



# EEFIG WG on The Evolution of Financing Practices for EE in Buildings, SMEs and Industry

*Presentation of main results and conclusions*

*16 November 2021*



# Energy efficiency investments in the EU have not materially increased from 2016



- Yet, aggregate **energy efficiency investments** must more than double to achieve the EU's new climate and energy targets
- This is increasingly urgent to deliver anticipated progress by 2030
- Focus and actions needs to be placed notably on the renovation of:



**Buildings**



**Industry**



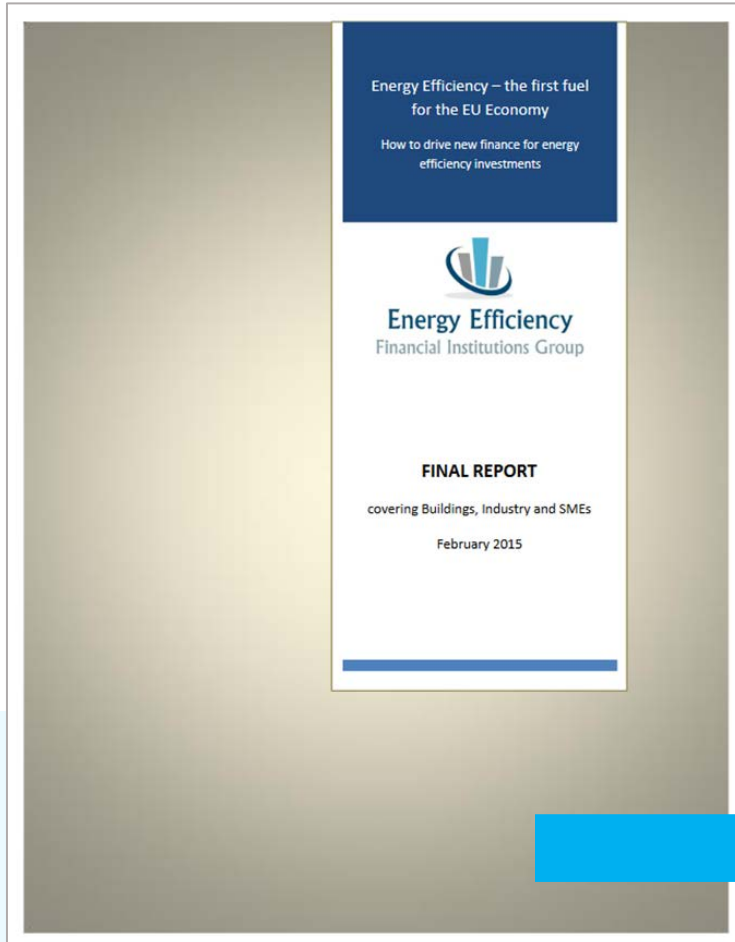
**SMEs**

***The market rarely delivers energy efficiency improvements spontaneously, [if] there is no market push. Consumers are not providing a pull towards energy efficiency, usually because they are ignorant of (or indifferent to) the range on the market or the implications of their purchase.”***

***B. Broadman***



# Most of the recommendations that EEFIG highlight in 2015 remain relevant today, with some progress...



- Since then positive progress has been made in:
  - The **Eurostat guidance** on the public accounting treatment of energy performance contracts ✓
  - The delivery of **DEEP** - Europe's largest energy efficiency project database ✓
  - Developing **standards** for financial institutions' energy efficiency investment processes ✓

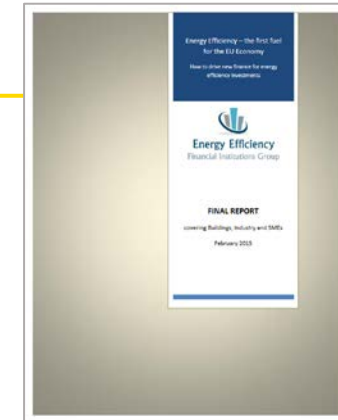


***The energy efficiency market ought to be driven through mainly policy, regulatory, as well as fiscal, grant and CO2 prices support***

