



Financing renewable energy in the context of market integration in the EU

Energy Community Renewable Energy Coordination Group 1st Meeting, Vienna 2nd March 2016.

Dr. Zoran Stanic, Senior Energy Specialist

The EIB Group



Providing finance and expertise for sound and sustainable investment projects



Leading developer of risk financing for innovative SMEs

The EU bank



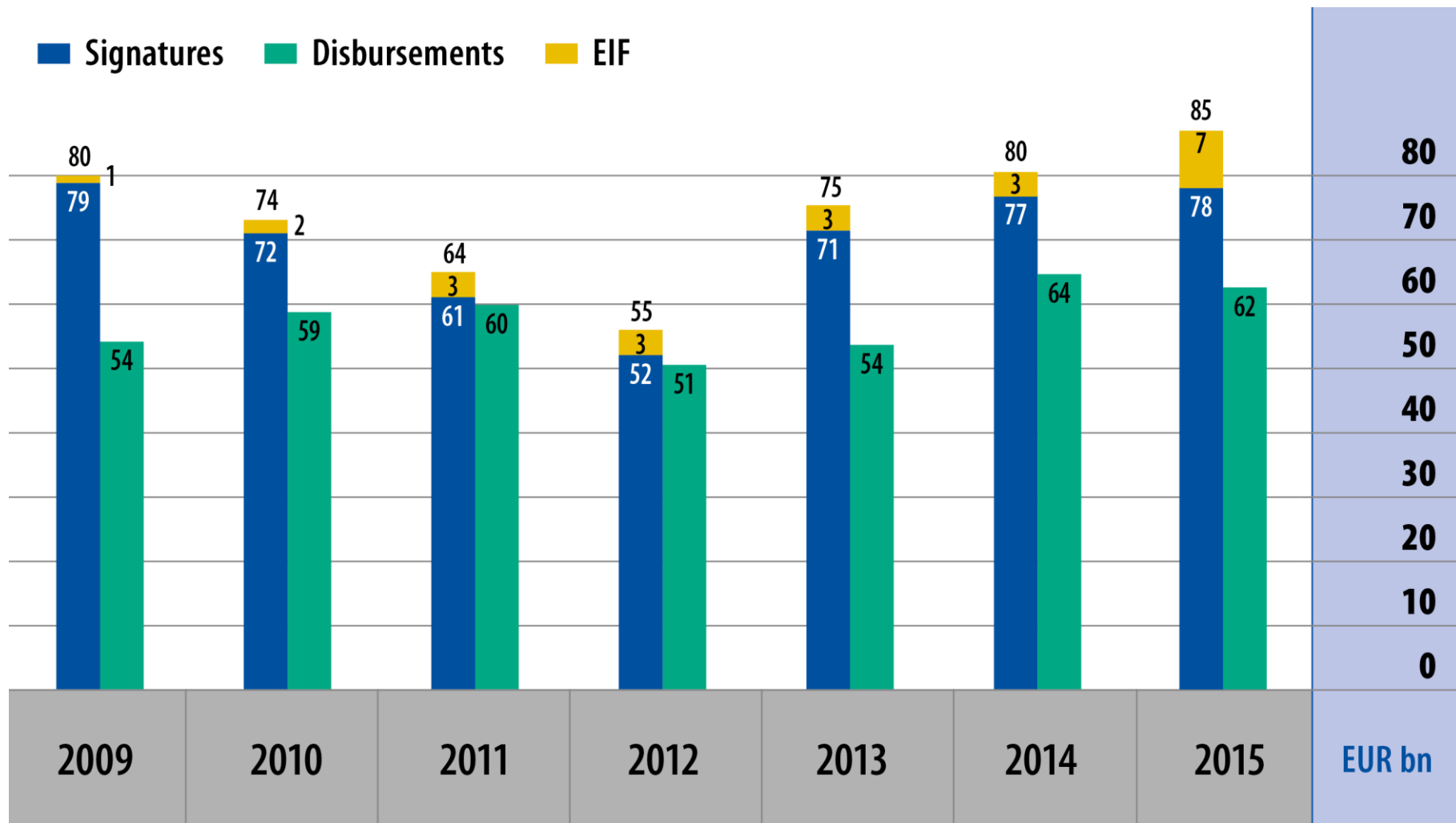
- Natural financing partner for the EU institutions since 1958
- Around 90% of lending is within the EU
- Shareholders: 28 EU Member States

