Horizon 2020 Energy Efficiency Webinar

All you ever wanted to know about

EE23 - Innovative financing schemes
EE24 – Making the energy efficiency market investible

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Adrien BULLIER & Björn ZAPFEL, Project Advisors
We’ve got money, but… we’re looking for projects!

Financial sector

- Dedicated credit lines
- Risk-sharing schemes
- Equity provision

Green bonds market forecast at USD 66bn for 2015 (CBI)

“Investment project” for the financial sector:
- technical black box
- standardized product
- cash-flows, IRR, NPV
- predictability of risks
- transaction costs

We’ve got projects, but… we’re looking for money!

“Investment project” for many project developers:
- technical design tailored to physical constraints
- state-of-the-art technology
- energy payback times
- “no financing” = “no subsidy”?

Risk-sharing schemes

Equity provision

Dedicated credit lines

Innovative financing schemes

Project dvpt assistance

Energy efficiency services

Benchmark investments

Awareness of investors

Organise dialogue

Capacity building

National funding

EU structural and investment funds

IEE & Horizon 2020

Project developers

*/- €100 bn/year addl investment required in EE

Adapted from C. MILIN, ECEEE 2013

* only in 2016
EE-23-2017
Innovative financing schemes
Challenge

• **Innovative regional/national financing schemes**
  • Adequate private finance supply for EE investments
  • Support of Investment Plan for Europe and ESIF

• **Requirements**
  • Legal/technical arrangements between key actors in given territory
  • Agreed common procedures for project qualifying/financing
  • Templates for technical specifications/contracts

• **Principles**
  • Complementarity/additionality & transparency and due diligence
  • Reflection of fundamentals of given territory/market segment
Challenge (cont.)

• **Options**
  • Different organisation types/ownership structures involved
  • Replication of previously successful financing models

• **Examples**
  • Dedicated credit lines
  • Guarantee facilities
  • Factoring/forfaiting schemes
  • On-bill (e.g. utility-financed) or on-tax financing schemes
  • Citizen financing (e.g. crowd-funding) for EE
  • Models for deep renovation of buildings (property and rental market)
  • Schemes based on project aggregators /clearing houses at regional/national level (project development support; matching demand & supply of EE finance)
Scope

- **Development or replication** of innovative financing schemes

- Exploration of **options to support EE financing** by:
  
  - **Innovating the framework and instruments** that could be further up-scaled (e.g. under the European cohesion policy or other schemes)
  
  - Analysing **impacts of existing financial instruments** and requirements for up-scaling
Scope (cont.)

- **Capacity building** on innovative financing
  - Should be included for *specific groups of stakeholders* (Member States, public authorities, energy agencies, energy consultants, financial sector)
  - Should be led by or involve *professional federations or associations* at national level, as appropriate
  - Could use examples developed through *project development assistance (PDA) facilities* (e.g. MLEI PDA, ELENA)
  - Should use *training tools* that are complementary to already existing/recognised training schemes for the target groups and demonstrate sustainability
Expected Impact

- Depending on activities of proposal
- Quantified indicators and targets, whenever possible

- Delivery of innovative financing schemes that are operational and ready to finance EE investments
- Market stakeholders with increased skills/capacity/competences and long-lasting training tools
Project examples

*CITYnvest*

- Introduction of **innovative financing schemes** (revolving funds, EPC, third party financing, cooperative models etc.) in **3 pilot regions** (Belgium, Bulgaria, Spain)
- **Analysis of models** (opportunities and barriers)
- **Large-scale capacity building** and training (for public authorities)
- **Web-based portal** for practical guidance and match-making

http://citynvest.eu/
INFINITE Solutions

- INnovative FINancIng for Local SusTainable Energy Solutions
- Replication of successful innovative financing schemes:
  - Internal contracting scheme
    - Public sector (public buildings, equipment and facilities)
  - Low interest loans (soft loan scheme)
    - Residential sector (private residential buildings, social housing)
  - Financial engineering support service
    - Residential sector (private residential buildings, social housing)

EE-24-2017
Making the energy efficiency market investible
The challenge

• **Lack of trust** of investors and financiers in the financial viability of energy efficiency measures.

• Banks, institutional investors and asset managers lack the **skills and operational tools** to effectively assess sustainable energy investments and integrate energy efficiency in their investment strategies.

