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Understanding Financial Instruments and how to establish them?

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Application to the financing of refurbishment of private homes

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European Union | European Regional Development Fund

Understanding Financial Instruments – Application to the financing of refurbishment of private homes

Key points:

- The problem
- Is there a financing gap for energy-efficient refurbishment of housing?
- How to design an “extended” financing offer?
- The basis concepts around financial instruments explained
- Early examples of financial instruments
- Current examples of financial instruments
- Bundling a fragmented offer
- Building Quality Control and Compliance Procedures
- How to improve the financing offer of financial instruments set up by local authorities?
- Prospects of “Smart Finance For Smart Buildings” initiative

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Understanding Financial Instruments – The issue:

The bad news:

- High investments are needed for a proper deep energy refurbishment
- Long payback time is needed, longer than most commercial loans offer

The good news:

- Most measures have a positive return on investment in the long term
- A loan and interest can be paid back

More bad news:

- The existing commercial financing offer is not affordable for many private home owners

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Financing of private homes energy-efficient refurbishment

Is there a financing gap for energy-efficient refurbishment of housing?

- ✓ Banks consider generally that existing loan offer to households is fit to consumers' demand, and to a sound approach of risks and to regulation…
- ✓ Banks don't see energy-efficient renovations as a relevant market segment: consumers are asking for funding in consideration of their projects as a whole, not to achieve energy savings
- ✓ However, financing surveys show that **for instance in France: 5 to 8 billion € are missing every year to finance energy renovations of housing stock in order to reach national EE goal by 2050***

* Source: Le panorama des financements climat en France

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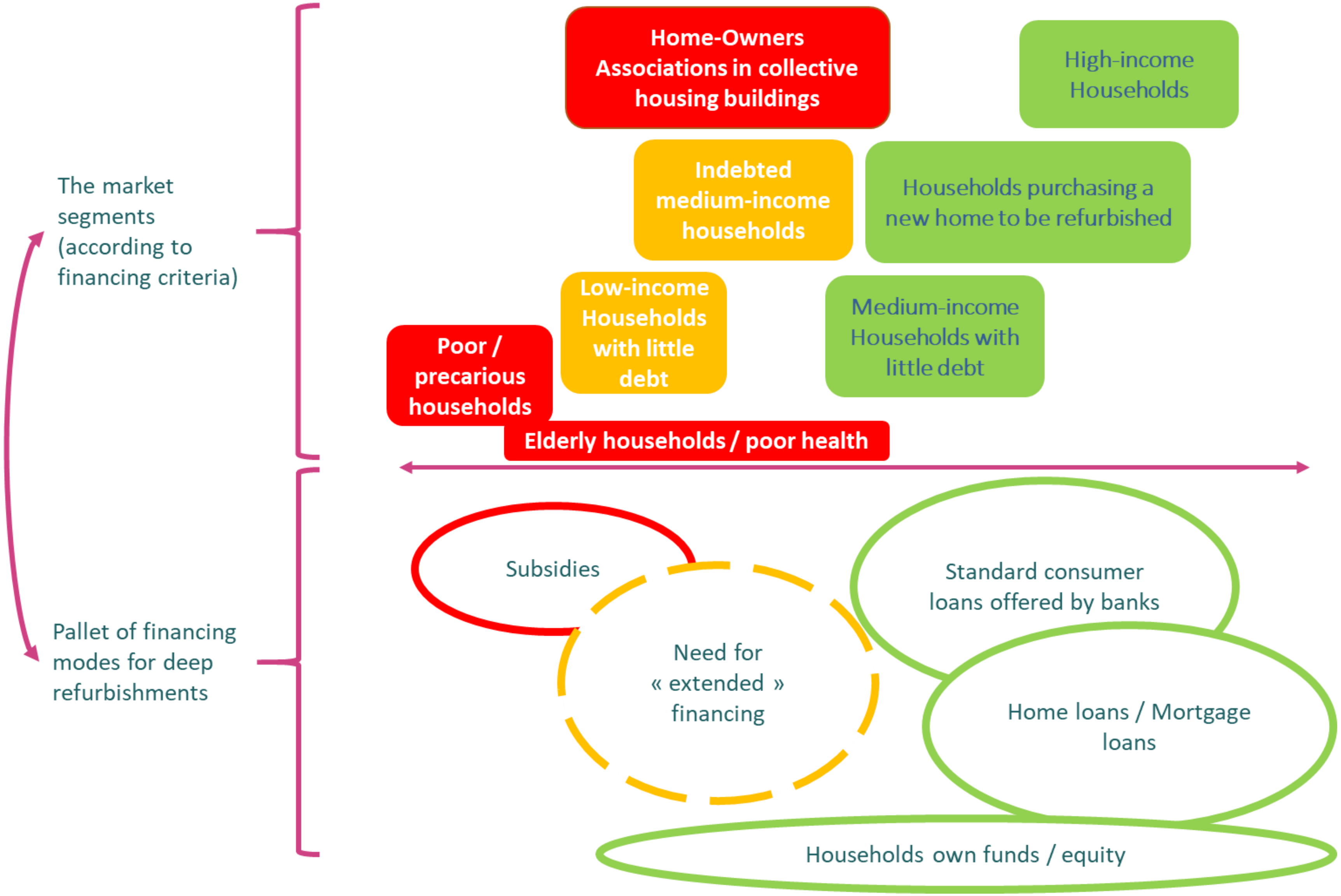
Understanding Financial Instruments – Target your FI to the right group, not to everybody

Is there a financing gap for energy-efficient refurbishment of housing?



