

Supporting Romania's National Energy and Climate Plan (NECP)

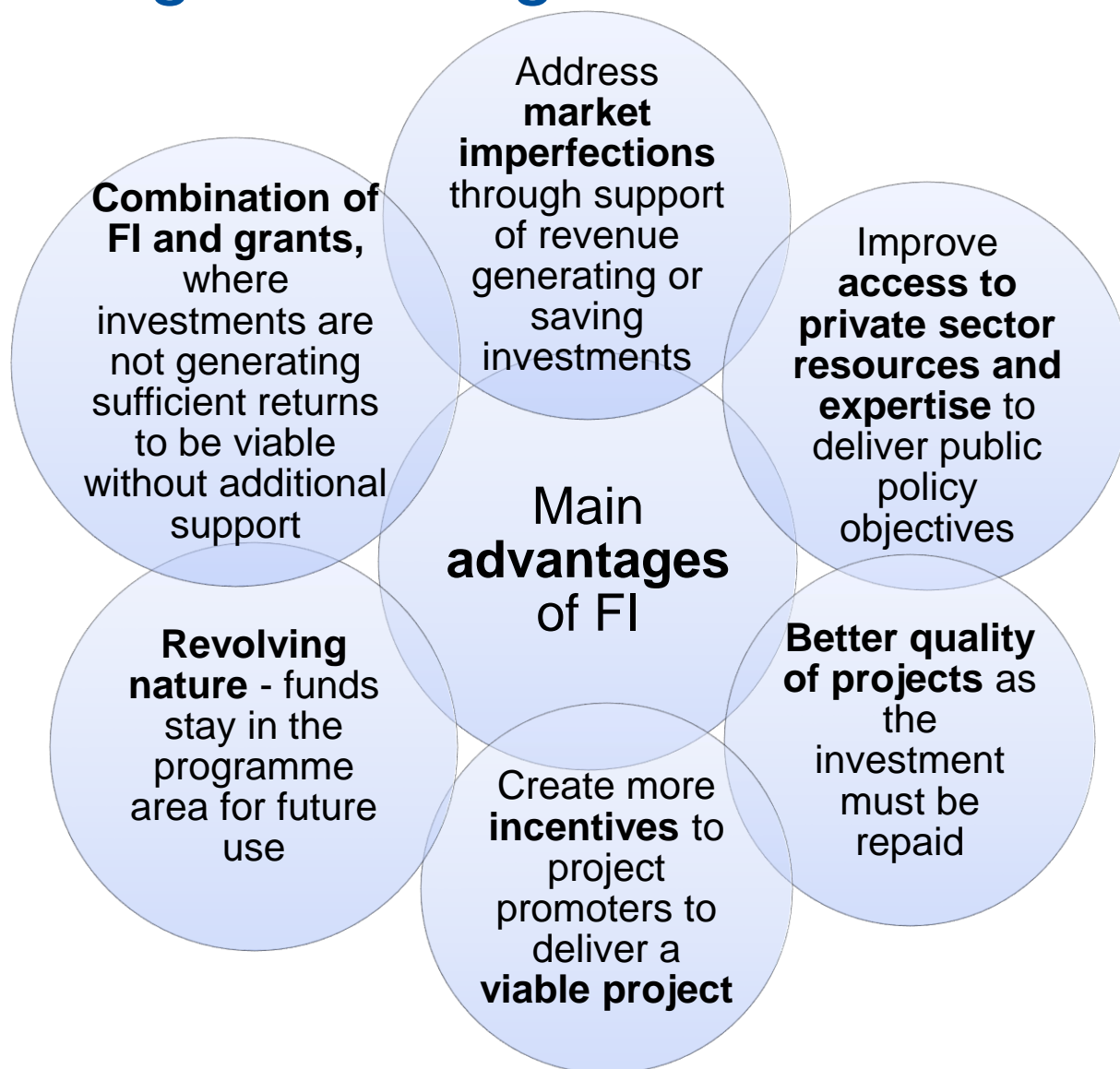
Financing Energy Efficiency with Financial Instruments

Energy Financing Workshop – Romania

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Why using Financing Instruments?



