

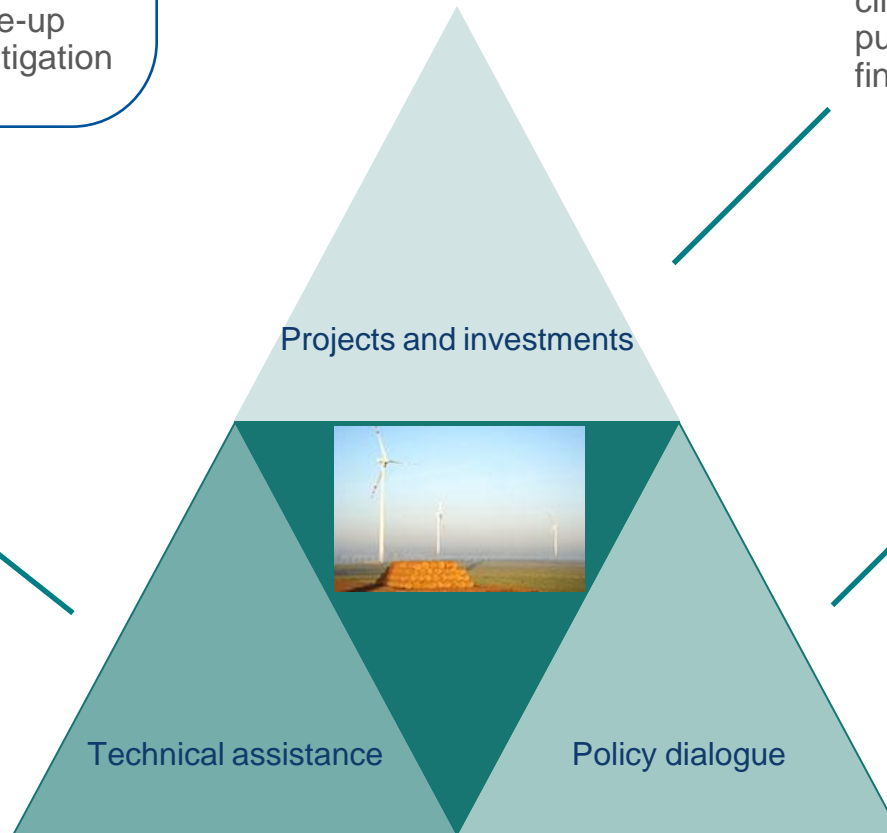


Mobilising Private Sector Climate Finance  
A Project-Based Approach  
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SEI responds to needs of energy transition in EBRD countries of operations, as well as to the call of the G8 for IFIs to scale-up climate change mitigation investments

EBRD's TA to overcome barriers includes market analysis, energy assessments, training and awareness raising, and grant co-financing to provide incentives



Projects with numerous clients, private and public, with a range of financial instruments

EBRD works with governments to support the development of strong institutional and regulatory frameworks that incentivise sustainable energy

EBRD is utilising concessional climate finance from a variety of sources, including:

- European Commission
- Clean Technology Fund
- Global Environment Facility
- Bilateral Donors, including Copenhagen Fast-Start Finance

Use of concessional finance tightly governed:

- Addresses specific barriers (e.g. lack of CO2 pricing, cost of technology due to lack of availability, capital gaps, risks)
- Rewards energy and/or CO2 savings – the more you save, the more concessionalism you can realise
- Complexity of climate finance absorbed as much as possible by EBRD (e.g. reporting, MRV, co-benefits), to protect client from having to deal with these issues

EBRD combines different sources in individual projects to mobilise investment:

- EBRD budgetary resources for project preparation, technical assistance, and grant co-finance
- Non-concessional EBRD finance
- Donor Finance (from one or more donors) for:
  - Technical Assistance
  - Grant/Concessional Finance Support

Types of finance raised:

- Repayments to EBRD
- Sponsor equity
- Syndicated Finance
- Co-lending

Enhancing credit worthiness through concessional support:

- Yes - Country support systems (e.g. feed-in tariffs, green certificates), but consider political risk
- Yes – grants/concessional loans administered through EBRD or another MDB
- Maybe - Regional support systems (e.g. EU Structural Funds), depending on facility structures
- No - Carbon credits (e.g. JI/CDM) can generally not be used to support project finance structures due to uncertainties and timing of payment.

