# 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.

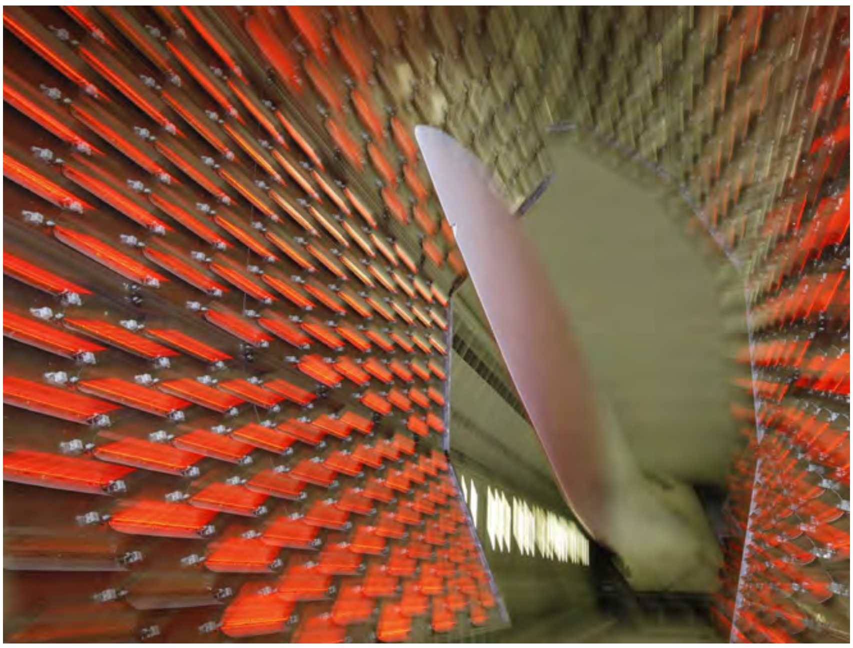
Covering market gaps, most of these products help to overcome risk barriers by supporting projects that are financially viable in terms of revenue-generating capacity, but are not necessarily bankable (i.e. they face difficulties in attracting finance from the market).

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.

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

## 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.



## Equity funds

The EIB recognises that both debt and equity are needed to get projects off the ground. Equity funds allow the EIB to provide indirect equity or target projects that would otherwise be too small to benefit from its lending activities. They also enable investment into new asset classes to gain experience and to potentially mainstream these into the core EIB business at a later stage. Investments in equity funds are an efficient use of EIB capital because they have a catalytic effect. An EIB investment typically provides a "seal of approval" and thus helps the manager to raise additional public and private capital.

To date, EIB has invested more than EUR 600m in 22 climate-related infrastructure funds in a diverse range of sectors including renewable energy, energy efficiency, forestry, land decontamination and biodiversity. The total commitment to these funds is close to EUR 5bn. This represents a catalytic effect for the EIB investment of 6.2x. The multiplier effect, which is the ratio of total investment supported at final project level to the EIB's commitment, is 20.5x or more than EUR 12.4bn.


### Eco-Enterprises II

A pioneering investment tool, Eco-Enterprises II biodiversity fund deploys expansion capital otherwise unavailable to growth-stage sustainable ventures in unique business niches such as organic agriculture, non-timber forest products, sustainable forestry, or ecotourism. Instruments used include quasi-equity, structured royalty streams and warrants, convertible notes and long-term debt financing. We committed USD 6m to this fund, which focuses on Latin America – home to some of the world's most biodiversity-rich regions.

### Dasos Timberland II

This fund targets sustainable forestry and biomass investments, mainly in Europe. It is a timberland portfolio that is well diversified in terms of geography, age, wood fibre and end use. The total size of the fund is EUR 300m, to which the EIB is contributing EUR 30m. We add value by improving sustainable forest management and certification as well as exploiting identified market inefficiencies and benefitting from the delivery of ecosystem services.

### Glennmont Clean Energy Fund II

Managed by Glennmont, which is a spin-off of BNP Paribas, this renewable energy fund aims to make around 15 investments, primarily in the onshore wind, solar, biomass and small hydro sectors in Europe. We committed EUR 50m to this fund targeting a total of EUR 450m in commitments. Our investment took the fund to EUR 250m in size, and supported the establishment of a new investment house dedicated to renewable energy investment.

