Financial instruments for the low-carbon economy

A Policy Learning Platform Event

20 June 2019, Brussels

Summary: This thematic workshop aimed to demonstrate how regions can establish financial instruments using European Structural and Investment Funds (ESIFs) and other own funds, to support the transition to a low-carbon economy, particularly for the building sector. The workshop attracted 55 participants who came to hear about support options available to them, presented by the European Commission, EASME and the European Investment Bank, as well as to learn from and discuss with the owners of seven successful case studies from across Europe.

Highlights

The European Union is aiming to reduce carbon emissions from its building sector by 40% by 2030, and total decarbonisation by 2050, in line with our obligations under the Paris Agreement. However, only around 1% of the building stock is renovated each year, and to meet even the 2030 target, 177 billion EUR of additional investments will be required each year. Providing this funding is a key challenge, which will require a move away from public grant funding and towards the mobilisation of private funds. The key way a public authority can leverage private investments, is through the establishment of Financial Instruments.

The workshop provided an introduction for participants, with presentations from Adam Abdulwahab, Policy Analyst at *European Commission DG Regional and Urban Policy*, and Françoise Réfarbert of *Energies Demain* discussing the framework and background to financial instruments. (Additional information is available in the policy brief, '[Funding Energy Efficiency through Financial Instruments]'). Some key points included:

- Financial Instruments offer financial products such as loans, equity and guarantees to support projects that promote European policy aims. Energy Performance Contracting (EPC) is also gaining prominence – wherein a building owner and technical provider enter into a contractual agreement to improve building energy efficiency, with payment based on performance;
- Financial instruments can be created using a number of different **funding sources**, including the European Structure and Investment Funds (ESIFs). The primary benefit for a region is in moving away from grant funding to a more sustainable, revolving scheme, which can leverage additional private funds;
- ESIFs not only provide part of the funding pool of the financial instrument, but can also be used for project development, to establish them in the first place. In the post-2020 Multiannual Financial Framework (MFF), **FIs will have a less prescriptive ex-ante assessment, simpler rules for payment and management costs, and the chance to combine both grant and loan financing for more ambitious projects** (e.g., deep retrofitting);
- In setting up a financial instrument, regions need first to understand if they have a financing gap, by identifying and defining **market failures**. This ensures that the FI is targeted towards the right group. Instruments should aim to fund the deepest renovation possible; there is no point reaching only the low-hanging fruit;
- Beyond their technical and financial design, trust, local anchoring and proper monitoring are key factors for the success of FIs.

Available support options were also presented at the workshop, including interventions from Anette Jahn of the *European Commission's Executive Agency for Small and Medium Enterprises* (EASME), and Robert Pernetta of the *European Investment Bank* (EIB).

- EASME is aiming to mainstream approaches that can scale up energy efficiency renovations, through project aggregation, and development of new energy efficiency packages. Calls for project proposals are open until 13 September 2019;
- The EIB can provide support for developing financial instruments, including through JESSICA, ELENA (project development) the 'Smart Finance for Smart Buildings' initiative, the European Investment Advisory Hub and FI compass. The latter also provides a newsletter for those who wish to stay up to date with EIB developments and events;
- The Innovate Project (Horizon 2020), is exploring integrated energy efficiency refurbishment concepts, including one stop shops, which bring together assistance for home owners in all parts of the refurbishment value chain to improve confidence in energy efficiency investments;
- Other resources are available from other related projects, including REFURB, Infinite Solutions, EuroPace and CITYNVEST.

Good practices

Policy improvement

Ana Martinez Pinilla from the Extremadura Energy Agency presented an improvement to the region's Operational Programme for the ERDF, as a result of the FINERPOL project. Within the project, an ex-ante assessment was produced to highlight market failure and sub-optimal conditions in the region, and to make the case for the creation of a new FI. A change to the Operational Programme was secured in December 2018, enabling ERDF funds to be used to establish an FI. It will use 5 million EUR from the ERDF as a guarantee fund, and leverage an additional 30 million EUR of private investments from financial institutions. The FI itself has been designed within the HousEEnvest project, funded by Horizon 2020, showing the benefit of combining public funding sources.

Good practices

Seven case studies from across Europe on successful financial instruments were presented in the workshop. These case studies were selected for showing different types of instrument, suitable for regions with varying financial resources available ('no own money', 'some own money', 'lots of own money').

'No own money' – Instruments relying on third party finance

- The Latvian Baltic Energy Efficiency Facility (LABEEF) was presented by Nicholas Stancioff of the Building and Energy Conservation Bureau. LABEEF allows for renovation of soviet-era buildings by supporting Energy Service Companies (ESCOs) that implement renovation measures in multifamily buildings based on Energy Performance Contracting (EPC). ESCOs take loans from commercial banks, make an EPC with the home owner, and then implement renovations. LABEEF then buys the debt from the ESCO after one year's monitoring of the renovation impact, and collects repayments over 15-25 years. In this way, execution risk is with the ESCO, but long-term financial risk is transferred to LABEEF. Funding for LABEEF comes from the European Bank for Reconstruction and Development.
- Picardie Pass Rénovation was presented by Elodie Denizart from Région Hauts-de-France. The Public Service for Energy Efficiency contracts out the renovation works and is repaid by the beneficiary once savings start to be made on energy bills, providing an easy approach for homeowners, who are accompanied throughout the entire renovation process. By the end of the four year pilot period, 551 home renovations had been planned. The instrument was established using an EIB ELENA subsidy, regional funds and a loan from the EIB.