## Effect of combining sources:

- The combination of support enables projects to be financed in a commercial way that otherwise would not happen
- The leverage factor including EBRD finance is usually on the range of 1:1 to 1:3, depending on whether grants are being used.
- Leverage factors on grants/concessional finance alone are 1:4, on technical assistance alone 1:87

## Considerations:

- EBRD finance is market-based, and must be repaid like a commercial loan – it should not be considered as a concessional element
- Technical assistance is a key aspect in raising private climate finance. Without it, the potential is severely restricted.
- As much as possible, clients should not be exposed to complexities of climate finance. MDBs can absorb this.

## Conclusion

- Using MDB's to combine different funding sources to raise climate finance in the private sector is a working model that can be scaled up

## Target group

- Renewable energy project developers using direct finance from the EBRD to invest in renewable energy projects

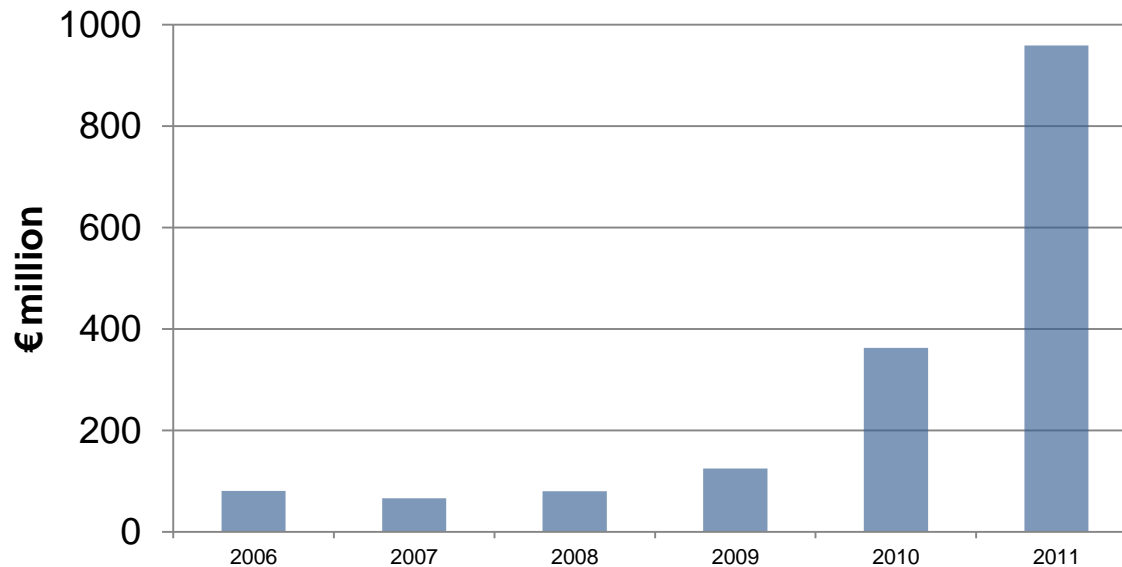
## Sectors covered

- Wind farms
- Hydro power plants
- Biomass
- Solar power

## EBRD business Approach

- Project finance for large projects supported by country support systems (e.g. FIT, green certificates)
- Specific financial products to directly finance medium scale renewable energy projects with a simplified approval process, grant or concessional finance support where required
- Bank intermediation for small projects, grant support where required
- Policy dialogue aimed at improving the enabling environment and facilitating private sector finance

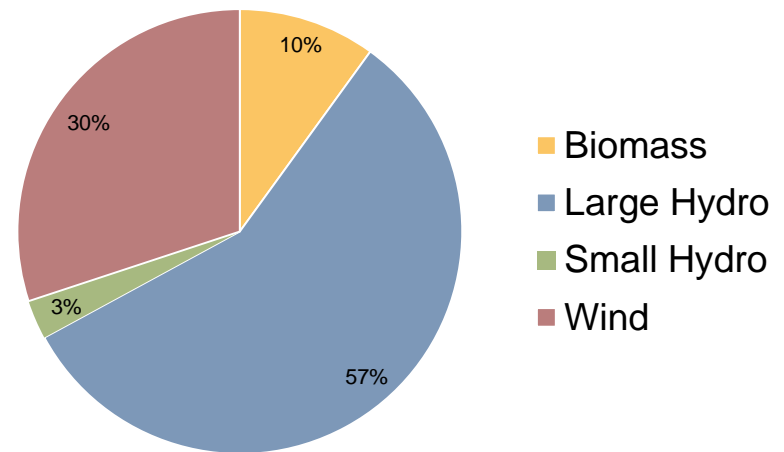
## Renewable energy business volume 2006 - 2011



Despite an unfavourable policy environment for renewable energy in many parts of the EBRD region, the Bank has continued to grow its renewable energy portfolio. This reflects an improvement in regulatory frameworks

