

WG1.2

Member State financial instruments designed to support public building renovation

CA EED 3

Stockholm, 12 October 2022

Dinis Rodrigues
Energy Efficiency and Energy Advisory Division
Projects Directorate
EUROPEAN INVESTMENT BANK

European investment Bank – An overview

- EIB is based in Luxembourg and **owned by the 27 EU Member States**
- EIB is the **EU's long-term lending institution** – a public bank with objectives **driven by EU-policies** with priorities to promote European economic development and integration
- 4 **key areas**: innovation, SME, infrastructure, climate/environment
- EIB **finances itself** mainly **through bond issuance** on international capital markets
- **Core activities** include **lending, blending and advisory**



European investment Bank – An overview

At a glance (*)



The world's largest multilateral lender



Leading provider of climate finance



Governed by the 27 EU Member States

€ **94.9** billion

Financing in 2021

(*) Including the European Investment Fund

Our investment priorities (*)



INNOVATION
€ **16.7** billion



ENVIRONMENT
€ **14.3** billion



INFRASTRUCTURE
€ **13.7** billion



SMEs
€ **9.6** billion

EU Climate Bank objectives

€1 trillion

for climate action and the environment unlocked by 2030

50 %

of total financing to climate action and the environment by 2025

2020

fully aligned with the Paris agreement by the end of the year

How EIB can assist: Lending, Blending, Advising

Loans/Funds

- Investment Loans (direct)
- **Intermediated Loans**, Promote Aggregation. Small and medium-scale projects (particularly to SMEs) via national and regional intermediary banks. Lending decision remains with the financial intermediary
- Investment Funds
- European Fund for Strategic Investment (EFSI)
- Dedicated schemes such as Private Finance for Energy Efficiency (PF4EE)
- Blending with ESIF

Technical Assistance / Advisory Services typically upstream, with or without links to operations.

- ELENA (European Local Energy Assistance)
- JASPERS (Joint Assistance to Support Projects in European Regions)
- EPEC (Support to public-private-partnerships)
- EIAH (European Investment Advisory Hub)

Introduction

Definition of Financial Instrument

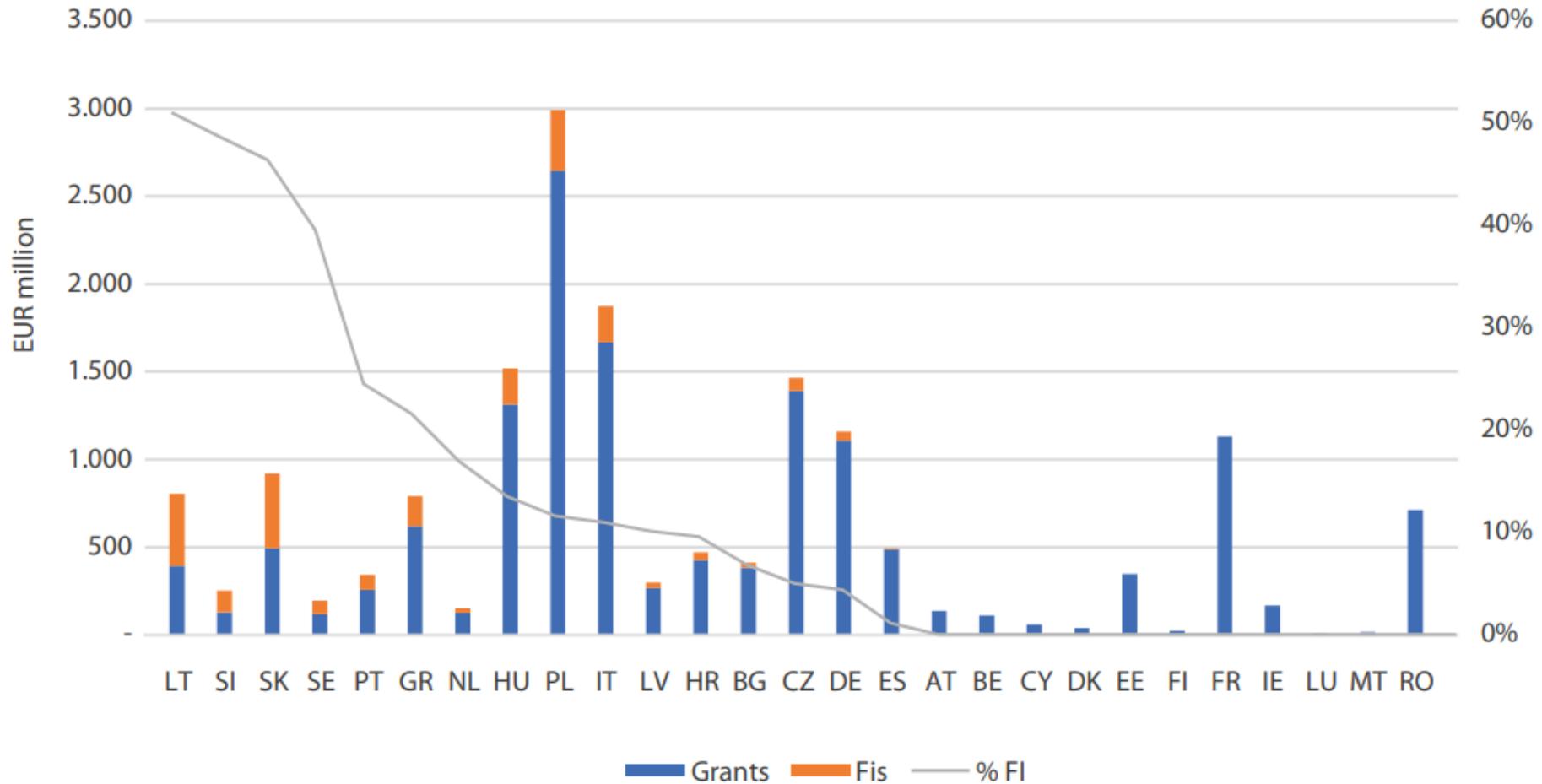
Common Provision Regulation (EU) 2021/1060

