

EIB Climate Action

Public and Private Funding Opportunities for the
Southern Mediterranean Partner Countries

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Content



- MeHSIP
 - EIB Climate Action
 - Private sector financing (Part I)
 - Public sector financing (Part II)
- Seasoned with **general considerations** and **practical suggestions**

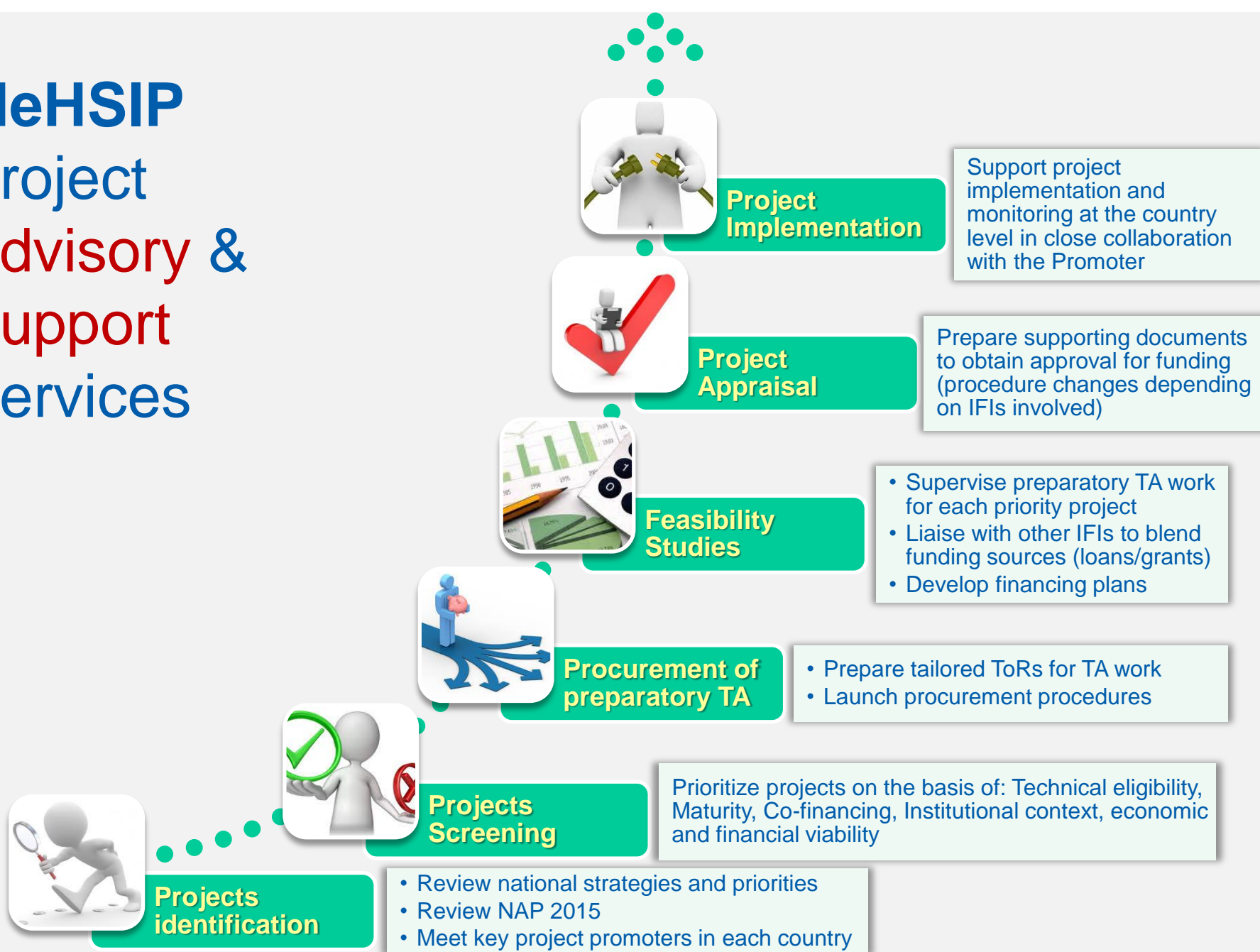
Important notes:

- **Not an economist:** if I did not understand it, you will not find it here !
- **Final user prospective:** if at the end I have not answered at least one of your practical questions on climate financing, I have failed !
- **EIB hat** on and off !