- Investments in hydro and wind power dominated the renewable energy portfolio during 2009 to 2011
- In line with the SEI objectives, the Bank also expanded its activities in the use of biomass for renewable energy generation
- SEI 3 (2012 – 2014) expands the renewable energy portfolio across two dimensions: through direct loan financing instruments and through expanding the coverage of renewable energy types

### Renewable energy composition in SEI 2 (2009 – 2011)





# Renewable energy Case Study

## Bares Windfarm (Turkey)



European Bank  
for Reconstruction and Development

### DESCRIPTION

Construction of a 142.5MW onshore wind power project located in Balikesir in Western Turkey. The wind farm is expected to be operational by the end of 2012 and will become Turkey's largest wind farm to date. The commissioning of Bares wind farm will increase privately owned wind capacity in Turkey by 11% compared to the end 2010 installed capacity of 1,329MW.

### FINANCIAL STRUCTURE

EBRD	€ 100 million
<i>of which SEI component</i>	<i>€ 100 million</i>
Syndicated loan	€ 35 million
Project Sponsor	<u>€ 54 million</u>
Total project value	€ 189 million

### ESTIMATED CO2 REDUCTIONS

317 ktonnes CO2 per year

### PRIVATE SECTOR FINANCE RAISED

€ 135 million through repayments to EBRD and syndicated lender

€ 54 million from project sponsor

### CONCESSIONAL FINANCE USED

None

### LESSON LEARNED

In countries with a mature regulatory framework, MDBs can finance risky projects when the sponsor is low risk and experienced. Private banks may require comfort of MDB participation in some cases.

# Renewable energy Case Study

## Ukraine Sustainable Energy Lending Facility (Ukraine)



European Bank  
for Reconstruction and Development

### DESCRIPTION

Lending facility for smaller renewables projects with EBRD finance of up to EUR 10 million each, covering wind, solar, biomass, and hydro.

### FINANCIAL STRUCTURE

EBRD	€ 50 million
<i>of which SEI component</i>	€ 50 million
CTF co-finance	€ 20 million
Project Sponsors	<u>€ 30 million</u>
Total facility value	€ 100 million

Use of CTF to cover equity gaps and provide some concessionality through reduced interest rate.

Use of GEF technical assistance to support project developers in achieving bankability.

### ESTIMATED CO2 REDUCTIONS

~350 ktonnes CO2 per year

The facility combines EBRD finance with CTF concessional support and GEF technical assistance. It has taken a very long time to achieve the first signing. The reason for this has been an almost complete absence of skills amongst project developers, and the need to put in place additional technical assistance. It is expected that deal flow will now accelerate, and that the facility will deliver a real increase in the capacity of local developers in the small- to medium-size renewables sector.