'Some own money' – Instruments that use public funds to subsidise works and provide guarantees

- Prague's experience of EPC was presented by Jiří Peterka from Operator ICT, City of Prague. EPC in Prague is being implemented as part of the broader Smart Prague project. The Czech Republic has considered EPC in defining its national Energy Management and Public Procurement Acts, and has created a model EPC contract. Based on an initial assessment of building performance, the City of Prague launches a call for tenders and selects the best offer. Costs are paid for from the city budget, and the EPC method is expected to save the city more than 4 million EUR and 37,000 tonnes of CO_2 emissions over twelve years.
- The Financial Instrument for Urban Rehabilitation and Revitalization (IFRRU 2020), presented by Alexandra Lopes, is a Portuguese national fund of 700 million EUR for both urban and low-carbon redevelopment, leveraging an additional 700 million EUR from national banks. 500

million EUR of the fund is a loan from the European Investment Bank, with the rest contributed by the ERDF, Cohesion Fund, Council of Europe Bank and national funds. IFRRU then offers home owners preferential loans through the national banks. The instrument has established 117 financing contracts so far, investing 358 million EUR.

- The Brussels Green Loan, presented by Nathanaël Hance of Bruxelles Environnement, is a financing mechanism in the Brussels Capital Region for pre-financing renovation works, taking the form of a loan with a 0-2% interest rate, depending on income. The loan is administered by two organisations: CREDAL for the 0% consumer credit, and FondsBrussels for low-rate mortgage mandate. In its first ten years, more than 1,150 loans were distributed amounting to more than 13.7 million EUR.

'Lots of own money' – Instruments using public funds to directly finance renovations

- The Kalmar EPC was presented by Tommy Lindström of the Energy Agency for Southeast Sweden. The Municipality of Kalmar sought to save energy in its public buildings, and funded EPCs from its own municipal budget. It is the largest example of EPC in Sweden, with a budget of 80 million krona (c.7.5 million EUR), and has achieved an energy improvement of 20% in the region's public buildings.
- Estonia's KredEx Revolving Fund, presented by Annelii Ausmees, was founded in 2001 and offers loans, guarantees and grants for energy efficiency refurbishments. The fund pooled ERDF equity, with a loan from the Council of Europe Development Bank, a state loan and KredEx funds to offer favourable conditions to commercial banks. The fund renovated 661 houses between 2010 and 2014 – around 1.7million m2 – saving 40% of energy consumption. As a result of experience gained through involvement in KredEx, commercial banks directly started to offer loans at similar conditions as KredEx.



Next steps

Key points

- European Structural and Investment Funds are available for regions to create financial instruments; doing so will be essential for meeting European energy targets and moving away from grant funding;
- Financial instruments come in many forms and can be created with third-party financing or own funds. ERDF funding can be used to leverage further investment from banks and existing financial intermediaries, whose core business is assessing and handling loans;
- Best practices demonstrate that maximum impact can be achieved when financial instruments pool different financial sources, and combine not only financial, but also technical support so that building owners can make informed decisions, with the minimum of hassle;
- Financial instruments should be targeted at those who need the extended financing, who don't get subsidies, and cannot pay a personal loan themselves – know where your region's gaps are, pay attention to vulnerable groups and involve stakeholders from the beginning;
- The whole renovation process needs to be funded, including ex-ante and ex-post impact monitoring. One stop shop structures are a particularly promising approach, also with regard to local anchoring, capacity-building, promotion and the creation of trust towards suppliers;
- Help is available – check out the presentations of the case studies, take advantage of support from European projects, networks and the European Investment Bank, and get ready for the 2021-2027 structural fund period!

Future Policy Learning Platform actions and useful material

- Regions looking to improve their financial instruments can consider applying for a Peer Review from the Policy Learning Platform. It is expected that a new call will open in the Autumn 2019;
- Following on from the existing policy brief on 'Funding energy efficiency through financial instruments', the Policy Learning Platform will produce a policy brief on supporting energy efficiency in private households, exploring one stop shops in particular;
- The Policy Learning Platform will hold a webinar on the topic of one stop shops on 13 September 2019 (10:30-12:00 CET). You can access the event page here.

For more information on the workshop, visit the event's conclusion page, where you can access the presentations, attendee list and event photos.

Simon Hunkin
s.hunkin@policylearning.eu

Low-carbon economy

Katharina Krell
k.krell@policylearning.eu