



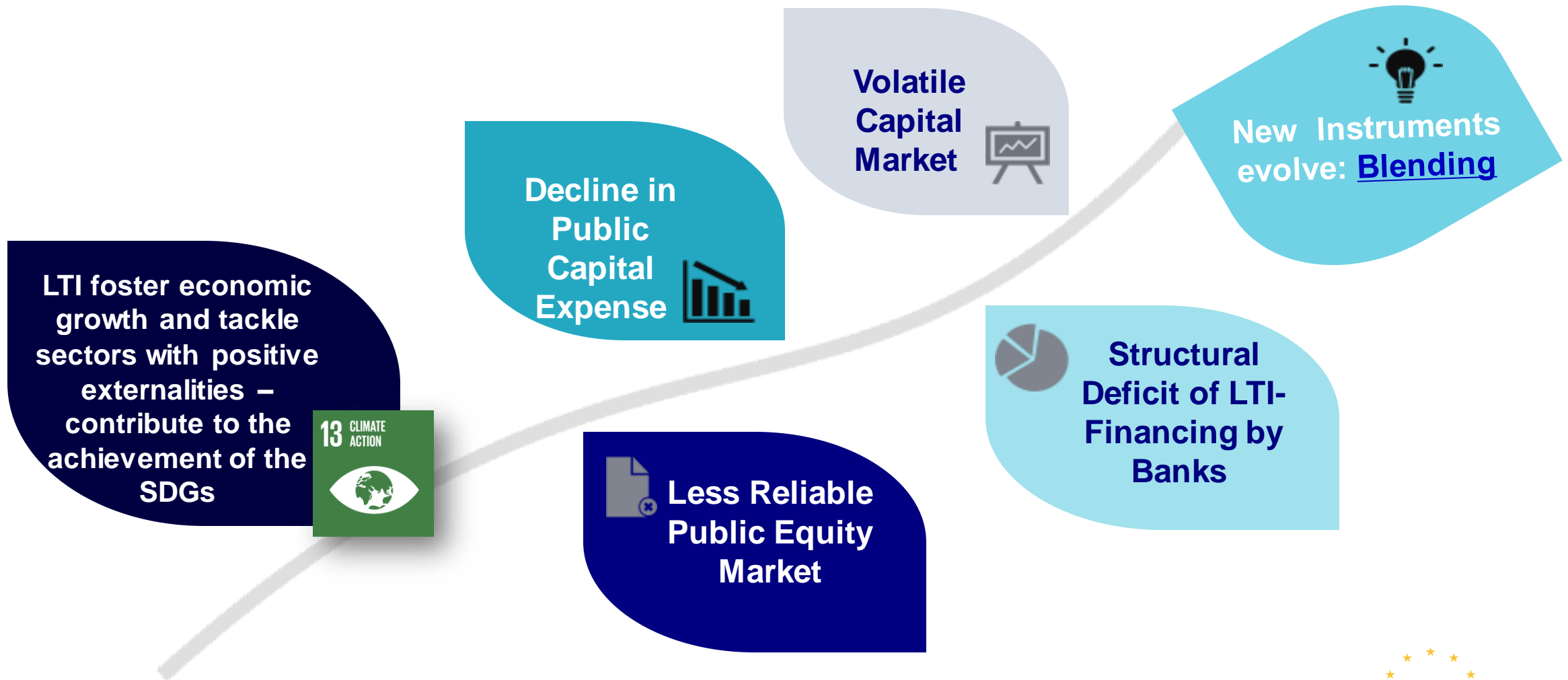
Long Term Investments and the EIB Blending Mechanisms



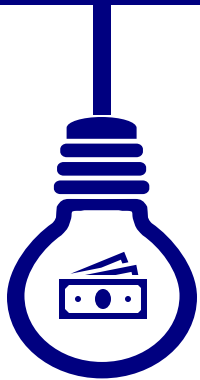
Agenda

- 01** **Changed Circumstances**
- 02** **Blending**
- 03** **PF4EE – Presenting the Instrument**
- 04** **Synopsis of PF4EE-Projects**
- 05** **Case Discussion**
- 06** **Conclusion & Recommendations**

