Energy Efficiency financial instruments contribution to the EU climate targets

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Energy Efficiency Finance Policy context

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Policy context

New climate target: -55%

Recovery after COVID-19 crisis

Objectives of the EED Review

The EED review aims to:

- Strengthen the EED provisions to support a more ambitious EE contribution (estimated 36-37% for FEC and 39-41% for PEC) to the **increased GHG emissions reduction target of at least 55% by 2030**.

- **Identify "gap filling" measures**, in line with the mandate of the Governance Regulation, to ensure the achievement of the EU 2030 energy efficiency target of at least 32,5%.

- **Explore synergies with other Green Deal Initiatives** – e.g. Renovation Wave, Strategies for Energy Sector Integration and Digitalisation.

European Commission

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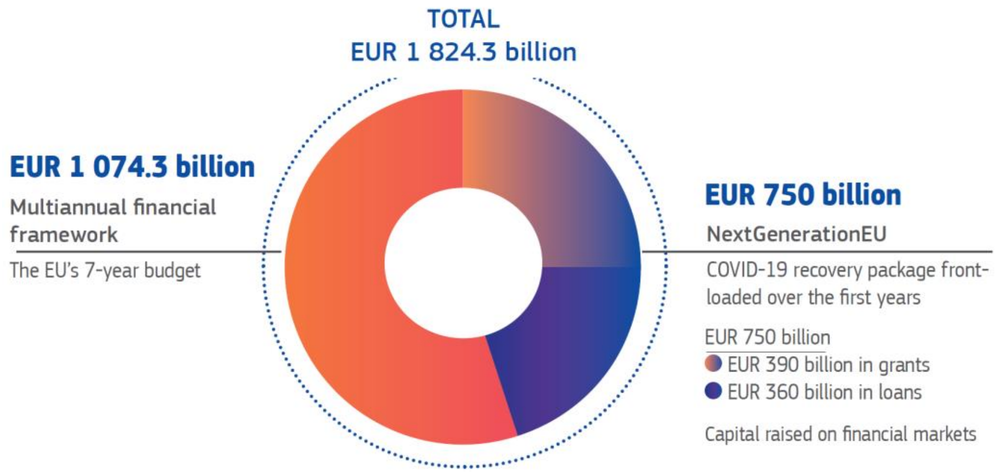
EU Recovery package and Next MFF 2021 -2027.
A unique opportunity to scale-up investments in energy efficiency

Additional resources

- Out of the total 1.800 billion euro (NGEU + MFF 2021-2027), 30% of these resources, **around 550 billion euro**, earmarked to deliver the climate goals of the European Green Deal.
- Energy efficiency plays a **key role in clean energy transition**.
- The resources dedicated to climate action have **more than doubled** compared with the period 2014-2020.



Multiple benefits

- Creates **local jobs, stimulates local investments, and supports SMEs** (who count for 95% of the construction sector in 2018).
- Strong energy efficiency policies **can contribute between 0.25 and 1.1% to GDP growth.**
- **In industry** generate productivity and operational benefits up to 2.5 times the value of energy savings.
- **Social and affordable housing** is a beneficial countercyclical intervention.

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Recovery and Resilience Facility (RRF)

- The bulk of NGEU will be managed by member states through the Recovery and Renovation Facility (RRF). **672.5 billion of which EUR 312.5 billion for grants and EUR 360 billion for loans.**

- **37% climate mainstreaming** (up to EUR 249 billion)

- The measures (investments and reforms) identified to be financed under the RRF should have a lasting, positive impact on the economy and society, address the challenges identified in the context of the European Semester, facilitate the **green and digital transitions** and strengthening the growth potential, job creation and economic and social resilience of the Member State.

- The national Recovery and Resilience Plans (RRPs) **has also to support the objectives set out in the NECPs** (National Energy and Climate Plans).

- Formal submission of the RRPs for assessment as from 1st January 2021 till 30th of April 2021.

- Submission of the preliminary draft RRPs as from 15th of October 2020.

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Renovation Wave. Objectives

Double the renovation rate by 2030

Create

12-18 local jobs per million euro invested

-60% greenhouse gas emissions

-14% energy consumption

-18% heating and cooling

Reduce

Renovation of **35 million** buildings

Financial instruments can use Cohesion policy resources alongside the Recovery and resilience facility and Invest EU to leverage additional funding

EU Budget for Direct Investments

- Recovery and Resilient Facility
- Cohesion Policy Funds (ERDF, ESF, EU-REACT)
- Just Transition Mechanism - JTF

To leverage private investments

- InvestEU
- Private Financing 4 Energy Efficiency
- European Energy Efficiency Fund

for Research & Innovation

- Horizon Europe
- Built 4 people
- Innovation Fund
- EGD Calls
- Smart Cities

To address Market Barriers

- LIFE – Clean Energy Transition
- LIFE – Circular Economy & Quality of Life

For Technical Assistance and Advisory

- ELENA Facility
- Technical Support Instrument
- Technical Support – Cohesion Policy

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Leveraging private financing with EU Funds

Financial Instruments/ Integrated schemes for building renovation combining grants, technical assistance and loans.

