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Covid19-Turbocharges energy saving measures into capital market products

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The post Covid-19 world

- GDP in the Euro Zone is expected to contract by about 8% in 2020
- Unemployment is around 7% in Hungary, with youth unemployment well above 10%
- Government Debt is up across the board – and municipalities in general well under water
- Green Deal promises to give some stimulus, however the amounts are a drop in the sea compared to the needs related to the EU's 2030 and 2050 objectives on CO₂ reductions
- MNB is supportive of green lending and of the SME sector
- Energy efficiency measures – which create labour and are auto-financing – could revive the economy rapidly

Role of the secondary market- Institutional funds

- Decarbonizing the world's energy system, moving towards a resource efficient economy and providing energy access will require investments of around € 2 trillion per year*.
- Governments understand that large sums of capital will be required, and many are realizing the need for private capital as public finances have become strained in a post-Covid19 world.
- With their app. € 70 trillion in assets under management, institutional investors have an major role to play.
- Outside the major pension funds, insurance companies and specialist funds – institutional investor allocations to energy efficiency projects remain limited, particularly when it comes to direct investment
- Investor hesitancy include a lack of expertise when it comes to the technical know-how (regarding the technology used by ESCo's) in the energy efficiency projects
- These problems are compounded by a lack of suitable investment vehicles providing the risk/return profile that institutional investors need to manage the risks specific to clean energy projects.
- From the public and private sectors, actions are underway to scale up green bond offerings, create risk-mitigating public finance mechanisms and co-investment funding structures.

Obstacles- Knowledge Gap

The ESCO market				VS	CAPITAL SOURCES							
Requirements	Small ESCO's	SME's	Large quoted ESCO's	Requirements	Fund industry		Banking sector		Governmental institutions		Equity funds	
					Specialist Funds	Wholesale Funds	Lending Banks	Specialist Department	PF4EE Banks	EIB & EBRD	Private Equity	Wholesale Equity Funds
Technical know-how	✓ (mono-technology)	✓	✓ (multiple technology)	Assets under Management	50 to 500 Mio	500 Mio to 5 Bio	balance sheet	100 to 250 Mio	lending lines guaranteed by EIB to 80%	balance sheet	100 to 500	250 Mio to >
Regulatory know-how	X	✓	✓									
Contractual understanding	X	✓	✓	Technical know-how	✓	X	X	✓	✓	✓	mixed bag	X
Pipeline requirement put in place	X (Deal by deal)	X (cannot find funding)	✓	Regulatory Understanding	✓	X	X	✓	✓	✓	✓	X
Minimum ticket size	3 - 50k	3 - 50k	Up to 500k	Contractual understanding	✓	X	X	✓	✓	✓	✓	X
Transaction size		up to 2 to 5 Mio		Pipeline requirement	Preferred	Need product	✓	✓	✓	✓	✓	N/A
Balance sheet limitation	✓		< 5 MIO	Minimum ticket size	500k	1 to 5 Mio	> 5 Mio	> 1	> 1	5 to 50	5 Mio to 100 Mio	1 to 5 Mio
Warehousing needs	✓	✓	X	Transaction size	5 to 10 Mio	50 to 100 Mio. the bigger the better	> 1 with 5 as a target	can start with 500 but needs visibility on 5	> 1	50 and above	> 50 Mio	50 to 250 Mio
Equity needed	✓	✓	X	Warehouse providers	Limited but willing	X	✓ (Ideally yes)	✓ subject to size	✓	X	X	X
Understanding a lending banker requirement	X	X	✓	Equity provided	Generally not	X	X	X	X	possible under grants	✓	✓ in share offering

Institutional Investor Logic

- a minimum issue size of € 100 Mio (possible to do private placements of € 50)
- a minimum ticket they would be able to subscribe to is around € 5 Mio.
- preferably an A credit rating (country) min BBB
- a green bond certification/ Environmental, Social and Governance compliance
- a listing
- preferably a tenure of 5 to 10 years.
- from the € 5K to 100K measure/project value to a € 100 Mio Note which investor are willing to subscribe to, there is a large gap.

Such gap we will only be able to bridge if we are able to co-mingle assets generated by various implementers to a standardised quality and within a standardised legal contractual framework.