## Althelia Climate Fund

Althelia Climate Fund invests in projects that promote sustainable land use by reducing deforestation and protecting biodiversity. In recognition of its innovative approach to conserving threatened landscapes, Althelia has won the Environmental Finance Award for Sustainable Forestry Deal of the Year. Our EUR 25m investment in the Althelia Climate Fund will help to mobilise EUR 150m in total private equity investments in Africa, Asia and Latin America. Althelia is also supported by a 50% loss guarantee from the US Agency for International Development offering country risk coverage for up to USD 133m of the portfolio. This will help remove 100 million tonnes of carbon - the equivalent of 18.5 million cars - from our atmosphere.

### National Reserve of Tambopata and the National Park of Bahuaja-Sonene, Peru

The Althelia Climate Fund has invested in Madre de Dios, Peru, to finance the long-term conservation of 570,000 hectares of natural forests in the National Reserve of Tambopata and the National Park of Bahuaja-Sonene, 'biodiversity hotspots' of Peru. At full scale, at least 3,200 tonnes per annum of certified zero-deforestation organic and fair-trade cocoa will be produced, thereby helping to improve the livelihoods of 1,100 small farmers and their families. This project will also result in avoiding the emission of 4 million tonnes of carbon over the seven-year investment period.

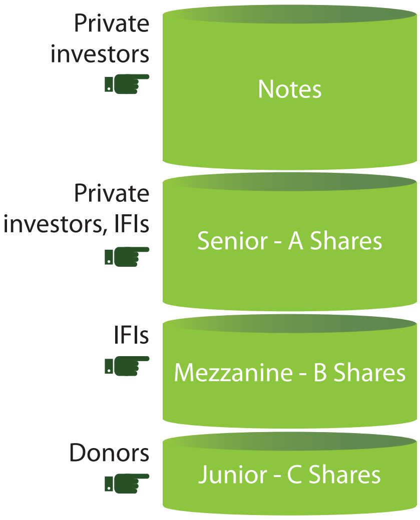
## Global Energy Efficiency and Renewable Energy Fund (GEEREF)

Advised by the EIB Group, this fund-of-funds was launched in 2008 with funding totalling EUR 112m from the European Union, Germany and Norway. In 2013 GEEREF welcomed its first private sector investors and by the end of 2014 it had reached a fund size of almost EUR 200m, thereby leveraging the initial public sector seed contributions. GEEREF aims to anchor new private equity funds focusing on renewable energy and energy efficiency projects in emerging markets and economies in transition (Africa, Caribbean and Pacific regions, non-EU Eastern Europe, Latin America and Asia). As of the end of 2014, GEEREF had invested in seven funds, aiming for a triple bottom line: people, planet and profit. GEEREF aims to invest in a total of up to 14 funds, mobilising private sector risk capital and further achieving a highly catalytic effect.

## Layered-risk funds

Layered-risk funds are a special form of equity fund that allow the issuance of different tranches of capital in the form of shares and notes to offer investors different risk-return profiles in a type of public private partnership. Typically, the EIB acts as a cornerstone investor and sponsor and structures the fund around public resources targeting a specific policy outcome, such as extending financial coverage to new or underbanked markets, or to demonstrate innovative financial structures. These funds channel finance and, in some cases, technical assistance to transactions that are too small to be handled directly by the EIB.

The capital structure of such an investment vehicle typically rests on the provision of a first-loss piece (termed Junior - C Shares in the figure) by donors. This risk cushion allows the EIB and other public financiers to invest in more senior A or B tranches, bringing the benefits of the EIB's financial strength as an AAA rated bank to achieve economic sustainability and stimulate investment from other sources. Once the asset side of the fund develops, this structure allows the possibility of issuing notes to private investors who remain most senior in the cash waterfall of the fund.




### European Energy Efficiency Fund (EEEF)

In cooperation with the European Commission and managed by Deutsche Bank, EEEF aims to provide market-based financing for viable small-sized energy efficiency and renewable energy projects in the EU. Launched in 2011, EEEF deploys both debt and equity instruments to provide fast and flexible financing to support small and innovative projects with tailored financing solutions. Currently a EUR 265m fund, it intends to grow to EUR 800-900m by attracting public and private investors.

### Global Climate Partnership Fund (GCPF)

The EIB has secured approval to invest in an existing donor-supported debt provider, the GCPF, which can provide long-term liquidity to small local financial intermediaries or co-finance projects alongside them, potentially working to extend the overall tenor of the debt or through a subordinated loan.

