Financing Energy Efficiency measures in buildings:

Reflections on the creation of a coherent approach in a multi-level governance system

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INTRODUCTION

Numerous studies highlight the multiple benefits of energy efficiency in buildings and beyond.[1] Reducing CO2-emissions, fossil fuel import dependencies and energy poverty have furthermore been important drivers for a clear policy push in all EU Member States and the EU itself for stricter building codes in the last decades, ever since the introduction of energy efficiency specifications in the 1970s and the adoption of the Kyoto-Protocol. Reaffirming the intention to lead the energy transition, the EU Council furthermore agreed on the political goal of decarbonising the building stock by 2050. The investment gap however to reach this target is still large. And the investment rate has not yet increased to sufficient levels to achieve the decarbonisation target. Thus there is a clear case for additional initiatives.

Three recent developments at EU-level provide the background to this joint position paper: 1. the obligation for Member States to develop financial support mechanisms for investments into the energy efficiency of buildings, which was introduced into the new Directive on the Energy Performance of Buildings (EPBD), 2. the EeMAP-initiative[2], which is supported by the EU and seeks to reduce risks related to financing energy efficiency, leading to more attractive offers to investors and thus helping to increase the refurbishment rate, and 3. the smart finance for smart buildings initiative.

Our organisations are convinced that private lending is not only an appropriate source of financing energy efficiency measures in buildings but, in light of the size of the necessary investments, will also continue to be the most important one in the future. However, many building owners will need additional incentives in order to invest into energy efficiency measures and even more so for in investing into new and innovative technical solutions and carrying out costly deep renovations, in line with the EU's 2050 target of decarbonising the building stock.

This is where public support, irrespective of the political level providing it, can play a core role. This is also the area in which our Members, small and large, new and old, all across the EU, have acquired considerable expertise over the last decades, mobilising billions of Euros of investments into energy efficiency measures every year. We would very much welcome to share this expertise with the European Commission and thus support it in setting-up of well-designed and targeted financial instruments for the purpose of energy efficiency investments.

Our Associations and their respective members strongly support initiatives and measures at regional, national- as well as at European level for the efficient set-up of public energy efficiency support measures. Based on the experience made in many EU Member States, we would like to highlight the following elements, that are in our view crucial in order to avoid any duplication of existing schemes, access existing distribution channels, as well as to fulfil better spending requirements:

a) the need for an appropriate gap-analysis for all support measures planned at EU level,
b) the advantages of crowding-in of experienced financial intermediaries at national as well as at regional levels, in order to use existing distribution channels and their expertise,
c) the necessity of clearly defining goals and criteria in order to avoid supporting business as usual investments, and
d) accompanying measures, notably the provision of Technical Assistance.

[1] See for example: International Energy Agency: Capturing the Multiple Benefits of Energy Efficiency, Paris 2014: http://www.iea.org/publications/freepublications/publication/Multiple_Benefits_of_Energy_Efficiency.pdf
[2] Energy Efficient Mortgages Initiative: http://energyefficientmortgages.eu/.

A SOUND GAP ANALYSIS FORMS THE BASIS FOR AN EFFICIENT ALLOCATION OF PUBLIC RESOURCES

A sound gap analysis is key to avoid overlaps with existing instruments at different levels (at least EU and national) as well as to design appropriate instruments that address market demand and needs, while helping to achieve the political goal of decarbonising the building stock and, where appropriate, to design relevant accompanying measures. The principle of subsidiarity should furthermore be considered a guiding principle for the entire analysis.

Such a gap analysis should therefor address and answer the following issues and questions:

(1) Stock-taking of existing public support schemes and their functioning at least at EU and national level;

(2) Ensure overall coherence with initiatives by other DGs within the EU-Commission to avoid overlap or even contradictory messages;

(3) A clear evaluation of the potential added value of an additional EU support, including possible negative effects of the EU support to existing support mechanism (the gap analysis per se);

(4) An analysis of possible options to use existing structures to channel EU funds, if additional support is deemed necessary;

(5) A clear concept for which issues are to be addressed by using EU public funds;

(6) A concept for the measurement of the effects of the use of public funds in the way proposed.