Standardization as a key requirement

- Finance is the key to the rollout to scale of sustainable energy assets such as lighting, cooling, PVs, heating measures within the EU's B2C and B2B market (i.e. building sector, industry sector)
- For scaling, standardization of contractual arrangements of receivables is key.
- Standardized contracts, are the base for the aggregation of Sustainable Energy Assets as tradable securities via securitization
 - under leadership of [EnerSave Capital](#) in the [H2020 LAUNCH](#) project this was successfully tackled – and we have a Big 5 sign off as to IFRS 16 off-balance sheet compliance
- This in turn accelerates deal closure and market growth within the energy efficiency arena.
- This grant's ESCo's the opportunity to accelerate pipeline growth, deleveraging of their balance sheet, improving liquidity, and reallocation of credit risks to the bond buyers whilst granting companies in the energy efficiency arena access to capital markets.

Advantages of the LAUNCH contract

- The [LAUNCH](#) contract closes the knowledge gap
- Via standardization it enables the bundling of similar projects and institutional investors will be able to fund smaller projects
- The risks (technical, occupancy, financial, etc) are mitigated via the “As a service” approach for example:
 - In the case of non-performance on the part of the ESCo, the client has the right to withhold payment (similar to an Energy Performance Contract -EPC)
 - Should the client not pay, ESCo has the right to stop the supply of the service
- Ability for sale of receivables removes credit risk from the contractors books, reducing credit exposure, and freeing up capital for the core business
- At the same time it means the contractor can focus on their core business activities, and not be preoccupied with arranging the finance to do so

Expectations from the CEE, in particular from the V4 Countries and Hungarian markets

- Green Deal transition is virgin territory for new and old EU members and an opportunity to learn from best practices of successful regions / cities / municipalities
- Opportunity for retrofitting the old housing stock and transforming an outdated transportation fleet
 - Generates massive CO2 savings and tackles unemployment rates
- Develop new concepts/products that can be financed:
 - Green Mortgage for new constructions - which is an easy financeable type of initiative/asset as it has the volume and size
 - It provides for standardised aspect needed by financiers, whilst having an asset as a guarantee.
 - E-Mobility – whereby the car and battery are separately financed – V2G
- Assess better the opportunities and be more open to implementation

How can institutions help the Green Recovery

- Institutions control a sizable amount of the population cash and could develop ESG based investment products targeting the retail investor
- Banks can encourage with the EIB's help, lending to SME's engaged in the Energy efficiency industry
 - Using standardized client contracts will help in securitizing these receivables
 - Encouraging green mobility lending
- Investment Funds in general should increase allocations to the green sector
 - Green energy generation back assets are comparatively low risk
 - Energy efficiency backed assets – subject to the measures being well executed and using proper equipment – are low risk and are non correlated – as repayment comes from freed up cash
 - E-automotive sector loans are deemed to be lower risk due to a more responsible end client



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About the speaker:



Mr. Csaba de Csiky is Senior Partner of EnerSaveCapital Sarl a Luxembourg based sustainability focused investment financial and securitization structure, and sits on the boards of various companies, amongst them he holds the Chairmanship of Csiky & Co. Limited, a UK based sustainability focused investment banking boutique. Previously he was on the Board of Directors at Creditanstalt Securities and is a founding member of the Budapest Stock Exchange. After studying Economics and Business Administration at the American College of Switzerland and later Barcelona, he started his professional career at Merrill Lynch A.G. before joining Prudential-Bache Inc. as Senior Vice President. Csaba is bi-lingual in German and Hungarian, fluent in French and English, and has a working knowledge of Spanish and Italian.

Mr. Csaba de Csiky helped the transition of other types of project investments into tradable securities and has long experience as a trader and investment banker, alongside of the partners within EnerSave Capital. The energy efficiency measures are the low-hanging fruit in the battle against global warming, as such Mr. Csaba de Csiky's activity is focused around repackaging sustainability-focused cash flows into capital market products, and the placement thereof with mainly institutional clients. The Green Bonds which are the products resulting from such securitisation are meeting the needs of institutional investors. Luxembourg having a 50% market share of green bonds is the ideal location for promoting Energy efficiency type backed bonds. As such Mr. Csaba de Csiky is personally invested in helping the energy efficiency market advance.



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Thank you!

Csaba de Csiky

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