Investing in Europe's growth

The EIB at a glance

- Largest multilateral lender and borrower in the world
 - Raise our funds on the international capital markets
 - Pass on favourable borrowing conditions to clients
- Some 450 projects each year in over 160 countries
- Headquartered in Luxembourg and 33 local offices
- Around 2 900 staff:
 - Not only finance professionals, but also engineers, sector economists and socio-environmental experts
 - More than 50 years of experience in financing projects

EIB Group track record: over EUR 500bn lent since 2008



We focus on our key priorities



ENVIRONMENT

EUR 19.6bn



INFRASTRUCTURE

EUR 18.9bn



INNOVATION

EUR 18.7bn



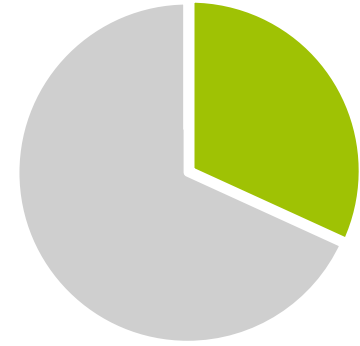
SME

EUR 29.2bn

We are the world's largest provider of **climate** finance



>25% worldwide

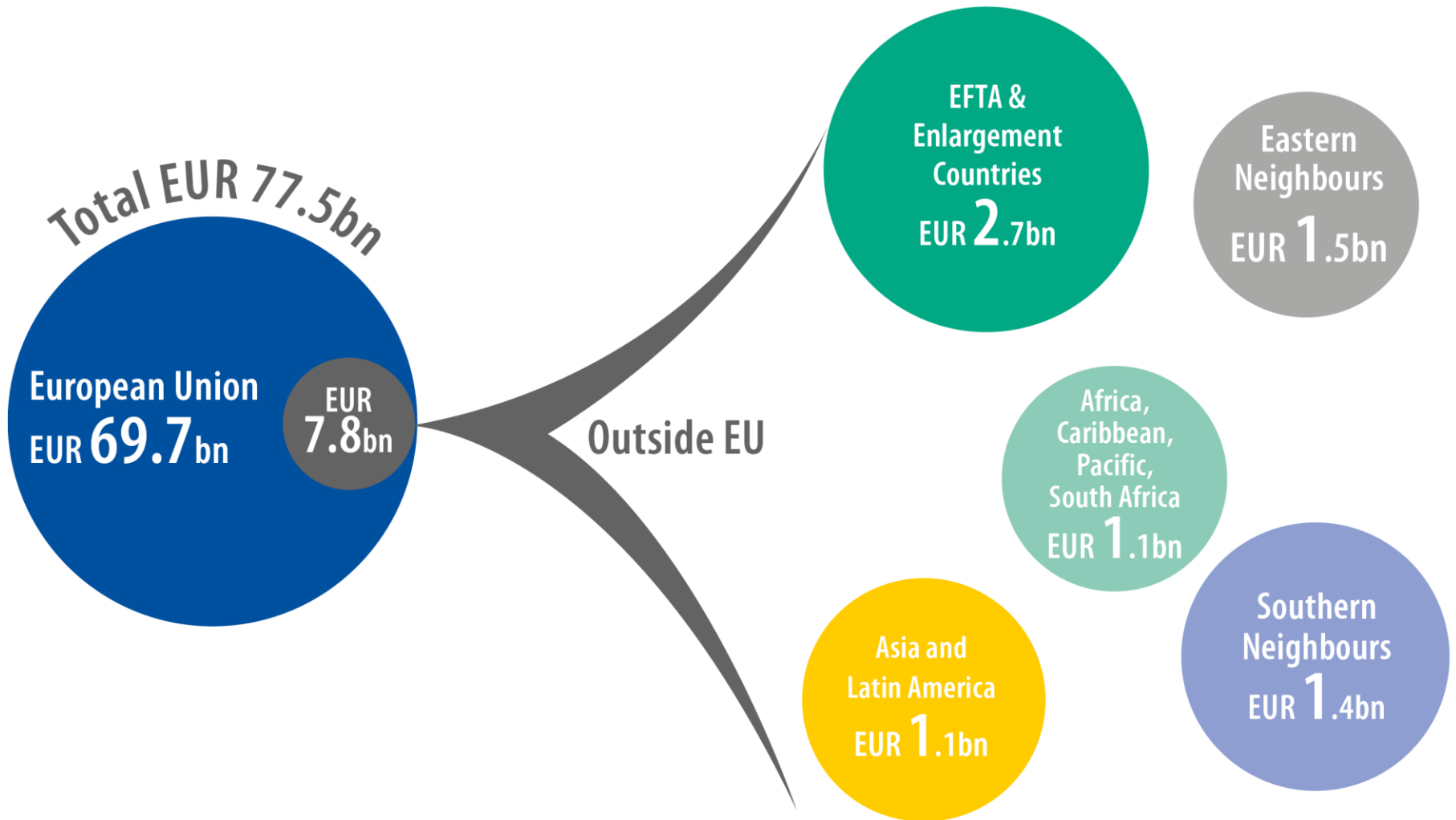


35% in world's developing regions

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

EIB Lending in 2015: EUR 78bn

(EIB signatures)



Our products

We help catalyse investment

LENDING	BLENDING	ADVISING
Loans But also: Guarantees (trade financing) Equity participation	Combining EIB finance with EU budget (Project Bond Initiative) Higher risk projects for innovation (InnovFin)	Prepare, evaluate and support the implementation of projects (JASPERS) Support for public/private partnerships (EPEC)

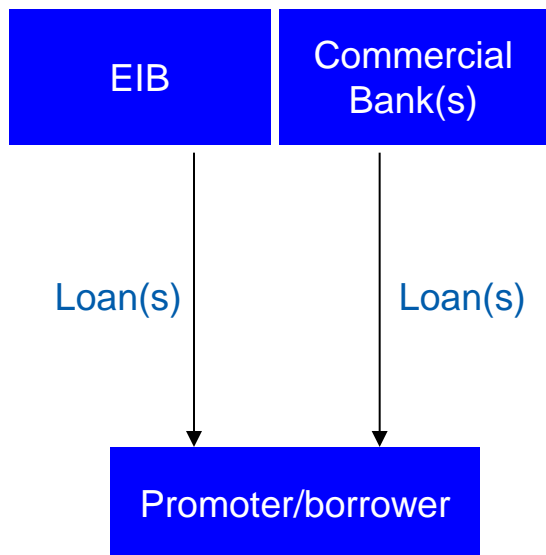
Attracting FUNDING for long-term growth

EIB Lending Options

- Individual loans for Renewable Energy – three options for lending:

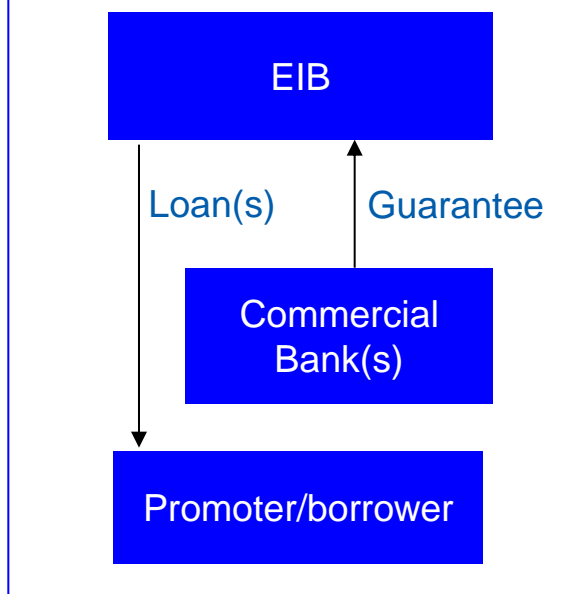
1 Direct loan to SPV

The EIB finances the company directly. The EIB carries the risk on the loan.



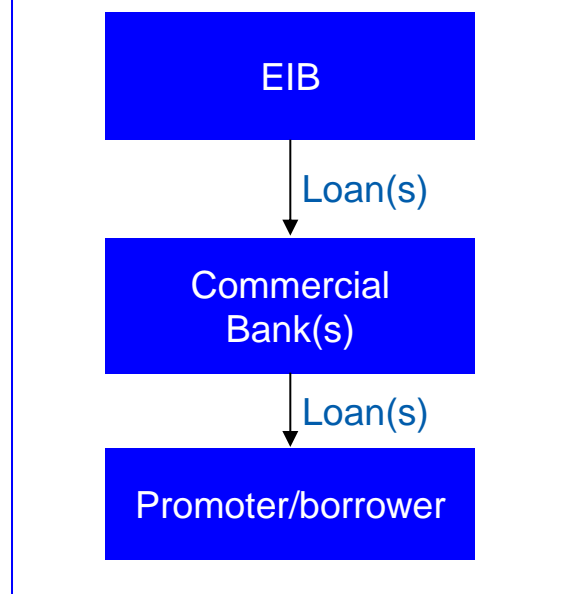
2 Loan guaranteed by a bank

The EIB lends the funds directly to the promoter and also signs a first-demand guarantee with a commercial bank. The EIB has risk exposure to the bank.



3 Loan through a bank

The EIB lends to a bank, which in turn lends the funds to the company passing on some of the EIB's funding advantage. The EIB has risk exposure only to the bank.



EIB project cycle

We support sound and sustainable projects



EIB Value Proposition

- **Sizeable Tickets:** EUR/USD denominated ticket sizes up to 50 percent of senior debt
- **Competitive Pricing:** Combination of triple-A low funding costs and not-for-profit business model.
- **Long Tenors:** Depending on the project, tenors up to 15-20 years are available.
- **Political Risk Appetite:** Founding principles of the EIB (including EU guarantees) provide strong means to mitigate political risk, a benefit passed on in EIB pricing and terms.
- **Deep Sector and Product Experience:** Acquired over 50 years of extensive lending (EUR70 billion per annum), both within the EU and internationally
- **Signalling Effect:** Renowned for extensive due diligence and strict requirements EIB participation is an indication of project quality in the market.
- **Long Term Partner:** Buy-and-hold business model with an objective to support sustainable economic development the.
- **Grant Funding Availability:** option to blend financing with EU grants and Technical Assistance (in specific cases).

EIB General Project Requirements

- **Financially and Economically Sound Projects:** fairness for the Promotor, the Government, and the EIB. Show an acceptable economic return.
- **Minimum Project Size able to Bear Transaction Cost:** approximate minimum size of 50MW or USD 80-100 million for Project Finance type operations, or the option to bundle several projects to reduce transaction costs. Bundling is solely possible when all parties (Promotor, Senior Lenders, etc.) are identical in the bundled projects.
- **Environmentally and Socially Acceptable:** meeting EU environment and social standards. For example: bird migration for wind projects, or land acquisition & compensation.
- **Solid Procurement Process:** meeting EU procurement requirements concerning competitiveness tendering and market access. Selection criteria such as strong *local content requirements* make projects and processes ineligible.
- **Qualified Counterparties:** demonstrate sufficient experience in similar Projects and adequate financial capacity to develop the project.
- **Technically Sound Projects:** location, ownership rights, purpose of land use, local permits, technology, project design, resource study, grid connection, contractual structure: supply, construction (EPC) and O&M contracts, guarantees and warranties of suppliers and main contractors, project timing: permits and authorization plan, construction schedule, market and regulatory framework, incentive scheme, grid connection/dispatch, off-take agreement