Potential for Financial Instruments in Romania

Market needs

- For energy efficiency and small scale renewables in buildings - an investment need of EUR 12.7bn is estimated over the 2021-2030 period (circa EUR 1.3bn per year). Most of it in the residential sector
- Romania is relying heavily on EU support to support EE investments. Support is provided exclusively in form of grants

Potential for financial instruments

- The World Bank recommends in the draft Long Term Renovation Strategy the use of **financial instruments and ESCOs** for the 2021-2027 period. Potentially with the resources of **EU Structural Funds**
- FIs could cover the **residential sector** using the opportunities of FI and grant combination (up to 50% grant rate, higher for poor households)
- Delivery through **simple and scalable mechanisms**, such as basing on the experience of the **SME Initiative**
- **Technical assistance** such as project development services (e.g. ELENA) and building capacity in MA, regional entities and financial intermediaries

Residential sector

Modernisation loans

based on experience on JESSICA fund in Lithuania

https://www.fi-compass.eu/sites/default/files/publications/25062018-brussels-d2-Junona-Bumelyte_0.pdf

Starting Point

- Need for modernisation and energy efficiency investments in residential housing
- Significant potential for energy savings and improvement of climate through change of heating system and insulation for privately-owned houses
- Generation of renewable energy as an option (photovoltaic, geothermal energy, etc.)
- High investment cost and long pay-back period (partially) through energy savings
- Possible need to add investment subsidies, due to low energy prices, necessary structural works on building and energy poverty

Key challenges

- Unsecured lending as no mortgages are available
- Wide range of credit qualities including potential borrowers, who maybe less “bankable”
- Internal commercial bank rules may exclude certain individuals from borrowing based on their credit standing even if expected loss of the aggregate at portfolio level would be acceptable

Modernisation Loans

- Focus on individual households and private borrowers
- Eliminates the need for loan security (e.g. mortgage)
- Lowers the financing costs for the borrower
- Enables commercial banks to create and market subsidised products
- Allows to target specific needs and requirements of the banking sector
- Flexible support to the banking sector through:
 - Guarantees – First-loss Portfolio Guarantee Instrument
 - Loans – Leveraged Fund

First-loss Portfolio Guarantee Instrument

- **Structure**

- Public funds are used to cover credit risk of bank lending to private individuals for eligible projects
- Only the riskiest part of the credit risk is covered
- EIB acts as Guarantee Provider to banks

- **Main Advantages**

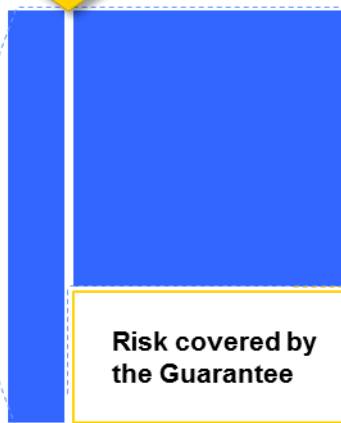
- Lowering the banks' credit risk and thus widening the market
- Lowering the offered interest rates
- Enabling banks to generate new business supporting green investments
- Leverage of public funds
- Possibility to combine with grants

First-loss Portfolio Guarantee Instrument

Guarantee Rate
on a loan by loan basis

80%

Risk retained
by the
Financial
Institution



Pre-fixed
cap Rate:
25%

Risk covered by
the Guarantee

- Major step towards the pursuit of leveraging private sector investment to meet the vast investment needs
- Direct, irrevocable and unconditional first demand EIB guarantee
- **80%** risk coverage on a loan by loan basis
- Losses are capped at portfolio level at **25%** - prefixed
- **Leverage of 5x**