Article 2:

(16) 'financial instrument' means a form of support delivered via a structure through which financial products are provided to final recipients;

(17) 'financial product' means **equity** or **quasi-equity** investments, **loans** and **guarantees** as defined in Article 2 of the Financial Regulation;

EE ESIF resources allocated via grants and financial instruments: 2014-2020



Financial Instruments: Product types

Grant type - examples

- **Technical support grant** to cover (part) of the project preparation/implementation costs such as coaching or energy audits. Individuals and SME EE investment project pipeline can be significantly developed thanks to project preparation and implementation support measures.
- **Interest rate/guarantee fee subsidy** to facilitate access of individuals or SMEs to existing loan financing or guarantee schemes. This may allow mobilising private money towards long-term financial instruments.
- **Capital grant** to reduce the investment costs for final recipients in line with their loan repayment capacity or to make the IRR positive, thereby attracting private finance. The grant effectively subsidises projects' positive externalities.
- **Capital rebate** to create incentives to reach higher energy efficiency standards. The amount of the rebate will increase with the energy savings achieved and confirmed by audits.

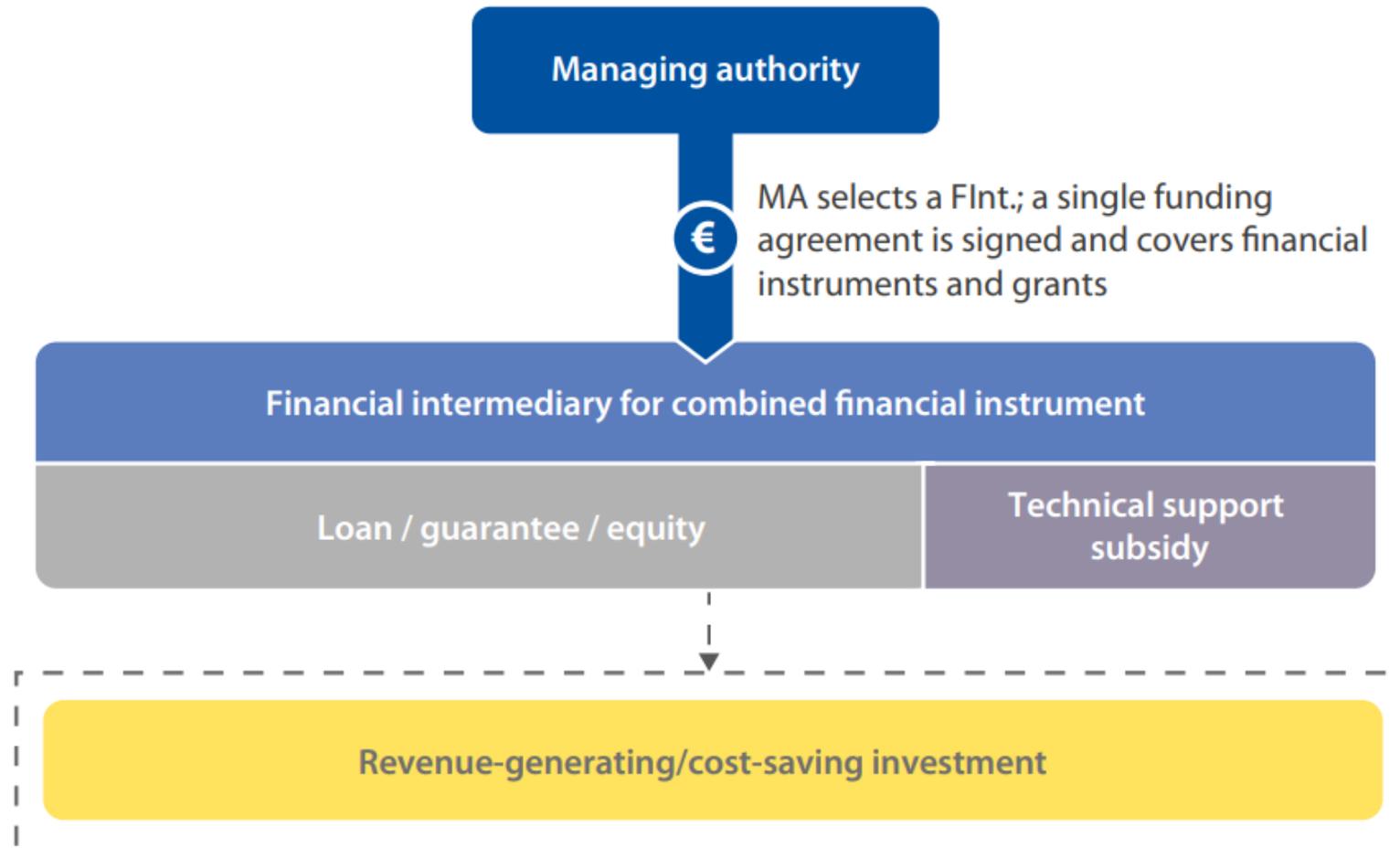
Financial product type - examples

- **Senior loan (risk-sharing)** with a grace period, longer tenor and lower collateral requirements and interest rates.
- **Guarantees** to Flnt. that provide long-term loans at lower interest rate with lower collateral requirements.
- **Energy Performance Contracting** for measures with a shorter payback period.
- **Mezzanine debt facilities** to provide patient capital remunerated in line with project performance as well as loss absorption capacity. Help SMEs access senior debt. No impact on equity structure.
- **Equity products** provide high risk-taking capital for innovative projects (e.g. new technologies). Enable to attract mezzanine and senior financiers.