# Overview of EEFIG's 2021 General Recommendations to the EU Commission (#1)



- Ensure an adequate and **rapid implementation of the policies** proposed by the EU Commission in recent years related to EE. This should include the **EEFIG 2015 recommendations** as most are only partially implemented.
- **Develop large EE programmes by segment** to facilitate the growth of energy performance contracting and ESCOs, notably for public and commercial buildings and energy-intensive SMEs.
- Ensure that the **European Semester evaluates the EE investment levels and activities**, at MS level to provide feedback into the next policy cycle and the effectiveness of natl policies.
- The EC should promote that public **procurement rules include the EE first principle and incentivise the use of low carbon technologies, including EE**. All projects financed by EU funds should be procured applying these rules.
- Facilitate the development of **new low-carbon heat networks** and the modernisation of existing ones, in order that they are Paris aligned.



# Overview of EEFIG's 2021 General Recommendations to the EU Commission (#2)



- **Improve the use of EU funds** (ERDF, LIFE, H2020, etc) in EE. This funding should only be used to support EE investments that deliver a significant contribution according to the **EU Taxonomy aligned**.
  - Grants should only be used when it can be demonstrated that other alternatives are **not feasible**, such as a public-backed financial instrument.
  - Reporting requirements for small EE investments can be streamlined.
- **The development of large-scale financial instruments can be encouraged**, in collaboration with distribution partners to reach millions of corporate and buildings related customers in order to mobilise larger amounts of investment with the grants available.
- **Improve annual reporting on EE investments** in each MS by sector across the EU, in particular for existing buildings and industry.
  - Systematic reporting to central databases like **DEEP should be mandatory for public funded projects**.



DE-RISKING ENERGY  
EFFICIENCY PLATFORM  
(DEEP)

# EEFIG 2021: Buildings



# EE investments in buildings are significantly below the levels required to deliver the Renovation Wave

- An additional **EUR 275 billion** per year is necessary over the period **2021-2030** in order to reach EU energy and **climate objectives in 2030**

- **Reforms needed in the buildings market:**

- Enforcing EE standards in buildings to bolster existing policies;
- Transposing best practice policies quickly across MS;
- Dedicating specific incentives and requirements to buildings types;
- Educating building owners and financial intermediaries;
- Providing long-term finance to enable deep Paris-aligned retrofits.

## Barriers by market segment

	Residential	Public	Commercial
Common barriers	<ul style="list-style-type: none"> <li>• Energy prices in some markets</li> <li>• Institutional capacity</li> <li>• Low priority</li> <li>• Difficulty in coming to an agreement on the renovation among the owners/tenants of a (big) building</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of enabling policies</li> <li>• Risk perception /lack of confidence in performance</li> </ul>	<ul style="list-style-type: none"> <li>• Information asymmetries</li> <li>• Awareness of benefits</li> </ul>
Specific barriers	<ul style="list-style-type: none"> <li>• Complex Process and lack of expertise</li> <li>• No performance guarantee available</li> <li>• Affordability</li> <li>• Access to finance</li> <li>• Fragmentation</li> <li>• Decision making (multi-apartment)</li> <li>• Bankability of homeowners/ housing association</li> <li>• Owner vs Tennant</li> <li>• Technical know-how</li> <li>• Cautiousness of the householders post Covid19 crisis</li> </ul>	<ul style="list-style-type: none"> <li>• Data gathering</li> <li>• Risk aversion</li> <li>• Internal financial incentives (retention of savings)</li> <li>• Fragmentation/ownership</li> <li>• Procurement rules</li> <li>• Technical know-how</li> <li>• Funding solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Competition in capital budget</li> <li>• Long paybacks (3+ years)</li> <li>• Business interruption risk</li> <li>• On-balance sheet IFRS classification</li> <li>• Technical know-how</li> <li>• Bankability of occupier/owner</li> </ul>

# Minimum energy performance standards (MEPS)

- Few countries have **mandatory MEPS** for existing buildings and often EE and renovation standards are not very demanding or not checked.
- MEPS have the potential to **significantly scale up** investment in EE in buildings,
  - As there is insufficient public funding to ensure the investments required.