MeHSIP: Bridging the Gap

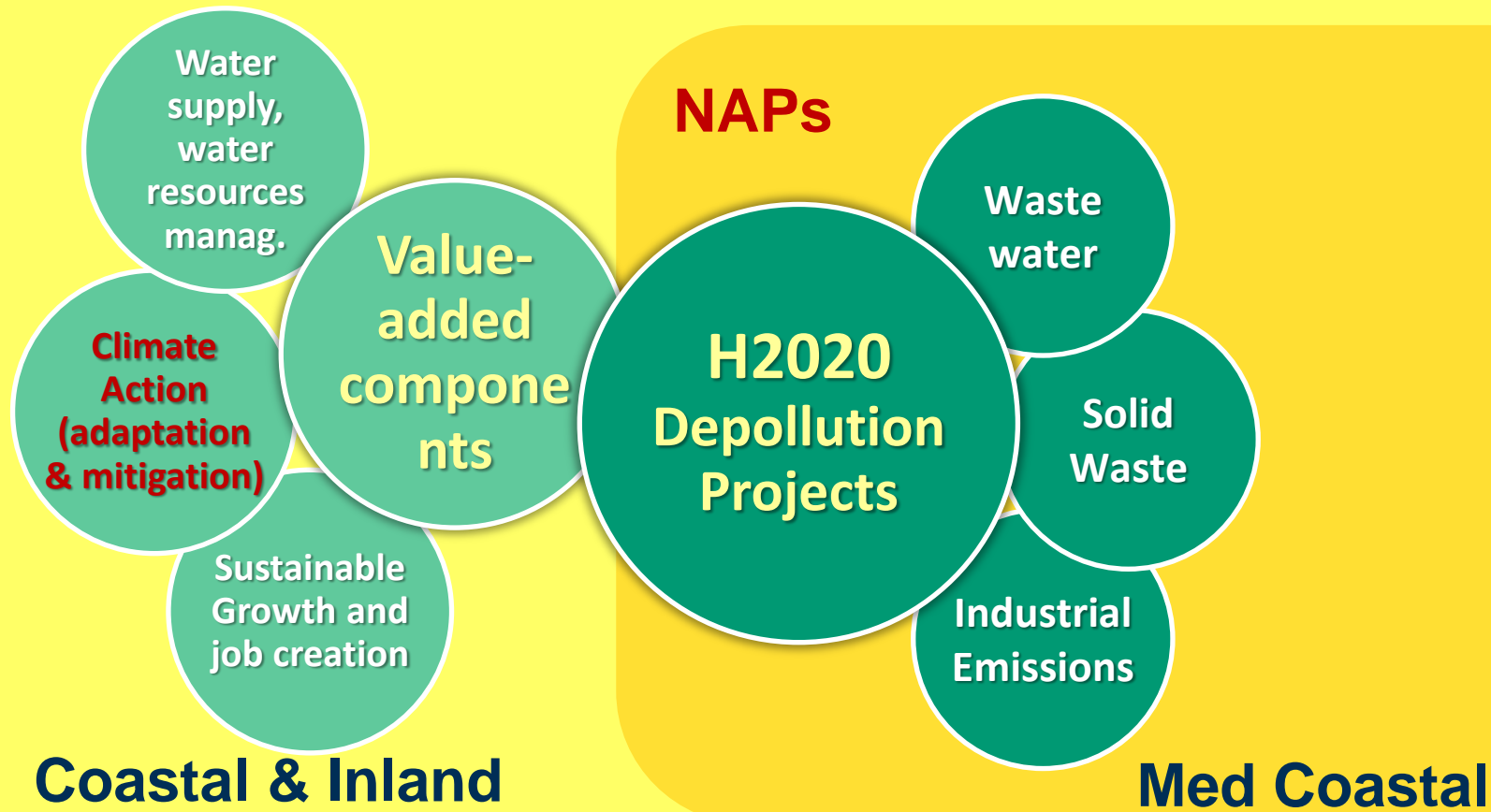


MeHSIP Project Advisory & Support Services





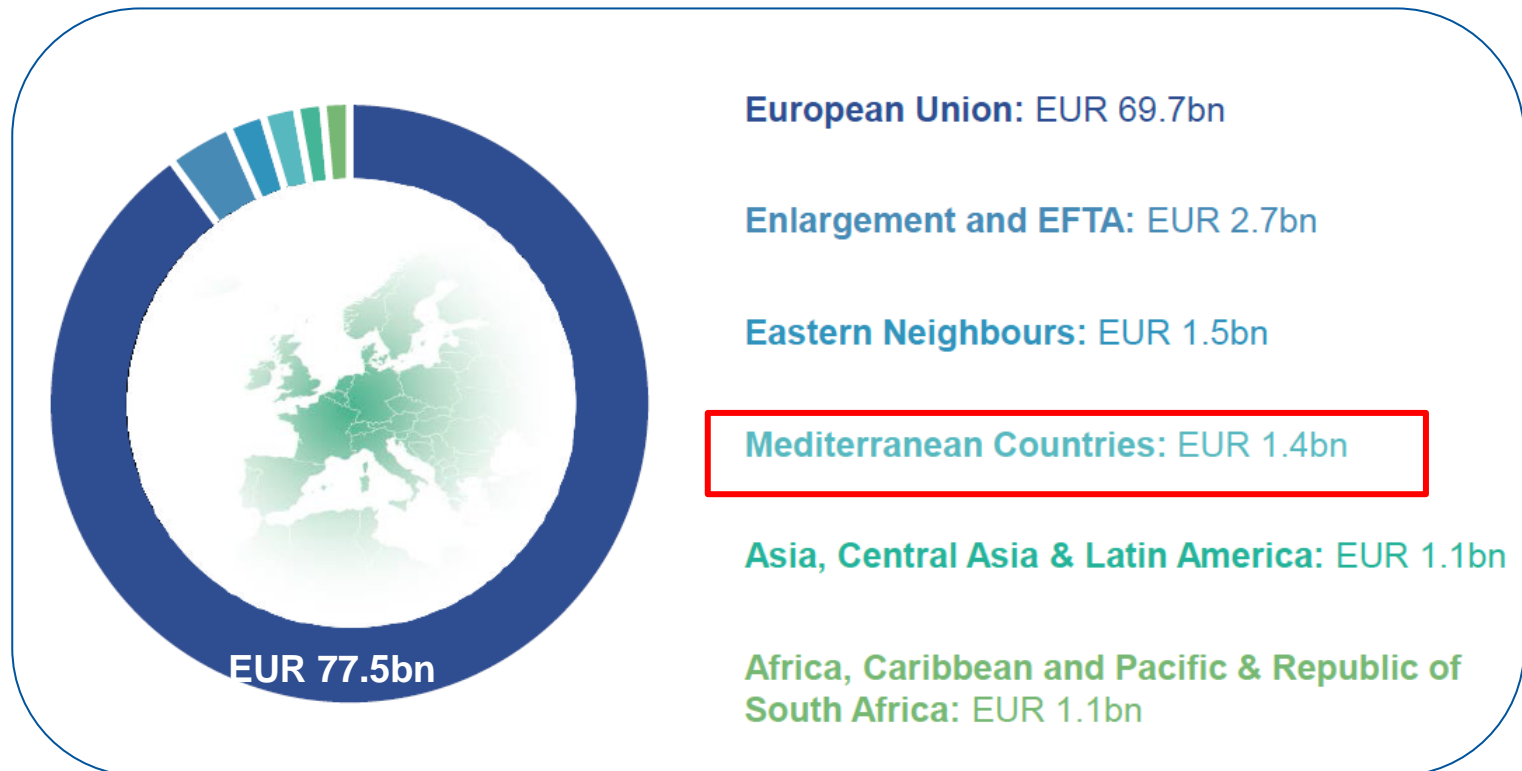
MeHSIP Scope



EIB overview



- EIB shareholders are the 28 EU Member States
- Largest multilateral lender and borrower in the world (approx. 400 projects annually in more than 160 countries)
- Around **10%** of financing is for projects outside the EU
- EIB finances only **50%** of the total project value (at least for sovereign loans)





- EIB financing is in support for EU priority objectives and aligned with EU Climate Policies:



ENVIRONMENT

EUR 19.6bn*



INFRASTRUCTURE

EUR 18.9bn*



INNOVATION

EUR 18.7bn*



SME

EUR 29.2bn*

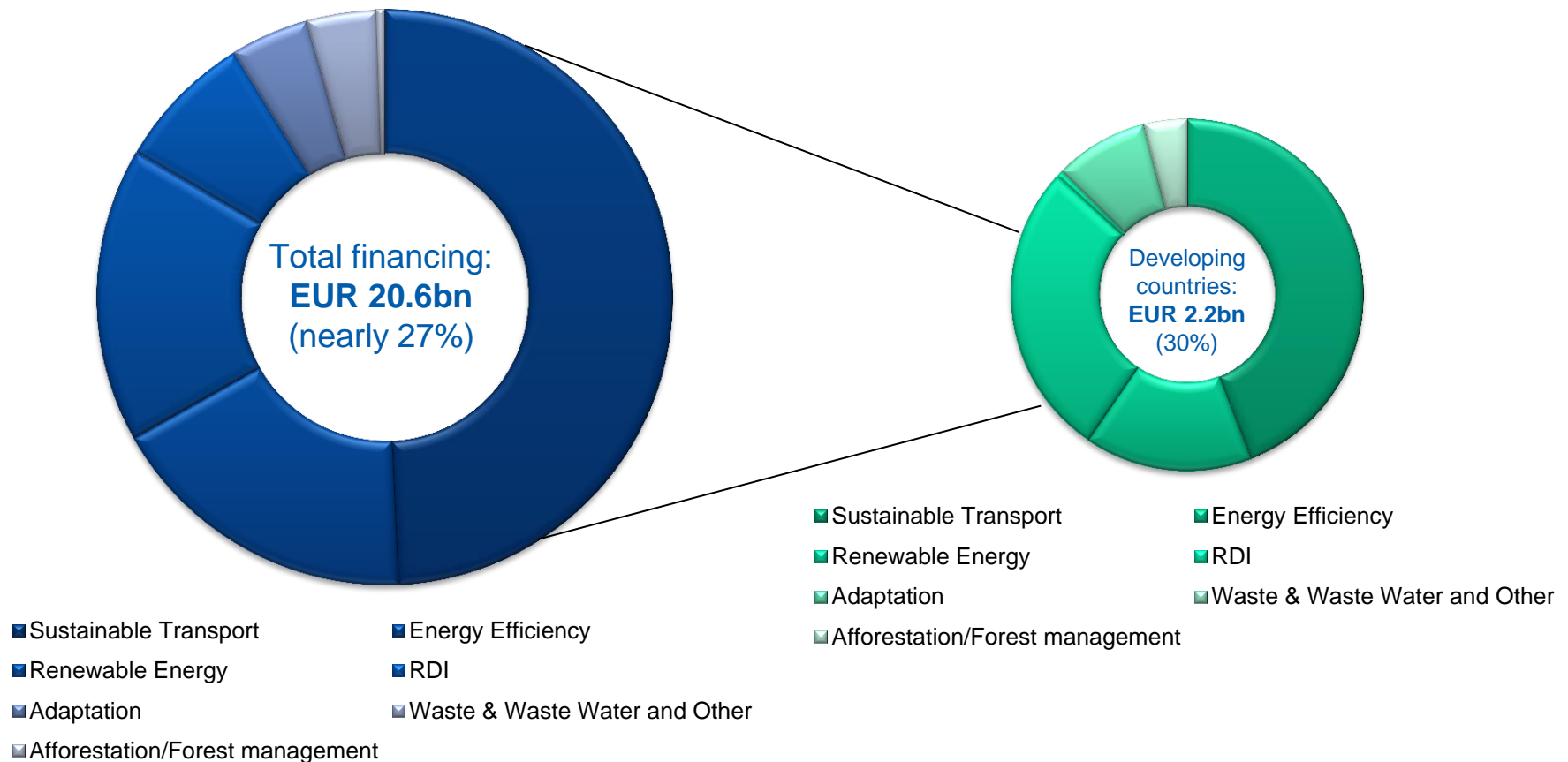
*2015 EIB financing volume

- Climate Action** is a horizontal objective (i.e. integrated in the other priority objectives)

Climate Action financing in 2015



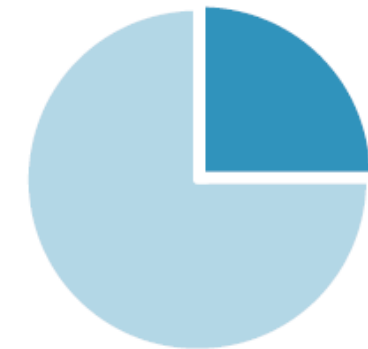
- EIB has a Bank-wide 25% climate action target
- EIB is the largest MDB in the world in terms of providing support to climate action



Climate Action – focus outside the EU



- In the lead up to COP-21, the EIB committed to increase its climate finance for developing countries to **35% by 2020**



>25% worldwide

2015 → 2020



35% in world's
developing regions

EIB's 2015 Climate Strategy
We are increasing our climate commitment:
USD 100bn over next 5 years



Reinforce the **impact** of climate financing

- Define high impact and increase pipeline of high impact eligible projects – climate action indicator
- Increase pipeline (through advisory services and project preparation)
- Financial innovation
- Supporting green bond market

Build **resilience** to climate change

- Making operations more resilient to climate change
- Increasing the portfolio of adaptation projects
- Developing the use of climate risks and vulnerability assessment tools

Mainstreaming climate change considerations across EIB standards, methods and processes

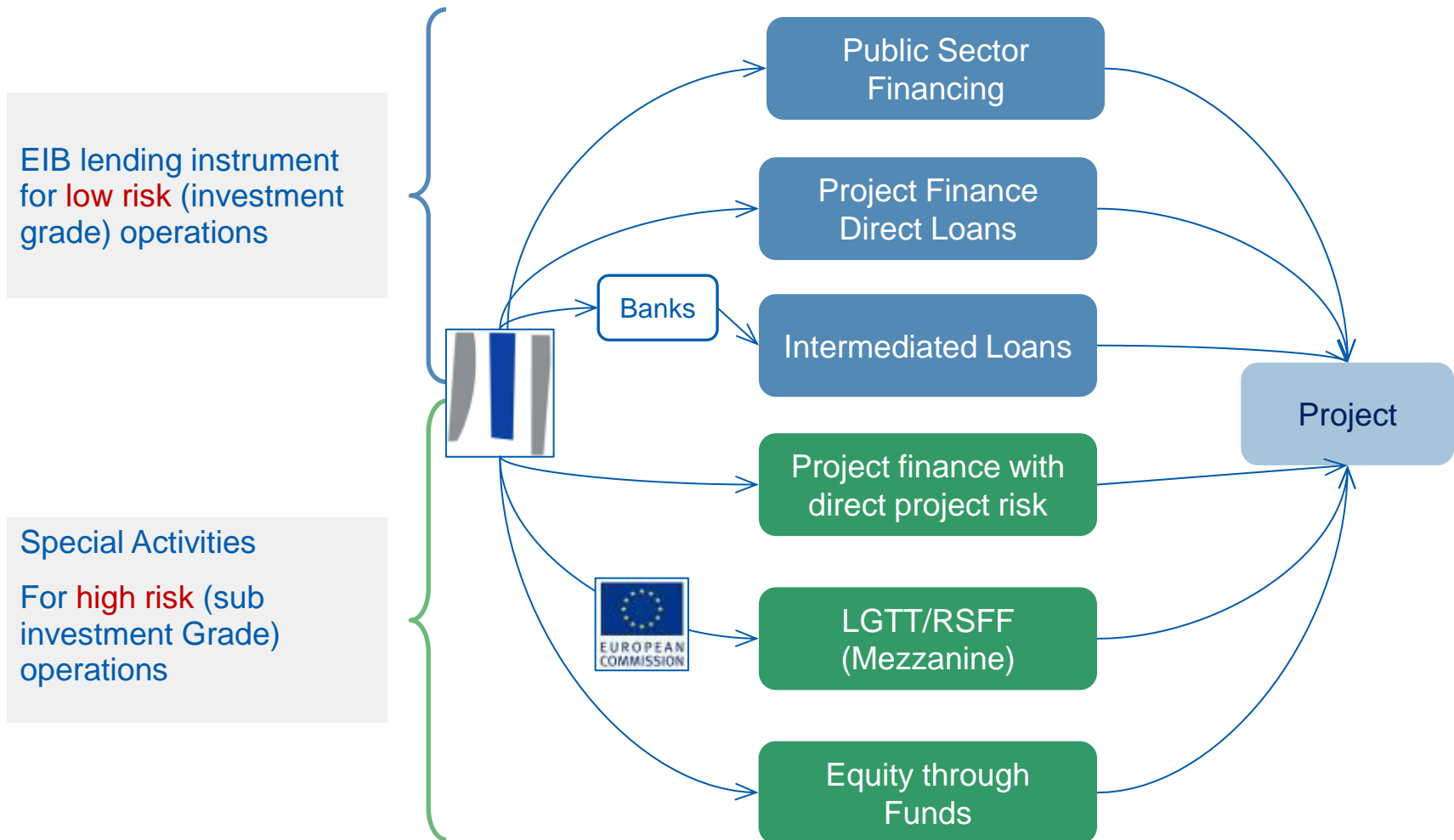
- Improving mainstreaming tools
- Extending coverage of sector policies
- Managing portfolio climate risks



