

III GETTING ON TRACK

Part III considers the overarching measures which bring all the pieces together and lead beyond 2020. It includes recommendations on how to use financing strategies and national building renovation strategies.

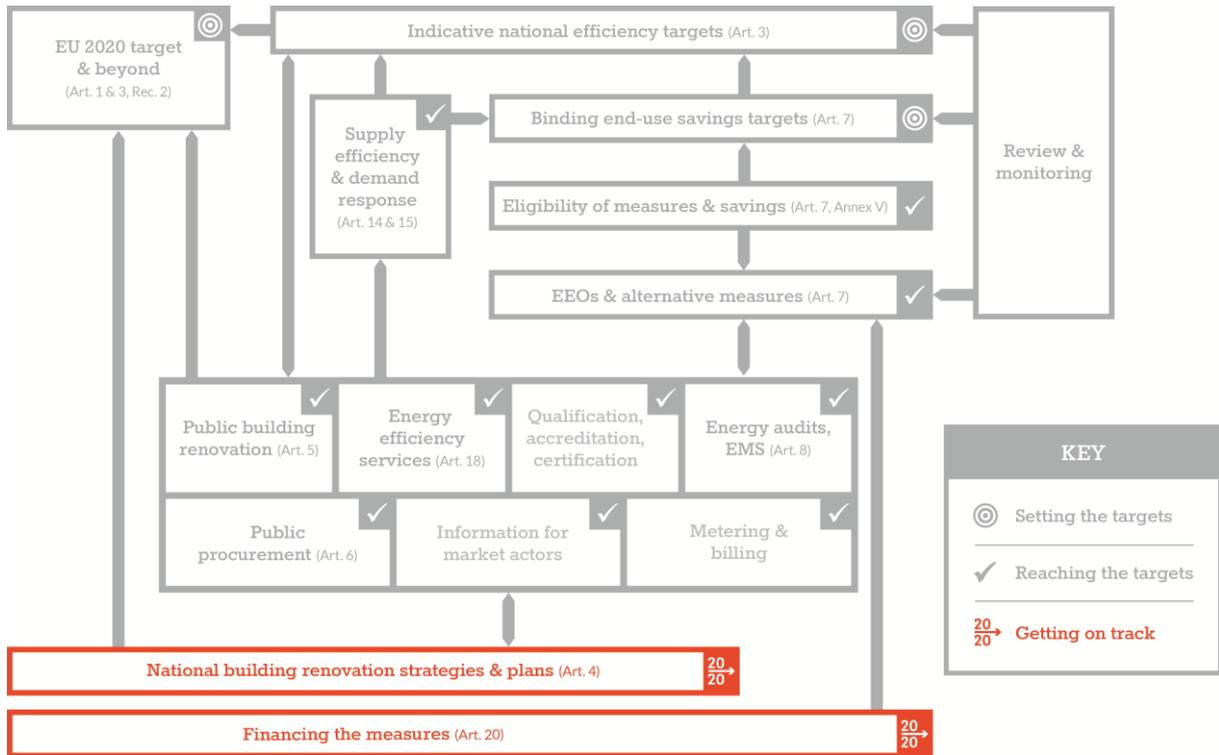


Figure 26 – Guidebook Overview Map: Getting on track

III.2 Financing the measures (Article 20)