### PRIVATE SECTOR FINANCE RAISED

€ 100 million through bank repayments to EBRD and CTF

### CONCESSIONAL FINANCE USED

€ 20 million for concessional finance

€ 5 million for technical assistance

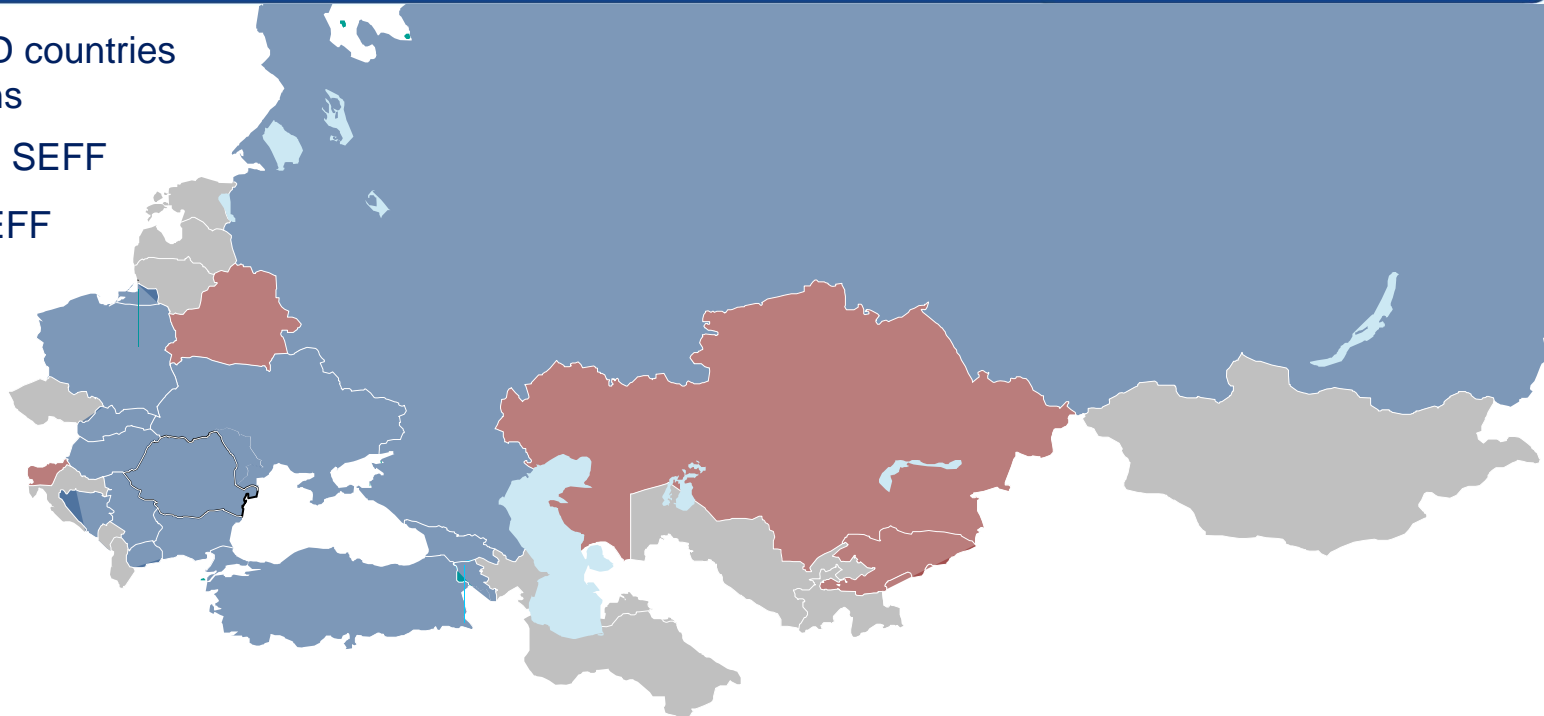
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€ 25 million total (25% of private sector finance)

### LESSON LEARNED

Medium-size renewable project developers require substantial technical assistance support

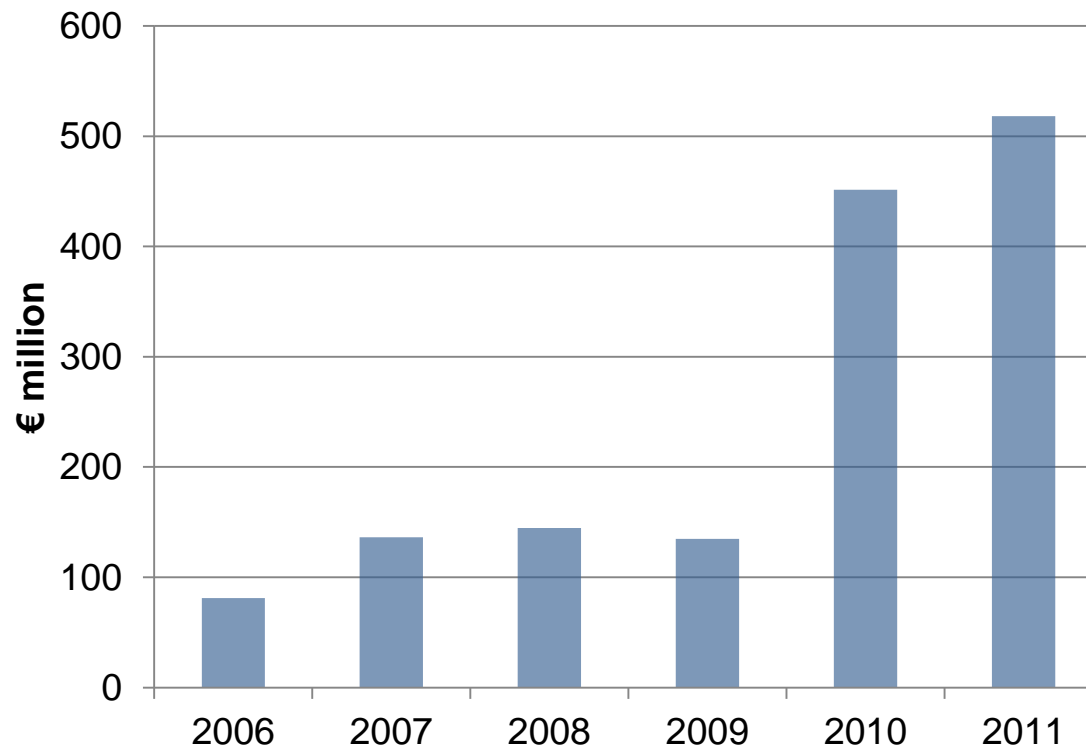
- Other EBRD countries of operations
- Operational SEFF
- Planned SEFF



