MOBILISING THE FINANCIAL SECTOR ON ENERGY EFFICIENCY

Financing Energy Efficiency in Malta and Italy

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State of the global energy efficiency market
There is a strong macroeconomic case for energy efficiency investment; and there is a strong business case for financial institutions.

**Energy productivity bonus**

The annual energy productivity bonus resulting from a comparison between actual 2016 GDP and the notional level of 2016 GDP had energy intensity stayed the same is USD 2.2 trn, which is twice the size of the Australian economy.

**Business case**

- Risk management
- Technological development
- Regulatory requirements / fiduciary duty
- Energy price hedge
- Deep refurbishments pay off in “green value” segments
- Frequently short payback for low-hanging fruits

**Global BAU until 2035 would leave most EE efficiency potential untapped**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Realised Potential</th>
<th>Unrealised Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>Power generation</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Transport</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Industry</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
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Source: IEA, UNEP FI
There is a large growing global EE investment market; energy efficiency improvement is gaining pace despite falling oil prices.

According to the IEA, global annual EE investment needs to increase by **A factor of 8** to meet a 2 degrees pathway.

Source: IEA
Transforming the energy efficiency market
Four main challenges define the energy efficiency opportunity

Main challenges in scaling up EE investment

**Complexity**
Wide range of financing structures necessary for investments across sectors and asset classes

**Deal size**
Small ticket size causes need for aggregation

**Embedded transactions**
EE investment is mostly integrated into other transactions, such as real estate refinancing. Need for identification/tagging of EE components in transactions

**Coordination**
Common frameworks for project developers, investors, financiers and project hosts

Source: UNEP FI based on Milken Institute
To mainstream energy efficiency, the investment market needs to combine concessionary finance with risk sharing and standardization.

Major drivers of FI action on energy efficiency

- Concessionary finance
- Shared risk (Guarantees)
- Shared standards

Source: UNEP FI based on Milken Institute
Standardization/mainstreaming has a number of benefits for the EE investment market

Standardization of financial practices means more than standardized projects

- Lower transaction costs
- Lower market entry barriers
- Greater deal flow due to fungibility
- More opportunities tapped / larger market

... however:

The EE investment market evolves gradually. Progressive standardization should still leave room for innovation.
EEFIG in its second phase made major contributions to progressive standardization and mainstreaming

De-Risking Energy Efficiency Platform

- DEEP is an open-source initiative to up-scale energy efficiency investments in Europe through the improved sharing and transparent analysis of existing projects in Buildings and Industry.
- Now covers data for more than 10,000 industry and building projects
- Please use or contribute to DEEP

EEFIG Underwriting Toolkit – Value and Risk Appraisal Guide

1. To help originators, analysts and risk departments within financial institutions
2. To provide a standardized framework for evaluating
3. To help developers and owners seeking to attract external capital
4. To foster a common language
The Energy Savings Insurance Project Europe will deliver technical de-risking for energy efficient SMEs

The ESI model comprises financial and non-financial mechanisms designed to work together to overcome the barriers, create trust and credibility among key actors, reduce the perceived risk of stakeholders.

- **Standardised Contract**
  Between SMEs and Technology Provider with promised savings

- **Energy Savings Insurance**
  By an insurance company (third party), providing a risk coverage product with the SME as beneficiary

- **Validation**
  by an independent technical validation entity

- **Financing**
  SMEs: Investor and credit taker for EE projects, commercial bank

- The ESI model has been launched in Mexico and Colombia in partnership with the Inter-American Development Bank, and local financial institutions. It is being planned and implemented in other 5 countries in Latin America.

- ESI is now being rolled out in Italy, Spain and Portugal.

- ESI also features in the G20 Energy Efficiency Investment Toolkit.
Advancing the global energy efficiency framework for FIs
The UNEP FI energy efficiency finance platform will act as a first port of call for FIs interested in EE.

**UNEP FI Energy Efficiency Finance Platform**

- Focused on mainstreaming energy efficiency through information exchange between world regions, with a strong focus on European financial institutions
- Offers a forum for financial institutions to identify leading practices
- Feeds into EEFIG and the G20 Energy Efficiency Finance Task Group (G20 EEFTG)
- Currently recruiting knowledge partners
The G20 Energy Efficiency Investment Toolkit provides a collaborative architecture for policy-makers and FIs and was endorsed during the G20 Hamburg summit.

**G20 EE Investment Toolkit**

- **Policy**
- **Private finance**
  - Banks
  - Institutional Investors
  - Insurance Companies
- **Public finance**

**EEFTG Energy Efficiency Investment Principles for G20 Participating Countries**

- **G20 Energy Ministers** in Istanbul in 2015 & attached to the G20 Leaders' Communique from Antalya

As our contribution to the work of the G20 Energy Efficiency Task Force, and as public financial institutions, we share a common understanding of the positive economic, climate and societal benefits of energy efficiency. Together, we wish to ensure that our activities promote and support energy efficiency, and do not waste energy.

In this task force, we have come together to provide our collective insights to G20 leaders and to jointly agree a series of priorities to guide our continued operations through the joint G20 Energy Efficiency Statement. We, the undersigned, within our respective institutional mandates, reaffirm our commitment to strengthening our efforts to support energy efficiency and jointly identify the following priorities to increase our energy efficiency investments:

1. Define energy efficiency principles into our way in which we consider investment and finance frameworks and make a clear reduction in energy efficiency; increase our activities in support of Policy Frameworks which require it; promote energy efficiency at all levels of a life-cycle cost-optimal approach to the procurement of new infrastructure and buildings.
2. Work with our stakeholders to increase the amount, availability and accessibility of Technical and Project Development Assistance facilities to help us and our partners’ investments.
3. Work to enhance energy efficiency measures and their flexible co-financing; increase our work with international partners to support our work on new energy efficiency.
4. Work to increase our work with retail distribution channels through for instance and other innovative schemes, which help targeting of energy efficiency and energy efficiency.
5. Support energy efficiency’s contribution to the future of mobility, smart cities, energy grids, industry and infrastructures.
6. Engage in a more structured exchange of knowledge and best practices with the private sector, with a focus on innovation in financing mechanisms, and with a view to improving the implementation of energy efficiency performance standards in specific countries and subsectors.

Endorsed by: European Bank, European Bank, European Bank, European Bank, European Bank, European Bank, European Bank, European Bank, European Bank.
Unprecedented collaboration between policymakers, private finance institutions and development banks is required

Integrated

USD trillions

USD 221bn

Energy subsidies; Inefficient markets; Supply-led planning.

Energy Transition; National Renovation Strategies; Vehicle Fleet Standards; Transparent Energy Planning.

Core

ESCOs (USD 24 bn); “Self-financed”

“EE First”; Mandatory targets/standards; NZEBs; EE Obligation schemes; National EE Action Plans

Mainstreaming

Enabling

Market

$100tr

$70tr

$31tr

$176 + bn

Policy

2000+ policies

Banks

Investors

Insurers

Private Sector

Public sector

Finance undertaken without explicit consideration of energy “externalities” or cost effective energy improvements.

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Product and services without explicit consideration of energy “externalities”.

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Green tagging; Green buildings lending; green lending; climate lending; Equator principles.

Green tagging and company disclosure; Collaborative shareholder activism; Green funds; Sustainable real estate funds.

Green buildings insurance; Climate mitigation insurance and investments; Addon coverage; Technical assistance, advisory services.

Resource Efficiency; Safeguards; ESG & Climate Commitments; $33 bn

Direct EE Lending; EE Policy lending; EE targets; Technical assistance; $7 bn
THANK YOU VERY MUCH.