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How to design an "extended" financing offer?

- ✓ Lower / subsidized interest rate / revolving fund implemented by local authority
- ✓ Taking into account anticipated energy savings when assessing the repayment capability of households
- ✓ Bridge the subsidies that are not yet available to finance the first down payment requested by contractors to start works

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Understanding Financial Instruments – Some concepts to get familiar with the terminology

- Grants
- Soft loans
- Revolving funds
- Energy Performance Contracting
- Guarantee funds
- Local public companies or public ESCOs
- Public-private companies (third party financing)

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Some concepts to get familiar with the terminology – Grants

- Public money given for a certain aim with no need to pay it back
- Usually linked to performance criteria
- And/or income of households
- Heavy on the public budget…
- Not suited to fund millions of full-fledged energy refurbishments

Some concepts to get familiar with the terminology – Soft loans

To enable homeowners to borrow money to carry out energy-efficient renovation work in their homes at **lower interest rates** than standard market conditions.

Soft loans can also include **other advantages** such as:

– **Longer maturity** which allows homeowners to adjust the amount of monthly loan repayments according to their financial resources and, ideally, to take into account the financial savings achieved thanks to energy savings.

– **A longer grace period**, which gives homeowners an opportunity to accumulate financial savings through lower energy bills and start to reimburse the loan at a later stage.

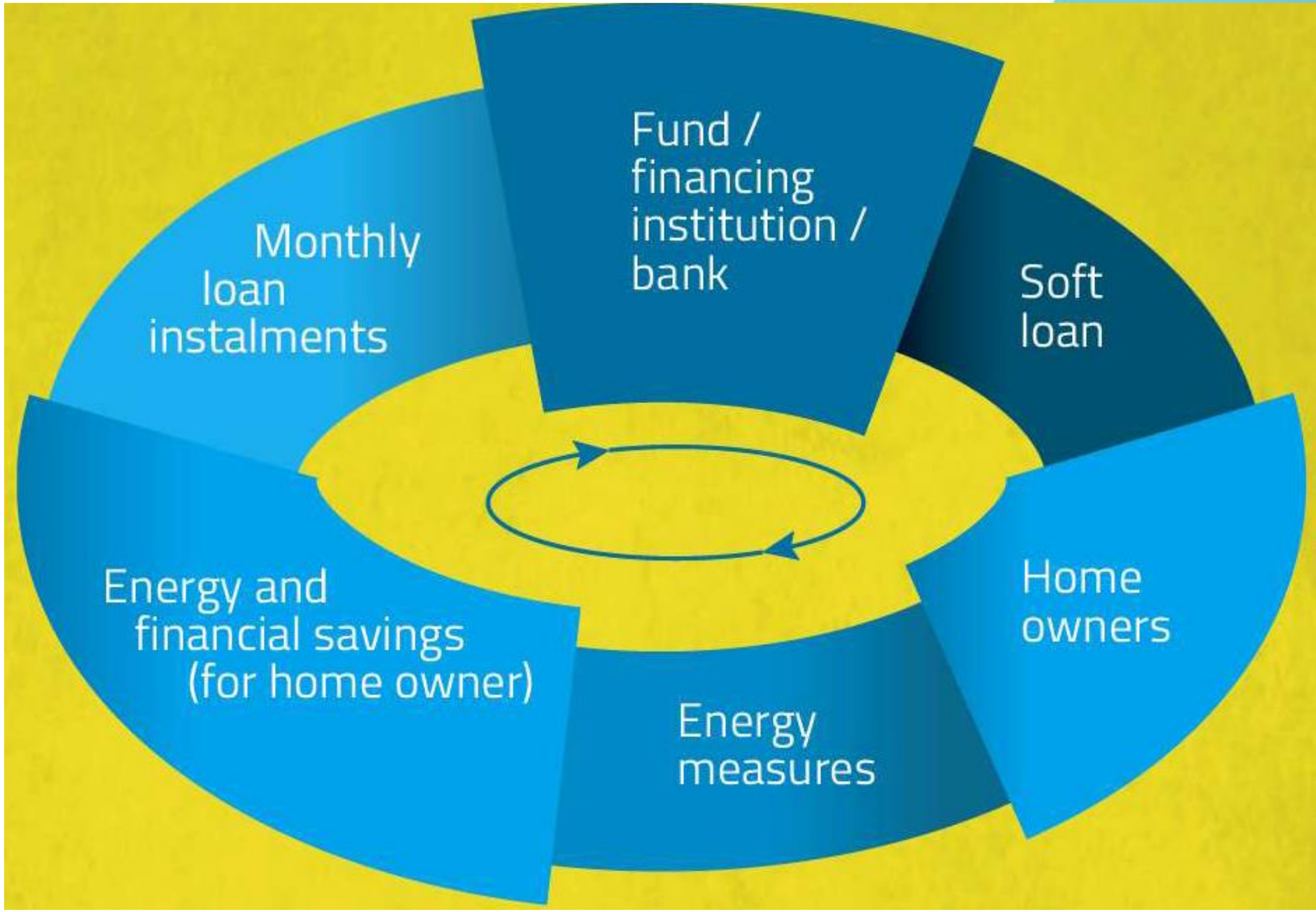
➢ **The public body uses its own money to subsidise the interest rate, and a commercial bank will administer the soft loan scheme towards citizens**