## Mortgage Portfolio Standards (MPS) for retail lenders proposed in the UK

- Meant to increase mortgage collateral energy performance and to align retail lenders with Government EE ambitions.
  1. It proposes mandatory disclosure of energy performance for all registered mortgage lenders on their websites and to Government on an annual basis
  2. UK lenders are requested to voluntarily agree to set a MPS with an average of EPC Band C by 2030.

*\* The UK government also retains the option to introduce mandatory improvement targets on lenders if insufficient action risks a shortfall in emissions savings required by its binding carbon budgets.*



# Importance of the public sector

- Large programmes aiming at improving the **EE in public buildings** have been announced, yet **only a few buildings have been renovated**.
- If **implemented at the scale** they have the potential to significantly **increase the investment in EE** in the public sector.



They would also contribute to **developing the ESCO market** that can also play a significant role in commercial buildings.

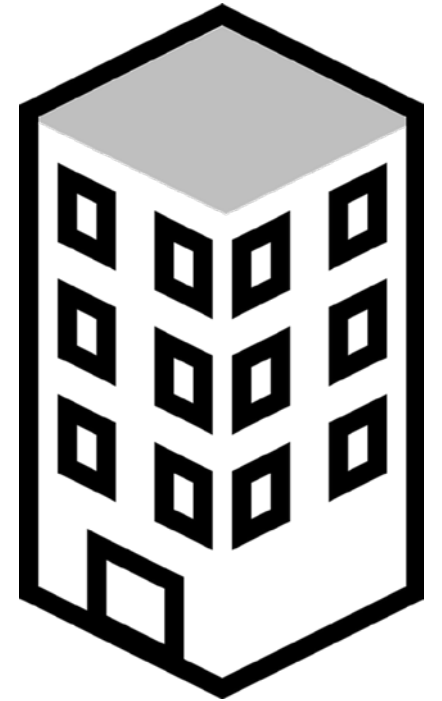
- Public technical assistance and project development assistance is critical in driving demand.



# 2021 EEFIG Recommendations for buildings #1

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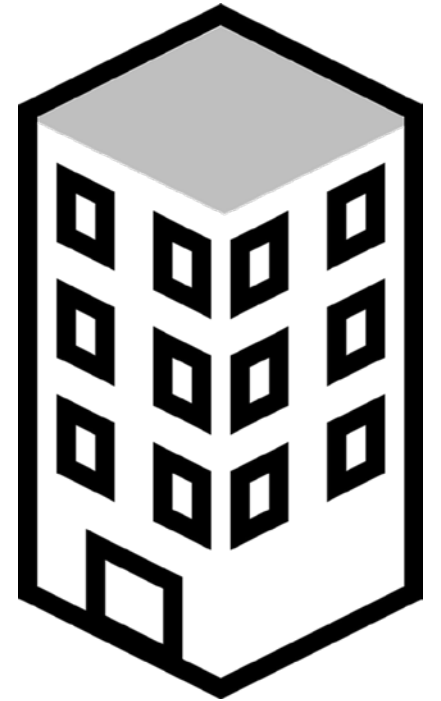
- **Promote that MS adopt minimum EPCs for existing buildings.** These standards should be more demanding over time to align with EU climate and energy targets.
- **Public grants, green mortgages, tailored renovation loans and new blended finance facilities combined with TA** can help building owners deliver these standards.
- **The EU should scale-up its funding for TA,** including its delivery via one-stop shops and other retail-facing platforms and organisations to support building owners and local authorities improve the EE of their buildings.
  - These funds should also be used to incentivise MS to put in place similar TA facilities, but financed with their natl funds and by promotional banks.