EIB Financing Instruments



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





EIB Climate Action

PRIVATE SECTOR FINANCING



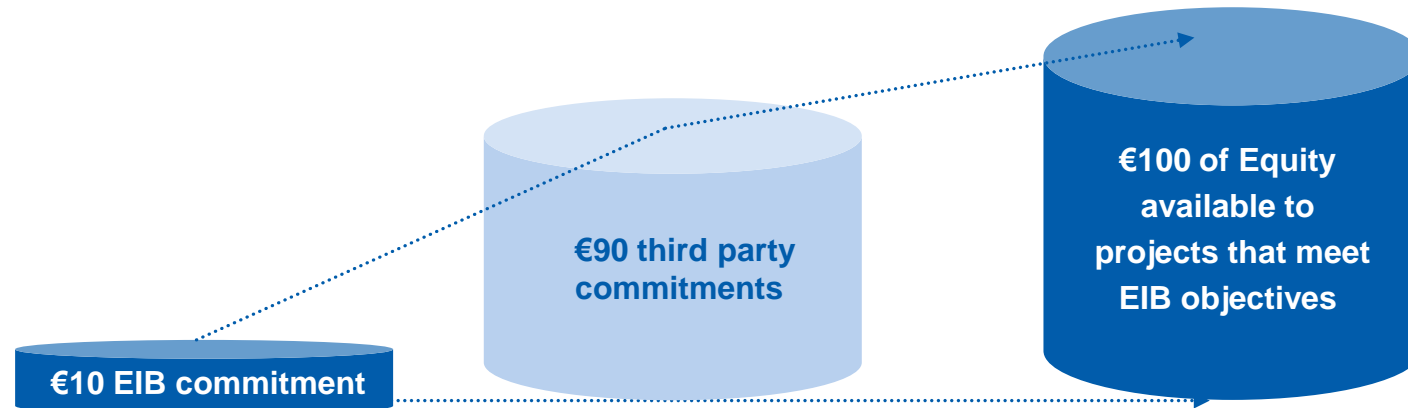
- ❖ EIB offers a number of innovative climate **finance products** coupled with technical and financial advice **to engage the private sector** :
 - **Equity funds**
 - **Layered Risk-funds**
 - **Other Initiatives**

- ❖ Added Value of innovative EIB instruments
 - **Flexibility** in terms of broader eligibility of expenditure and in the use of funds for equity, debt and guarantee investment
 - **Leverage effect** - encouraging private and public sector commitment of investment, project implementation and management experience
 - **Catalytic effect** - enhancing the investment market complements other initiatives and additional sources of funding (including institutional investors)
 - **Expertise and creativity** - our expertise and rigorous due diligence help meet the highest standards

Equity Fund investments



- Equity Fund investments demonstrate the EIB's catalytic effect
- Efficient use of EIB capital through a leverage effect



- Policy test upfront and project driven
- 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
- 22 climate related infrastructure funds

Renewable Energy Funds as of Nov 2015



Fund	Year Signed	End Inv Period	EIB commitment (in M Euro)
Infrastructure Fund	Due diligence		80.0
Solar Fund	Board approved		25.0
Solar Fund II	Board approved		40.0
Renewable Energy Fund	Board approved		100.0
Renewable Energy Fund II	Board approved		50.0
CapEnergie III	2015		50.0
Copenhagen Infra II	2015	Jul-18	75.0
Eurofideme	2014	Dec-17	40.0
Glennmont II	2013	Aug-16	50.0
Crescent Energy	2011	Sep-16	13.0
Impax NEF II	2010	Mar-15	40.0
HgCapital RPP II	2010	May-15	40.0
Marguerite 2020 Fund	2009	Dec-15	65.0
EnerCap	2009	Jun-12	25.0
Platina	2009	Mar-15	30.0
DIF Renewable Energy Fund	2007	Sep-12	25.0
Subtotal			748.0



Example Sustainable Land Use Fund: Althelia



althelia
ecosphere

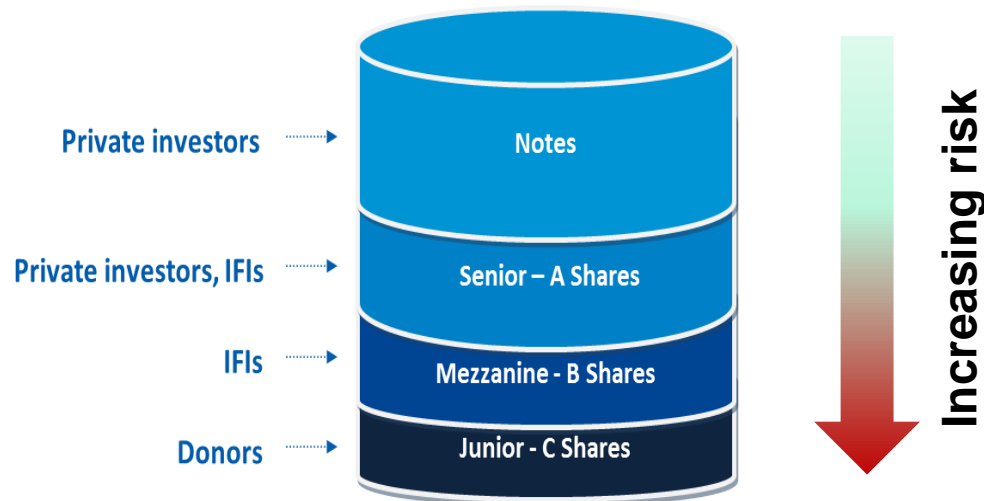
- The Althelia Climate Fund is an innovative, pilot **sustainable land use investment fund**.
 - **Focus:** nature conservation and sustainable forestry management, in particular REDD+ (tropical forest conservation activities that reduce greenhouse gas (GHG) emissions by avoiding deforestation and forest degradation, protecting and enhancing forest carbon stocks)
- **EIB cornerstone investment** with BNP Paribas, FMO (Netherlands Development Finance Company), FinnFund & Church of Sweden. Fund closed in 2013 with EUR 60m+ in commitments
- **Project investments:** generate revenues from forest carbon stock conservation and non-carbon sources (e.g. non-timber forest products, sustainable agriculture and other services/commodities)
 - **Risk mitigation:** Althelia finalised negotiations for an USAID guarantee to partially offset the price risk for generated carbon credits (so-called Advanced Market Commitment)