Some concepts to get familiar with the terminology – Revolving funds

Public or private funds can be used **multiple times** as the **money revolves**:

(Soft)Loans issued are gradually repaid and flow back to the fund or the financing institution.

The money can then be reinvested in further energy renovation projects and ultimately be recovered.

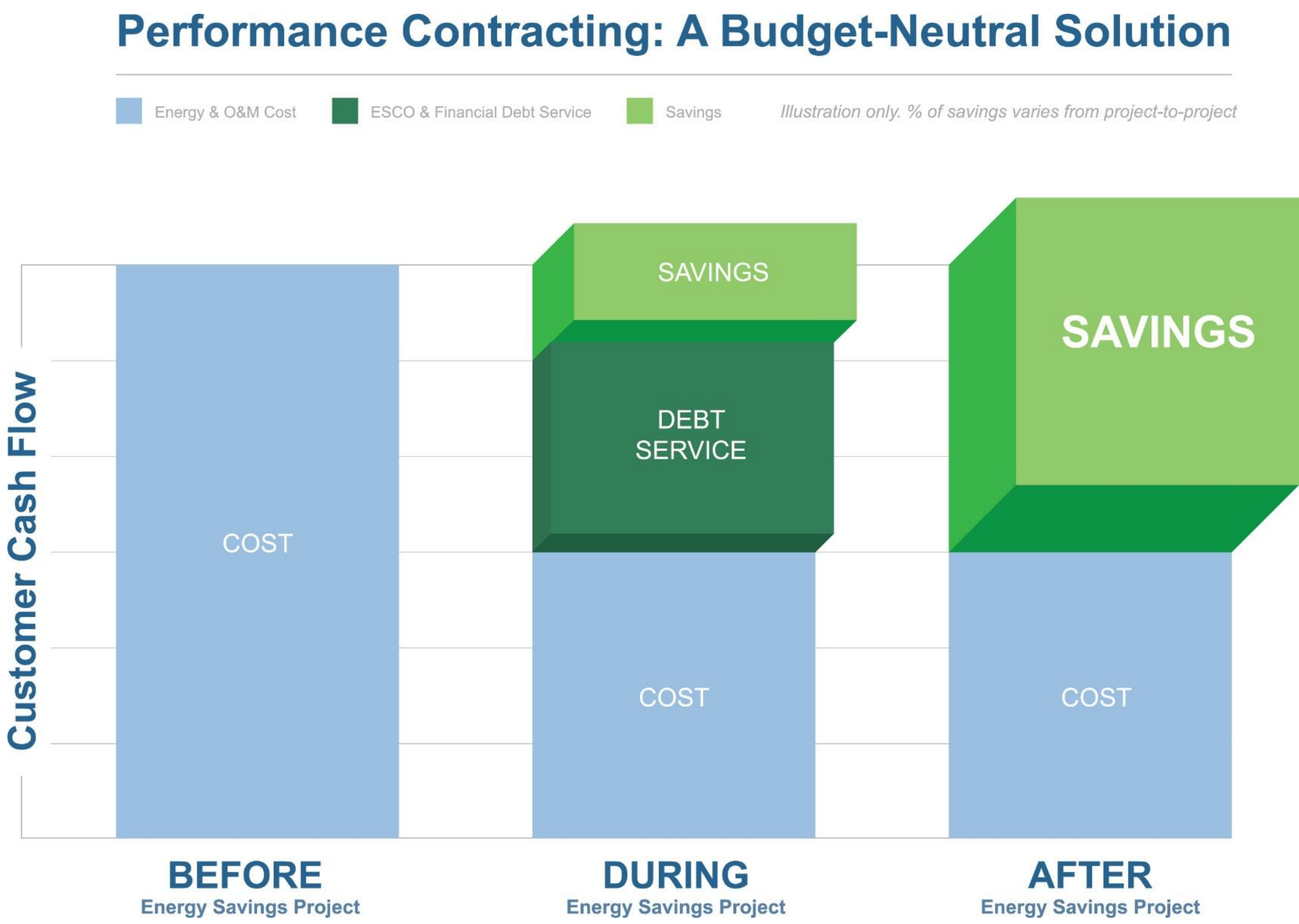


Some concepts to get familiar with the terminology – Guarantee funds

- Guarantee funds aim at lowering the risk rating of energy refurbishment investments
- Should the home owner fail to pay back its loan, the guarantee fund comes in
- Banks have a risk-free business and are thus able to lend at favourable conditions
- Public bodies that fund guarantee funds use their money not to finance any works, but to create a stable lending environment

Some concepts to get familiar with the terminology – Energy performance contracting (EPC)

- A market based instrument for the implementation of EE in buildings.
- A **contractual arrangement** between a building owner & a technical provider (usually an Energy Service Company (ESCO)) to improve a building's energy efficiency.
- An Energy Service Company (ESCO) provides its know-how and takes on the **performance risk** to ensure the proper implementation of energy efficiency measures but also the achievement of the estimated energy savings.
