CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

New and existing ‘off the shelf’ financial instruments

Funds and Financing for Energy Efficiency

Executive Summary 4.8

Karen Strandoo - Energy Saving Trust, UK
Marcin Jamiołkowski - National Fund for Environmental Protection & Water Management, PL
Ioannis Orfanos – Department for Business, Energy and Industrial Strategy, UK

Date: 13 December 2016

1. Background and Introduction

For the last three years Core Theme 4 of the Concerted Action Energy Efficiency Directive has examined a number of issues relating to the financing of energy efficiency that have been of specific interest to the Member States (MS). The Core Theme was established for MS to share best practice and information to assist in implementing Article 20 of the Energy Efficiency Directive, which calls for MS to facilitate the establishment of financing facilities, or use of existing ones, for energy efficiency improvement measures to maximise the benefits of multiple streams of financing.

This final report is the last in the Core Theme 4 series and summaries the outputs from the meeting held in Bratislava 18-19th October 2016. At the meeting findings were presented from all the previous meetings[1] as well as examining the topic of ‘New and Off the Shelf Financial Instruments’. Attendees at the meeting also put forward ideas and suggestions for financial topics for future Core Theme series.

The European Commission (EC) is encouraging MS to double their ESIF investments through the use of financial instruments, such as loans, equity and guarantees. Consequently the ESIF framework for 2014-2020 provides more flexibility, clarity and possibilities to use financial instruments to help achieve the ambitious goals set up in the Investment Plan for Europe. The ESIF framework also brought new standardised, "off-the-shelf" financial instruments (OTS FIs) for which the terms and conditions are pre-defined, and designed for a swift roll-out. One of the biggest advantages of developing OTS FIs in the context of EU Funds is compliance with the ESIF Regulation and State Aid rules.

Initially the scope for the use of OTS FIs was focused on providing support for SMEs, energy and resource efficiency, as well as research, development and innovation. Up until July 2016 only three instruments existed:

- Risk-sharing loan (FI dedicated to the SMEs, based on the sharing of risks between public and private resources)
- Capped guarantee instrument (FI dedicated to the SMEs, in which public money acts as guarantee against default inside a bank's loan portfolio)
- A renovation loan for energy efficiency and renewable energy projects in the residential building sector

In July 2016 the EC launched two new off-the-shelf financial instruments:

- Co-investment facility to provide funding to start-ups and SMEs. This support will enable them to develop their business models and attract additional funding through a collective investment scheme managed by one main financial intermediary. Total investment combining public and private resources can amount to up to €15 million per SME
- Urban development funds will support sustainable urban projects, for example in public transport, energy efficiency or the regeneration of urban areas. Projects must be financially viable and part of an Integrated Sustainable Urban Development strategy. Total investment combining public and private resources can amount to up to €20 million per project. The support will take the form of a loan fund managed by a financial intermediary, with ESI Funds resources and a contribution of at least 30% from private capital.

Details and specific regulation concerning OTS FI are envisaged in the Commission Implementing Regulation (EU) 2016/1157 of 11 July 2016, amending Implementing Regulation (EU) No 964/2014 as regards standard terms and conditions for financial instruments for a co-investment facility and for an urban development fund.

[1] Further detailed information on each of these plenary meetings can be found on the CA EED website. (www.esd-ca.eu)

2. Summary

Three presentations were given during the CT4.8 discussions which included information about financial instruments, supporting structures and case studies.

2.1. Why financial instruments to support energy efficiency (EE) uptake

Ioannis Orfanos, Corporate Finance Advisor to the Department for Business Energy and Industrial Strategy-UK, provided background information on financial instruments. The following key issues were included in the presentation:

- Findings from the recent Energy Efficiency Financial Institutions Group (EEFIG) Final Report[2]
- Aggregation of barriers and importance of targeting of financially viable projects of small and medium sized businesses having limitations or difficulty accessing finance from markets
- Overview of the types of financial instruments available, their benefits and advantages and ways to implement them

2.2. Overview of financial instruments and the work of fi-compass

Frank Lee, Advisory Services Department European Investment Bank, provided information on the following areas:

- The benefits of using FIs which included:
    - A more efficient use of (scarce) public sector resources, especially for revenue generating or cost saving projects
    - Good leverage potential, also through recycling of funds
    - Brings financial discipline into the project identification/selection process
    - Can be combined with technical support and/or capital grants to overcome market barriers
- Support provided by FI Compass **www.fi-compass.eu** including
    - Step by step process guidance and manual
    - Learning opportunities
    - Awareness raising and networking
    - Access to a single knowledge platform
- A case study from Lithuania using Joint European Support for Sustainable Investment in City Areas (JESSICA) initiative to refurbish 24,000 multi-apartment blocks. The scheme involved both capital grants with technical assistance and soft loans via a single delivery structure – inspiring the “Renovation Loan off the shelf” instrument. See Figure 1.