Good example of new market segment with policy risk mitigation

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



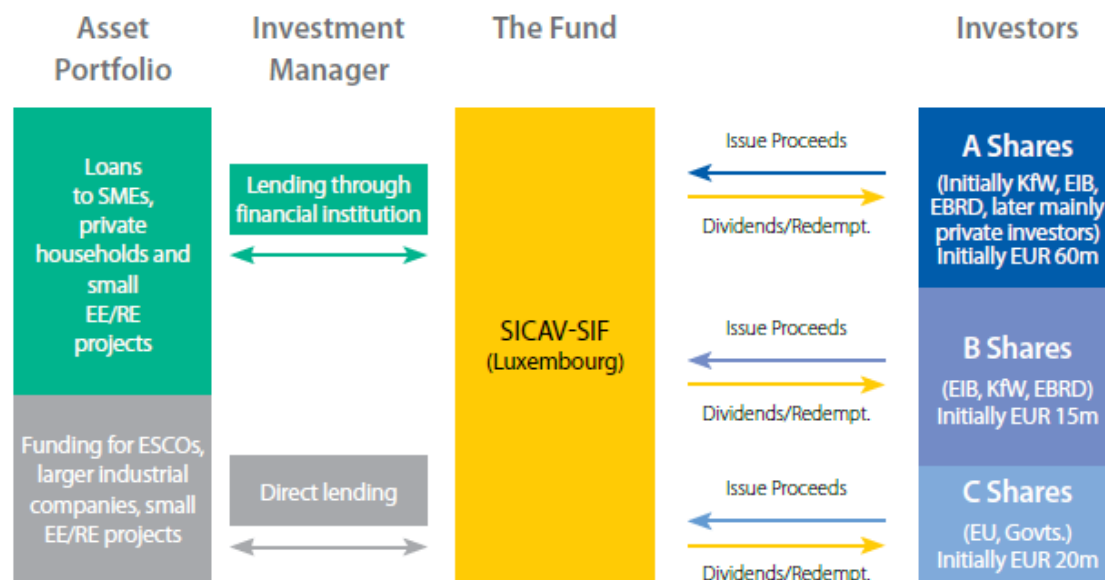
Example layered debt fund: GGF



GREEN FOR GROWTH FUND
SOUTHEAST EUROPE

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

- The **Green for Growth Fund (GGF)** is an example for a layered debt fund and 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



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

|| ESCOs



- **Energy services company (ESCO)** : company that identifies energy improvements, provides the capital required to install improvements, offers turn-key installation services, and guarantees **energy savings**.
- **Performance contracts** shift some of the project's performance risk to the ESCO in exchange for **share of the cost savings**.
- The **source of financing** can vary and is often provided by large institutional lenders.
- Additionally, the structure of the debt may vary, and some contracts allow the **financing to be off the balance sheet** and not accrue towards your debt limits.





EIB Climate Action

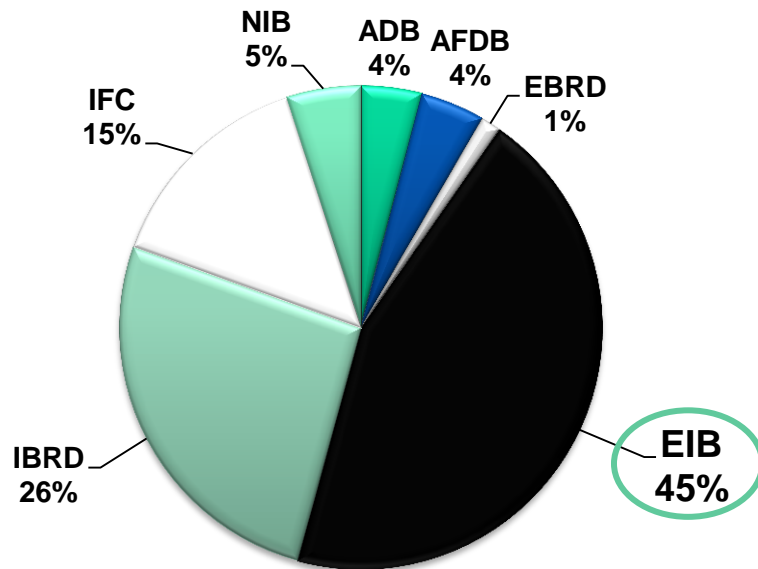
PUBLIC SECTOR FINANCING

Green Bond Issuance

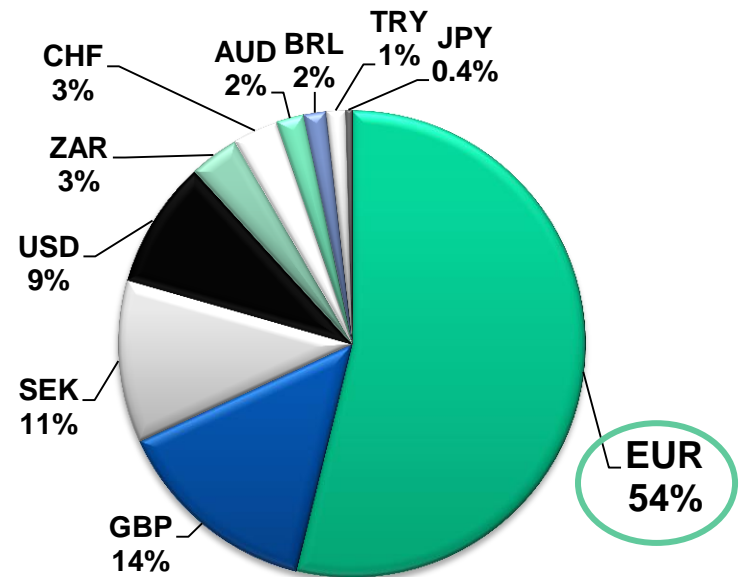


- **Climate Awareness Bonds (CAB)** issuance to date: EUR 9bn equivalent in 10 currencies
- EUR CAB due 2019 - largest green bond in the market at EUR 3bn
- Focus on EUR & USD, tenors up to 10 years