# 2021 EEFIG Recommendations for buildings #2

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- Promote MS to implement plans to significantly improve the EE of all **public buildings**, including social housing, aligned with targets within new legislation.
  - The EC should step-up its monitoring of their implementation, **as many plans remain unfulfilled**.
- Support MS to increase the amount of grants available for building **renovations**, and in the provision of fiscal incentives.
  - These grants should be focused on low income homes, SMEs with difficult access to finance, on blended finance for deep renovations and **to facilitate the market entry** of clean **and EE technologies** in their early penetration phase.
- Support MS in improving the quality and transparency of EPCs. It remains low in many countries.



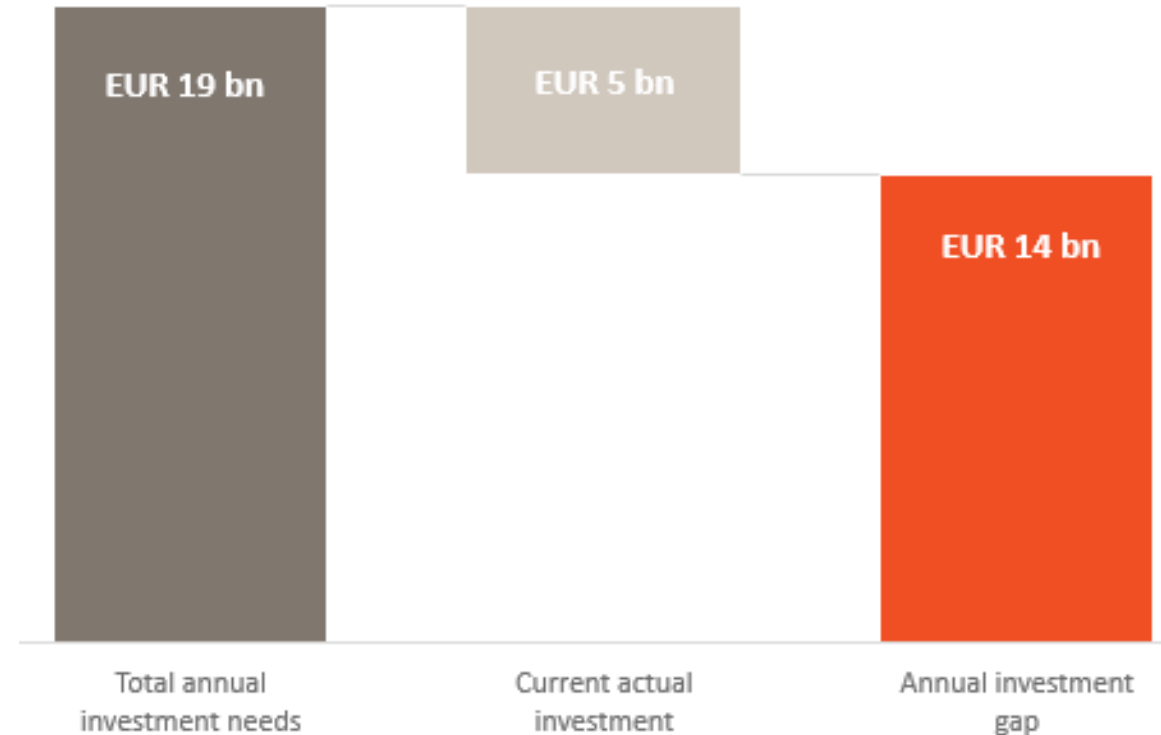
# EEFIG 2021: Industry & SMEs



# EE annual investments in industry have remained constant since 2018, at around EUR 5 billion per annum

- EEFIG sees an **investment gap** in the order of **EUR 14 billion per annum** to reach the current European climate and energy goals.
- EEFIG is confident rapid progress can be achieved:
  - 20x smaller than the one identified for EU buildings ✓
  - concentrated industrial energy use, and it being responsible for 25% of EU greenhouse gas emissions ✓
  - The availability of finance is not problematic, EEFIG is confident rapid progress can be achieved ✓