Changed Circumstances of LTI in the EU



Traditional LTI Products of the EIB



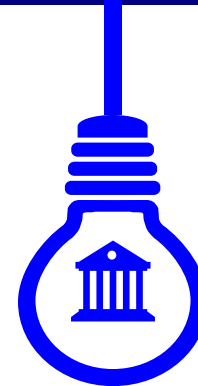
Loans

- Project or program needs to be **aligned** with one or more **EIB-priorities**
- **Large/framework loans to public sector**
- **Loans to private entities**
- **Intermediated loans for SMEs, mid-caps & others**
- LT loans with attractive pricing



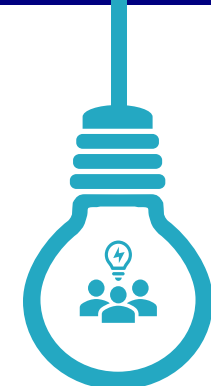
Equity

- (Co-)investing **focused** on **infrastructure, environment, or SMEs** and **mid-size** corporations
- **Direct quasi-equity** financing to support innovative companies
- **Investments in equity and debt** funds focused on
- **Climate action & infrastructure**
- Private sector development and/or pursuing social impact goals



Guarantees

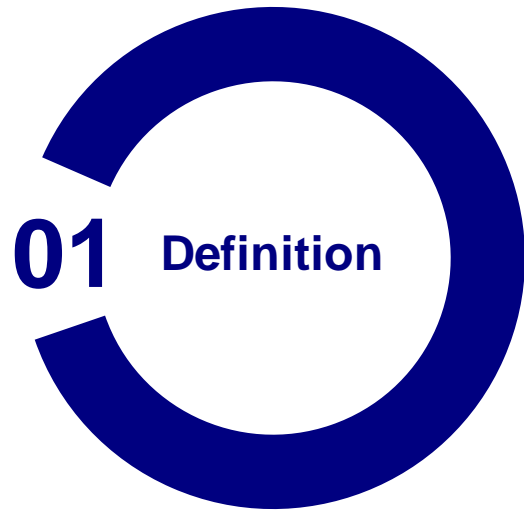
- Positive **signalling effect**, **mitigating** the **risk** for investors and have **flexible** tenures
- **Credit enhancement** in form of subordinated financing, funded or unfunded guarantees and contingent credit lines → **improve the credit quality/rating** of the senior debt.
- **Unlock additional finance** for SMEs/ mid-caps by **covering** a portion of **possible losses** from a portfolio



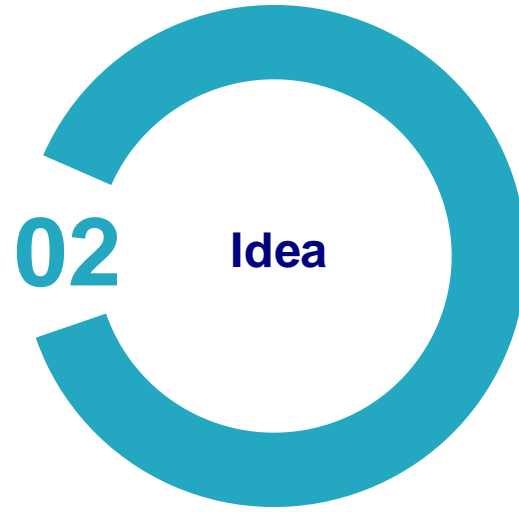
Advisory

- **Embrace** all stages of the project cycle and beyond
- **Supports** the public sector in delivering **better PPPs**
 - Sharing **good practices**,
 - Assisting **policy development**
 - Supporting PPP project **preparation**