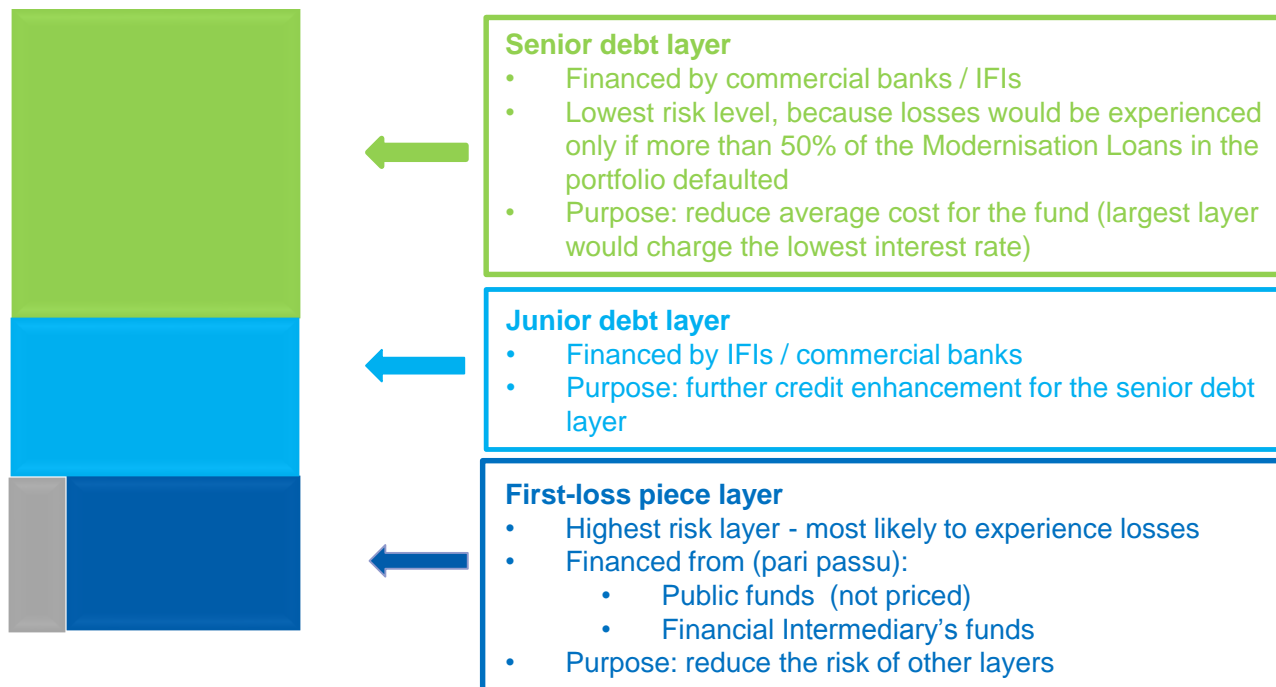
Leveraged Fund – next step

Challenges in the market

- Need to attract private sector financing to meet the demand;
- Banks with available funds find administration of Modernisation Loans too burdensome;
- Banks with capacity to administrate the Modernisation Loans lack sufficient funds to achieve required leverage effect.

Solution with Investment Platform

- One Financial Intermediary with capacity to on lend third party funds via Modernisation Loans;
- EU Structural Funds and Financial Intermediary's own funds – First-loss piece layer;
- Banks without capacity to administrate Modernisation Loans to participate as senior or junior lenders.



SME sector

Integrating energy efficiency in SME instrument

Challenge and opportunities in SMEs

- Challenges to EE investment in enterprises
 - Business decisions are taken with short investment horizons, typically 3-5 years. Comprehensive energy efficiency measures cannot repay in this period
 - EE measures are often part of broader changes of business operation
 - Financial intermediaries perceive EE investments as high risk
 - Difficulties for SMEs to assess the benefits of EE measures
- Opportunities for a Financial Instrument for EE in SMEs
 - Integrating energy efficiency and small scale renewable investment in mainstream SME financial instrument
 - Providing additional financial incentives for impact investments
 - Providing technical assistance to SMEs

Case study: Biznesmax Guarantee

- Guarantee instrument provided by BGK (Polish Development Bank) with resources of the OP Smart Growth
- 16 commercial and cooperative banks are participating
- The guarantee available is EUR 325m of which 87% is provided by ERDF
- Expected amount of bank lending mobilised EUR 654m
- The guarantee is combined with EUR 82m interest rate subsidies
- Guarantees are provided for investments by SMEs into **innovation**
- or investments by SMEs into circular economy, **energy efficiency (equipment and buildings), renewable energy** or e-mobility



Financial product

- Guarantee covers 80% of underlying loans, up to EUR 2.5m
- Tenure up to 20 years, including a grace period
- No guarantee fees
- **Interest rate subsidy** over 3 years of up to 5% are reimbursed, if project is implemented according to business plan
- The guarantee and interest rate subsidy are provided under de-minimis or GBER (regional aid)
- Eligible expenditure includes project preparation cost, working capital and VAT