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



EIB CAB issuance by currency*



^Source: market data collected by Credit Agricole CIB; as of 27 April 2015

*As of 23 April 2015

EIB Climate Awareness Bonds – Key Features



- ✓ **Earmarking:** Funds collected are **earmarked for Climate Action**
- ✓ **Capacity:** Large flow of climate action lending
- ✓ **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 (audited sustainability report + dedicated newsletter) and policies (required as Aarhus signatory)
- ✓ **Project impact reporting** (2014 CAB newsletter) released 27th March 2015
- ✓ **Verification / audit:** external audit of reporting on the use of proceeds
- ✓ **Exposure to EIB credit, not projects:** CABs rated pari passu with other EIB bonds (AAA/Aaa/AAA)
- ✓ **No premium charged** - priced like other EIB bonds of same size & maturity

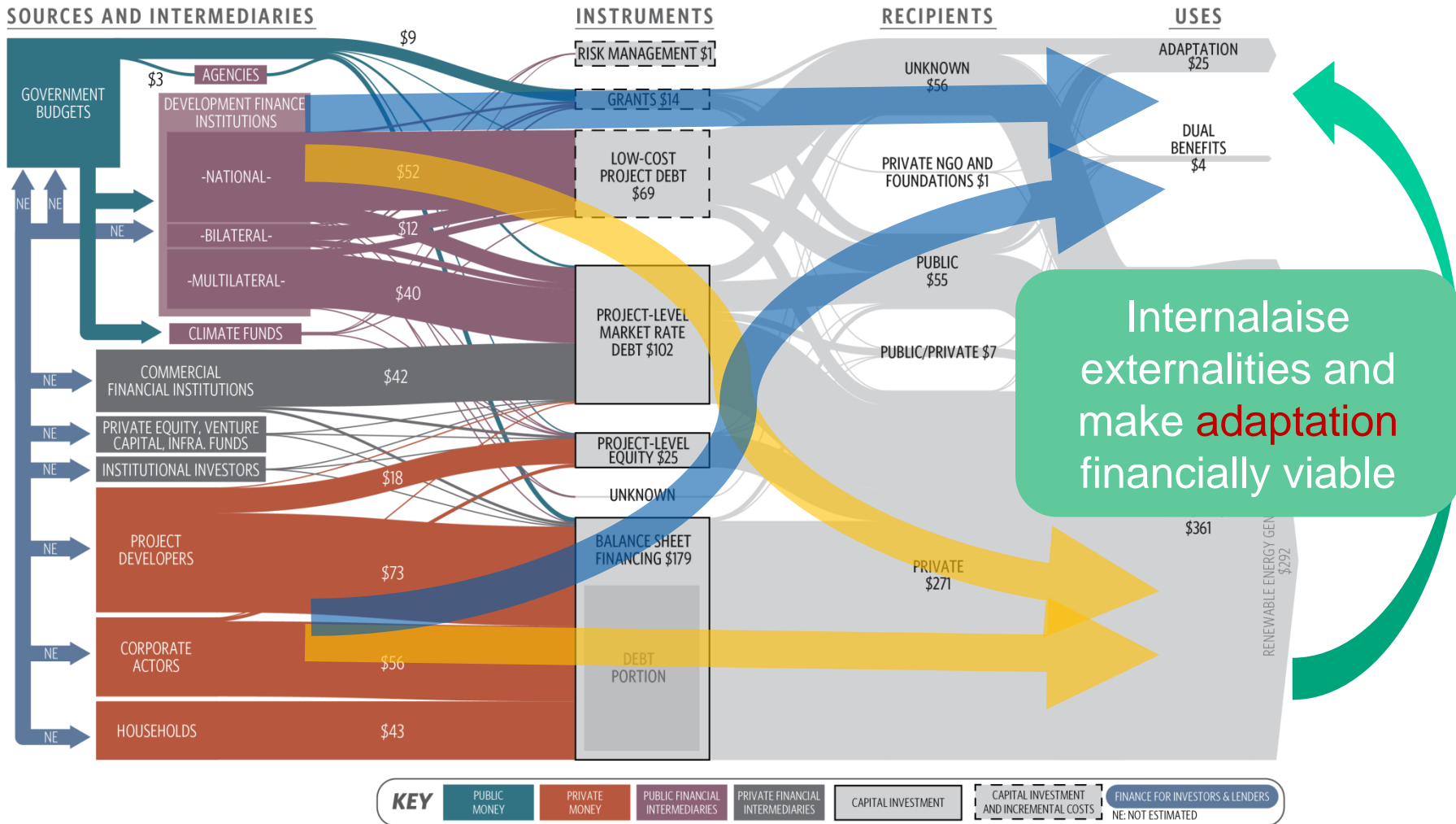


Climate Finance 2015: Mitigation Vs. Adaptation



USD 391^{BN} TOTAL

Landscape of Climate Finance 2015 illustrates climate finance flows along their life cycle for the latest year available, mostly 2014, in USD billions