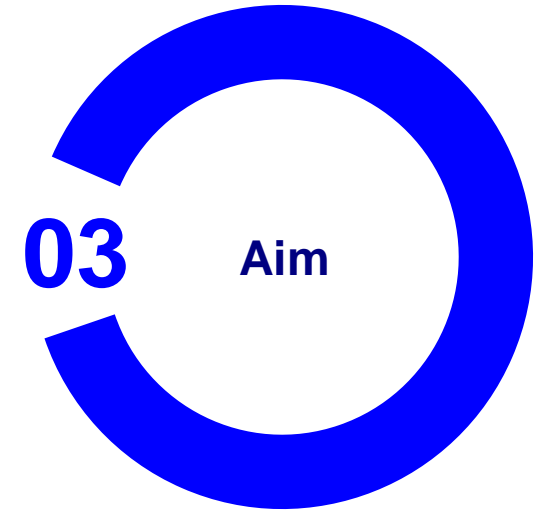
Blending



Blending is the **strategic use** of a **limited public funds** to **mobilize** financing from partner financial institutions and the private sector, to **enhance** the development **impact** of **investment** projects (EIB 2019)



Enhance **donor coordination**, **accelerate access** to financing including for large-scale and multi-objective projects and achieve a **high leverage effect**



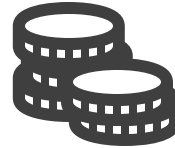
Increase **projects' development impact** and **sustainability**, **SDGs** and support reforms in line with EU and partner country policies

Evaluating the effectiveness



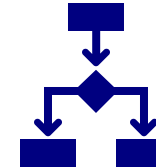
01 Economic criteria

- Might **evince** other lenders