ELENA support for SMEs in Poland

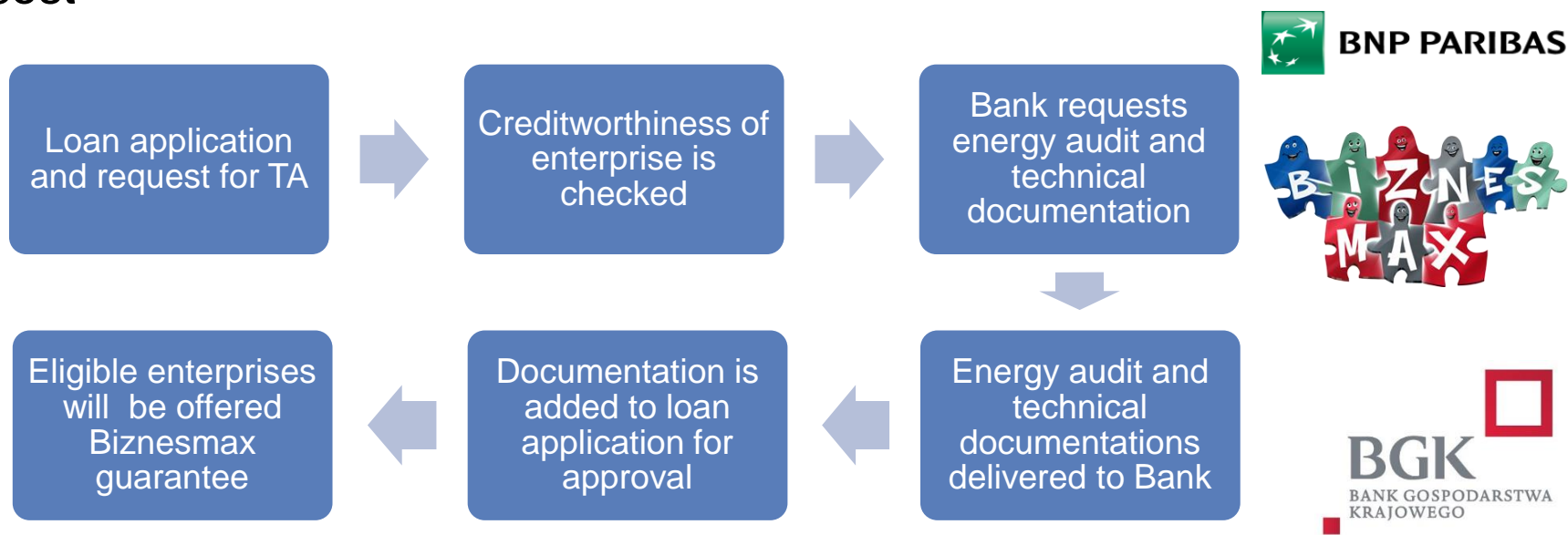


BNP PARIBAS

- BNP Paribas has set up the Energy Efficiency Financial Facility for Commercial Buildings (EEFFCB) with support from ELENA
- The facility provides **technical assistance** such as energy audits, energy expertise and other technical documentation and advisory services
- BNP Paribas in Poland has contracted local energy consultants and build up an internal team of energy experts
- The scope of investments supported:
 - Thermal insulation of building envelope
 - Modernisation of lighting systems, ventilation, air conditioning, etc,
 - Modernisation of heating systems
 - Installation of renewable energy installations integrated in the buildings
 - Other energy efficiency related investments related to the buildings

ELENA plus Biznesmax

- BNP Paribas expects to mobilise investment of EUR 90m through ELENA
- ELENA support EUR 3.37m, covering up to 90% of project preparation cost



Opportunities in the 2021-2026 programming period

Improved regulatory framework

Combination of financial instruments and grants

Grant is directly linked & necessary

Grant is part of the funding agreement & is provided by the body implementing the FI



