

Energy Efficiency Financial Instrument

Product fiche - Indicative Terms

(New product under development - all features are subject to change)

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Concept/EU Policy Objective:

The purpose of the 'Smart Finance for Smart Buildings' instrument (the "**Financial Instrument**") is to provide an enhanced access to commercial financing for Energy Efficiency Investments in the participating regions or the programme countries (the "**Programme Countries**") i.e. EU Member States participating in the financial instrument, or multiple regions from a EU Member State participating in the Financial Instrument.

The main objectives of the Financial Instrument are:

- (1) Expanding energy efficiency lending activities undertaken by financial institutions operating in the Programme Countries, incentivising them to address the energy efficiency sector as a distinct market segment; and,
- (2) Increasing the availability of debt financing to final recipients required for the purpose of Energy Efficiency Investments.

The Financial Instrument foresees a combination of three distinct components:

- (1) Guarantee facility (the "**Guarantee Facility**") which consists in a credit risk protection in the form of a linked risk-sharing instrument, i.e. a (counter-) guarantee to be provided by EIF to financial intermediaries (the "**Financial Intermediaries**");
- (2) Technical assistance (the "**Technical Assistance**") provided to Financial Intermediaries, final recipients and potentially Managing Authorities/public bodies implementing the Financial Instrument; and,
- (3) Grant programme in the form of financial contributions made available to, or for the benefit of final recipients.

Please find below for further information on each individual component.

Guarantee Facility

The unfunded credit risk protection shall be provided through a guarantee (the "**Guarantee**") which shall be issued by EIF acting on [its behalf] and on the behalf of the [Managing Authority], [the European Commission] and the [European Investment Bank] for the benefit of a Financial Intermediary complying with predefined eligibility criteria and entitled to pursue lending, leasing and/or guaranteeing activities. It shall partly cover the credit risk associated to new eligible debt financing included in the guaranteed portfolio (the "**Portfolio**") and

supporting Energy Efficiency Investments in residential building involving private individuals, homeowner associations or SMEs (as defined in the EU Recommendation 2003/361).

The Guarantee Facility would be benefitting from a pool of resources provided by:

- (1) Member States/Managing Authorities and available under any kind of national/regional contribution including, inter alia the European Structural and Investment Funds (“ESIF”), their own budget and/ or potentially any reflows from financial instruments set up in previous programming periods;
- (2) EIB Group’s participation under the European Fund for Strategic Investments (“EFSI”) and/or on its own-risk;
- (3) Private financial institutions; and, potentially,
- (4) National Promotional Banks (“NPBs”)/Institutions (“NPIs”).

Technical Assistance

[The development and deployment of the Guarantee Facility shall be supported with Technical Assistance. The Technical Assistance shall primarily support the development of bankable investment projects in the residential sector and accelerate the demand for energy efficiency debt financing for home renovations. Technical Assistance shall be provided to financial recipients via different potential delivery mechanisms, including through Financial Intermediaries, public authorities, integrated home renovation services, facility management companies, ESCOs (Energy Services Companies), etc. This type of Technical Assistance could encompass any assistance necessary to develop bankable projects, including e.g. tailored information, advice, or implementation support in the form of “one-stop-shops” covering the whole refurbishment journey.

Technical Assistance shall also help Financial Intermediaries and public authorities, including Managing Authorities, to establish tailored financial instruments targeted but not limited to the residential sector and support financial institutions develop attractive and simple loan products and processes in order to accelerate the demand for energy efficiency debt financing. This type of assistance will include Managing Authority awareness raising, feasibility work and fund structuring support necessary to develop EFSI and ESIF Energy Efficiency Investment platforms under the ‘Smart Finance for Smart Buildings’ initiative (the “SFSB”).

Technical Assistance support could be co-funded from different sources, including inter alia the European Investment Advisory Hub (“EIAH”) and the European Local Energy Assistance (“ELENA”) facility depending on the profile of the final beneficiaries and the nature of the activity proposed. The Technical Assistance shall be implemented by the EIB on behalf of the European Commission by a combination of direct and indirect management.