Source: Climate Policy Initiative

ODA Vs. Climate Finance



EIB Infrastructure lending flux of funds

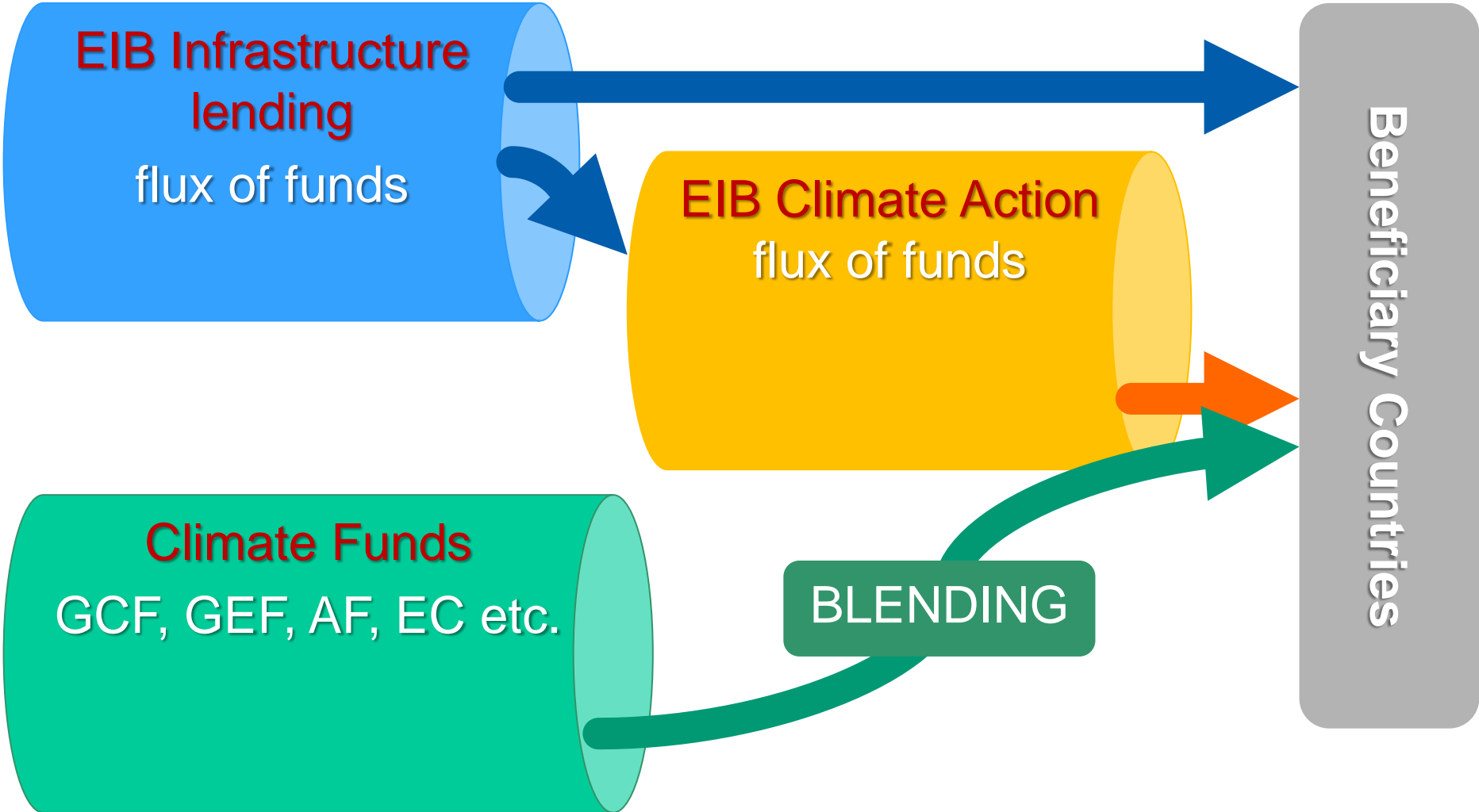


EIB Climate Action flux of funds



Beneficiary Countries

ODA Vs. Climate Finance



Project Eligibility: **Mitigation** (MDB climate finance tracking)

Activity-based, namely, it focuses on the type of activity to be executed, and not on its purpose, the origin of the financial resources, or its actual results.

- ✓ Energy Efficiency (Emission Performance Standard of 550 g/CO₂ per kWh for all fossil fuel projects as result of review 2012/13)
- ✓ Renewable Energy
- ✓ Nuclear Energy
- ✓ Transport
- ✓ Forestry and Land Use
- ✓ Waste and Wastewater
- ✓ GHG capture or avoidance other than CO₂ (e.g. methane)

Morocco: Renewable Energy

MITIGATION



Solar Power complexes in OUARZAZATE

- ❖ **NOOR I (CSP)** 160 MW
(EIB funding: 100M€)
- ❖ **NOOR II (PARABOLIC)** 200 MW
(EIB funding: 100M€)
- ❖ **NOOR III (TOWER)** 150 MW
(EIB funding: 50M€)

**100% of EIB funding contributes to
Climate Mitigation**

Project Eligibility: **Adaptation** (MDB climate finance tracking)

3 steps are required to count project activities as **adaptation**:

➤ Setting out the **climate vulnerability** context of the project. *Vulnerability is a function of the character, magnitude, and rate of climate change and variation to which a system is exposed, its sensitivity, and its adaptive capacity*

Why?

➤ Making an **explicit statement of intent** to address climate vulnerability as part of the project. *Provide a short statement setting out the project promoters' intention to address the vulnerabilities that were identified with the aim to improve the climate resilience of the project or to improve the adaptation effectiveness.*

What?

➤ Articulating a clear and **direct link** between the climate vulnerability context and the specific project activities. *Briefly describe what the specific project activities are that address the climate vulnerabilities identified (e.g. that a specific more climate resistant crop type was chosen; additional scour protection was added).*

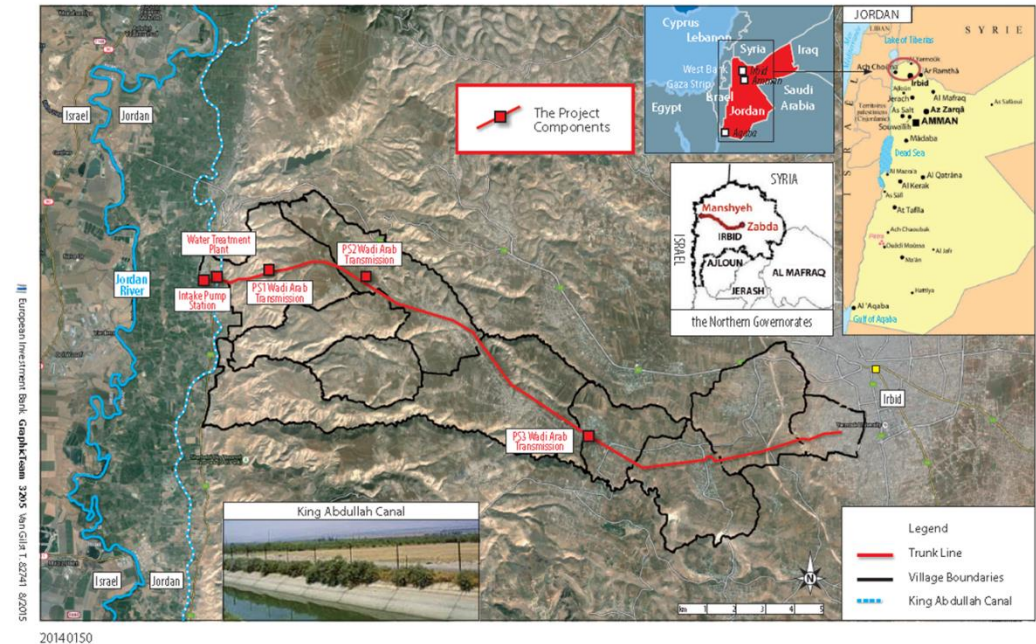
How?