---

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

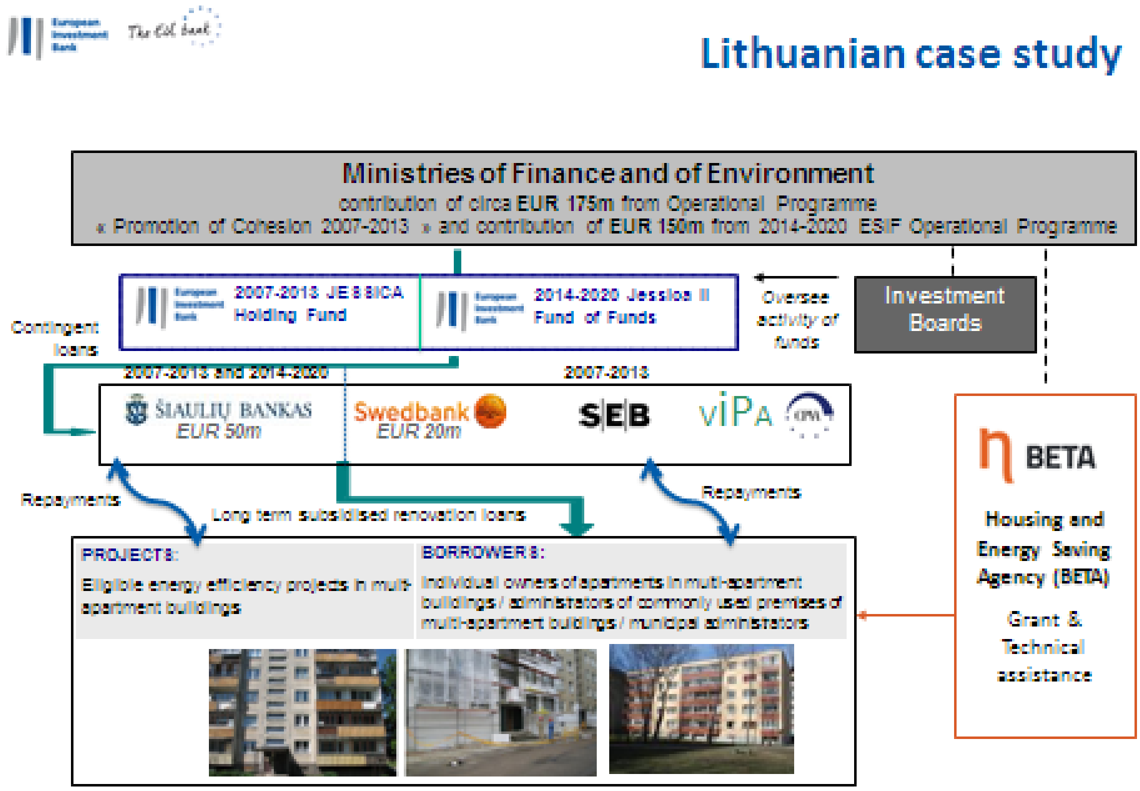

Figure 1: Structure of the Lithuanian refurbishment project.

2.3 London Energy Efficiency Fund

Kenroy Quellennec-Reid, Senior Programme Manager from the Greater London Authority (UK), presented a case study on supporting environmental infrastructure projects in London.

Through JESSICA the Greater London Authority made €210m contributions from their Structural Fund Programmes, along with funding from other public and private sources, to create the London Green Fund. The London Green Fund invests these monies in the form of equity, loans and/or guarantees - not grants - in urban development projects. The London Green Fund provides funding for three Urban Development Funds that invest directly in waste, energy efficiency, decentralised energy and social housing projects. They are 'revolving' investment funds, where monies invested in one project are repaid and then reinvested in other projects. As of 31st December 2015, the Fund had committed all the funds allocated and invested in 18 projects valued over £500 million. The Greater London Authority is now planning on extending the London Green Fund for 2017-2020 to continue investing in energy efficiency projects.

3. Conclusions and Recommendations

The presentations stimulated discussion mainly focused around the following key areas:

- The respective roles of governments and the private sector in providing the impetus for energy efficiency projects
- The requirement for public sector grant funding versus private sector funding to support energy efficiency projects
- The need to de risk projects for both project proponents and financiers

While it was agreed that the private sector can play an important role in the delivery of energy efficiency projects, for example where companies can afford to finance their own projects, there is also the opportunity for governments to create the right policy landscapes to respond to market failures particularly within small and medium sized businesses that have limitations or difficulty accessing finance from markets. Local governements in particular have the ability to aggregate a number of projects to make them more attractive to private fiancing and they also have the knowledge of local markets. It was also recognised that there is a need for long term, stable policy frameworks to provide confidence to the market in investing in energy efficiency projects. Governments can also de-risk projects, for example, by providing 'first loss' on any third party investments.

Following the discussion about whether it was better to provide grant funding or private sector funding to create more projects, it was concluded that both sources are important and it will depend on the exact nature of the project as to the appropriate amounts of public/private sector fuding that is provided. However it was clear that MS differ in their reliance on grant funding to support energy efficiency projects.

Participants agreed that there was an urgent need to de-risk projects through project agrregation, provisions of gurantees, quantified audits and third party verfication. Some of this work is currently being carried out by the Investor Confidence Project Europe (http://europe.eeperformance.org) that unlocks access to financing for the building renovation market by standardising how energy efficiency projects are developed, documented and measured.

Conducting Ex-Ante analysis is also crucial to developing successful projects by helping to prevent failures through overestimated demand and establishing the correct balance between financial instruments and public sector grant funding. Ex-Ante analysis also allows for a degree of flexibility with the ability to respond to market changes as the project planning develops. In addition, Project Development Assistance (PDA) is also very important, not just at the level of project delivery, but also right at the start of planning a project. PDA will ensure that the right technical, financial and legal resources are in place to support the project development and delivery.

Finally particpants were asked what financial subjects they would like to see covered in the next Concerted Action programme. The responses were as follows:

- Building financial capaicity with MS and the finance institutions
- De risking projects through verification, standardisation and aggregation of projects
- Linking finance initaitives across the Energy Efficiency Directive Articles e.g. Art 5, 8 and 7
- The role of governments in responding to market failiures - creating a demand for energy efficiency projects
- Evaluation of behaviourial economics

For more information please email
karen.strandoo@est.org.uk

Legal Disclaimer

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 **www.ca-eed.eu** or contact the CA EED Coordinator Lucinda Maclagan at **lucinda.maclagan@rvo.nl**

CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

Co-funded by
the Intelligent Energy Europe Programme
of the European Union