- Give advantages to particular projects that get a better access to liquidities – **distort the market**
- **Race to the bottom** among development finance institutions and donors



02 Operational criteria

- Donors could **lose control of the usage of capital** when pooled together
- **Coordination issues** → longer decision-making and ultimately potential delay & greater costs
- **Motivation** as uncertain factor
- Failed implementation due to **diverse legislative frameworks and socio-cultural structures**



03 Financial criteria

- Potential **transparency issues** → possible wrong allocation of funds
- **Risk of imprudence** can lead to insufficient risk provision



Objectives



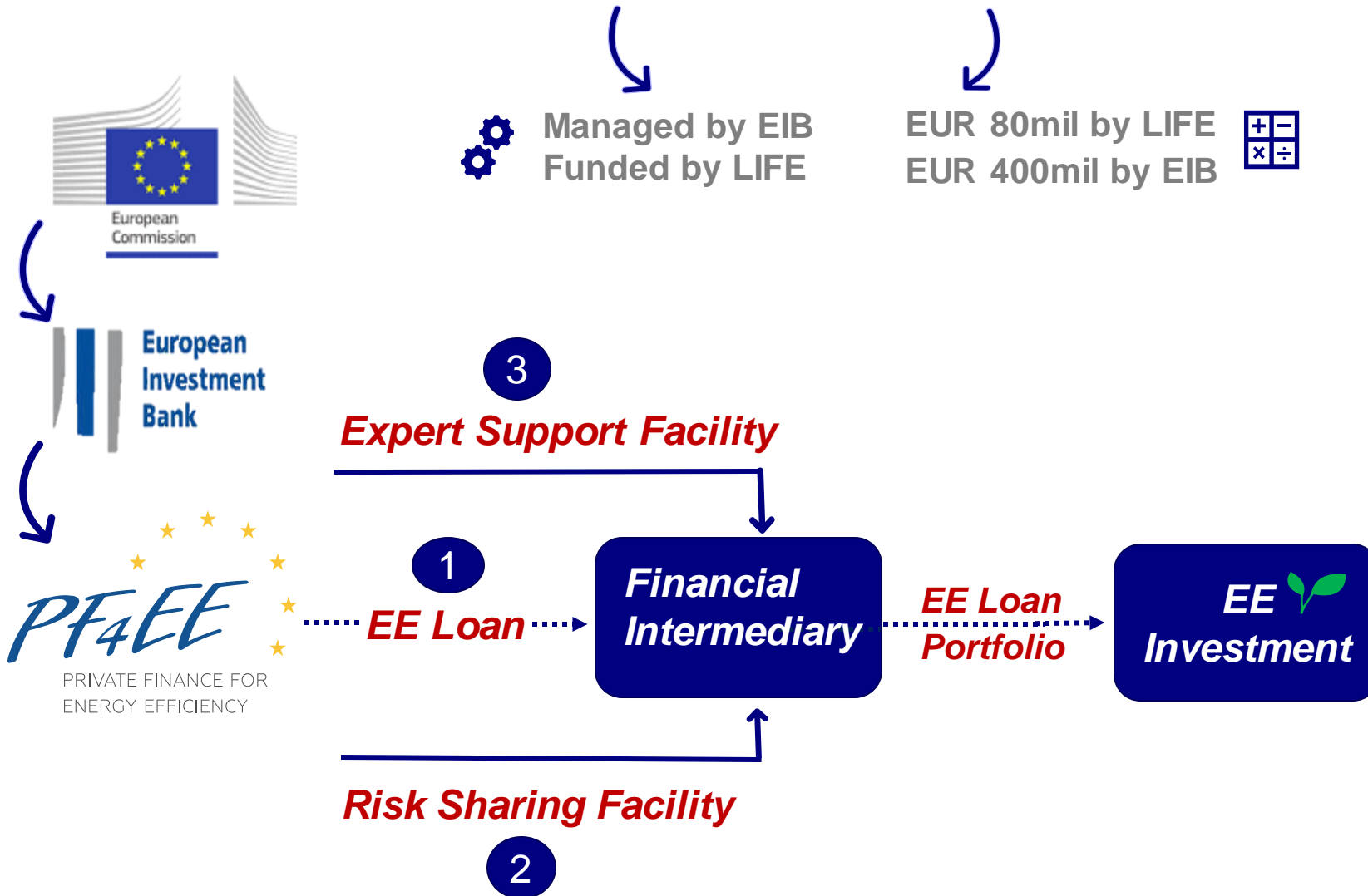
Increase availability of debt financing to eligible energy efficiency investments

