



**CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE**

Facilitating access to private financing – good practice examples

Executive Summary 4.5

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1 Summary

More investment is needed to increase the scale of retrofit and energy efficiency projects taking place. Facilitating access to private financing is the only solution to overcome this market failure and meet this investment need.

Full engagement of the private sector is key to fulfilling climate-related objectives over the long term. The involvement of the private sector in economic undertakings will support an overall reduction in energy consumption in the economy.

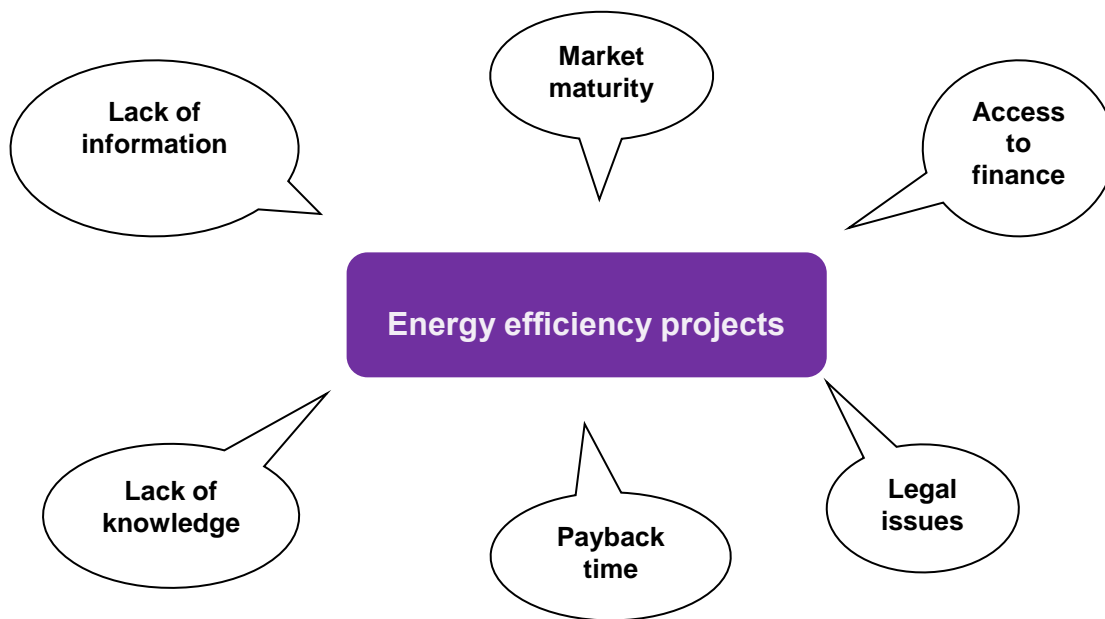
To develop the conditions for private sector financing and to create a fully sustainable energy efficiency market, it is crucial that sound criteria and terms of support are put in place which will maximise the involvement of private sector entrepreneurs. The fundamental issue for stimulating investment in the energy efficiency sector (as in any other) is to create a coherent and well-communicated market among financial institutions. The conditions should assure, amongst other things: not crowding out available sources of financing; using adequate levels of public finance intensity; and stimulating the interest of the private sector to participate in the market by reducing risk.

The ability to finance energy efficiency projects through a combination of available EU funds and private finance can also be a crucial condition for creating a sustainable energy efficiency market. European Structural Investment (ESI) Funds might trigger interest among financial institutions to become co-financing partners. The fact that ESI Funds are deployed often results in very good quality market assessments which lead to the design of well-shaped and effective instruments. By this means, private financial institutions can overcome the barrier of information asymmetry. This also lowers their price of risk and makes their financing attractive for beneficiaries.

Information included in a study carried out on this topic included: energy efficiency conditions and background from the DG ENER perspective, as well as the chief conclusions drawn from the EEFIG Report and examples of good practice in financing energy efficiency investments based on the London Energy Efficiency Fund, the Slovakian joint initiative with the EBRD, the French ECO-loan and the CERTuS Project on financing options for Energy Performance Contracting (see Section 3 for further details).

The study raised questions about potential barriers for energy efficiency investments. The main obstacles relate to the level of energy efficiency market development and to legal clarity. Market immaturity is reflected mostly by the lack of clear national energy efficiency strategies and scarcity of support schemes. For example, less developed markets are not ready to use off-the-shelf schemes and have to establish tailor-made solutions dedicated to their specific conditions. In addition, immature markets are not able to sustain more sophisticated financial tools (such as guarantees, green bonds, equity) and are characterised by the lack of uptake of Energy Performance Contracting. Legislative problems are also connected with the absence of well-prepared, clear national energy efficiency strategies and the problems faced by Member States in fully transposing the Energy Efficiency Directive regulations to the national level.

Figure 1. Identified barriers to energy efficiency investments



2 Recommendations/Conclusions

The study helped to define some recommendations that might be helpful in overcoming the barriers to using private financing for energy efficiency projects.