Jordan: Wadi Al Arab Water System II **ADAPTATION**



Project: WADI AL ARAB WATER SYSTEM II PROJECT - Jordan

- ❖ The project aims at treating and conveying **30 million cubic meters per year of fresh water** from the King Abdullah Canal (KAC), in the Northern Jordan Valley, to the Zabda reservoir which serves mainly the city of Irbid.
- ❖ The project will improve the **resilience of the communities to extreme droughts and climate change**, as further overexploitation of the current, fragile local groundwater sources can be avoided.



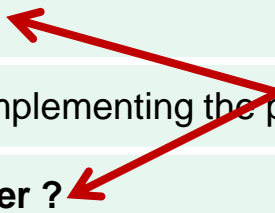
- ❖ EIB funding 50M€

**10% of EIB funding contributes to
Climate Adaptation**



Criteria	Questions
Government Priority	Is the project of high priority for the government?
	Is the project relevant to national or sectorial government plans?
Technical Eligibility	Are the project's proposed interventions coherent with its objectives?
Promoter	Is there a clear promoter ?
	Is the promoter capable of implementing the project?
Financial Commitment	Is there a potential borrower ?
Econ & Fin Benefits	Is the promoter/borrower financially viable on a stand-alone basis ?
	Have any potential land acquisitions issues already been addressed?
Project Value	Is the total value of the project/programme 25M€ or above ?
Institutional Framework	Is there a clear and appropriate institutional/regulatory set-up ?
Social & Env Impact	Has the project social acceptance from stakeholders?
	Is the project contributing to improving socio-economic development?
Other Issues	Have any connections to vested economic interests been excluded ?

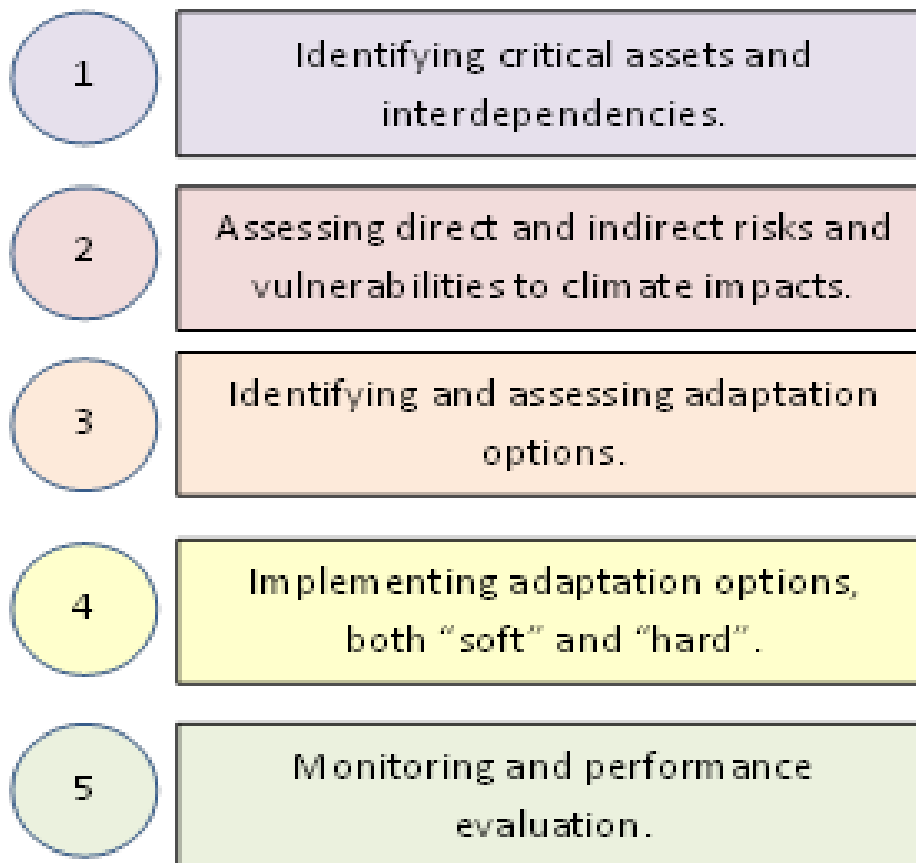
Projects Killers !!





Preparing a climate resilient project

If there are likely to be climate change risks – EIB standards require the promoter to carry out a Climate Risk and Vulnerability Assessment (CRVA). EIB does not specify a particular model but a good CRVA [puts the project in the context of its surrounding system.](#)



- *From 2017 EU directives stipulate that all EIA shall make include a climate risk and vulnerability assessment.*
- *However, this only captures projects that require an EIA, many projects don't so it will be up to the Bank to discuss with the promoter and to assess when a CRVA is needed, and the right scale and scope of the work.*

Flagship climate action projects outside EU



**Renewable Energy:
Lake Turkana Wind Project**



EUR 200m financing structure for the largest wind farm that is currently being developed in Sub-Saharan Africa

**Adaptation:
Caribbean Development Bank (CDB)**



US\$ 65m dedicated lending and technical assistance programme for adaptation activities in the 18 CDB member countries

**Energy Efficiency:
Banque du Liban**



EUR 50m credit line for the financing of energy efficiency investments carried out by private companies in Lebanon

**Sustainable Transport:
Egypt Cairo Metro**



EUR 300m loan for extension of the Cairo Metro to serve the main transportation corridors of urban greater Cairo

Climate Action in the Middle East and North Africa (CAMENA)



- Dedicated envelope under the FEMIP Trust Fund (FTF) created to support improved energy security, emission reductions and improved resilience to climate change through the identification and development of new climate action projects.
- **CAMENA can be used:**
 - to identify, catalyse and prepare climate action investment projects, which could subsequently benefit from EIB financing;
 - to fund actions to improve the enabling environment in relation to climate investments among public and private institutions within the Mediterranean partner countries;
 - to finance equity operations.
- Initial funding for CAMENA is provided by the United Kingdom's Department for International Development (DFID)





- ❖ 8th March 2016: **Climate Finance Workshop** in ONEE (Morocco)
- ❖ Requests received for similar workshops by other **project promoters** in Southern Med Partner countries.
- ❖ **Support preparation** of applications for climate financing and structuring the technical and financial elements of a project
- ❖ **Collaborate** with Clima South, UNEP DTU, Regional Climate Change initiative, SWIM/H2020 and any other initiative on the identification and preparation of bankable projects
- ❖ **Permanent presence** in the countries

Recommendations



- ❖ Provide incentives to the **private sector** to take advantage of the opportunities offered in the financially attractive sectors (renewables, energy efficiency)
- ❖ A climate mitigation or adaptation project **does not necessarily make a good project**
- ❖ **Good projects make sense** (financially and/or economically) even if they do not have a climate focus, but
- ❖ climate can and should be an **added value** to any well conceived project allowing access to tailored sources of funding and making the project more 'affordable'.
- ❖ Focus on the preparation of good projects and **money will be available**.
- ❖ Avoid presenting to IFIs immature ideas and **get support** from project preparation facilities like MeHSIP if you want guidance.