It seems likely from our experience that the gaps identified in such an analysis will not be identical in all Member States, nor might they be identical for all types of buildings. This would underline the necessity of supporting the existing support mechanisms or, where those do not exist or cannot be adapted, of developing locally adapted support mechanisms.

The crafting of such a financial instrument should imperatively avoid the creation of parallel structures which would result in a potential competition with existing national / regional support schemes for energy efficiency, and thus for competition between public funds.

Any EU instrument should aim at leveraging existing programmes, thus having a higher impact on energy efficiency investments and ensuring a fast and efficient implementation, while avoiding competition between different sources of public finance. This should be demonstrated by a sound impact assessment.

CROWDING-IN EXPERIENCED INTERMEDIARIES

Indeed, in many Member States national and /or regional schemes already today provide guarantees or support programmes for energy efficiency investments. With the new Energy Performance of Buildings Directive (EPBD)[3] Member States that currently do not offer such support schemes already will be obliged to set them up in the near future. Thus the EU should in our view focus on further strengthening and potentially extending existing schemes and on designing and supporting the creation of new ones.

[3] Having been adopted in May 2018 the revised directive will be published in the official journal soon. See the European Commission press release from 14.05.2018: https://ec.europa.eu/info/news/commission-welcomes-council-adoption-new-energy-performance-buildings-directive-2018-may-14_en

In many Member States that have already introduced support schemes their National Promotional Banks or Institutions or Guarantee Institutions play a key role in delivering the support. Any EU financial instrument aiming at supporting energy efficiency investments should thus as a rule crowd-in NPBIs and guarantee institutions as intermediaries into the lending chain for the following key reasons:

- The members of AECM, EAPB, ELTI and NEFI have decades of experience in implementing EU financial instruments, thereby contributing to the achievements of EU-policy objectives as well as combining EU and national objectives.
- Our members are characterized by a deep and long-standing knowledge of their local market(s) (both national and regional). Many of them have also engaged in the financing of energy efficiency investments, be it in buildings, processes or even the transport of energy. This knowledge should be of high value for the EU-Commission in designing appropriate, tailor-made, EU support instruments.
- Due to their proximity to the borrowers, many of our members are able to provide a sound assessment of the effective default risk and to thoroughly assess needs and identify market gaps. In case of on-lending models the risk assessment is of course left to the on-lending bank, but nonetheless a fruitful exchange with these banks takes place, which helps to design products effectively.
- Furthermore in most cases our members co-operate with the entire commercial banking sector in their respective markets, thus avoiding discrimination or an à la carte support of only a few players and at the same time covering all potential final beneficiaries, ensuring a high EU-visibility and reducing the risk of windfall profits.
- All of the above enables them to provide the appropriate funding supports and, thereby create a significant economic additionality. A counter-guarantee could for example offer both, a higher degree of risk sharing, and an additional leverage effect, which means that the EU funding is used in a highly cost-efficient way.

Our respective organisations as well as our members stand ready to discuss with the European Commission on best ways to incorporate them into the design and rolling-out of EU financial instruments for the support of energy efficiency.

CLEARLY DEFINED GOALS AND CRITERIA

Given the enormous investment requirements, public funding alone will not be able to close the existing investment gap(s). Private funding is and will remain essential to achieve the 2050 objective of a decarbonised building stock. What should public funding thus focus on?

Public intervention should concentrate on best practice techniques, thereby helping the latest technologies available enter the market, helping them to spread, thereby ultimately lowering the costs for energy efficient refurbishments or constructions. EU public support should, in line with better spending guidelines and the need to ensure a high leverage of EU funds, <u>not</u> be used to support business as usual renovations. As a consequence, public support measures should include a dynamic mechanism to bring public funds on the ground and aim at high energy efficiency standards. Technological neutrality is in our view an important aspect of our support, since our member institutions aim at enhancing technological progress. Thus the criteria should be defined accordingly.

Where national or regional support schemes for ambitious refurbishments already exist, the EU support should be able to respect those standards in order to minimise bureaucracy and quickly and effectively channel the public funds to the final beneficiaries.