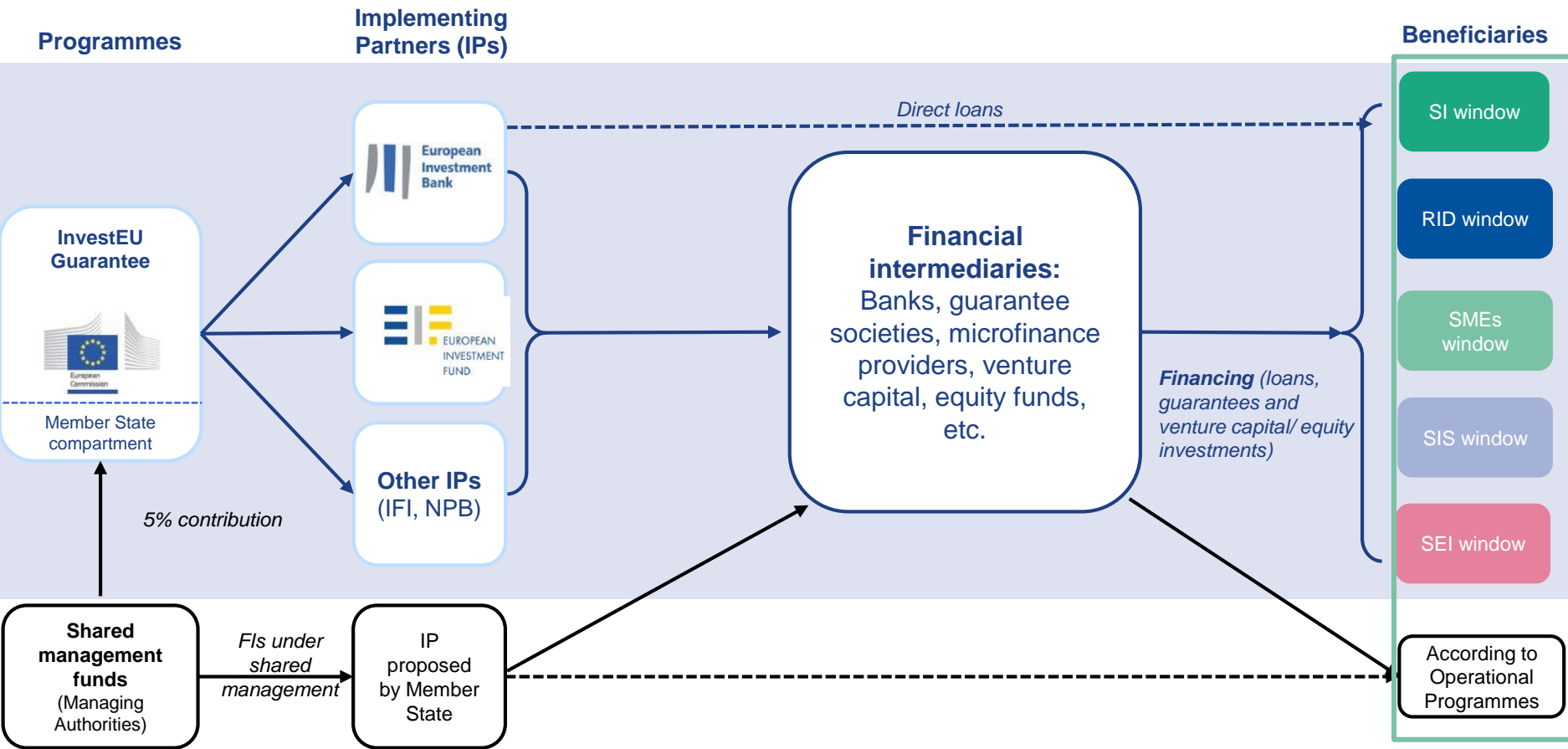
Grant has a lower value than the investments supported by the FI product

Examples: capital rebates, investment grants, interest rate & guarantee fees subsidies, etc.

Invest EU

- InvestEU is replacing existing centrally managed EU financial instruments (e.g. InnovFin, COSME)
- InvestEU is an EU budget guarantee to implementing partners, e.g. EIB, EIF
- Five policy windows
 - Sustainable Infrastructure Window, including energy efficiency
 - Research Innovation and Digitisation
 - SMEs
 - Social widow
 - Strategic European Investment (Covid19-crisis response)
- Member States can contribute to InvestEU with ESIF allocations to a ringfenced **member state compartment**

Overall set up of the InvestEU programme



Advisory support to financial instruments

How EIB can help setting up financial instruments?

EIB advisory for financial instruments

- Awareness raising and knowledge transfer on financial instruments
- Market studies, development of investment strategy
- Support for market development, for example for the ESCO market
- Support to financial intermediaries for energy efficiency lending
- Project development assistance

You can access EIB support via the **Advisory Hub**

A **single access point** to a comprehensive offer of advisory and technical assistance services



A **cooperation platform** to leverage and exchange expertise from Advisory Hub partners



An instrument to assess and **address unmet needs** for advisory support



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Questions & Answers