- Operating in 15 countries via 70 local financial institutions
- € 1.5 billion signed (through more than 100 loan operations)
- More than € 900 million on-lent to approximately 1,000 businesses, 500 housing associations and 30,000 households
- Over 2 million tonnes of CO<sub>2</sub> avoided per year
- Sub-loans range from € 2,500 to € 5 million

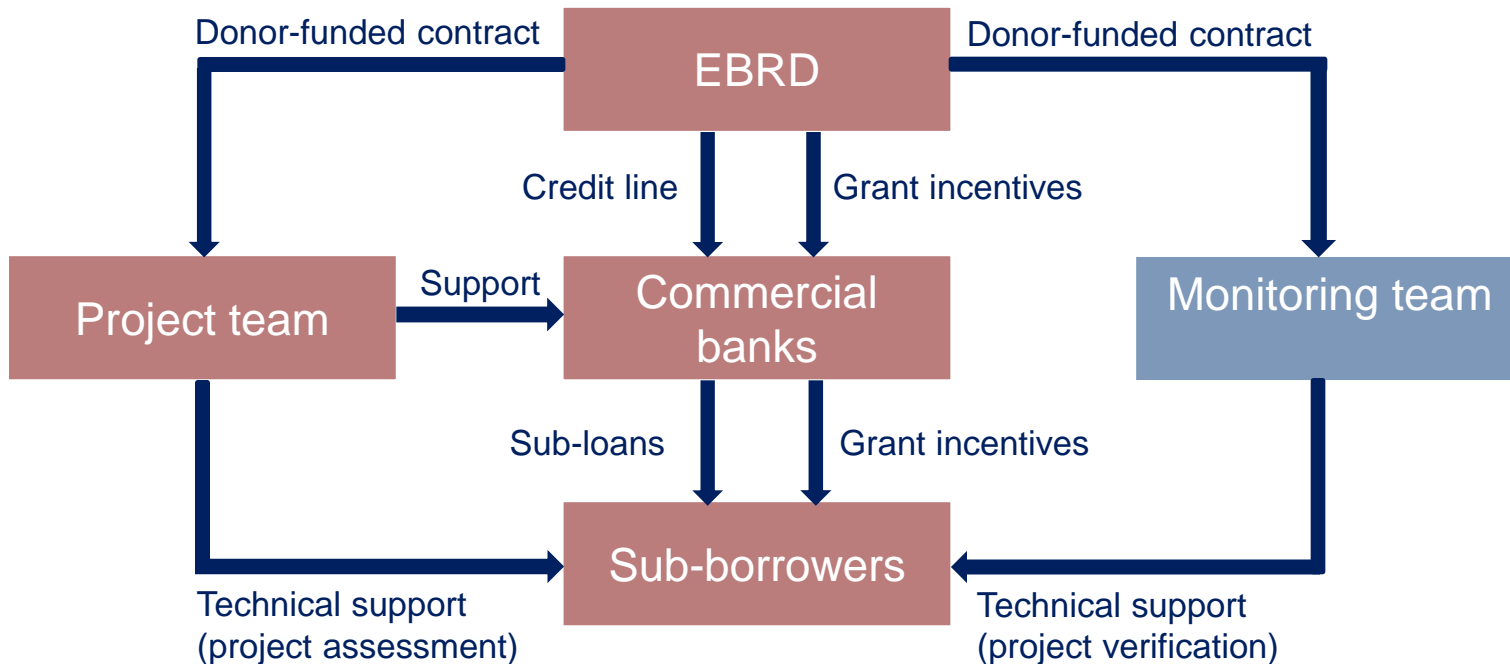


### SEFF business volume 2006 - 2011



# Sustainable Energy Financing Facilities Structure

- SEFFs are effective in reaching a wide range of industrial and residential clients
- SEFFs are effective in supporting commercial banks in providing finance in new areas such as residential energy efficiency and small scale renewables



# Sustainable Energy Financing Facilities Case Study

## Residential energy efficiency credit line (Bulgaria)



European Bank  
for Reconstruction and Development

### DESCRIPTION

EBRD provides loans to 4 partner banks in Bulgaria. Loan proceeds are on-lent to individuals, households and associations of apartment owners for energy efficiency projects. Sub-borrowers receive grant incentives upon successful completion of sub-projects. Support from the Kozloduy International Decommissioning Fund.