- The savings achieved are used to refinance the measures' investment cost.

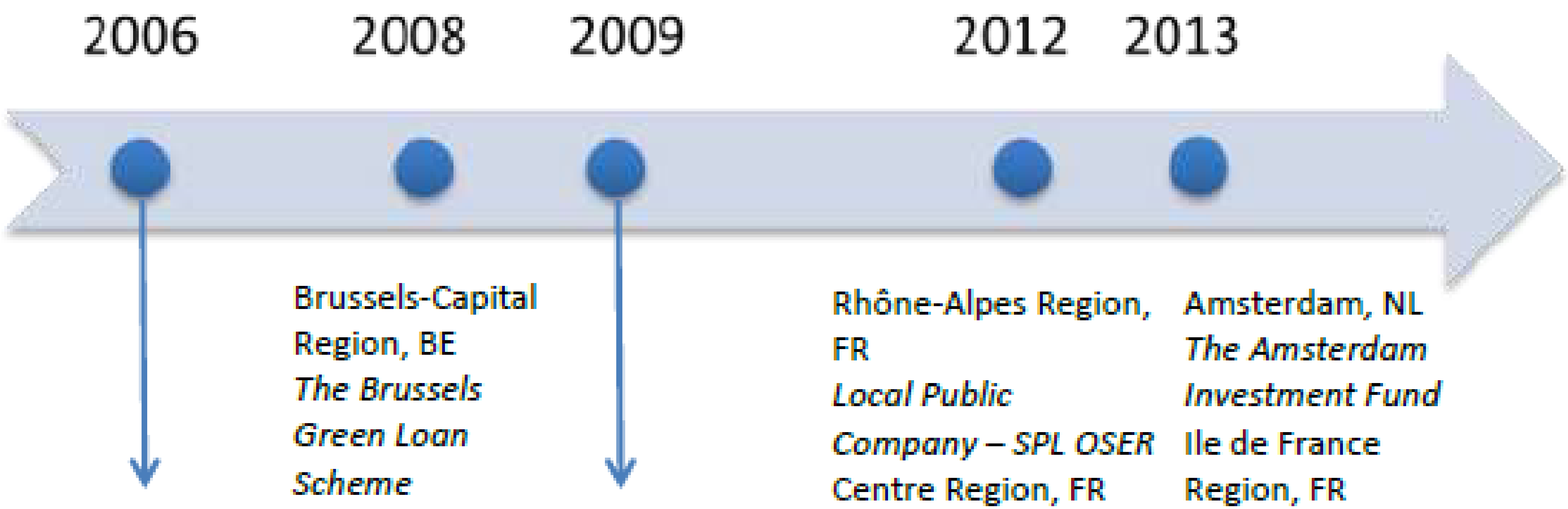


Some concepts to get familiar with the terminology – Energy Service Companies (ESCOs)

An Energy Service Company (ESCO) provides its know-how and takes on the **performance risk** to ensure the proper implementation of energy efficiency measures but also the achievement of the estimated energy savings.

- Must bring technical know-how and guarantee the energy savings of the works carried out
- Can be public or private
- Can bring own financing or not

The early stage of experimentation with Financial Instruments



2006
Delft, NL
Energy Saving Fund and Soft Loans Scheme

2008
Brussels-Capital Region, BE
The Brussels Green Loan Scheme

2009
Almada, PT
The Less Carbon Climate Fund
Lithuania
JESSICA Holding Fund
Estonia
Kredex Revolving Fund

2012
Rhône-Alpes Region, FR
Local Public Company – SPL OSER
Centre Region, FR
Regional Investment and Guarantee Fund & Regional Schemes Targeting Private Housing

2013
Amsterdam, NL
The Amsterdam Investment Fund
Ile de France Region, FR
Semi-Public Company SEM Energies Posit'IF

Many more examples have emerged in the meantime.