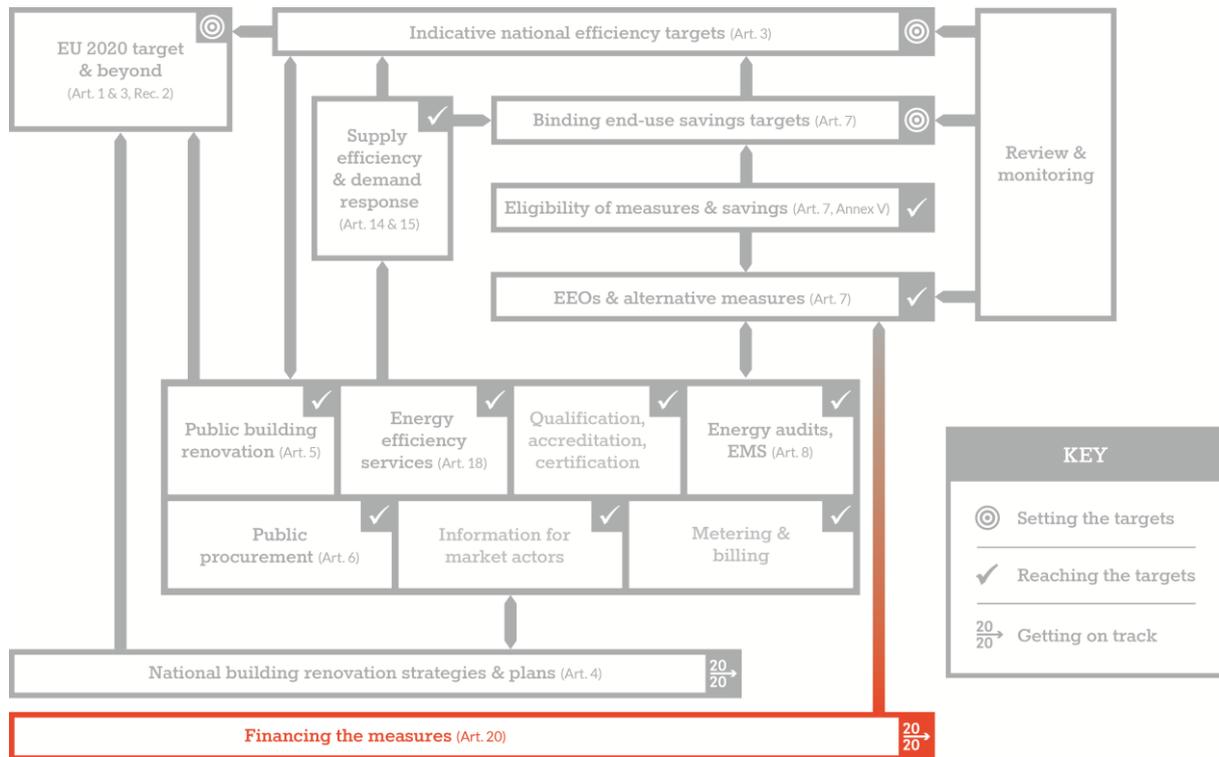


Figure 28 – Guidebook Overview Map: Financing the measures

III.2.1 Summary

In order to implement ambitious energy efficiency programmes in line with high standards for project viability and sustainability, MSs will need to ensure that adequate financing is available to those programmes. Initially this could come from public sources of finance, such as National Energy Efficiency Funds (NEEFs), but the aim should be to shift toward greater levels of private sector finance provision, as the energy efficiency market becomes better established.

The EU's Multiannual Financial Framework (MFF) for the 2014-2020 period is expected to increase the budgets available for climate action and within this, energy efficiency improvement programmes. This means that the need for structures to manage those budgets will increase and make a strong case for setting up NEEFs.

Article 20 invites MSs to establish dedicated financing facilities (NEEFs) to support energy efficiency investment or use existing facilities. There are significant advantages to governments ensuring affordable upfront finance is made available given that affordable private finance is scarce.

Funds do not have to be sourced from central budgets. Other options include public bank-sourced low cost capital, energy user charges (including EEOs), Structural Fund money and ring-fencing of EU Emissions Trading Scheme (EU-ETS) auction revenues. Funds should be designed to act as a catalyst or attractor for private sector financing in the medium-term.

MSs will need to decide which NEEF structure best suits their national conditions. Options include:

- fully public funds that are managed and administered by public financing institutions that disburse funds directly to end users;

- fully public funds that are managed and administered by public financing institutions but are disbursed via private sector banks;
- fully public funds that are managed and administered by a specific government department or departments; and
- public-private fund structures that disburse funds directly to end users.

Where available, it is highly recommended that MSs utilise the expertise held in their national public banks to set up and design EE funds. Finally, the interest of private sector investors is critical to achieving scale in the medium- to long-term. Investors will need to have confidence that scaled investment opportunities will be forthcoming. MSs should therefore develop a long-term plan to drive demand across all sectors of their economies that offers sufficient scale of opportunity to meet targets and confidence that the plan will match or exceed the expected period required for private capital invested to be repaid.

III.2.2 Background

Article 20 of the EED invites MSs to work to either establish dedicated financing facilities to support energy efficiency investment or use existing facilities to provide these financing services. This Article aims to ensure a source of scaled financing is made available to back enhanced national efforts to improve the energy efficiency of MS economies, and to create opportunities for various streams of publicly sourced money to be blended into a single “pot”. The Article also includes requirements for the European Commission to provide assistance for MSs in setting up these facilities and exchanging best practices amongst each other.

Fulfilment of this Article will help address two of the key issues that have held back energy efficiency financing in many MSs: a lack of sources of public finance that are 1) scaled and 2) streamlined.

In addition to Article 20, other measures within the EED focus on identifying opportunities and driving scaled demand for energy efficiency measures that will assist governments in creating enhanced investment opportunities. While NEEFs and Financing Facilities could be a source of affordable finance to underpin investments, the sheer scale of the financing challenge will be beyond the reach of the public purse alone. The focus of such facilities should be, wherever possible, to catalyse co-investment by the private sector, thus kick-starting scaled markets that will eventually be backed by mainly private sector financing.