Projects example – HPP Vranduk in BIH



- Construction and operation of the new run-of-river, diversion type HPP on river Bosna in BIH with capacity of 20 MWe and connection to the national grid
- Project does not receive any specific RE support scheme
- Comprehensive Environmental and Social Action Plan to ensure that project meets EIB E&S standards
- International PIU consultant to assist with project implementation
- The project is co-financed with EBRD with the aim to make significant contribution to sustainability and security of energy supply.

Projects example – TA under Western Balkan Investment Framework (WBIF)

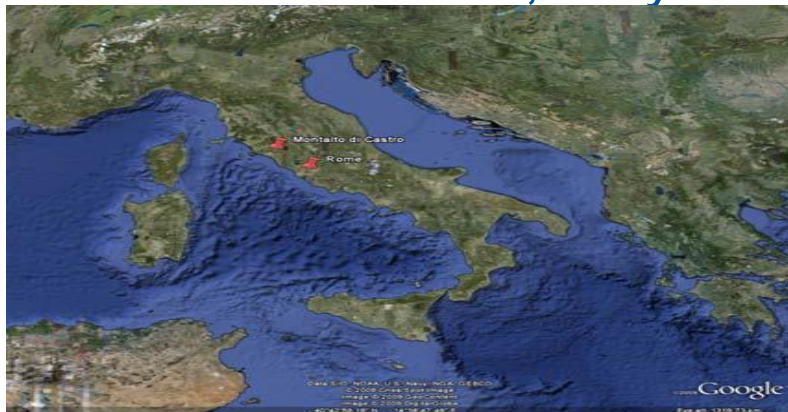


- TA for financing preparation of Feasibility study including Technical Design, Environmental and Social Impact Assessment and Tender documentation for construction works

Examples of TAs for projects:

1. Irrigation and Hydroelectric Power Scheme Zletovica, HS Zletovica, FYROM;
2. Wind farm Poklecani EPHZHB Bosnia and Herzegovina;
3. Wind Farm Vlastic, EPBIH, Bosnia and Herzegovina

Projects example – SUNRAY MONTALTO DI CASTRO PHOTOVOLTAIC, Italy



- PV project in Montalto di Castro, Italy with capacity of 51.4MW
- Construction was completed on time (ca. 6 months) in March 2011
- Financed via a securitisation structure which repackaged underlying project finance loans.
- Electricity production 6-7% higher than estimated P50 values and high availability
- Approximately 75% of Project revenues are based on a Feed-in Tariff (“FITs”) to remain fixed throughout the term of the Project. The remainder of revenues depends on electricity market prices. The plant benefits from priority dispatch => reducing volume risk.
- The operation was negatively affected by: (i) a reduction in FITs due to government decision in August 2014 to retroactively cut tariffs by 8% (applied from 2015 revenues); (ii) higher taxes enacted since 2012 (increased land taxes and Corporate Income Tax surcharge) and (iii) a significant drop in wholesale electricity prices in Italy in recent years (ca. -36% 2014 vs 2011).
- Mitigated by two positive developments: (i) the repeal by the Constitutional Court of a sector tax surcharge introduced in 2011 by the government and (ii) renegotiation of the terms of the O&M contract with expected savings ca. 30% compared to previous contract. These developments are estimated to improve debt service cover ratios.

Thank you!

More information at: www.eib.org

info@eib.org

Tel.: +352 4379-22000