Some have failed, some still operational.

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Financing is only one part of the puzzle

We need to see the bigger picture to get it right

Today's Financial Instruments are often combinations of the concepts explained before

Let's look at some examples

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Analysis of market failures or suboptimal investment situations

A consensus on what needs to be achieved to increase demand…

- ✓To give confidence to consumers in a global offering of renovation based on quality and performance commitments … but how to overcome the low willingness of households to pay for such accompaniment?
- ✓To induce banks and real estate professionals to play an active role in the prescription of this offering … but how to allow them take advantage of it?
- ✓and to make these refurbishment works accessible to the lower-middle class, over and above existing public efforts to reduce fuel poverty … how to make it a sustainable business?

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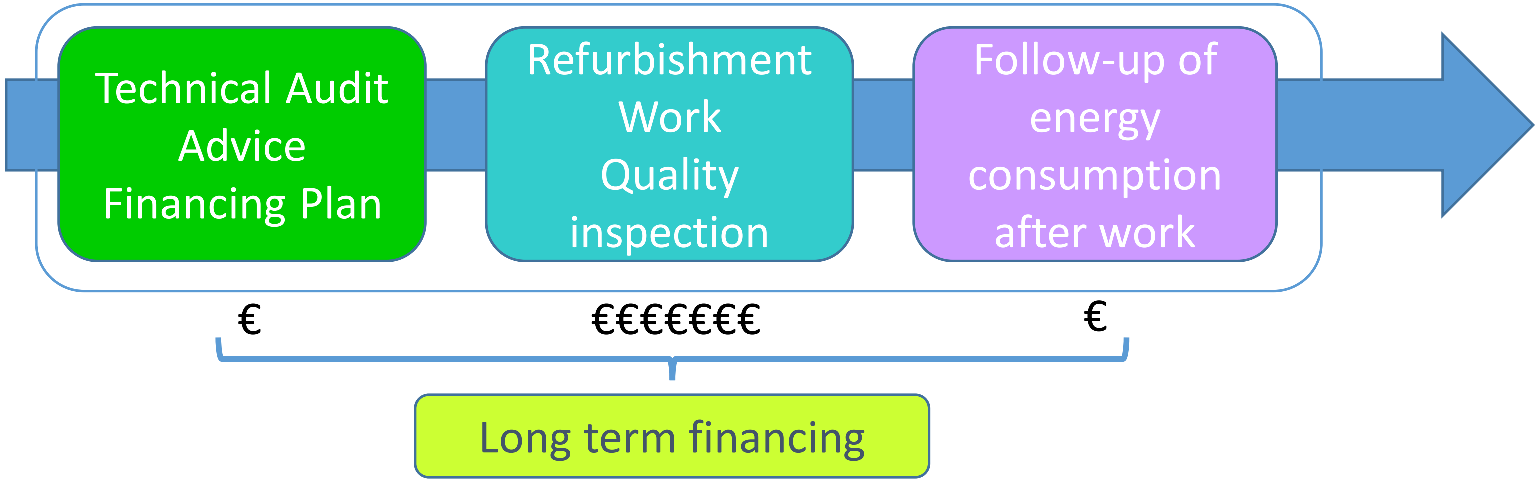
How to get private home owners to implement energy-efficient refurbishment?

How to bundle a fragmented offer?

- ✓ Need for a public intervention : adapt national incentive schemes and leverage on Local authorities as prominent sponsors of energy-efficient market growth

- ✓ Key for the energy-efficient refurbishment market take-up is a turn-key service offer



- ✓ It is difficult to have home owners pay for it, unless :
  - ✓ Confidence level is improved
  - ✓ Service and works payments are bundled
  - ✓ And made affordable thanks to long term repayment term and low interest