Supporting the EU's climate change and environmental policy objectives, this debt fund focuses on financing small-scale energy efficiency and renewable energy investments. The EIB's participation will encourage a focus on sub-Saharan Africa and also contribute to the United Nations Sustainable Energy for All (SE4All) initiative.

### Green for Growth Fund (GGF)

GGF is the first specialised fund to advance energy efficiency and renewable energy in South-Eastern Europe – including Turkey – and Eastern Neighbourhood regions. Initiated by the EIB and KfW Entwicklungsbank, GGF was established to reduce energy consumption and $CO_2$ emissions. With nearly EUR 290m committed by investors, GGF provides refinancing to financial institutions to enhance their participation in the energy efficiency and renewable energy sectors. It also makes direct investments in non-financial institutions which have projects in these areas.

### Jewish Museum in Berlin, Germany

The EEEF is providing upfront financing to an energy service company (ESCO) by purchasing 70% of the energy savings expected to come from the retrofitting of the Jewish Museum. In addition to winning the European Energy Service Initiative's Award for the best European energy efficiency service project, the Jewish Museum project is an EEEF trailblazer in terms of financial structuring, designed to foster ESCO structures in the European market.

## Initiatives

The EIB is involved in a series of innovative climate finance initiatives in collaboration with the European Commission, EU Member States and other international financial institutions both within and outside the EU. These initiatives aim to support new or innovative projects and products or provide risk-sharing/risk-reduction mechanisms to stimulate additional low-carbon project development.

### Debt for Energy Efficiency Projects Green (DEEP Green)

The EIB launched the DEEP Green initiative to complement its existing financing offer for energy efficiency investments in several EU countries. DEEP Green aims at developing a suite of new financial products for four key groups of players in the energy efficiency market: banks, public sector, ESCOs and utilities. Launched in 2014, the first concrete result in cooperation with the European Commission is the Private Finance for Energy Efficiency (PF4EE) scheme, helping local financial intermediaries to support the roll-out of national energy efficiency plans and ultimately to increase lending for energy efficiency projects. By providing long-term low-cost loans, credit risk protection and enhanced lending expertise to local banks, this initiative is expected to unlock at least EUR 500m of dedicated financing to reduce energy bills.

### Natural Capital Funding Facility (NCFF)

Also launched in 2014, NCFF is backed by EUR 125 m, provided by the European Investment Bank and the European Commission. It represents a new and innovative approach to financing projects promoting the restoration, protection and enhancement of natural capital in the EU. As part of the NCFF, the EIB will lend directly to projects or provide credit lines to commercial banks so that they can make loans for eligible projects. In addition, the EIB can take shares in equity funds that invest in natural capital projects. Eligible projects will include nature conservation, green infrastructure, ecosystem services, biodiversity offsets and compensation beyond legal requirements as well as sustainable agriculture, forestry, aquaculture and eco-tourism. This initiative demonstrates the potential for long-term private sector investment in projects currently seen as too challenging to be viable for the private sector on its own. The NCFF will start with a 3 to 4-year pilot phase and is expected to finance between 9 and 12 operations.

### Renewable Energy Performance Platform (REPP)

**In support of the SE4All initiative and alongside the United Nations Environment Programme (UNEP), the EIB has developed REPP to stimulate the bankability of innovative small and medium-scale renewable energy projects in sub-Saharan Africa by helping them to access risk protection and financing products. With REPP, the EIB seeks to mobilise private sector development activity and investment in small/medium-scale projects through improved access to existing risk mitigation instruments, long-term lending and results-based financial support.**

## InnovFin - EU Finance for Innovators

The Risk-Sharing Finance Facility (RSFF) financed some 114 RDI projects to the tune of EUR 11.3bn, catalysing a further EUR 37.2bn in private investment in European innovation. Building on the success of its predecessor, InnovFin is a debt-based instrument which is set to double this and trigger a multiple of investments. Funded by Horizon 2020, it covers the full company lifecycle from SME to large cap, stimulating more investment in research and innovation, notably by the private sector. InnovFin is demand driven and technology neutral with the potential to support low carbon technologies and first-of-a-kind demonstration projects (e.g. renewable energy and smart grid sectors). By 2020, it is expected that the InnovFin products will make available more than EUR 24bn of financing for research and innovation by small, medium-sized and large companies and the promoters of research infrastructures.