### FINANCIAL STRUCTURE

Overall volume € 40 million

Signed:

ProCredit Bank Bulgaria € 10 million

Raiffeisen Bank Bulgaria € 8 million

DSK Bank € 5 million

CIB Bank € 5 million

### TECHNICAL ASSISTANCE

Technical assistance includes technical assessment of all applications, capacity building through trainings, and marketing activities. A risk-sharing first loss cover scheme is provided to partner banks to encourage them to prioritise financing to complex building projects and overcome the barrier that the lack of credit history poses to banks.

### ESTIMATED ENERGY SAVINGS

5.8 ktoe per year

### ESTIMATED CO<sub>2</sub> REDUCTIONS

41 ktonnes CO<sub>2</sub> per year

### PRIVATE SECTOR FINANCE RAISED

€ 40 million through bank repayments to EBRD

### CONCESSIONAL FINANCE USED

€ 9.4 million for grants and incentives

€ 2.7 million for technical assistance

€ 2.5 million for risk sharing

€ 14.6 million total (36.5% of private sector finance)

### LESSON LEARNED

Financing building refurbishment requires substantial amounts of financial support .

SEI activities in Turkey started in 2009 and 2010 with:

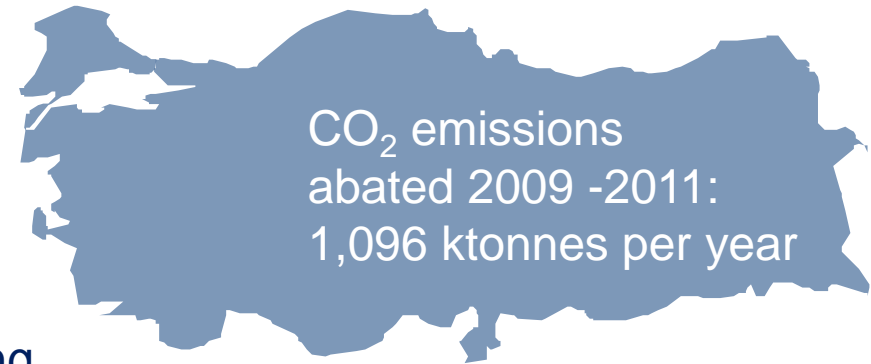
- Policy dialogue
- Financing the Rotor windfarm
- The Turkish Sustainable Energy Financing Facility, supported by the CTF and EU IPA

And continued in 2011 with key projects incl.:

- The Mid-Size Sustainable Energy Financing Facility for medium-size renewables projects
- Bursa light rail urban transport
- Aksa acrylic fibre producer
- Crescent Clean Energy Fund

And in 2012 with:

- Bares windfarm (largest in Turkey)
- Mersin waste water project
- Extending MidSEFF and TurSEFF further



## Scaling up SEI ABV in Turkey

2009 € 45m 30% of EBRD ABV

2010 € 207m 42% of EBRD ABV

2011 € 466m 52% of EBRD ABV

2012 1<sup>st</sup> Half € 204 million

Objective:

To continue broadening of sectoral coverage and to maintain high share of ABV.

# Annex: Background on EBRD and SEI Performance



European Bank  
for Reconstruction and Development



# EBRD at a glance

- International financial institution, promotes transition to market economies in 29 countries from Central Europe to Central Asia
- Expanding – 2009 added Turkey, now expanding to the southern and eastern Mediterranean region
- Established in 1991
- Owned by 63 countries and two inter-governmental institutions
- Capital base of €30 billion
- Invested over €9 billion in 380 projects in 2011

- Sound banking principles
  - Careful assessment of risk/rewards for all parties
  - Commercial viability
  - Good prospect of returns
- Advancing the transition to market economies
  - Expansion of competitive markets, including private ownership
  - Stronger institutional and legal framework
  - Sound corporate governance
  - Structural reforms
  - This is now including move to a low-carbon economy
- Environmental mandate
  - Sustainable development – one of the EBRD's strategic objectives
  - Every project screened for environmental and social impact
  - Environmental monitoring throughout project life cycle
  - Strong engagement with civil society organisations

EBRD has been engaged in sustainable energy finance since its establishment and set some firsts:

- EBRD was amongst the first multilateral development banks with a dedicated pool of technical experts in-house in an energy efficiency team
- In 2009 EBRD became the first and so far only multilateral development bank to set itself a carbon emission target

EBRD's early engagement can be seen in the context of its countries of operations which have been characterised by:

- High share of heavy industry
- Dilapidated infrastructure
- High energy intensity
- A lack of market-based pricing for energy

## EBRD's Sustainable Energy Initiative (SEI)

The SEI was created in 2006 to:

- address the twin challenges of climate change and energy efficiency
- mainstream energy efficiency and climate change aspects into all EBRD operations across all sectors
- help finance the efficient use of energy in the region of operations
- Scale up sustainable energy finance in the EBRD Region



Industrial energy efficiency



Sustainable Energy Financing Facilities (SEFFs)



Power sector energy efficiency



Renewable energy

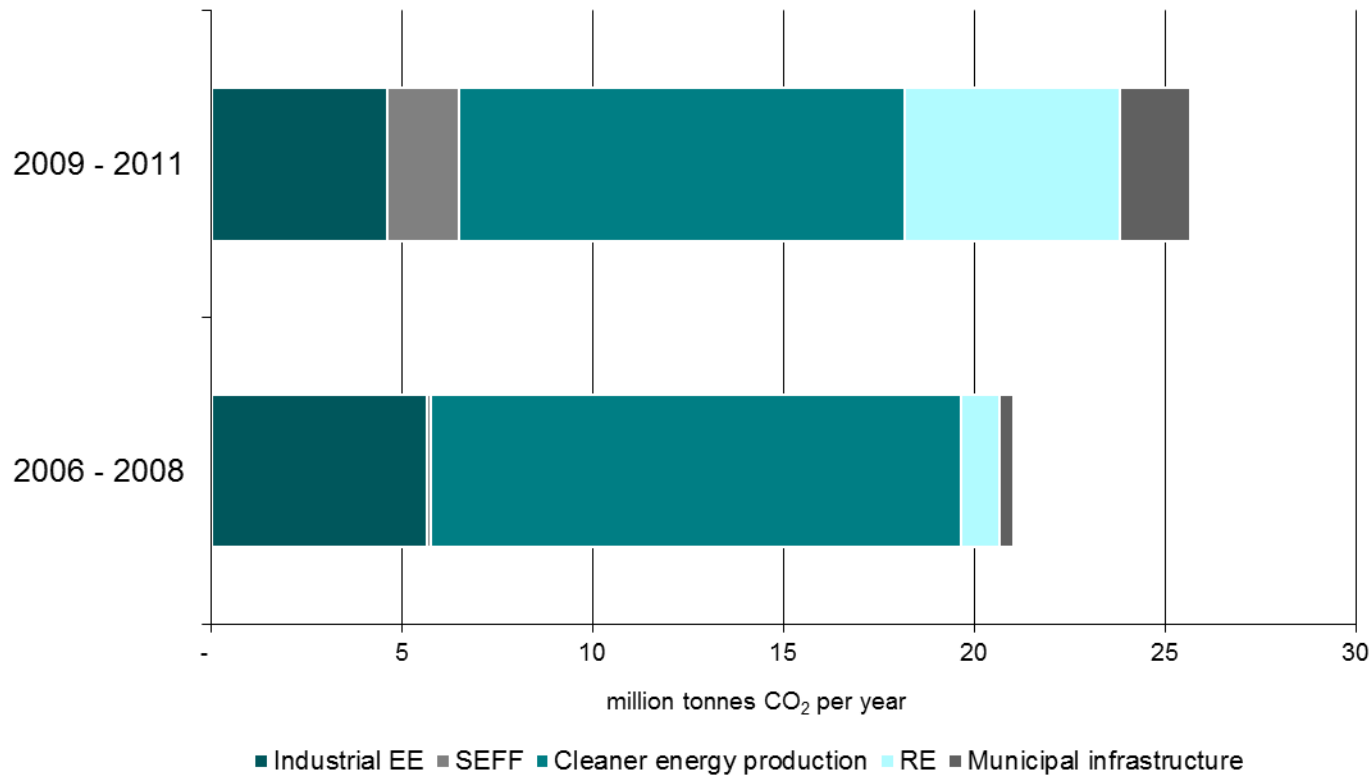


Municipal infrastructure energy efficiency

SEI activities also include climate change adaptation, carbon market development and sustainable energy policy dialogue