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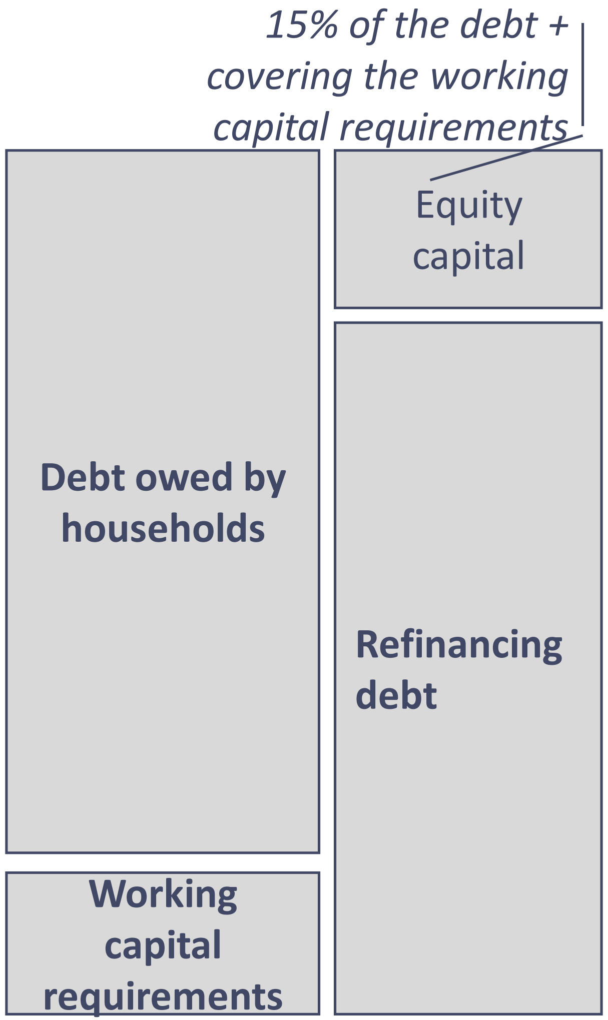
Example of integrated energy-efficient renovation and financing providers: Public-private companies (third party financing)

"Sociétés de tiers-financement" in France:

- ✓ Private public companies, controlled by local authorities
- ✓ who have no financial institution status but are supervised by the bank of France



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Example of integrated energy-efficient renovation and financing providers:

"Sociétés de tiers-financement" in France:

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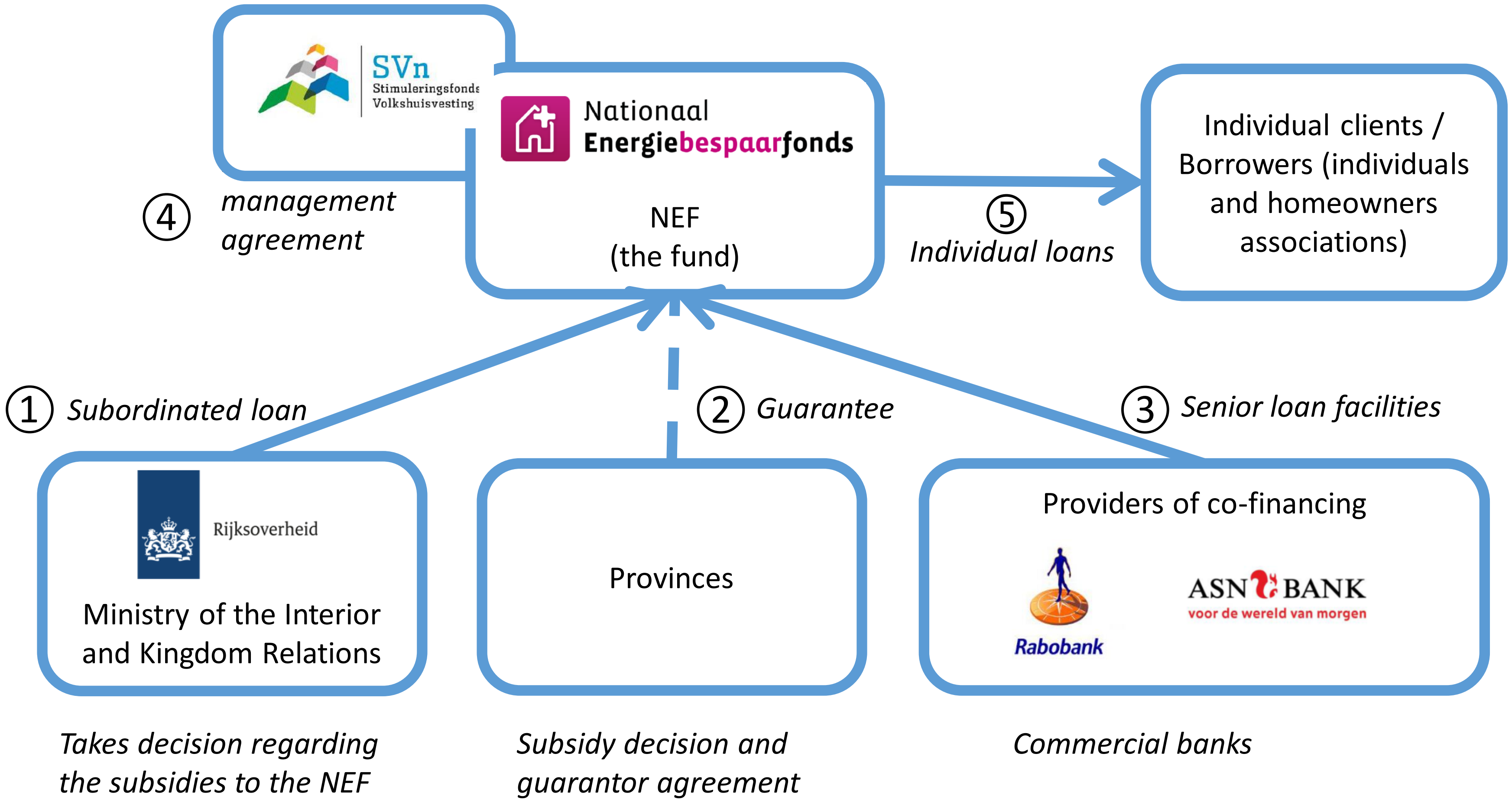
Example of a financial instrument designed to finance specifically energy-efficient renovations:

In the Netherlands:



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Inducing banks to finance the most energy-efficient renovations?