III.2.3 Requirements

Article 20 is non-binding and simply invites governments to set up NEEFs that aggregate sources of funding to support investments for reducing energy consumption. It also suggests three sources for the Fund: contributions from governments to fulfil their obligations to refurbish public buildings under Article 5 that equal the amount of investment needed to fulfil those obligations; annual contributions from energy distributors and retail energy sales companies that equal the investment needed to fulfil their Article 7 energy efficiency obligations; and revenues from EU emission allowance auctioning. It will be up to each country to decide whether to set up such Funds or not and how finance will be sourced.

A number of other funding sources could be considered, for example:

- The European Energy Efficiency Fund, set up by the European Investment Bank (EIB) and other national banks;
- Public bank-sourced low-cost capital (the approach used in Germany, which in part underpins its Energy Efficient House Programme with KfW financing);
- General National Budgets (the approach used under the USA’s Recovery Act, which had a focus on making homes and businesses more energy efficient with funds sourced from central budgets);

- A specific charge on all energy users that is ring-fenced into an energy efficiency fund (this type of approach was used to support the UK's Energy Efficiency Commitment scheme); and
- Structural Funds and Cohesion Fund money, which the EED encourages as a way to trigger investments in energy efficiency improvement measures (see Annex E for three case studies on how such funds have been drawn down and utilised).

Setting up dedicated NEEFs, as set out by Article 20, creates an opportunity to blend different streams of finance from any or all of these sources and to potentially combine them with private sector and multilateral development bank funding (for example, finance from the European Investment Bank).

III.2.4 Recommendations

Good practice recommendations

- 1. Ask governments to set up dedicated Energy Efficiency Funds capable of blending various streams of financing and dedicated to backing high standard national energy efficiency investment programmes.**

While setting up EEFs is not obligatory, it is highly recommended that governments intent on delivering ambitious energy efficiency programmes do so. Not only does this send a strong signal of intent to the private sector, it also creates opportunities to efficiently blend and coordinate the various sources of financing to back such investment programmes. Furthermore, if the fund provides investment to "able to pay" end users on a loan basis, then the "revolving" nature ultimately can permit greater activity than traditional upfront subsidy mechanisms.

A scaled source of affordable and long-term upfront finance to back energy efficiency investments is critical to ensuring government ambitions for energy efficiency can be delivered. This is especially true at a time when private sector finance providers are increasingly risk-adverse due to the ongoing effects of the financial and economic crisis.

The assessment criteria used to make an investment decision must be clear and precise in how the energy efficiency aspects are considered in order to ensure that projects are designed with the aim of delivering maximum energy savings and reduced energy bills. This should be done through needs assessment and proper monitoring, measuring and verification procedures in the operational programmes.

EEFs can take a variety of forms (see Figure 29 below) but they are ostensibly sources of finance ring-fenced from national budgets and deploying a range of types of financing instruments including commercial or soft loans and grants. They can be structured as:

- fully public funds that are managed and administered by public financing institutions that disburse funds directly to end users;
- fully public funds that are managed and administered by public financing institutions but are disbursed via private sector banks;
- fully public funds that are managed and administered by a specific government department or departments; and
- public-private fund structures that disburse funds directly to end users.

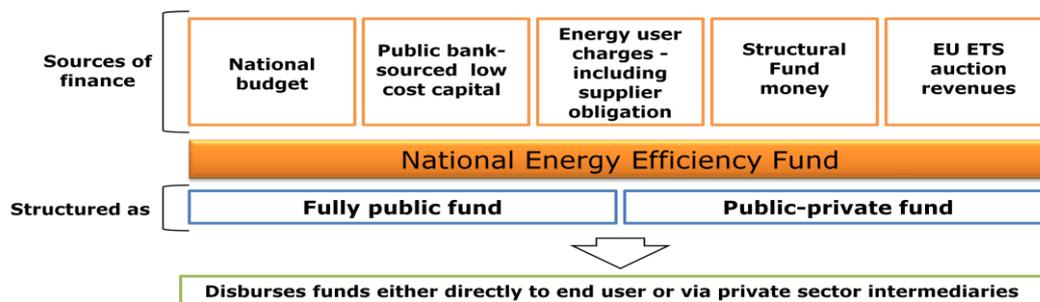


Figure 29 – Design consideration of NEEFs

In the European Union, many funds exist that are partly or fully dedicated to financing energy efficiency in MSs. Up to 4% of national allocations of the 2007-2013 programming of the European Regional Development Fund (ERDF), for instance, may be used to improve energy efficiency or to use renewable energy in existing residential buildings. Estonia made use of this provision and set up a revolving fund in 2009 for energetic refurbishment of houses. Its revolving fund provides long-term (up to 20 years), low-interest loans, and combines money from the ERDF (€17 million), the national fund KredEx (€49 million) and the Council of Europe Development Bank (€29 million). In the first year, 122 multi-apartment buildings in Estonia were refurbished through the programme, leading to average energy savings of 33% (with 20% as minimum required savings).