### Research programme by Manz AG, Germany

Our EUR 20m loan to high-tech engineering company Manz AG will support R&D in the area of sustainable and cost-efficient power generation. The example of Manz demonstrates that a medium-sized company can be on a par with its international competitors and be a technology leader thanks to stable financing conditions in the long run. Manz's R&D project is supported by InnovFin MidCap Growth Finance.

| SMEs | Midcaps | Large Caps | Advisory |
|---|---|---|---|
| InnovFin SME Guarantee | InnovFin MidCap Guarantee | InnovFin Large Projects | InnovFin Advisory |
| InnovFin SME Venture Capital | InnovFin MidCap Growth Finance | | |

direct products indirect products

## Capital Market Activities

The EIB recognises that, for the economy as a whole, meeting the climate finance challenge requires the mobilisation of long-term capital from various financing sources, including portfolio investors such as asset managers, public sector funds, pension funds, insurance companies and others. Therefore, the Bank has sought to catalyse the development of portfolio investor involvement in climate finance by offering innovative bond instruments that provide a transparent link to investments for climate action.

### Climate Awareness Bonds

Through its Climate Awareness Bonds (CABs), the EIB is among the largest issuers of Green Bonds worldwide. CABs raise funds from fixed-income investors; CAB proceeds are earmarked to match disbursements to eligible EIB renewable energy and energy efficiency projects within and outside the EU.

The EIB was the first supranational borrower to issue a Green Bond in 2007. Since then, CABs have raised the equivalent of EUR 8bn in ten currencies at maturities of up to 12 years. CABs totalling a record EUR 4.3bn were issued in 2014, mostly in EUR, USD and GBP.

We pioneered a strict earmarking approach, which entails the segregation of funds in a dedicated liquidity portfolio, before allocation to eligible lending for renewable energy and energy efficiency.

Our EUR CAB due in November 2019 is currently the largest Green Bond outstanding in any currency. Launched in July 2013 for EUR 650m, this bond issue was increased to a record amount of EUR 3bn by February 2015.

**Climate Awareness Bonds Issuance**

**Annual record**
**4.3 bn** EUR
**in 2014**

Ouarzazate Solar Power Plant, Morocco (CAB allocation 2014: EUR 40m)

Once operational, the Ouarzazate complex will have a capacity of 500 MW, which is equivalent to powering a city of 250,000 inhabitants. Co-financed by the EIB, it will be one of the largest in the world. In its first phase of construction alone, it is expected to contribute to avoiding 193 tonnes of carbon dioxide per year while developing renewable energy and energy security in Morocco, as well as creating jobs and promoting an integrated local solar industry. As a renewable energy project, Ouarzazate Solar Power Plant is classified as 100% eligible for Climate Awareness Bonds.

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## Viveracqua hydrobond

Viveracqua hydrobond is an innovative financing structure which comprises mini-bonds pooled by Italian utilities and used as collateral for an asset-backed securitisation. Buying the majority of the bonds, our EUR 145m investment in Viveracqua hydrobond is expected to support a EUR 300m programme for eight small and medium-sized water utilities in the Italian region of Veneto. Thanks to a credit-enhanced portfolio, these companies can access the Bank's long-term debt financing and pass the full financial advantage directly on to the consumers.

## Project bond initiative

To address the need for investment in large EU infrastructure projects, the Project Bond Initiative aims to provide partial credit enhancement to projects in order to attract capital market investors. Based on a risk-sharing programme with the EC, the mechanism of improving the credit standing of projects relies on the capacity to separate the debt of the project company into senior and subordinated tranches. The EIB provides a subordinated tranche, or facility, to enhance the credit quality of the senior bonds, and therefore increase their credit rating. The ultimate objective is to widen access to sources of finance and to minimise overall funding costs.

## Gwynt y Môr offshore transmission link, UK

Our GBP 51m loan for the world's second largest wind farm will also use the project bond credit enhancement facility to enhance the credit rating of bonds issued to finance the project. The Gwynt y Môr transmission link is the largest OFTO to be financed through capital markets to date. The offshore wind farm, located in Liverpool Bay, eight miles off the north Wales coast, will produce enough electricity to cater for the energy needs of 400,000 homes with 160 turbines, with tips up to 150m above sea level, able to generate 576MW.

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**EIB at a glance**

The European Investment Bank (EIB) is the European Union's bank. Owned by the 28 EU Member States, the EIB provides finance and expertise for sound and sustainable investment projects in over 160 countries. As the world's largest multilateral borrower and lender by volume, climate action is a key priority for the EIB.



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