



Market Formation: Financing Energy Efficiency “Making it Happen.”

**Committee on Sustainable Energy
Steering Committee of the Energy Efficiency 21 Project
Geneva, 29 May 2008**



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EE21 General Objective

“Enhance regional cooperation on energy efficiency market formation and investment project development to reduce greenhouse gas emissions in economies in transition.”



Key Requirements to Achieve this aim

The key requirements are:

Need + Projects + Finance Structure
(Finance + Legal Risk + Credit Risk)
=
SUCCESS!

All of this relies on one other thing ... The Right People !



The Need & the Projects

- The UNECE estimates the market for energy efficiency projects with a payback period of less than five years is estimated to be between EUR 5 and 10 billion.
- Now we need to create significant scale in the commercial sector which can actually deliver meaningful results.
- For now let's take the need and projects as a given and we can also assume that the capital for investment is available, so the real question then becomes, how to tap this potential?



What is and who creates the Financial Structure?

- Market formation requires the development of credible financial structures to be in place, involving the project promoter, suppliers, financial lenders, off takers, legal and accounting advisors to identify the specific measures needed.
- And who will do this? Development banks? National banks? Investment banks? Foreign? Local? Mezzanine Lenders? Suppliers? Equity providers? Who?
- The answer is all of them. Using a co-coordinated project finance approach with externally managed investment funds in a public-private partnership this is credible.



Finance + Legal Risk + Credit Risk

The underlying issues are not trivial.

- Although the finance is available, there is hesitancy ... as:
- Is the legal framework present?
- Is the credit risk acceptable?



The Right People!

- We all accept that ongoing and increasing networking between the targeted national institutions as well as international partners, private lenders and interested parties to ensure the financing of energy efficient and sustainable projects contributing to the mitigation of global energy security risks is required. But is it happening?
- We know we need to engage, but who will create the urgency, need and facilitate the environment for these people to meet?



But can this be done? YES.

- The EUR354 m European Clean Energy Fund is already established and is currently investing.
- Several others are under development.
- The UNECE is currently assisting in the development and launch of a new investment fund to reduce greenhouse gas emissions in twelve countries in Eastern Europe, Central Asia and South-Eastern Europe.



What does it take to happen?

- What do these funds look like?
- Why a private equity model?
- Why targeted to the 12 targeted countries?
- Legal and workable from an accounting perspective
- Have a general partner/limited partner structure
- A performance hurdle rate and preferred return share split
- Fixed investment period and repayment term



What are the true key drivers?

- Across technologies
- Across countries
- Long enough investment period
- PPA
- Legal certainty and currency protection

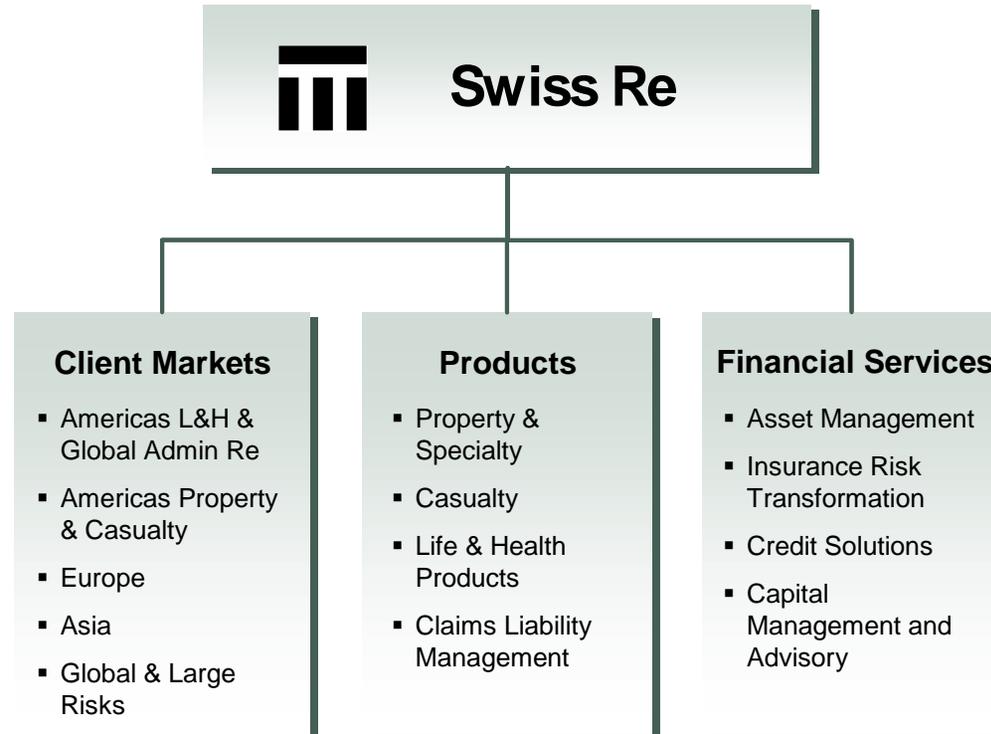


What does Conning do?

- Conning as a regulated financial institution creates a structure which combines the experience, market knowledge and placement ability of Conning with the financial strength of Swiss Re (rated AA-) with the third party expertise of knowledgeable and appropriate investment managers.
- Conning also facilitates the further development of the market formation, by meaningful interaction with all parties across the public/private spectrum as being another key to meeting the wider objective of the EE21 Project Objective.



Conning as part of Swiss Re



- Swiss Re is the world's largest and most diversified global reinsurer rated AA-.
- Conning is 100% owned by Swiss Re and belongs to the Financial Services division.



An Overview of Conning

- Conning has over USD106 billion under contract of which over USD72 billion is under management; predominantly in investment grade long only investments and with an important exposure to alternative investments.
- In addition, Conning has developed a market niche in energy efficiency activities among international organisations, which include:
- Conning's EUR354 million European Clean Energy Fund which is currently investing as is around 40% committed. The ECEF has a relevant and significant carbon credit dimension.
- Conning's recent appointment as investment manager to the EUR125 million Post 2012 Carbon Credit Fund working with five European development banks to develop this market.
- Conning's ongoing development activity on three other projects including two similar types of funds.



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