Other examples include the Slovak Energy Efficiency and Renewable Energy Finance Facility (SLOVSEFF II), launched by the European Bank for Reconstruction and Development (EBRD) in cooperation with the Ministry of Economy to support energy efficiency projects in the industrial and residential sector, and the Bulgarian Energetics and Energy Savings Fund (FEEI), the country's first private fund supporting energy-saving measures in publicly owned buildings with support from the EBRD.

2. Use public financing institutions to drive energy efficiency investment.

The expertise of public banks should be utilised in setting up and designing Funds, as they can play a critical role in driving the energy efficiency agenda forward. This could be in the form of a "primary financing role": setting up and running national EEFs, providing a source of low-cost, long-term finance to EEFs, or simply backing programmes run by other public or private entities. A secondary financing role might entail serving as a broker that warehouses energy efficiency loans and/or securitises them as bond market offerings. This latter function is important as a way of managing costs to consumers, since the cheapest source of private sector finance has traditionally been the debt capital markets. However, individual investments must be aggregated into a bundle to reach a size suitable for bond issuance (likely between €150 million and €250 million). Small-scale energy efficiency investments are often financed on a project-by-project basis, making it difficult to bundle different contracts with different risk characteristics into one attractive security.

3. Design effective policy instruments to ensure take-up of funds.

Making upfront finance available for energy efficiency measures is only part of the solution. As energy efficiency markets are currently at an early stage, careful thought should be given to the most effective complementary measures, whether economic instrument or regulation, to drive demand for loans among different economic sectors.

Instrument					
Fiscal	Tax relief on more energy efficient goods and services	Tax increase on less energy efficient goods and services			
Financial	Loans	Partial guarantees (including for 3 rd party financing)	Grants – as a form of equity or to subsidise loans	Grants – as scrappage payments	Grants – to fund energy audits
Market-based	EE Feed-in-tariff	White Certificates, EEOs	EU-ETS permits (EUAs)		
Direct investment	Public procurement	Public infrastructure investment	RD&D		
Regulation	Minimum standards of energy performance for equipment	Requirement to undertake energy audits	Requirement to report on energy performance	Tightening of building regulations for new and existing buildings	

Table 2 – Examples of instruments that can be used to drive uptake of energy efficiency measures, and by extension energy efficiency loans

<p>Good practices in practice</p> <p>Using complementary economic instruments to stimulate uptake of energy efficiency loans for buildings</p> <p>Germany: under the KfW Efficiency House Scheme homeowners can apply for loans with an annual interest rate of just 1% or “cashback” grants. Refer to page 73 for information on how Germany provides financial support to combined heat and power (CHP).</p> <p>France: the government extended the availability of tax credits (the CIDD scheme) from 2012 to 2015, and introduced a new preferential rate loan of up to €30,000 (Eco zero-interest loan - Eco-PTZ) for energy efficiency improvements in social housing. The two instruments are part of a larger policy package that aims to promote environmental goals in the building sector. Demand side management measures include, in addition to the tax incentives and loan scheme, feed-in tariffs for renewable energy and obligation schemes for energy providers.</p> <p>Poland: established in 1998, the Thermo-Modernisation and Repair Fund can cover up to 20% of a bank loan for investment in thermal renovation, but cannot exceed 16% of the total costs of investment. The support can be awarded to investment projects that reduce annual energy consumption by at least 10% if the heating system is modernised or by at least 25% in other cases (thermal insulation). The grant and soft loan elements of these schemes are financed by national budgets.</p>
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4. Consider how to structure offerings to leverage the maximum amount of private sector investment possible.

At the micro-scale (offerings) this means using cashbacks and grants to incentivise asset owners to invest their own capital. At the macro-scale (financing vehicles) this means using public money as junior debt to bring in senior private sector debt and thus achieve scale in EEF structures.

5. Develop a long-term plan for driving demand across all sectors of the economy that offers sufficient scale of opportunity to meet targets and confidence that the plan will match or exceed the expected period required for private capital invested to be repaid (traditionally 15 years or more).

Within this plan governments consider the role of economic instruments versus regulation and other measures (including information campaigns) in driving that demand and creating opportunities of scale.

Green Deal in the UK: An innovative trial to address split incentives and stimulate uptake of energy efficiency loans for buildings

The Green Deal scheme, which started in 2013, links the energy efficiency loan to the building rather than the owner (thus addressing split incentives). In addition, those initially undertaking investments will receive a cashback backed by £125 million (€154 million) in government funds, with different cashbacks linking to different technologies installed.