Technical Assistance under the ELENA facility shall follow the ELENA rules and procedures defined in the EIB-ELENA Delegation Agreement. The types of ELENA Technical Assistance provided in the context will vary depending on the specific needs, but will primarily include support for energy audits, as well as product/project/pipeline development, project management, tendering and procurement services, marketing, etc. The support is to encourage Energy Efficiency Investments in this area by providing tailored information to private individuals on the most suitable types of energy efficient measures for their homes while ensuring actual capital expenditures are realised. Other preparatory activities as required may also be funded under ELENA in order to increase the uptake of energy efficiency debt financing.

This component is complementary to the existing support from ELENA to private and public non-residential buildings. The 'SFSB'-labelled Technical Assistance shall not be limited to support only the operations signed with Financial Intermediaries in the context of the Financial Instrument, but could also serve other products and beneficiaries in the field of energy efficiency in buildings.]

Technical Assistance that may be funded under the EIAH will focus on upstream support provided primarily to Managing Authorities to build their awareness of the SFSB. This could include specific awareness raising events and activities (which may also be supported by fi-compass), feasibility studies to assess the market demand for the instrument and update previous ex-ante assessments, fund structuring support and financial intermediary selection support to help Managing Authorities combine EFSI and ESIF in Energy Efficiency Investment platforms under the SFSB. Requests for Technical Assistance under EIAH will be subject to EIAH's existing approval procedures and budget availability.

Grant programme (separate from the Technical Assistance)

The grant may be used for [two] purposes depending on the decisions of the Managing Authority of a Programme Country and in compliance with the Common Provision Regulation ("CPR", in case a contribution from ESIF is foreseen), State aid and European Commission's guidance notes:

- (1) A Grant Contribution ("the **Grant Contribution**") may also be made available to final recipients for capital investment; this will be provided directly to final beneficiaries¹ by the Grant Contribution provider. Where the Grant Contribution is supported by ESIF programme resources, the Grant Contribution must be classified as a separate operation, with eligible expenditure distinct from that supported by the Guarantee. For the avoidance of doubt, the two separate operations with distinct eligible expenditures (i.e. final recipient transactions supported by the Guarantee and the Grant Contribution) may finance the same items of the same Energy Efficiency Investment to the extent it is in line with the CPR.

or/and;

- (2) [Other forms of support through grants may be contemplated, including via interest rate subsidies].

Additional details related to the grant programme shall be stipulated in a separate document and agreed on a country-by-country basis, and subject to State aid rules.

The viability of the grant programme in the relevant Programme Country may depend on the engagement of relevant Member State agencies that could administer the grant programme efficiently in close cooperation with the Financial Intermediaries.

Main characteristics of the Guarantee Facility

- Financial Intermediaries would receive a direct financial guarantee issued by EIF and backed with an MA/MS-EFSI-EIB funding structure described below. Counter-guarantee structure may be considered on a case-by-case basis;
- Each final recipient transaction shall be covered at a guarantee rate set typically at [50] %. Deviations from this level may be considered on a case-by-case basis depending on the characteristics of the mandate implemented in a given Programme Country/region;

¹ Financial Intermediaries or final recipients entitled at national or regional level to benefit from a grant scheme related to Energy Efficiency, in support of National Energy efficiency Action Plan (the "NEEAP") and/or EU Energy Performance of Building Directive (the "EU EPBD) objectives may combine this local support with the Energy Efficiency grant programme hereby presented, provided that relevant regulation in place and applicable to them does not prevent from doing so

- The Guarantee may be structured either as uncapped or a capped guarantee in a given Programme Country/region. In cases of a capped guarantee there will be a cap on the final losses covered by the Guarantee, set typically at [20-25] % depending on the risk parameters of the relevant transaction.
- The Guarantee shall cover losses (relating to unpaid principal and interest, further reduced pro-rata by any recovered amounts) incurred by the Financial Intermediary in respect of the guaranteed part of each defaulted eligible final recipient transaction;
- The Guarantee will be provided by EIF for a fee to the Financial Intermediaries. The Guarantee Fee will be established taking into account the weighted average of the pricing of the various tranches (first loss piece, second loss piece and senior risk cover) in the structure backing the Guarantee. The contribution to the first loss piece is expected to be provided by the Member State/Managing Authority free of charge;
- The origination, underwriting, documentation and servicing of the financing shall be performed by the Financial Intermediary, who shall retain the direct client relationship.