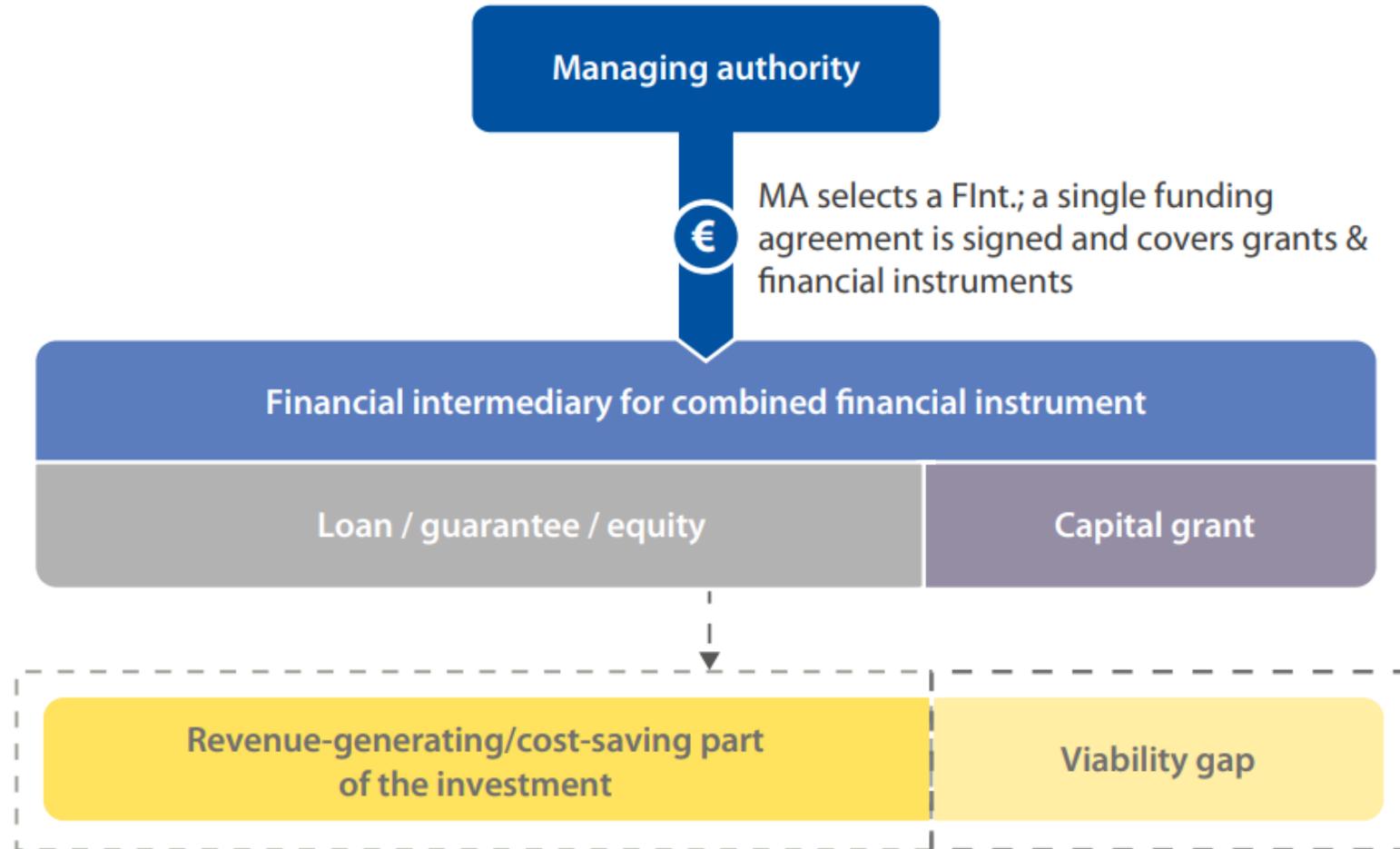
Main barriers to EE investment

- **Lack of awareness** of the EE benefits;
- **Limited financial returns and long payback times**, especially for deep renovations and for EE investments that need to also include non-energy related measures (e.g. in some MS building renovations cannot be performed without including also anti-seismic works, disabled accessibility related works, that sharply reduce the financial return of the project);
- **Financial capacity constraints**, faced by the public sector (e.g. debt constraints and limits imposed by the national budget);
- **Constraints related to financial supply**, there is limited capacity of financial intermediaries to provide financing for EE renovations on the basis of expected savings; and to cope with risks associated to some specific EE transactions (e.g. Energy Performance Contracting, etc.);
- **Grant dependency** and limited availability of households and business to contribute own/ borrowed resources to EE investments (assuming that further EE grants will ultimately be made available);
- Specific barriers related to the **decision making process**;
- **Limited pipeline development capacity within the public sector**, including awareness of off balance sheet financing solutions and significant challenges in managing public procurement processes;
- **Limited technical capacity/contractor capacity** to undertake the scale of the works needed.