**Annual investments in EE in EU industry**

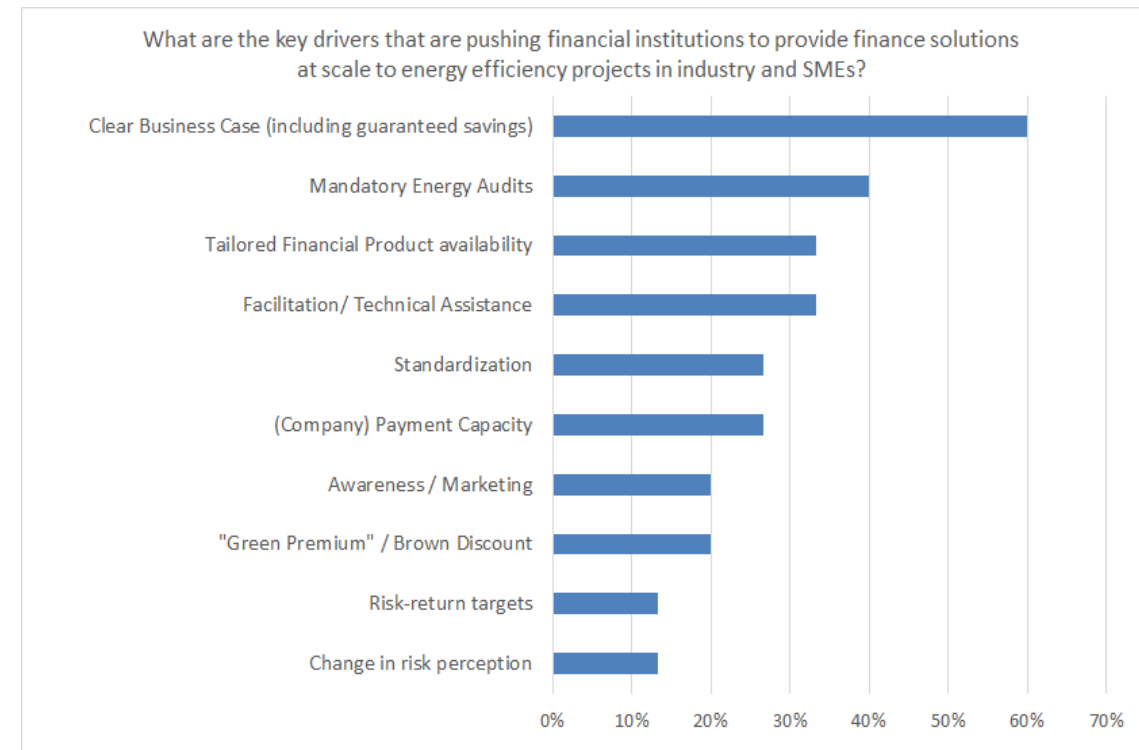


# ESG, EE Information Flows and Energy Performance Contracting need to increase and connect...



- ESCOs can support the development of EE investment in industry, and SMEs, by providing advice and finance.
- **Information flows** in industry can also be improved to facilitate financing of EE investments
  - as well as to further develop the accounting treatment of **EnPC** for the private sector in line with Eurostat guidance note of September 2017 to ensure maximum uptake.
- The **integration of ESG criteria** by companies will support them to put in place an action plan to reduce GHG emissions

## EEFIG ranking of key drivers of supply of corporate EE investments in industry and SMEs



# 2021 EFIG Recommendations for industry and SMEs (#1)

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- **Industrial companies must monitor and manage** their energy consumption using mandatory Energy Management Systems, ISO 50001 standards, energy monitoring systems, mandatory EE targets, energy audits. Subsidies should be used only to support SMEs and those outside EU ETS.
- **The standardisation of industry-specific packages of EE solutions** will provide a strong base to structure finance around the energy savings expected and to design dedicated project financing instruments. Public technical and project development support is recommended.
- **Grow EE networks, build sectoral toolkits and benchmarking tools, help standardise EE solutions and increase the knowledge sharing capabilities of industrial companies and SMEs.**
- **Increase research investments into EE investments in Industry.**



# 2021 EFIG Recommendations for industry and SMEs (#2)

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- **Extend non-financial corporate sustainability reporting**, that currently applies to large companies, to small and medium-sized enterprises that emit significant amounts of GHGs, on a voluntary basis.
- **FIs must systematically implement** EE first and evaluate the benefits of EE projects in their risk assessments of industrial clients and provide their clients dedicated EE finance lines.
- **Facilitate the financing of ESCOs and EE special purpose vehicles**, with asset finance preferred over ESCO corporate finance.
  - Funding the EnPCs or the direct cashflows from savings is less complex than the assessment of the management teams of ESCOs and their corporate structures.