Make energy efficiency lending a more sustainable activity within European financial institutions

The



Instrument



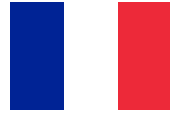
PF4EE Components:

- 1 A **loan to the Financial Intermediary** to be reassigned for financing of energy efficiency investments
- 2 **Risk Sharing facility**, which covers losses incurred in the portfolio of EE loans granted by the financial intermediary
- 3 Consultancy services aiming at **supporting the FI** to create the EE loan portfolio

Synopsis of



projects



Partner bank



Context

- Strong Service Sector
- GDP: 2.3%

- Large GDP decline after 2008
- Growth for the first time due to EU loans

- 10 years of volatile GDP rates
- Service, manufacturing, innovation

- Stagnation
- Dependent on Service & manufacturing

- 6 years of recession
- Increased exports, tourism, demand

- Economic growth has weakened
- GDP: 1.5%

- In an economic recovery

- Economic recovery remains fragile
- GDP: 1.6%

Purpose of the Product

- Mainly Photovoltaic projects for self-consumption

- Small scale investments to achieve energy savings

- Interior heating and electric systems

- Energy efficiency improvements in several areas

- Reduce Energy Bills

- Interior heating and electric systems, efficient machines

- Interior and building heating and electric systems

- Buildings
- Industrial processes
- Production facilities

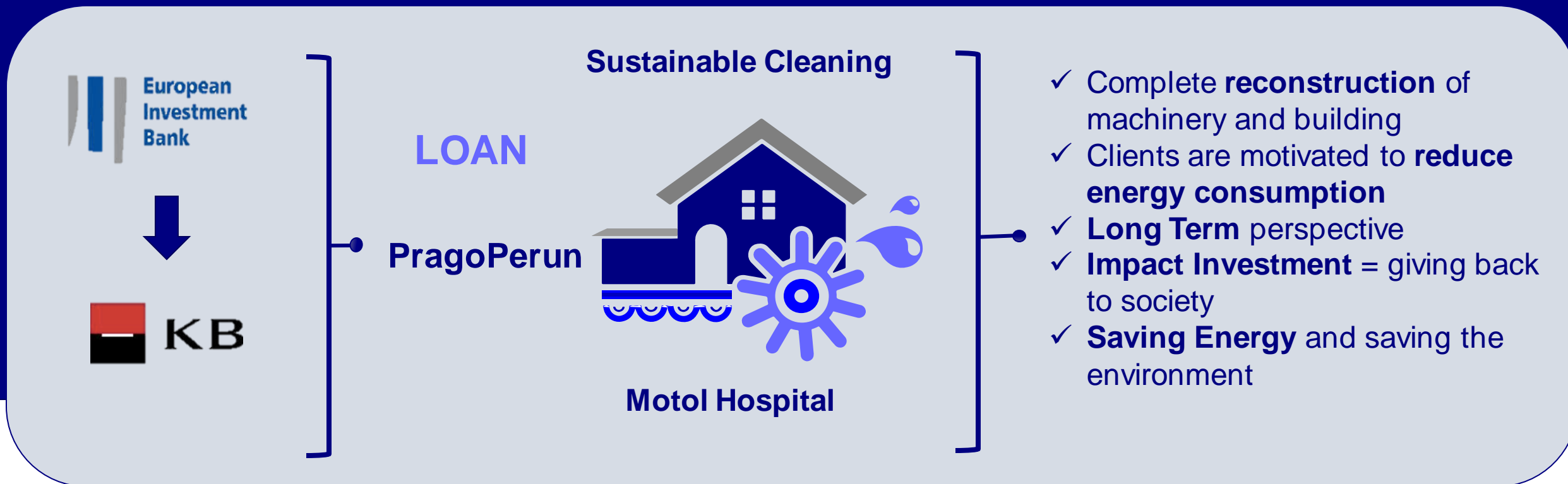
Published products



PragoPerun



- Company PragoPerun in the Czech Republic obtained a **PF4EE loan** in 2015 for energy efficient **laundry machines**



Le Rizomm



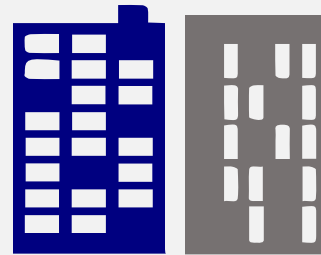
- The **first PF4EE loan** in France helped finance the renovation of the Le Rizomm building, an experimental building at the Catholic University of Lille.
- Reduction of **Green House Gas emissions**



LOAN

« Agir pour l'efficacité énergétique »

Le Rizomm



Catholic University of Lille

- ✓ **Electrical, heating and air treatment systems**
- ✓ 1200m² photovoltaic power plant
- ✓ Dynamic technical **building management**
- ✓ Producer, self-consumer, **supply** electric vehicles and share energy
- ✓ **Innovative** pedagogy on sustainability

Analysis of Blending and of

Strategic Relevance

- ✓ Blending allows the EU to do 'more with less' in terms of development
- ✓ EU can engage even more broadly with a greater strategic advantage
- ✓ Specifically targeting EE, crowding in investments in such a risky field



Results

- ✓ Projects like PragoPerun and Rizomm achieved targets and outputs bring value to beneficiaries

Visibility

- ❑ Products mainly advertised in national outlets
- ❑ Difficult to find information
- ❑ Only some explained in detail in the EIB data base

NPB and FI

- ❑ Framework of the mechanism not evenly applied in all countries
- ❑ ESCO body as EE Experts not present in every country
- ❑ Not every project is promoted through EIB

Added Value

- ✓ Supporting private sector development
- ✓ Ensuring high quality and punctuality of projects
- ✓ Setting an example that assures continual improvement
- ✓ No room for political manipulation