# SEI track record and mainstreaming CO<sub>2</sub> emissions avoided by sector

Estimated CO<sub>2</sub> emission reduction resulting from SEI



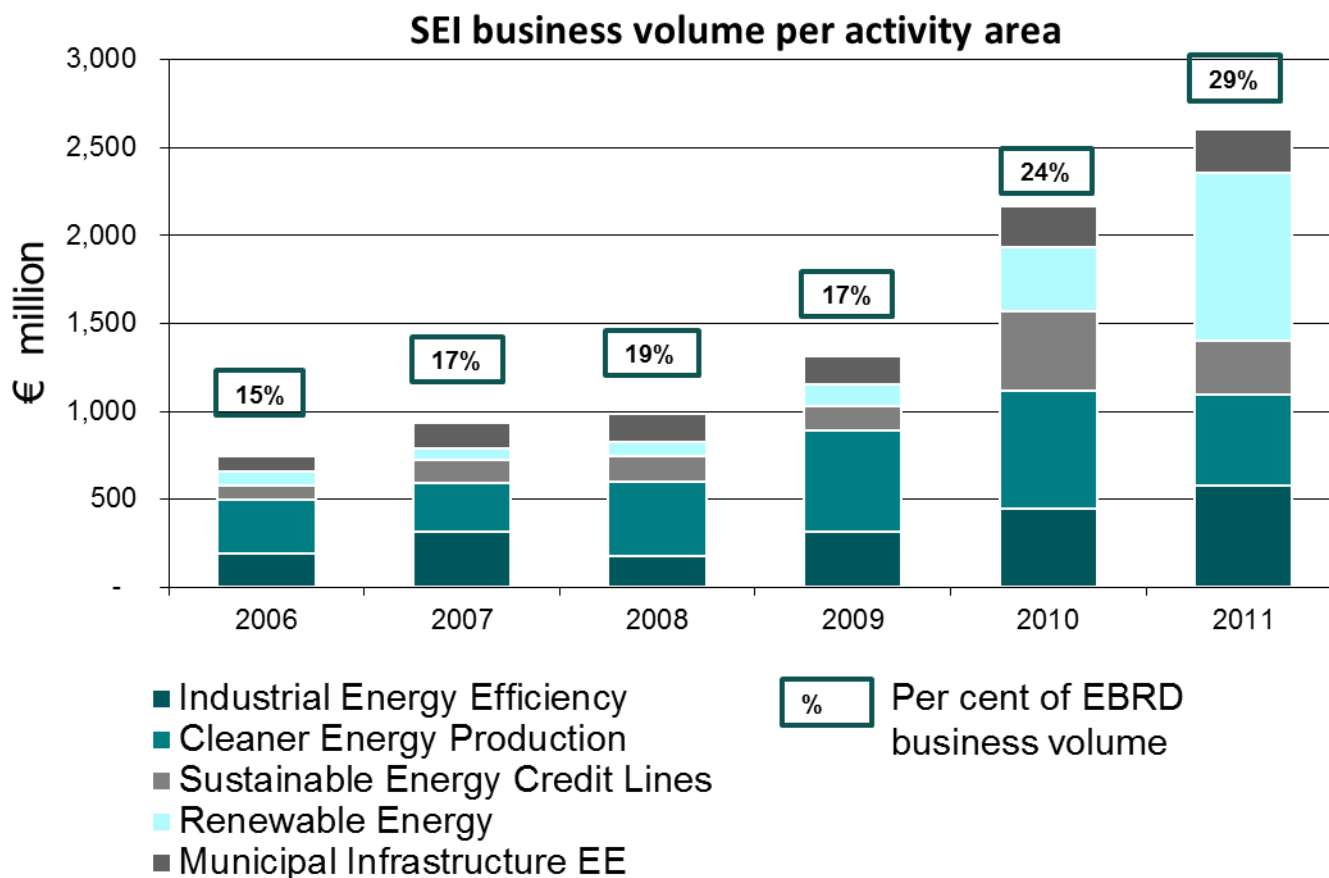
SEI investments from 2009 to 2011 delivered emissions reductions equivalent to the combined 2009 emissions of Croatia and Georgia

# SEI track record

## SEI business areas



European Bank  
for Reconstruction and Development



The majority of SEI activity has been in the private sector. Between 2006 and 2011 SEI private sector financing reached 5.4 billion accounting for 62% of total EBRD SEI financing.

- EBRD SEI financing has risen significantly over 6 years reflecting its scaling-up objectives
- SEI financing accounted for close to 30% of EBRD ABV in 2011
- Cumulative EBRD SEI financing reached €8.8 billion for the period 2006-2011 for 464 projects with a total project value of €46 billion

SEI is driven by:

## 1. Skills:

- Banking (sound banking, innovative finance structures)
- Technical ( EE expertise, innovative technology application)
- Policy (improved regulations, work with donors)

## 2. Support:

- Grants
- Concessional co-financing
- Technical assistance
- Policy improvements