Leverage of the Guarantee Facility

The Financial Instrument has been designed with an intention to provide leverage on the contribution provided to cover the first loss piece (ESIF funding, typically) allocated by the Managing Authorities to the structure. It is intended to structure two different leverage ratios in a similar arrangement as for the guarantee instrument under SME Initiative that targets SME lending. It is expected to set **a minimum leverage level at 4 times** that will be necessary to achieve for eligibility of ESIF financing. This is however a preliminary estimate and will need to be refined as discussions advance. For specific Programme Countries/regions it may not be possible to achieve it, taking into account past analysis done. Note that this level only refers to the leverage within the Financial Instrument without taking into account the impact of any Grant Contribution which will lower the overall effect of the ESIF contribution.

In addition, a target leverage level will be discussed with each Managing Authority, at a level expected to be above the minimum leverage. Target leverage will depend on the risk parameters of the product (for example, the agreed level of the Guarantee Rate) as well as the credit risk level expected in the Portfolio in the relevant Programme Country/region. To be noted, the leverage level is inverse to the risk level in the Portfolio. The higher the risk of final recipient transactions, the lower the target leverage level is to be expected. Therefore, high target leverage per se should not be the main driver for participation in the Financial Instrument, especially if the intention is to fill a large market gap in the relevant Programme Country/region.

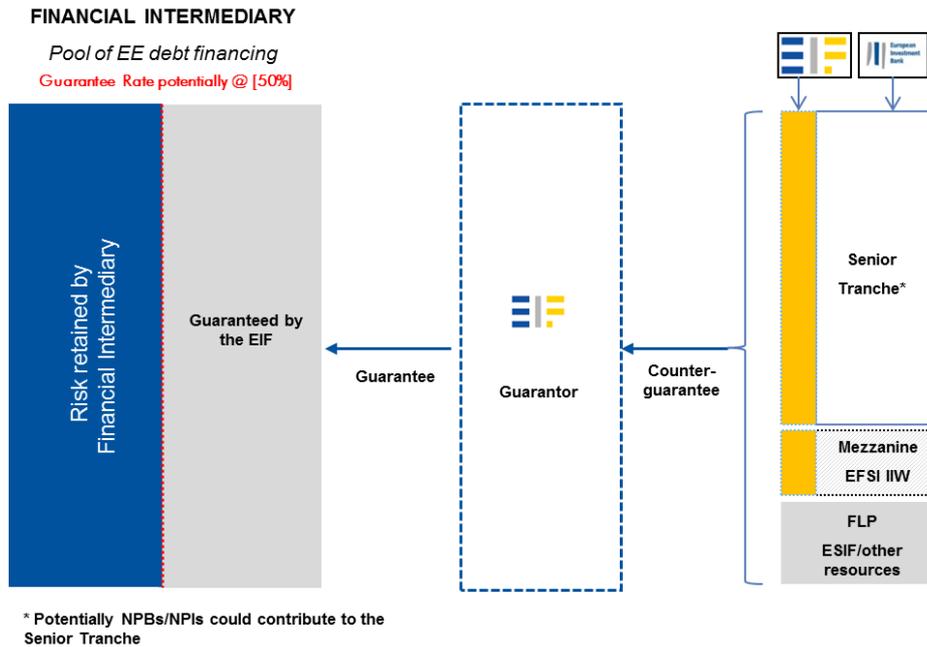
As example, **target leverage for SME Initiative has been in the range of ca. 5-10 times** (within the Financial Instrument) depending on the Programme Country. Depending on the relevant jurisdiction, if the risk of lending for energy efficiency is higher than for SME lending, it is expected that target leverage would be lower than for SME Initiative, and vice versa.

We note again that these are preliminary indications that would need to be refined as discussions with Managing Authorities advance.

Structuring of the Guarantee Facility

As previously stipulated, the Guarantee Facility is made possible thanks to the combination of the different sources of funding: ESIF or any other source of national/regional funds (providing the first loss piece), EIB Group's participation under the EFSI and EIF on its own-risk subject to the approval of its governing bodies (second loss piece), and the [EIB Group] on its own risk and potentially a [National Promotional Bank/Institution], in case the Guarantee is uncapped (senior risk cover).