Environment

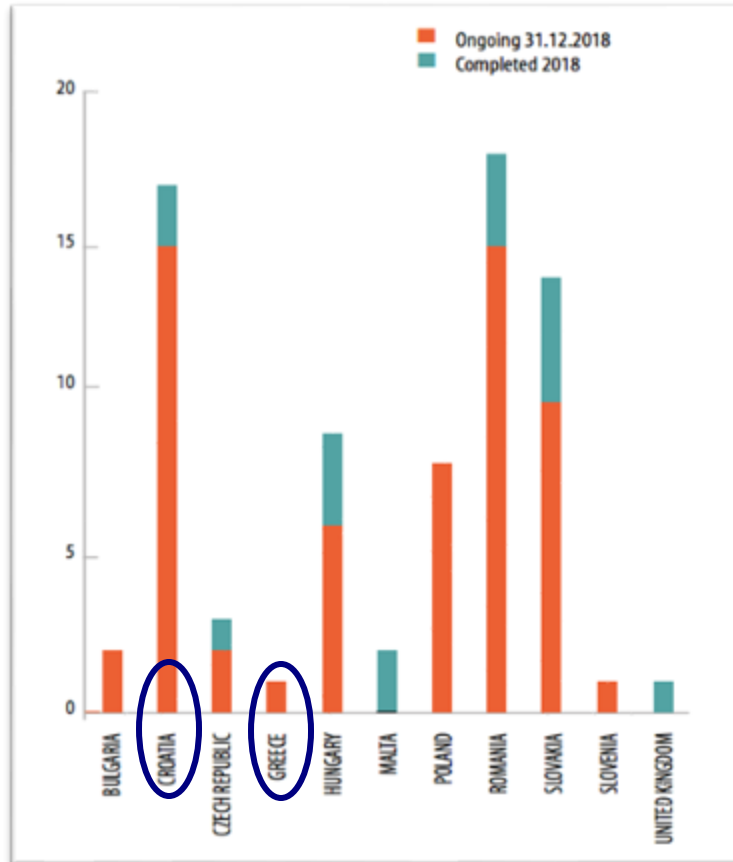
- ❑ Regulatory Framework
- ❑ Sustainability and EE awareness
- ❑ Political, Economic and Executional Risks in addition to moral hazard



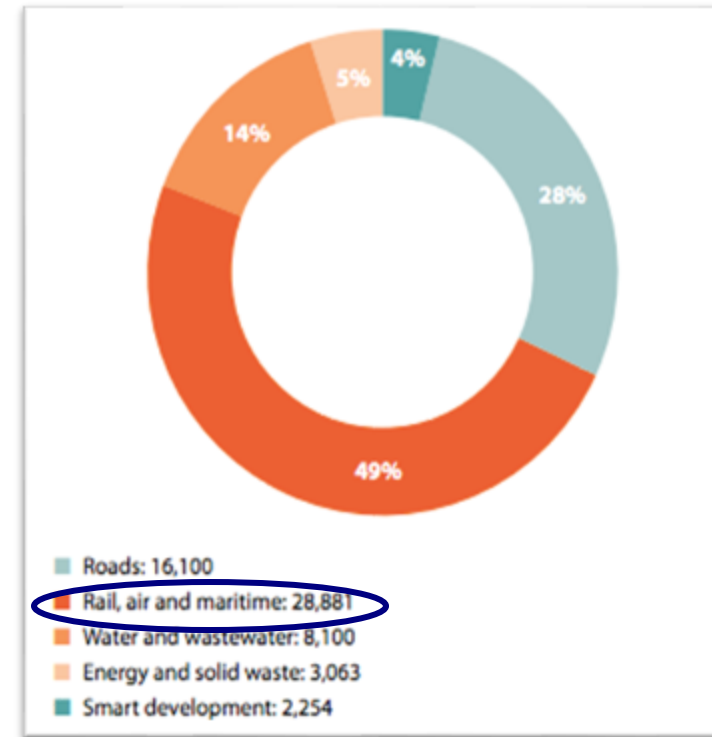
A Closer Look



Besides the ESCO bodies created by the financial intermediari, the Jaspers network is available to clients for help in tems of project development



JASPERS PORTFOLIO IN THE ENERGY AND SOLID WASTE SECTOR 2018



JASPERS PROJECT INVESTMENT PORTFOLIO

Recommendations

EIB as a primary promotor

Using the power that the EIB has as EU's promotional bank, will not only increase visibility but also serve as a great financial trigger and ensure national interest

Quarterly Review Reports

Increasing the visibility of the mechanism is essential in order to be able to evaluate its functioning

Encouraging smaller economies

As the most successful projects were found in countries that are larger and have stronger FIs, the EIB could intensify its presence in 'weaker' economies in order to trigger participation