Reinforcing the role of main aggregators: Financial institutions, ESCSs, energy utilities

Replication of **ELENA model**, together with the **EIB**, at national and regional level.
Support setting up **standardised one-stop shops** at national, regional or local level.

Developing the ESCO market. Investment schemes based on **energy performance contracting** targeting public buildings and social housing

Innovative financing solutions through **on-bill and on-tax schemes**

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Energy services as opportunity

- Energy services such as **Energy Performance Contracting** or “heat/lighting as a service” allow for **payment for results** (kWh saved, CO_2 avoided, thermal comfort improvement,…)
- **Energy Service Companies** (ESCOs) can offer integrated services along the whole life-cycle of energy efficiency, such as investment, design, implementation, maintenance and financing
- ESCOs can offer services for public buildings, street lighting, enterprises or multi-apartment buildings

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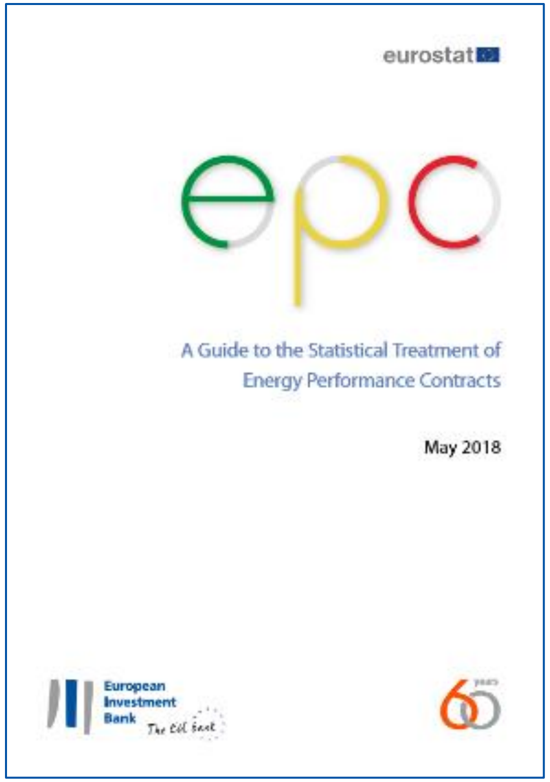
Cohesion Policy funds and ESCOs

- Challenges
  - Providing **grants to EPC** projects for comprehensive renovation
  - ESCOs access to **finance for long-term** contracts
  - State aid to ESCO
  - Using EPC can increase **public debt**
- Opportunities
  - **Technical support** to EPC clients and facilitators
  - FI can provide **long-term affordable financing** to ESCOs
  - **Grants can shorten repayment** time of EPC projects to make them EPC-able
  - Off-balance sheet treatment - **EU funds are "Maastricht neutral"**


eurostat

epc

A Guide to the Statistical Treatment of Energy Performance Contracts

May 2018

European Investment Bank The EU bank

60 years

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Financial instruments for EPC

- **Loans to ESCOs** – long-term financing/soft loans
- **Guarantee for ESCO loans** – covering client risk and performance risks
- **“Forfaiting loan“ and “forfaiting guarantee“** – FI can be used to purchase future receivables from EPCs. Forfaiting frees up ESCOs balance sheet for new projects
- **Combination** of loans/guarantees and grants
  - two operations: loan/guarantee to ESCO + grant to building owner
  - one operation: loan/guarantee + grant to ESCO

Objective: lower EPC fees, more competition and higher energy savings

Choice of instruments depends on maturity of market, type of ESCOs, financial intermediaries and potential clients - **ex-ante assessment is key**

Examples of EPC and FIs

- **Marche (Italy)** – dedicated scheme for renovation of hospitals and health centres. Investment grants to health authority and interest free loan to ESCO for 15 years.
- **Poland** – Guarantee scheme BiznesMax for investments in innovation and environment by SMEs. Investment by ESCO is eligible independent of EPC client (SME, public entity, residential) or type of investment (street lighting, renewable energy, HVAC, comprehensive renovation,…).
- **Czech Republic** – guarantee to financial intermediaries for forfaiting EPC receivables. The guarantee allows financial intermediary to take on more risk (client risk, performance risk,…). Thus, allowing for "Maastricht neutrality" and increasing potential volume of EPC market and. The FI is combined with project development assistance from ELENA to the Czech NPB. The scheme was developed with support of the European Investment Advisory Hub.

ELENA – European Local ENergy Assistance

European Investment Advisory Hub
Europe's gateway to investment support

ERDF

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