In the case of an uncapped guarantee, the risk sharing among the sources above could be as follows:



The specific tranche parameters would be set for each Programme Country (or region, in case the Guarantee facility is set at a regional level) separately, given that a mutualisation of losses across the Programme Countries/regions is unlikely to be achieved. Should the contribution of the Member State/Managing Authority to the first loss piece be financed out of the ESIF, it is then unlikely that the relative size of this contribution would exceed [25] % of the total support provided to final recipients in order to comply with the provisions stipulated in the Commission’s proposal (Art. 39a (2)) to the Omnibus. The financial contribution may exceed [25] % where duly justified by the ex-ante assessment, but shall not exceed [50] %.

Please note that these values are indicative and would be subject to review and confirmation as the work progresses with a Managing Authority and with Financial Intermediaries in a given Programme Country/region.

Key Eligibility criteria

1. Final recipient eligibility criteria

- i) The Final Recipient shall be a [SME], homeowner associations, or one or several private individuals owning together, directly or indirectly a Residential Property located in one of the Programme Countries. SMEs benefiting from the Financial Instrument shall not be linked to one of the restricted sectors set by EIB Group.

2. Final recipient transaction eligibility criteria

Final recipient transactions shall comply with each of the following eligibility criteria:

- i) Origination period: Final recipient transactions shall be newly originated, i.e. entered into by the Financial Intermediary during the Inclusion Period ([for the avoidance of doubt this shall exclude refinancing transactions which have already been financed by another financial institution except at maturity]).
- ii) Final recipient transactions shall be granted mainly for the purpose of energy efficiency and integrated renewable energy investments.

- iii) Type of financing: final recipient transactions shall be debt financing transactions;
- iv) Principal amount: the principal amount of a final recipient transaction included in the Portfolio shall not exceed EUR [500,000] or equivalent amount in a currency other than the eligible currency. For homeowner associations, the principal amount of the final recipient transaction included in the Portfolio (which must be included for its full principal amount and not the portion thereof) shall not exceed EUR [500,000] (or equivalent amount in a currency other than the eligible currency) times the number of homeowners requesting debt financing to participate in the same Energy Efficiency Investment;
- v) In case of leases, the principal amount shall be understood as the capital amount, where the capital amount means the amount financed by the Financial Intermediary under a lease, which is the purchase price of an asset leased by the Financial Intermediary under a final recipient transaction reduced by any down-payment amount paid by the final recipient and may include a residual value;
- vi) Final recipient transactions shall have a minimum scheduled maturity of [12] months;
- vii) Final recipient transaction shall not be affected by an irregularity or fraud;
- viii) Final recipient transactions shall be denominated in EUR and/or any other currency as specified in the guarantee agreement. If a final recipient transaction is denominated in a non-EUR currency, equivalent amounts to the maximum thresholds specified under v) above should be respected.

Annex – Eligibility criteria for Energy Efficiency Investments²

a) General Conditions

Eligible energy efficiency investments:

- (a) shall be located in one of the Programme Countries;
- (b) shall consist of coherent and clearly defined capital investments needed for the realisation of an Energy Efficiency Investment to save energy, comprising all elements of a permanent nature (whether tangible or intangible) that are necessary for achieving the results that the Energy Efficiency Investment is designed to deliver;

For the sake of clarity, the following investment components and activities shall not be part of an Energy Efficiency Investment:

- (i) Normal maintenance activity.
 - (ii) Pure financial transactions not directly linked to the financing of new assets.
 - (iii) Purchase of land or real-estate investment.
- (c) shall be below EUR [500,000] per individual dwelling;
 - (d) shall be procured in accordance with the relevant EU directives and applicable national regulation, including those on procurement and environmental law;
 - (e) if an Energy Efficiency Investment is subject to EU public procurement legislation (i.e. Directive 2004/17/EC), the contracts for the implementation of such Energy Efficiency Investment shall be tendered in accordance with the relevant applicable EU procurement legislation (Directive 2004/17/EC and Directive 92/13/EEC), with publication of tender notices in the EU Official Journal, as and where required;
 - (f) shall comply with applicable environmental law and EU Directives,
 - (i) for Energy Efficiency Investments subject to an Environmental Impact Assessment (EIA), the Financial Intermediary shall collect and publish the Environmental Impact Study (EIS) of a scheme's EIA, retain on file a copy of the EIS and provide a digital copy to EIB, and EIF, and confirm that the Energy Efficiency Investment incorporates all mitigating measures recommended as a result of the EIA., in order to ensure compliance with the EIB's Public Disclosure Policy. In addition to what is required by national legislation, the Financial Intermediary shall perform environmental and social due diligence, assisted by reputed external consultants if required, for each energy efficiency debt financing related to an Energy Efficiency Investment subject to an EIA prior to including it in an Inclusion Notice, to ensure that potential risks and appropriate prevention, mitigation and compensation measures are identified through an environmental and social impact screening/assessment, when relevant, including satisfactory and meaningful public consultation and participation;
 - (ii) Notwithstanding the above:
 - 1) For investments that have the potential to affect a nature conservation site, the Financial Intermediary shall obtain written confirmation from the competent public authority, or an equivalent environmental assessment satisfactory to EIB, that the Energy Efficiency Investment does not have a significant negative impact on any site of nature conservation.
 - 2) Investments with significant negative impacts on areas with high biodiversity value, nature conservation areas, shall not be eligible.