Ex-Ante Environment Assessment

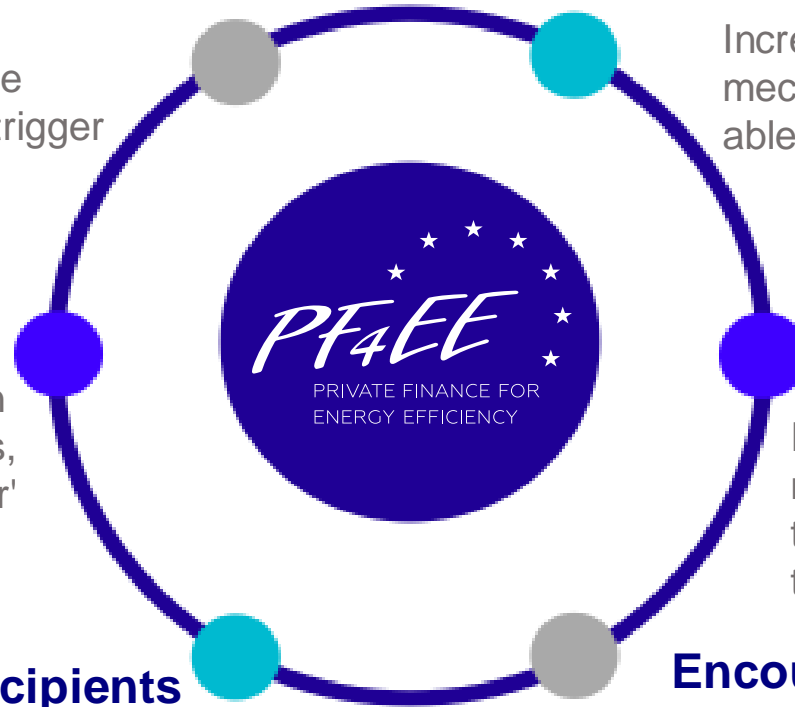
Political risks are major challenges to any blending mechanism, a thorough ex-ante analysis may help the EIB to find the most optimal way to implement the mechanism

Yearly Review Reports by Final Recipients

As these mechanisms are mainly tailored to suit the FRs, it is important to understand possible challenges that they are facing to evaluate it

Encouraging Cooperation amongst FIs

This could help FIs exchange experiences and provide an efficient and cost-effective way to strengthen PF4EE



Thank You for Your Attention!

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12/04/2019


Questions?



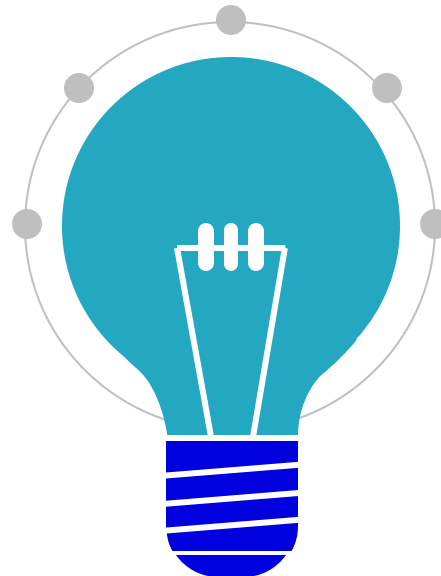


Appendix

Reality Check

Expectations of Blending

- Blending as a **more effective** and **efficient** approach than grants or loans
- **Better contribution** to boost heavily indebted countries and **assure debt sustainability** than solely providing grants or loans
- Assures the financing of projects with **significant positive externalities** & accounts for negative externalities
- Demands a **detailed timeline** of projects, **enhancing project quality, coordination** between donors and lenders and providing financial leverage through **risk mitigation**



EIB-Experiences with Blending

- Enabled EU to engage more broadly, regarding countries and projects
- **Addressed** special project-level **challenges**, blocking action on important projects
- **Instrument did not reach full strategic potential**
- **Trend: only engage with countries that have the fiscal space** to take additional loans
- **Added value** in **widening access** to loan finance & **reducing financial barriers** for SMEs
- **Supporting** private sector development **mainly within the finance sector**