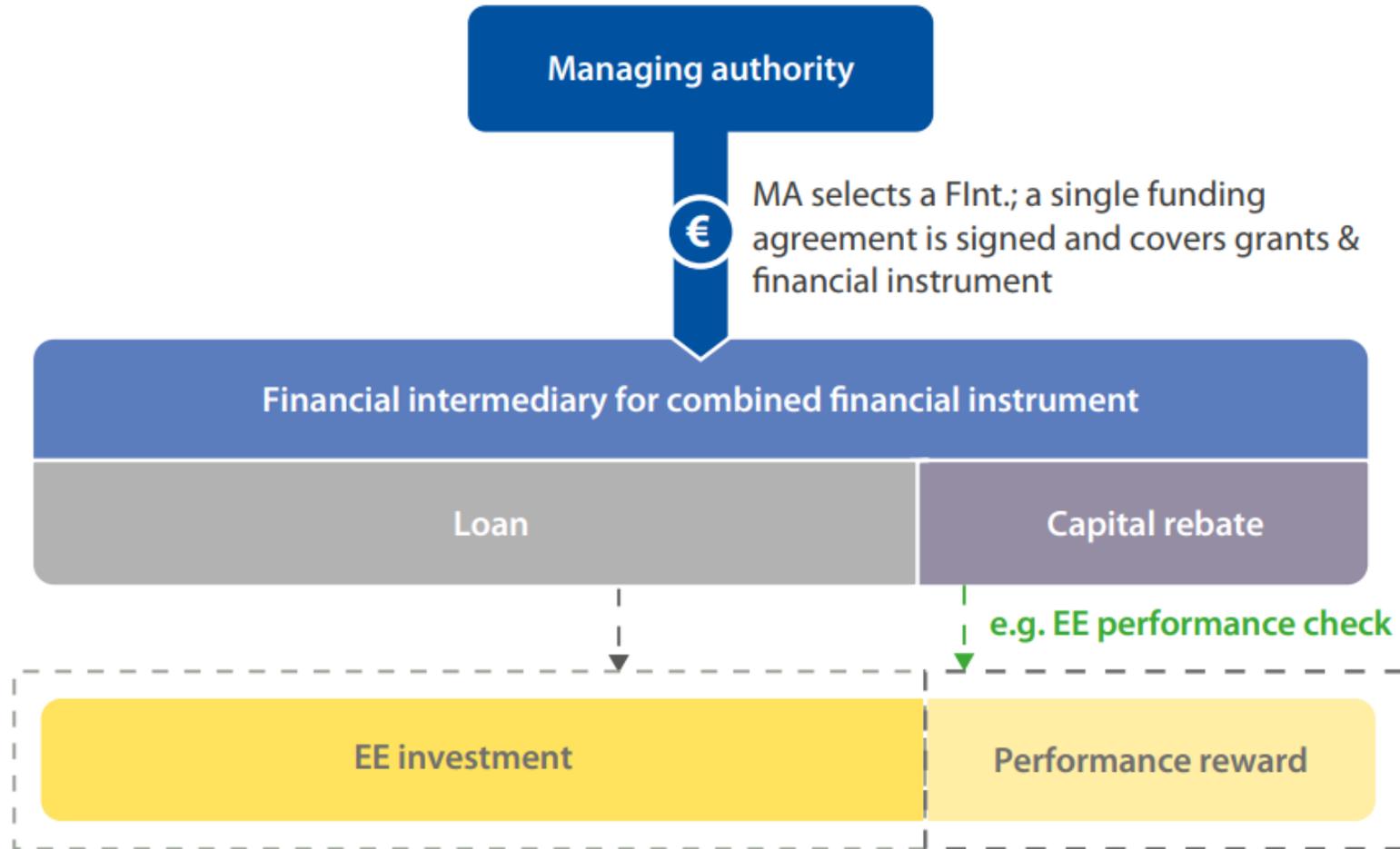
Combining FIs with EU grants: FI combined with grants for technical support