The Banking sector is also moving towards « green financing »: green bonds, green mortgages…

- ✓This also requires a quality control and compliance framework for renovation works and the capacity to measure the actual impact of renovation on energy savings … and on local real estate market
- ✓Local authorities may play an active role in implementing local “One-Stop-Shops” able to guarantee a level of quality/compliance
- ✓Local authorities to clarify the business models of one-stop-shops for energy-efficient refurbishment

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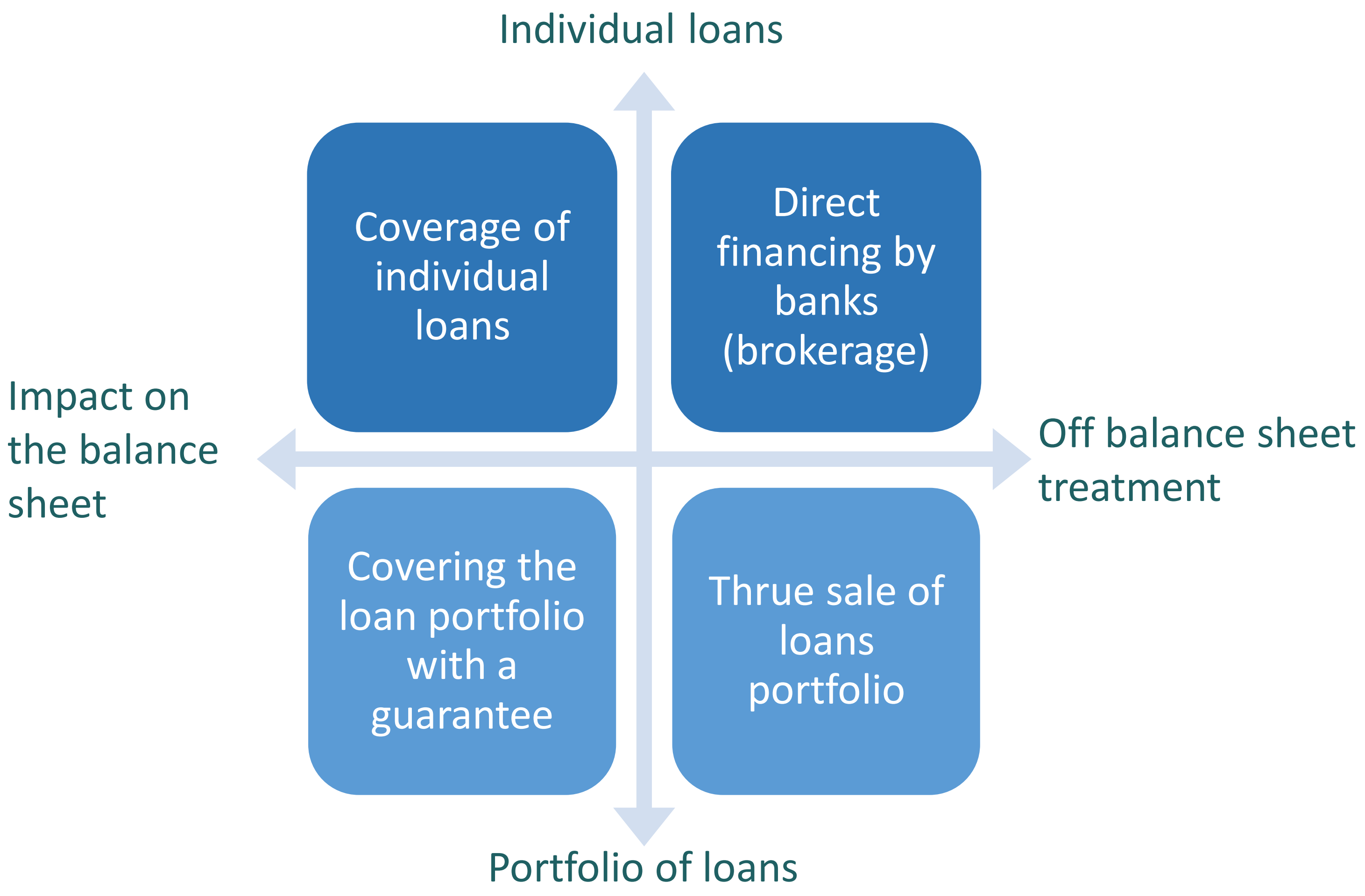
How to improve the financing offer of financial instruments set up by local authorities?