• Access to the capital markets for energy efficiency investments is hampered by the **lack of standardisation** of assets.
The scope
Proposals should address 1 or more of the following issues:

1. Frameworks for the standardisation and benchmarking of energy efficiency investments

2. Gathering, processing and disclosing large-scale data on actual financial performance of energy efficiency investments,

3. Targeting institutional investors
1. Frameworks for the standardisation and benchmarking of EE investments

- Development, demonstration and promotion

- Frameworks could be (not limited to):
  - labelling schemes,
  - project rating methodologies
  - risk assessment tools,
  - standardised legal and financial structures of assets (loans, guarantees, energy performance contracts etc.)

- Develop **securitisation and rating models** for energy efficiency based financial products, to allow access to secondary markets.

- Proposals integrated in a broader approach such as socially responsible investment should focus on the energy component.
2. Data on financial performance of energy efficiency investments

- Create a **track record** for energy efficiency in different sectors (buildings, industry, transport, etc.).
- Gathering, processing and disclosing **large-scale data on actual financial performance** of energy efficiency investments
- Further integrating the 'green value' of buildings in property valuation through
  - collection of market data across the EU
  - actions targeted to the key actors in the sale or lease process (e.g. real estate agents, property valuers, notaries, etc.)
3. Targeting institutional investors

- Engaging with institutional investors (e.g. public pension schemes)

- The objective is that investors will:
  - increase the share of their funds invested in energy efficiency,
  - or develop specific funds or investment products.

- Supporting the integration of energy efficiency in portfolio management strategies for institutional investors and/or fund managers, including through re-definition of fiduciary duties.
The expected impact

- **Reduced uncertainty** as regards investments into energy efficiency and **increased investor confidence**;

- **Frameworks, standardisation, benchmarking, standardised descriptions and data evidence of financial returns of energy efficiency investments agreed and accepted by the market**;

- **Higher allocation of institutional investments to energy efficiency; standardisation of assets enabling securitisation; development of a secondary market for energy efficiency assets.**
3 projects selected in call 2016 - under Grant Agreement Preparation

- Investigating the effects of energy efficiency improvements on the value of a home and the risks of default associated to a mortgage, and how this could result in lower interest rates and higher lending capacity for home energy renovations
- Extend the standardization approach of the Investor Confidence Project beyond buildings and into Industry and Infrastructure (street lighting and district heating)
- Establish 8 national quality certification frameworks for energy efficiency services, and develop guidelines on EU-wide standardized criteria
Relevant projects examples

- **Investor Confidence Project Europe:**
  - Increase investor confidence and reduce transaction costs through standardisation
  - Joint development with the finance sector of protocols for process and data management in building energy retrofit projects
  - Replicates a US initiative in 5 European countries.

- **SEAF – Sustainable Energy Assessment Framework**
  - IT based framework for valuation and benchmarking of smaller sized sustainable energy projects (energy efficiency, demand response, distributed renewable generation etc.),
  - reduction of transaction costs and risks and enhancement of bankability
  - enhance investors' confidence, through innovative and relevant asset valuation methodologies accepted by the market and standardized descriptions of sustainable energy investments.
Relevant projects examples

- SEI Metrics (Sustainable Energy Investment Metrics)
  - Develop an assessment toolbox that will enable to measure the performance of investors' portfolios vis-à-vis climate and energy scenarios.
  - Create visibility on the market in order to monitor the impact of investment portfolios.
  - Methodology is currently being tested by >70 institutional investors

- ET RISK (Energy Transition Risk)
  - Methodology to assess the risks associated to an Energy Transition scenario for institutional investors.
  - Equity valuation models and credit risk models will be integrated into the products of mainstream service providers such as Standard & Poor's (part of the consortium).
Relevant projects examples

- **REVALUE**
  - Improve the financeability and attractiveness of sustainable energy efficiency investments in social and private housing
  - Developing standards and valuation techniques that integrate energy efficiency performance into residential property valuation.
Other projects to build upon or take into account

- SUNSHINE project on forfeiting in Latvia - http://sharex.lv/en
- 'Financing platforms' projects selected in 2014-15: SEFIPA (AT), ENERINVEST (ES), BUILDINTEREST (NL, FR, IT), RESFARMS (ES)
- IEE and Horizon 2020 projects under Project Development Assistance (MLEI / PDA), EIB ELENA projects
More information and help

- Project development assistance (PDA) projects (Horizon 2020/IEE)
  - Webinar on PDA (EE-22)
THANK YOU FOR YOUR ATTENTION

Adrien BULLIER, Senior Project Advisor
adrien.bullier@ec.europa.eu
Björn ZAPFEL, Project Advisor
bjoern.zapfel@ec.europa.eu
Questions?