Our member institutions stand ready to discuss relevant levels of ambition as well as other technical details with the EU-Commission.

TECHNICAL ASSISTANCE AND OTHER ACCOMPANYING MEASURES

Energy efficiency is a complex matter and the technological developments within the last decade have been enormous. Thus it might be necessary to design and finance accompanying measures and potentially also to co-finance these with public funds. In our view, the following four areas are key to improving the scale and quality of investments into energy efficiency:

- Given the complex nature of the issue it is in our view crucial to enhance the formation of entrepreneurs, retailers, architects and other stakeholders involved in advising customers and delivering on energy efficiency on the ground. If the knowledge about new solutions and developing technical standards is not spread the risk of sunken investments into old technologies is high. This necessity is even more striking against the background of accelerated closure of branches by large retail banks, due i. a. to digitalisation and cost pressures in this low interest rate environment. It is thus unlikely that banks will build up teams with relevant expertise in the field of energy efficiency themselves. Involving external experts into the process will therefore become of primordial importance.
- Furthermore many home owners might need assistance in choosing the right timing, sequence, and products for investments into energy efficiency as well as the ideal support mechanism. Independent experts can play a core role in this respect, possibly even given additional quality assurance.
- In many instances accurate data on the energy efficiency of a particular building is missing. In these cases it might also be interesting to support an energy expert inside a municipality. This expert would in a first step gather relevant data on the ground and in a second step work on a concrete renovation plan for at least parts of the municipality.

The use of technical assistance as an accompanying measure could against these backgrounds and financing needs be worth reflecting, while avoiding any overlap with other exiting TA-instruments available in most of the EU Member States. Here we do see a clear role for the EU in helping the development of such assistance where it is necessary.

Our respective associations welcome the opportunity to discuss the design of future financial instruments targeted at energy efficiency with the European Commission, the EIB Group and all European institutions involved.

About AECM, EAPB, ELTI and NEFI:

The 42 members of the **European Association of Guarantee Institutions (AECM)** are operating in 26 countries in Europe. They are mutual-, private sector guarantee schemes, public institutions - either guarantee funds, national promotional institutions or national promotional banks - or mixed. They all have in common the mission to support SMEs during their whole business cycle in getting access to finance, thus, to foster economic growth, innovation, digitization, job creation, and social integration. More precisely, they promote SMEs by providing guarantees to them as well as to entrepreneurs and freelance professions who have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members in turn receive a counter-guarantee from regional, national and European level. At the end of 2017 AECM's members had over 125 billion of guarantee volume in portfolio, thereby granting guarantees to more than 3.1 million SMEs.

The **European Association of Public Banks (EAPB)** is the voice of the European public banking sector. EAPB represents, directly and indirectly, over 90 financial institutions with overall total assets of over € 3.500 bn and 15% market share of the European financial sector. EAPB members are national and regional promotional banks, municipality-funding agencies and public commercial banks across Europe. EAPB members provide financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.

Members of the **European Association of Long-Term Investors (ELTI)** represent a European-wide network of 28 major long-term investors. The Full Members of ELTI are generally national, official, financial institutions dedicated to the promotion of public policies at national and EU level. They represent a combined balance sheet of over Euros 1.5 trillion. ELTI also includes the European Investment Bank (EIB) as a permanent observer and multilateral financial institutions, regional financial institutions and non-banking institutions, such as associations, under the status of Associated Members. With its combination of members that represent almost all Member States, ELTI bears a unique and coherent European perspective on long-term investment and its members offer a wide range of financial solutions tailored to the specific needs of their respective country and economy.

The **Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI)**, which was founded in 1999, consists currently of 19 financial institutions from 19 European Union member states. In 2016 NEFI members actively supported and financed approximately 350 000 SMEs all over Europe with more than EUR 51 billion of financing mainly in the form of loans and guarantees.
NEFI pursues the objective of following the financial, political and legal developments in the fields of European economic and financial policies and all measures adopted by the EU institutions which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance. NEFI serves as a contact for the European Institutions providing know-how and information on all matters concerning promotional banking.