² Excludes normal maintenance activity, recoverable costs such as VAT, pure financial transactions not directly linked to the financing of the new assets, purchase of land or real estate investment.

b) Technical conditions

For the sake of this Product Fiche, eligible energy efficiency investments shall concern any of the following investments in relation to an **existing building** (including the cost associated to the technical design for their installation and their actual installation in the building). The investments will be provided, to the extent possible, but not be limited to holistic renovations that target the energy performance of the existing buildings. The investments should be guided by an energy audit and/or energy performance certificate issued before and - to follow the improvements also - after the renovations or any other equivalent method to estimate the energy savings (such as self-assessment tools accepted by the EIB's services). The following interventions will be eligible for the support

- (1) Investments related to the building envelope.
 - a. Insulation. Investments in insulation materials (including water vapour barriers, weather membranes, measures to ensure air-tightness, measures to reduce the effects of thermal bridges and scaffolding) and products for application of the insulation to the building envelope (mechanical fixings, adhesive, etc.).
 - b. Windows and doors. Glazing and/or glazing enhancement, frame, gaskets and sealants and their installation costs.
 - c. Other building-envelope related measures with impact on thermal performance. This investment may include inter alia external shading devices, solar control systems, and passive systems.

- (2) Investments related to the building system
 - a. Space heating. Investments related to heat generation (e.g. boiler, heat generation controls), storage (e.g. storage tank), distribution (e. g. circulator, circuit valves, distribution controls) and dispersion (e.g. radiators, ceiling/floor heating, fan coils, controls). [with minimum labelling of B/C tbc]
 - b. Domestic hot water. Investments related to hot water generation (e.g. solar thermal systems, boiler, heat controls), storage (e.g. storage tank), distribution (e. g. circulator, circuit valves/mixing valves, distribution controls, insulation of the system and pipes) and delivery (e.g. tap valves, shower heads).
 - c. Ventilation systems. Investments related to heat generation and recovery equipment (e.g. heat exchanger, pre-heater, heat recovery unit, heat generation controls), distribution (e.g. fans, circulators, valves, filters, distribution controls) and dispersion (e.g. ducts, outlets, controls). with minimum labelling of B/C tbc]
 - d. Cooling. Investments related to cooling generation (e.g. air conditioning generators, heat-cold pump, compressors, generation controls), distribution (e.g. circulator, circuit valves, distribution controls) and dispersion (e.g. ceiling/floor/beams; fan coils, controls). Passive cooling measures (e.g. insulation of roofs, external shading) are also eligible under 3.(a)(i)(1) above. [with minimum labelling of B/C tbc]
 - e. Lighting. Investments related to efficient light systems.
 - f. Building and Energy Management Systems. Investments related to building and energy management systems which introduce supervising functions, technical intelligence, smart meters and sub meters controls (e.g. centralised control of generation, distribution, emitters, circulators) and required communication systems (e.g. wires, transmitters) and IT programs.
 - g. Connection to energy supplies. Investments related to the connection to energy grid or storage facilities (e.g. district heat, PV-system) and necessary related installations.

- h. Decentralised renewable energy production. Investments related to the supply systems based on energy from renewable sources installed within the building site, whose primary objective is to produce energy for own-consumption.

If they relate to any other sector and/or technology not mentioned above, the compliance of the technical conditions shall be confirmed by EIB on case-by-case basis.