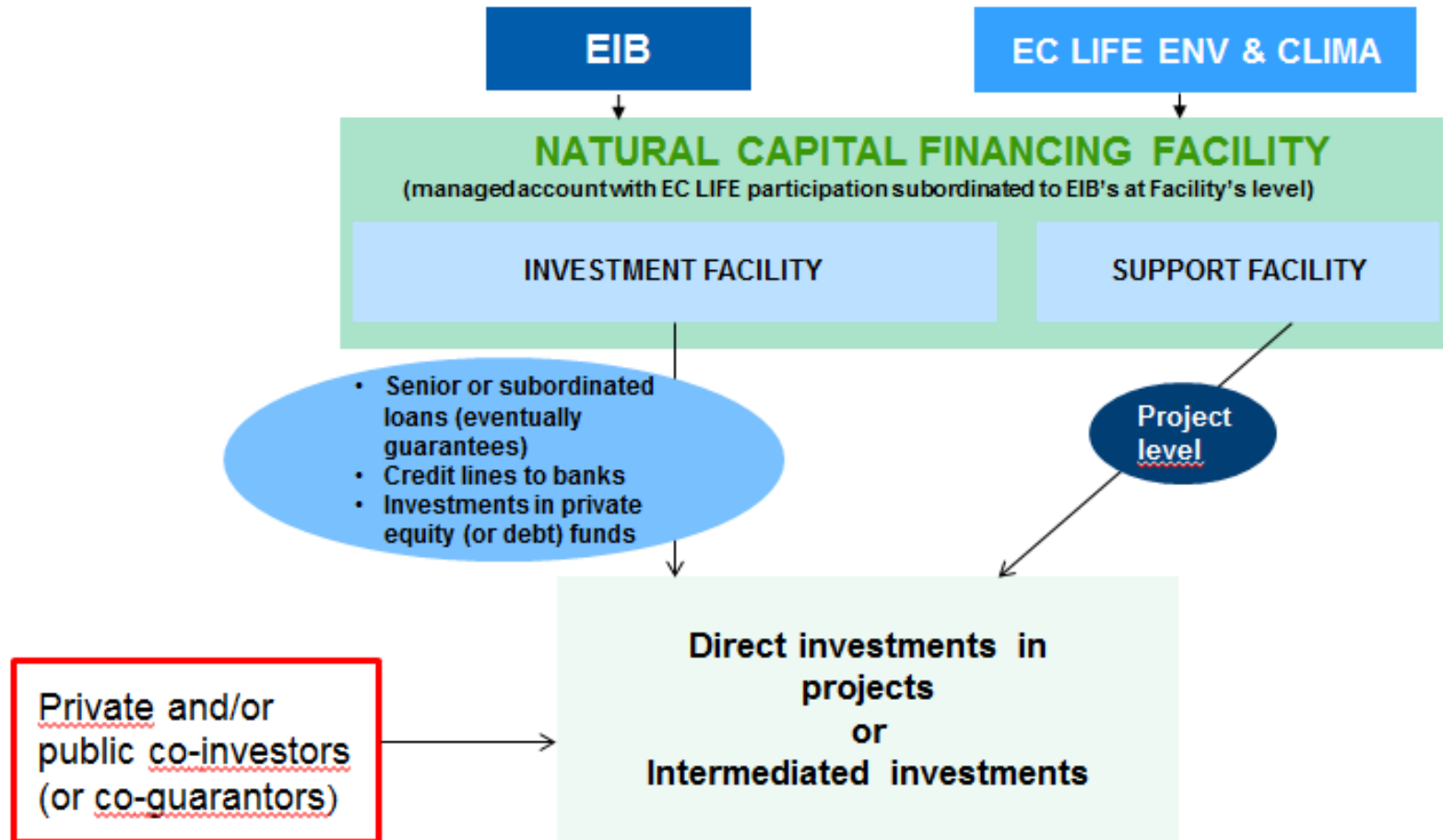
- **PF4EE Energy Efficiency Loan** → an EIB financing with long tenor and flexible allocation rules
- **PF4EE Risk Sharing Facility** → Up to 80% coverage of credit losses on a loan by loan basis up to a given amount
- **PF4EE Expert Support Facility** → A technical consultancy services aiming at supporting EE financing at Financial Intermediary level



Example 7: Natural Capital Facility (NCF)

- Promote **Green Infrastructure (GI)**, **conservation**, **adaptation** to climate change
 - Financing GI: urban, rural, built structures using nature
 - Natural Conservation: site preservation, recreation activities
 - Ecosystem-based Climate Adaptation: marine/coastal protection, natural management of basins, rivers/canals
 - Water Cycle catchment management: rainwater collection, SUDS, natural wastewater filtration, flood defence
- Projects optimised through use of **market-based instruments** (e.g. PES and Offsetting Credits)
 - Payment for Ecosystem Services (provided by biodiversity, watershed etc.) on the principle of beneficiary pays
 - Compensation and offsettings (for impacts on biodiversity, soil etc.) on the principle of polluter pays, eventually subsequent “no net loss and securing net gain” with generation of offsetting credits
 - Soil and forest sequestration of carbon with generation of carbon credits
- **Pro-biodiversity businesses** generating green services & commodities markets / Nature-based climate change adaptation businesses
- Focus on **waste** (e.g., remediation and regeneration, natural sinks restorations)

Example &: NCF Structure



EU funding will help project development and provide risk mitigation