The study indicated that a crucial factor is the creation of a well-developed energy efficiency market that provides favourable conditions for private investors to participate. Such a sustainable market can be characterised by the following factors:

- *Ex-ante analysis* - both the market failure and the investment gap are well identified by a properly carried out evidence based ex-ante analysis which should guarantee using adequate levels of public support, not crowding out available sources of financing and, last but not least, matching necessary financial tools with appropriate beneficiaries and project types
- *Legal stability and clarity* – this factor is essential both for improving energy efficiency in buildings but also for corporate energy efficiency. It requires not only political will and commitment but also a high level of awareness amongst representatives of government and public authorities. A combination of the aforementioned elements should lead to high quality law and policies that should provide assurance for long-term investment strategies for energy efficiency projects;
- *Proper communication* – communication schemes (and good working relationships) are necessary between all market stakeholders, including financing institutions and public authorities;
- *Access to finance* – access to finance should not only be easy but also affordable for investors. Providing private finance to the market requires a strong counter-party and support on the public side. This can be achieved first of all through legal clarity and long-term energy efficiency policies. In addition, there are specific conditions which reduce the risk to Private Financial Institutions in the area of energy efficiency, such as providing sound ex-ante analysis (which indicates the sub-optimal investment levels, as well as defining financial tools to be applied in the market and describing the ability for revolving systems to be

introduced). The private sector can also be encouraged to the market through the application of specialised financial vehicles like risk-sharing and 'first loss piece' facilities.

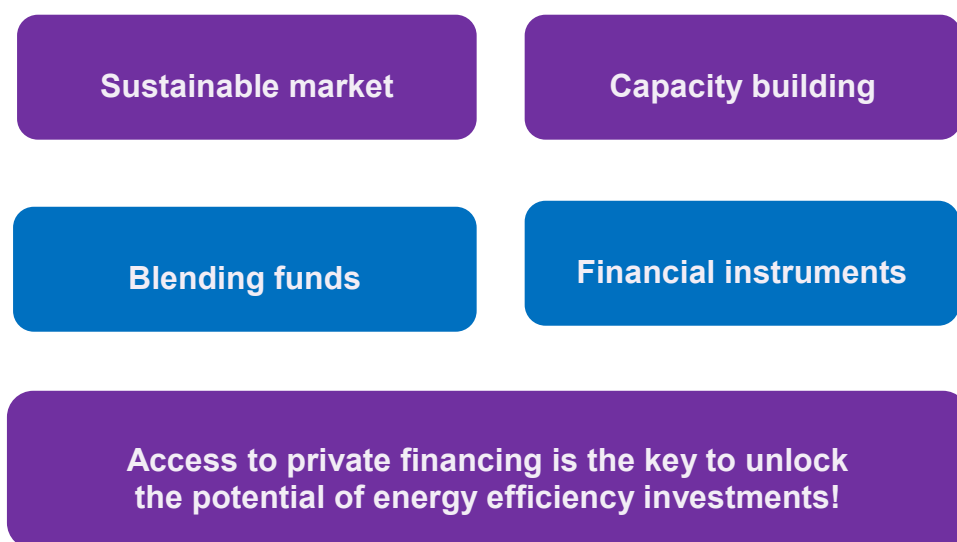
Capacity Building – effective participation of private finance in the energy efficiency market requires levels of knowledge and specific structures within the banks and other involved intermediaries. The skills and capacity needed can be provided through Technical Assistance (facilities like ELENA or support for establishing ESI Funds for 2014-2020) or from national level market facilitators like EIB. Another solution is the creation of long-term consultancy advisory programmes at the national level; these can provide not only Project Development Assistance for investors but also “train the trainer” support aimed to deliver the necessary skills and practical knowledge to the financing institutions.

Energy efficiency is under the average target level of **payback time**; however, this is strongly a cross-cutting issue. Due to the lack of knowledge (qualified personnel) and awareness among decision makers about the potential and profits of energy efficiency improvements, investments in this area are in most cases limited to the “low-hanging fruit” or are focused on easy projects and proven technologies. It is essential to provide the educational and promotional activities that are needed as well as Project Development Assistance (including energy audits preparation and verification). This means constantly seeking to increase awareness of energy efficiency and its multiple benefits (including energy savings, greenhouse gas emissions reductions, energy security, energy prices, industrial productivity, employment).

Financial instruments – it is essential to provide Financial Instruments to the market through a coherent and complementary system embracing elements such as: investment strategy (based on ex-ante assessment); capacity building (education and promotion, advisory schemes); monitoring and evaluation standards; engagement; blending different financial resources (national, EU, international); and finally precisely chosen and designed financial tools (e.g. grants and loans, guarantees, equity). Mixing different types of funds is one of the most efficient ways of achieving strong leveraging of funds and of attracting private financing.