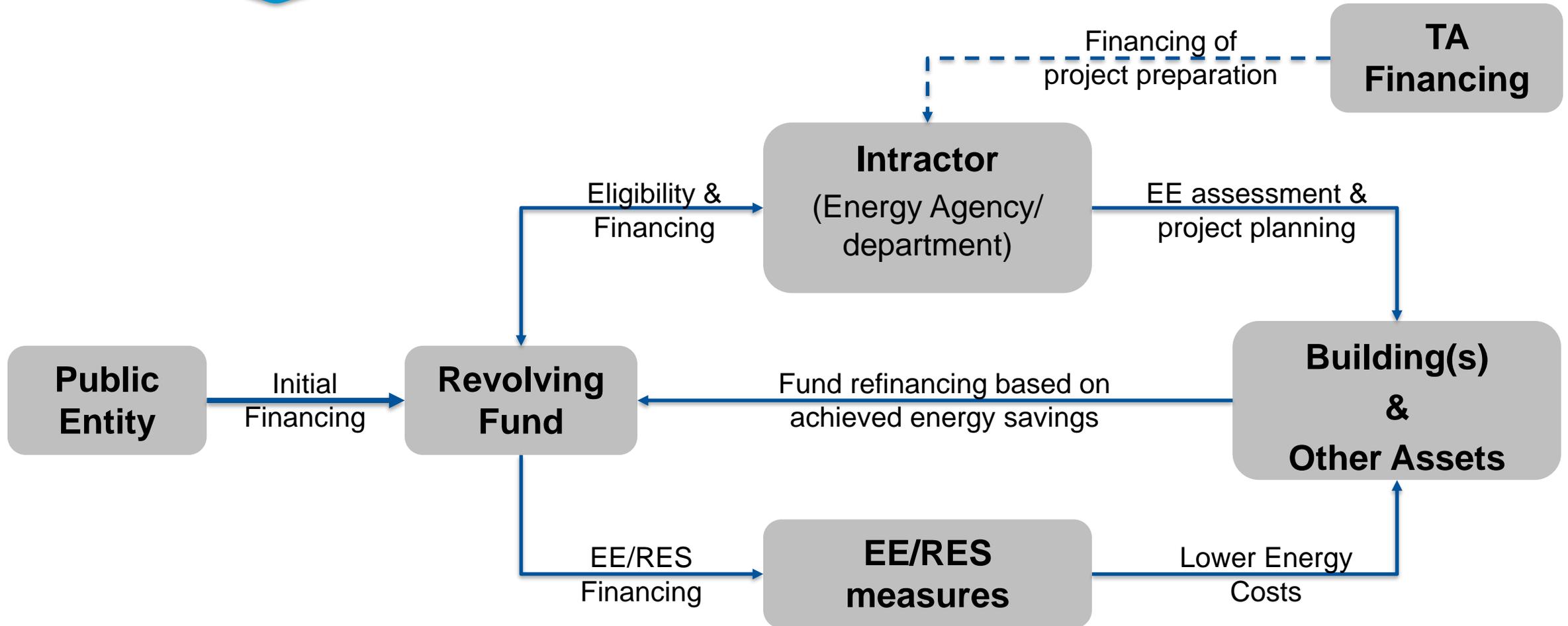
Combining FIs with EU grants: FI combined with capital grants



Combining FIs with EU grants: FI combined with performance based grants



INTRACTING MODEL



Examples: Efficiency for Berlin Properties (Intracting model)

Conclusions regarding efficiency finance



- **Shared Savings for complex projects:** Performance share motivates to put effort into maximizing the savings (often by tuning the installation post-commissioning)
- **Supply of Capital:** Ready-to-call financing in the internal fund reduces financing costs and implementation time
- **Size and Duration of Contract:** Using an Internal Fund enables shorter contract terms and more flexible financing options
- **Flexible Procurement Options:** In addition to the Internal Fund, partner financing is available through equipment lease models
- **Multi-stage financing:** Preparatory ELENA project development funding ideally complements technology-specific funding for individual investment packages (capital investments)
- **Numbering-up** and **Scale-up** are two successful models to accelerate energy efficiency investments depending on the size of the property
- **Tenant-landlord model** for public buildings enables institution of Internal Fund model for the entire managed building portfolio