# Finance and Financial Instruments



# Whilst there is greater supply of finance, barriers remain

- Main barriers identified in 2015, remain critical:
  - **High investment costs** (as energy efficiency solutions are more capital intensive than less efficient solutions and often have longer pay-backs)
  - **High transaction costs** - as energy efficiency investments are generally small
  - Some energy efficiency projects have **poorly known risk characteristics**
  - Some market segments have a **difficult access to finance** (low incomes households and SMEs).



***The limited availability of reliable information, real energy efficiency performance data is a growing issue for financial institutions.***

# Reducing the cost of finance through new instruments

***The expansion of public engagement and regulatory frameworks is sure to drive the engagement of more financial institutions to support the parallel development of new and tailored energy efficiency financial products.***

- New financial instruments supporting energy efficiency, and improvements to existing ones, should focus on:

- Reducing the cost of finance ✓

+

- Increasing their tenors ✓



To match the life of the assets to be financed, levered by public grants

# Navigating complexity



- Developing finance lines and funds to finance EE requires:
  - The capacity to identify and evaluate these investments, internally
  - or by sourcing the expertise
- The financial intermediary needs to confirm that:
  - The investment to be financed improves EE
  - Is aligned with the **EU Taxonomy**

\*And measure the energy efficiency gains

***Energy efficiency investments are usually smaller than those relating to energy supply, and often they are complex to assess***

# Standardisation is key

## EEFIG UNDERWRITING TOOLKIT

Value and risk appraisal for  
energy efficiency financing

June 2017

- Standardisation of processes can facilitate:
  - Project aggregation
  - Reduce the transaction costs of energy efficiency finance
- Standardisation is also necessary to:
  - Develop securitisation for energy efficiency projects
  - For mortgage lenders to **upgrade their collateral** portfolio's energy performance.

“

*I strongly recommend this toolkit to project promoters, banks, financial institutions and anyone else interested in financing energy efficiency.*

**Maroš Šefčovič**  
Vice-President, Energy Union, European Commission



# 2021 EFIG Recommendations for financial institutions (#1)

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- **Develop de-risking tools such as guarantees** from Governments:
  - (i) to mitigate credit risks related to financing EE especially for low-income households or to SMEs or other companies with weak credit ratings;
  - (ii) to reduce risks with innovative technologies or technologies in the early market penetration phase; and
  - (iii) to adequately cover long term risks related to long tenor products.
- **Promote the development of scalable innovative financial instruments to finance EE investments**, including on-bill repayments, on-tax financing, green mortgages and renovation loans.
- **Standardise investment assessment processes, contract terms and investment structures** to support better aggregation of projects. This is very relevant for home renovation, small commercial and SMEs.



# 2021 EFIG Recommendations for financial institutions (#2)

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- **Develop more specialised financial instruments for individual segments of the market** and in conjunction with those market operators (energy service companies, heat networks, mortgage lenders, start-ups, etc).
- **Retail lenders should engage on energy performance for all registered mortgage lenders** and implement mortgage portfolio standards that deliver improved portfolio collateral energy performance in line with national Paris-aligned decarbonisation pathways.
- **Blend grants with loans in single delivered packages with easy to apply processes** (for both at once) for households and SMEs with lower access to finance.
  - TA to develop and market new financial instruments can be considered on a case by case basis.
- **Develop a secondary market for EE.** This will become necessary when the energy efficiency market has achieved a certain scale



Thank you!