Through the study, it was agreed that facilitating access to private financing is the key to increasing the number of projects and unlocking the full potential of energy efficiency investments, thereby helping to achieve EU energy efficiency targets. Member States with immature energy efficiency markets (based on a grant providing culture) should use the above recommendations to shift towards sustainable energy efficiency markets with full participation of private financing.

Figure 2. Facilitating access to private financing



3 Practical Examples

3.1 Successful Financing of Energy Efficiency Projects by the London Energy Efficiency Fund (LEEF) - Amber Infrastructure Limited, London

A source of finance for energy efficiency and carbon reduction across London, established by the Greater London Authority with the European Investment Bank under the European Commission 'JESSICA' initiative, seed funded with public funds.

LEEF has £112m from the London Green Fund and the private sector; to be lent to public or private sector borrowers on projects that promote energy efficiency.

You can benefit from LEEF if ...

- You are undertaking a refurbishment programme / retrofit project in a London-located property
- Your works contribute to improved energy efficiency through reducing consumption and/or carbon emissions
- Your funding requirement is between £1m and £20m
- You are working with REFIT

3.2 Energy Efficiency – the first fuel for the EU Economy - How to drive new finance for energy efficiency investments (EEFIG report) - European Commission

The main objective of the document is to identify the chief barriers to energy efficiency investments (both in buildings and for enterprises) and to provide robust recommendations for how to overcome them.

The ideal financial instrument is a system which embraces:

- Investment strategy based on ex-ante assessment
- Institutional and contractual set-up among engaged parties
- Capacity building, educational activities and promotion
- Specially structured system of advisory and communication platform (optional)
- Specific system of accounting, reporting, monitoring and evaluation
- Additional financial resources from other international, European, national or regional financial institutions, both public and private
- And which - last but not least – encompasses precisely chosen and designed financial tools (including grants, loans, equity, guarantees and similar solutions)

The full report can be found at

https://ec.europa.eu/energy/sites/ener/files/documents/2014_fig_how_drive_finance_for_economy_1.pdf

The final report, recently published, can be found at

<https://ec.europa.eu/energy/en/news/new-report-boosting-finance-energy-efficiency-investments-buildings-industry-and-smes>

3.3 French experience and projects facilitating access to private financing - ADEME, France

The zero-rate eco-loan scheme:

- Principles
 - 0% loans, up to 30 000€ paid off over a period from 3 to 15 years
 - Distributed by commercial banks involved in the scheme
 - Available for owners, whether occupying the dwelling or renting it

- To implement comprehensive energy refurbishments
- On dwellings used as main residence and built before 1st January 1990
- Objectives
 - Increase the number of comprehensive energy refurbishments in the residential sector to:
 - 200 000 dwellings refurbished over the 2009-2010 period
 - 400,000 dwellings refurbished per year from 2013
- Local initiatives and impact of the EEO
 - Local public-private companies providing third-party financing for EE project
 - Guaranteed fund for energy refurbishment project - €10 million
 - Low rate loans offered by obligated parties' own banks

3.4 SLOVSEFF means of financing sustainable energy projects - Ministry of Economy of the Slovak Republic

Slovak Energy Efficiency and Renewable Energy Finance Facility (SLOVSEFF) - financial instrument for energy efficiency.

Financial investment instrument designed to:

- improve energy efficiency
- decrease electricity consumption
- generate more electricity and heat from renewable energy systems
- lead to better environmental conditions and rational energy utilisation.

Advantages:

- Provision of incentive payments upon verification of implementation of all projected energy saving measures
- Simplified energy audit has to be performed for each project to identify main energy savings or renewable energy potential and to recommend key measures
- Implementation of the measures is checked against the project plan

3.5 'Financing Options for Energy Performance Contracting - preliminary results from IEE funded CERTuS project' - ENEA, Italy

CERTuS is a project involving RTDs, municipalities, energy services companies (ESCOs) and financing entities from economically stricken Southern European countries. CERTuS is co-financed by the Intelligent Energy - Europe (IEE) programme.

Specific objectives:

- To prepare 12 representative projects: 12 buildings in four municipalities in Italy, Greece, Spain and Portugal have been selected
- To adapt existing energy service models and procedures to meet needs and aim towards nearly Zero Energy Buildings under tight economic conditions
- To work out financing schemes
- To support replication by capacity building
- To provide methods and examples

Strategic objectives:

- To create conditions for the energy services market and energy saving projects
- To stimulate the inflow of more private funds
- To stimulate the development of the market
- To stimulate the uptake of ESCO services
- To facilitate the implementation of energy saving projects

For more information visit

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The Concerted Action for the Energy Efficiency Directive (CA EED) was launched by Intelligent Energy Europe (IEE) in spring 2013 to provide a structured framework for the exchange of information between the 29 Member States during their implementation of the Energy Efficiency Directive (EED).

For further information please visit <http://www.ca-eed.eu/> or contact the CA EED Coordinator Lucinda Maclagan at lucinda.maclagan@rvo.nl



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