Examples: ENERGY EFFICIENCY IN PUBLIC VENUES

- Support the implementation of the HELEKTRA Programme
- Ministry of Environment & Energy: Programme Promoter
- Consignment Deposit And Loans Fund (CDLF): EIB counterpart and Borrower (public credit institution)
- Technical Secretariat: Center for Renewable Energy Sources (CRES) & Buildings' Infrastructures SA (BI)
- Expected investment: EUR 714 million
- EIB loan: EUR 375 million
- RRF will co-finance investments
- CDLF will lend up to 70% of the investment costs.
- The remaining 30% can be ensured both by subsidies from the Greek Government or ESCOs
- Alternatively, ESCOs can finance 100% of the investment costs (structure and conditions to be defined)
- An ELENA application is currently ongoing so that public entities can have the necessary technical assistance to submit the applications for the calls to be published

Examples: ESCO ENERGY EFFICIENCY SPAIN FL

Project Description:

The Framework Loan will co-finance energy efficiency and renewable energy investments in Spain by energy service companies (ESCO). The operation is targeted to energy efficiency improvements on the demand and supply side, in the public and private sector, including public buildings, street lighting and hospitals.

EIB finance

EUR 75 million

Total Investment

EUR 200 million

Energy Performance Contracts

The Commission recently adopted a Recommendation(*) on greater use of discrete energy efficiency investment through third party financing with a view to achieving the Community's energy objectives for 1995. This new financial mechanism involves the financing by an outside investment company of energy saving investments which are then paid off by using the cost savings achieved.

A new financial tool to add to the means of achieving Community energy objectives

One of the Community's main energy objectives for 1995 is to improve energy efficiency by at least 20%. A recent evaluation of Member States' energy policies (see P 36) does, however, indicate that this objective is unlikely to be achieved unless new energy policy measures are taken.

Such measures would include the promotion of discrete investment in reducing energy costs. According to the Commission, such investment can be encouraged without subsidies from the public authorities. Third party financing would mobilize vast amounts of private capital for such investment. **In practical terms, this will mean that an energy service company (ESCO) will carry out an energy audit in a company and then suggest and make the investment required to achieve the energy savings identified in this audit. The ESCO will then be responsible for operating and maintaining the equipment introduced. The owner of the company concerned reimburses the cost incurred by the ESCO by using the income from the resultant cost savings.** When the contract ends, the user company can either renew the contract or buy the equipment unless the contract provides - more simply – for transfer of ownership.

Energy Performance Contracts

Reluctance to use the third party financing system

In the United States, the third party financing market has grown since the early 1980s with USD 350 million being invested in 1984, whereas penetration of this technique in Europe has been slow. This is due to a number of factors which include :

- a) the fact that this technique is not widely known,
- b) the fact that contracts tend to be complex,
- c) an insufficient number of companies operate in this area (there are less than ten ESCOs at the present time in the Community all of which are concentrated in a small number of Member States,
- d) the legislative and budgetary constraints which have in many cases prevented the public sector using this technique.

https://ec.europa.eu/commission/presscorner/detail/en/P_88_42, 29 March 1988

ELENA: support to energy performance contracts

ELENA Project Portfolio

- EUR 248m disbursed and committed EU grant
- 142 ongoing and completed projects, mostly multi-sector
- € 8.1bn realized and expected investments
- Average leverage ratio: 33
- 25 countries (no projects in Malta, Cyprus and Bulgaria)

ELENA EPC related Projects:

- 57 projects include ESCO/EPCs
 - 35 projects completed
 - 22 ongoing projects
- Expected Investment: EUR 2.9 bn
- Expected TA: EUR 96.4m
- Expected Leverage Factor 34.1
- 17 countries



General Rules

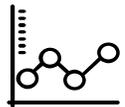


Minimum investment of **€30m**

Grant covers up to **90% of costs** related to **project development support**



Budget allocation: first come, first served; range of **€30m – €50m** per year



Required level of maturity: preparatory studies carried out and main decisions taken before ELENA support request (application should demonstrate high probability that project will be implemented)



Obligation of investment implementation - leverage factor required:

20 for sustainable energy projects

10 for residential buildings and transport



If the leverage not achieved: grant may be clawed back



Investment: from Final beneficiary (applicant) and/or others

Timeframe: 3-4 year implementation period

Sectors Supported



Buildings:

- Residential
- Non residential



District heating and/or
cooling



Street lighting
Traffic lighting



Urban public transport

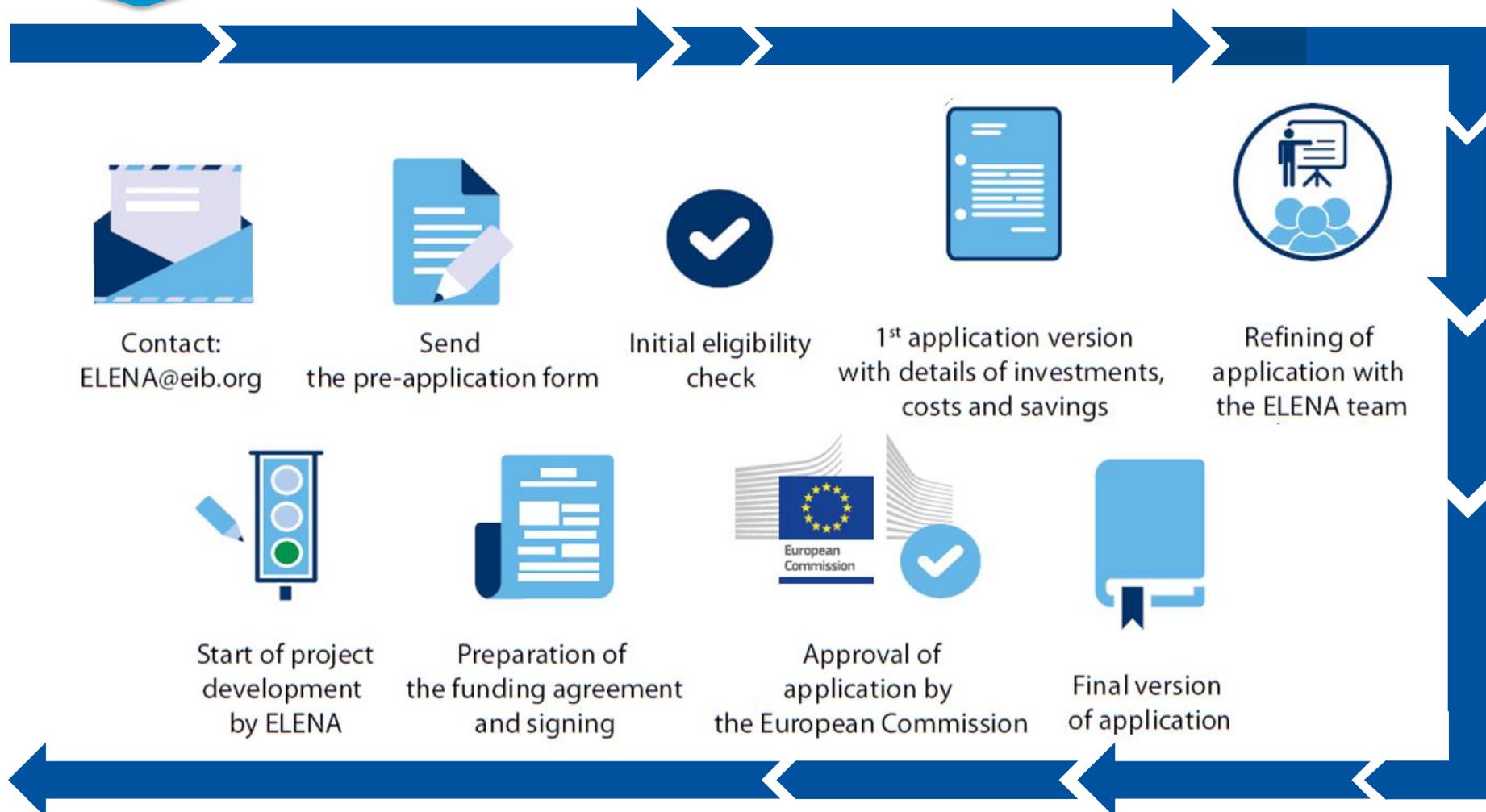


Building integrated
renewable energy sources



Smart grids

ELENA Application Process



Thanks for your attention

www.eib.org/elena

d.rodriques@eib.org

elena@eib.org