CASE STUDY 21: CENTRAL AND EASTERN EUROPE - COMERCIALIZING ENERGY EFFICIENCY FINANCE (CEEF) PROGRAM

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Perception of high credit risks and poor capacity of project preparation</th>
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<tr>
<td>Instrument</td>
<td>Partial risk guarantee</td>
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<tr>
<td>Application</td>
<td>IFC provides guarantees, supported by GEF first loss guarantee</td>
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<tr>
<td>Amount</td>
<td>Up to US$ 106 (CEEF+HEECP2, IFC+GEF overall guarantee pool) million on guarantees</td>
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PROJECT BACKGROUND AND OBJECTIVES

CEEF is the scale up of IFC’s energy efficiency (EE) lending programs in Hungary (HEECP and HEECP2), that was expanded to the Czech Republic, Estonia, Latvia, Lithuania and Slovakia. The objective of the program was to encourage financial intermediaries (FIs) to finance EE and RE investments by partially guaranteeing their loans in this area, and by providing technical assistance. Selected countries had inefficient energy-using infrastructures and multi-billion dollar investment needs in EE. At the same time countries had relatively well-developed technical capabilities in the EE sector, improving investment climate for EE, and relatively well-developed capital markets. However Local FIs were not lending for EE projects due to mostly small project and relatively high transaction cost, perception of high credit risks, and because FIs had little experience with energy efficiency project finance. In addition, there were few Energy Service Companies (ESCOs) developing the mostly small projects and those had limited skills and resources. Most project sponsors do not have the necessary skills and experience in preparing energy efficiency projects. The GEF approved US$18 million to support CEEF, of which US$15 million supported the investments and US$3 million supported the technical assistance activities. IFC’s earlier Hungary Energy Efficiency Co-financing Program 2 (HEECP2) was merged into CEEF.

The Central and Eastern Europe Commercializing Energy Efficiency Finance (CEEF) supported by IFC and GEF aims to remove these barriers by:

- Supporting financing and implementation of sustainable energy projects
- Promoting the entry of domestic FIs and increase their experience and capacity
- Supporting FIs in developing and using financing structures appropriate for sustainable energy projects and thus providing more favourable credit terms to borrowers
- Promoting the development of the energy efficiency and renewable energy markets and related project development and commercial ESCO industries.

INSTRUMENTS USED

IFC provided individual and portfolio partial guarantees for loans from domestic FIs for energy efficiency and renewable energy projects. GEF provides grant funding to IFC for a first loss cover to mitigate the FIs’ risk, backing a portion of IFC guarantee liabilities and to cover costs of technical assistance, capacity building and program operation.
INSTITUTIONAL ARRANGEMENTS

Local FIs takes the lead in finding projects, designing their credit facilities and reviewing project proposal from project developers.

ESCOs, or other project developers gain technical assistance financed by the GEF grant in project preparation and development.

IFC provides the partial guarantee for loans made from FIs for approved energy efficiency projects. GEF grant funding is used to support IFC’s guarantee liabilities as well as to directly mitigate FIs’ risk on portfolios, as needed.

FIs provide loans on commercial terms to project developers, who will have to provide some equity into the project.

OUTCOMES

Fourteen FIs participated in the program\(^1\), providing over US$ 135 million in loans for energy efficiency and renewable energy projects for a total project cost of US$240 million. More than 800 projects were supported, of which more than 700 embedded in block house portfolios. No guarantees have been called for under CEEF. Forty-one project developers/ESCOs have been involved in the implementation of the guaranteed projects. The program has demonstrated success in enabling the commercialization of several areas of sustainable energy finance.

\(^1\) Results include HEECP and HEECP2, merged with CEEF