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How to improve the financing offer of financial instruments ?

Relying on « Smart Finance for smart building » initiative

MAJOR GOALS

More effective use of public funds

- Deploying **Financial Instruments** and flexible energy efficiency and renewable financing platforms
- Building on EFSI II blending with ESIF funds

Assistance and aggregation

- Supporting the project pipeline at EU and local level
- **Project Development Assistance** facilities
- "One-stop-shops"
- **EIB ELENA**

De-risking

- Understanding the risks and benefits for financiers and investors
- **The De-risking Energy Efficiency Platform**
- Commonly accepted underwriting framework

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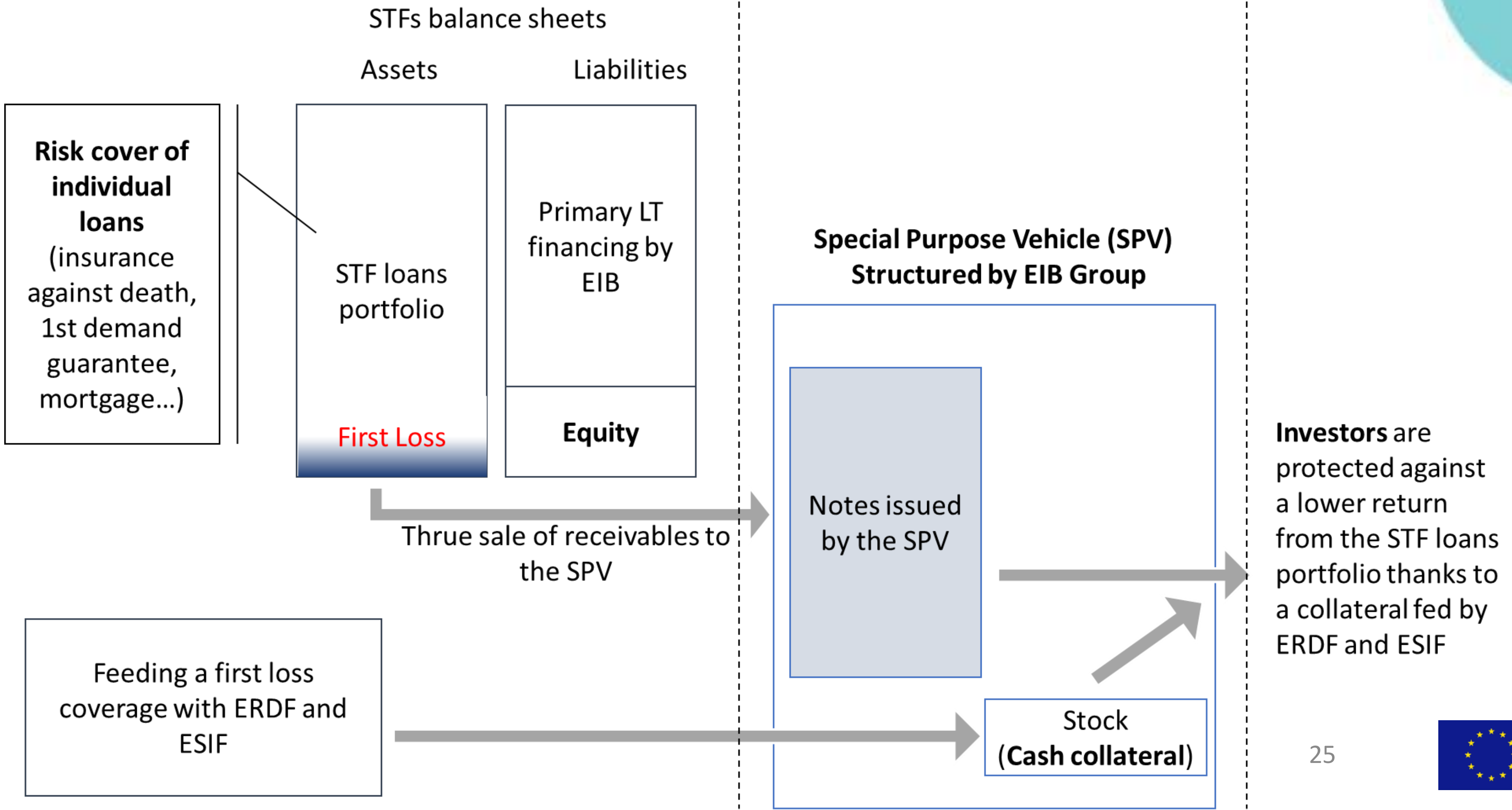
Relying on « Smart Finance for smart building » initiative

- ✓ Designing an SFSB structure with the EIB

Energy-efficiency lending financial risks cover



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Setting up innovative
energy efficiency service packages
for home renovations

Thank You

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