CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

Involving banks in energy efficiency financing

Executive Summary

WGR 4.1

Core theme 4
Working Group Report 1

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Energy efficiency measures and projects are supported in different ways. The public sector, national and local governments and the European Union are continuously working on incentives to encourage investment in energy efficiency (EE) in different sectors. Involvement of bank financing in energy efficiency will gain even more attention in the future across all sectors. In principle EE financing should rely more on market mechanisms and public funds should only be used where market failure occurs. The preamble of the EED says that "Member States should encourage the use of financing facilities to further the objectives of this Directive". Bank financing is critical for developing energy efficiency projects at scale and Member States' ability to reach carbon reduction targets will in part be reliant on the deployment of private sector as well as public finance in the right packages and at the right scale.

Many banks have realised the opportunity of EE financing and have developed specific packages for households and companies to support EE (and renewable energy and broader green) investments or to complement (to cover own contribution, match funding) national EE programmes. Discussions among CA EED participants looked at loans, subsidised loans, loans combined with grants, investment funds, leasing, etc.

Earlier Intelligent Energy Europe (IEE) projects have looked at EE financing and have collated examples. It is worth looking at the results of the FINA-RET and CF-SEP projects in the IEE project data base.

Many barriers still exist that prevent lenders providing financing and borrowers receiving funds for energy efficiency investments. It should also be noted that different beneficiaries (e.g. households, SMEs, municipalities, etc.) have different needs, therefore financial products have to be adjusted to the necessities. Discussions with CA EED representatives of the Member States (MS) highlighted that, among others, the following barriers are important and common in MS:

Top barriers for recipients:	**Top barriers for financiers:**
1. Lack of knowledge, awareness of EE & EE products/benefits 2. Lack of comprehension of finance products/application process 3. Long pay back periods (so it is not only about current activities, but about activities 20 years from now) 4. Mistrust of financiers/EE suppliers, etc.	1. Small size and large scale of projects (=> many more risks), lack of project pipeline/bundling/standardisation (problem of refinancing) 2. Return on investment/less profitable than other investments 3. Lender's risk perception (lack of track record) 4. Lack of communication between financiers & beneficiaries / lack of supportive policy

Discussions also resulted in listing potential solutions that could be applied to overcome the barriers at the national and/or EU level.

The CA EED participants aimed to collect information both from CA EED representatives and from banks directly on existing support mechanisms and financial products offered by national and/or commercial banks in the MS. Within this research, 26 countries provided information and three banks sent back completed questionnaires. Among the respondents, 12 MS reported the existence of a national bank which supports financing of EE projects. 19 MS stated there are commercial banks in their countries offering specific products for financing EE projects, mainly soft loans. Some of the products provided by commercial banks are supported by national or international banks or national government policies. Unfortunately in some cases CA EED representatives could not or could only partially provide specific information on bank products. Still there are 26 financial products offered by national or commercial banks included in this report.

Two good practice examples were highlighted, one from the Netherlands and one from Germany:

- The Green Fund Scheme (GFS) in the Netherlands provides cheaper loans for environmentally beneficial projects, secured returns for investors, helps build a green image for the banks proposing it, and all this at low public costs (banks do the work), with benefits for the environment and contributing to EU targets. It is based on a tax exemption on capital gains for savers choosing to invest in the GFS. It has a large multiplier effect, resulting from a successful co-operation between government and the financial sector.

  Further information:
  http://www.agentschapnl.nl/sites/default/files/bijlagen/SEN040%20DOW%20A4%20Greenfunds_tcm24-119449.pdf

- The energy efficiency construction and refurbishment programme in Germany is run by the KfW Bank, which is a state owned promotional bank. The aim of the programme is to provide financing by way of soft loans and grants for energy efficient construction and refurbishment activities for the German residential sector. The loan is distributed by local banks. One of the successes of the scheme is that it has a leverage effect of around 1 to 12, meaning that 1 EUR state contribution results in 12 EUR investment covered by private sources.

  Further information: https://www.kfw.de/inlandsfoerderung/Privatpersonen/Neubau/Finanzierungsangebote

Some of the numerous barriers to bank financing of EE have already been addressed, with more or less success, such as the need for initial capital (most mechanisms allow raising equity or bringing in initial capital). Some others remain unaddressed, such as the low attractiveness of EE financing for banks or the lack of reliability in the EE policy framework. There is a growing need to understand and tackle all these barriers in order to achieve the level of EE financing needed to meet our objectives. A number of solutions were proposed to overcome barriers at the EU, national and local level, such as:

- “Concerted Action” on finance to bring together public and private sector actors on the national level
- Creation of a market comparison website of EE options and products and associated finance for beneficiaries
- Promoting the exchange of information and even the close collaboration between EE technical experts and financial experts. It is time for both communities to pool expertise in order to increase trust from investors and the financial efficiency of projects.
- Governments are key in supporting bank financing:
    - Initial public funding can leverage significant volumes of private sector investment (e.g. KfW 1:12)
    - Most of the successful examples discussed have involved governments consulting finance institutions in the development and delivery of projects
    - A pipeline of projects has to be fostered in order to reach a bankable size of investment
- There are opportunities to apply for Intelligent Energy Europe funding to finance the replication of successful innovative financing schemes, and the Mobilising Local Energy Investments project is open for recipients and local authorities. Better use should be made of these options.
- It is important to integrate EE into both financiers and beneficiaries’ everyday decision making.
- Harmonise the existing EU databases and create a detailed buildings performance database similar to the US Department Of Energy's buildings performance database.[1]

1. https://www1.eere.energy.gov/buildings/commercial/bpd.html

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Legal Disclaimer

The Concerted Action for the Energy Efficiency Directive (CA EED) was launched by Intelligent Energy Europe (IEE) in spring 2013 to provide a structured framework for the exchange of information between the 29 Member States during their implementation of the Energy Efficiency Directive (EED).

For further information please visit www.eed-ca.eu or contact the CA EED Coordinator Lucinda Maclagan at lucinda.maclagan@agentschapnl.nl

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