Introduction

Energy efficiency investments are among the most societally attractive investment choices for their delivery against the key objectives of the Junker Plan: Specifically, the amount and type of jobs which they bring, their positive energy security, resilience and environmental benefits, their positive impacts on competitiveness and their direct fiscal returns. It is in Europe’s strong self-interest to prioritize energy efficiency investments and put them first in the context of ESFI.

This paper recommends that a fixed proportion of the ESFI be earmarked for energy efficiency (e.g. 20%) and potentially placed into a sub-fund to ensure adequate resource focus and transparency for these important investments.

Furthermore, other energy-related investments presented in the ESFI pipeline should, as a matter of course in the standard due diligence process, be required to reveal if there is an additional energy efficiency upgrade or measure that might be included within their scope as a criteria for the EIB to consider their application for ESFI support. For society and finance institutions to choose energy efficiency projects a concerted development effort is required and for an appropriate balance of energy efficiency projects to benefit from ESFI a specific target investment amount should be earmarked or ring-fenced to deliver these benefits.

“The European Fund for Strategic Investments (EFSI) can put energy efficiency first. In Europe investment levels are around 15% below their 2007 peak. Europe’s new Investment Plan aims to address this. EFFIG findings support the Plan’s position that there is no single or simple answer to how to boost growth and that addressing both the demand and supply sides of the economy is required. Member States have a clear role to play in pursuing the necessary structural reforms, exercising fiscal responsibility and providing regulatory certainty to boost investment in support of jobs and growth. In this context, energy efficiency is the first fuel because it is competitive, cost effective to produce and widely available. For these reasons, EFFIG considers that the Investment Plan should include a clear focus on improving the energy productivity of Europe as a key driver of growth with funds earmarked for energy efficiency investments.” EEFIG Report, February 2015.

Key Facts for consideration

1) EIB lends Euro 2-3 billion (3.3-5%) per annum to energy efficiency from a total annual lending capacity of Euro 60 billion, often because supply-side and larger projects are easier to structure and close;
2) 2,000 projects were presented by Member States to form the Euro 1.3 trillion EFSI pipeline, yet just Euro 22bn (1.7%) of these projects were "energy efficiency" related;
3) Europe estimates that it needs to invest between EUR 1.5 - 2 trillion in infrastructure to meet its policy goals of the Europe 2020 Strategy for smart, sustainable and inclusive growth (equivalent to Euro 250-330 billion per annum);
4) EU Buildings require Euro 60-100bn energy efficiency investment per annum, which as is equal to 24-30% of the overall EU infrastructure investment need.

Context: EU Infrastructure Investment Framework

Buildings are responsible for the largest share of European final energy consumption (40%) and they represent the greatest potential to save energy - as 75% of buildings standing in the EU were built during periods with no, or minimal, energy-related building codes and the energy intensity of heating per floor area is two times higher than any other region of the world (except Russia). Buildings are long-term assets expected to remain useful for 50 or more years and 75-90% of those standing today are expected to remain in use in 2050.

1) “Moderation of energy demand” will be delivered through energy efficiency investments. The Energy Union means making Europe’s energy more secure, affordable and sustainable. The key drivers of

1 EEFIG is an expert group set-up by the European Commission and United Nations Environment Programme Finance Initiative, gathering more than 120 experts from public and private financial institutions (banks, investors, insurers etc.), industry representatives, banking associations and investor groups.
energy security are the completion of the internal energy market and more efficient energy consumption. Energy Union’s third pillar is energy efficiency as a contribution to the moderation of energy demand which will be achieved through putting energy efficiency first. EU funds and EIB financing can make a huge difference.

2) The European Fund for Strategic Investments provides an opportunity to leverage major investments in renovating buildings and investments in this area can provide great returns in terms of growth and jobs. EFSI will support strategic investments with high economic and societal value add. EFSI may enhance risk-bearing capacity. By taking on part of the risk of new projects through a first-loss liability, the fund would attract private investors who may join under more favourable conditions. The EFSI is looking to unlock an additional investment of at least EUR 315bn over the next three years. Any project supported by EFSI would require approval by the EIB and will be handled by the “normal channels” of the EIB’s investment teams.

3) EFSI aims to overcome the current market failure and address market gaps by taking on some of the risk. The EIB will provide loans and will in turn be covered by the EU budget guarantee. This will mobilise private investment and other relevant public funding by de-risking the overall portfolio of energy efficiency investments such that lenders and investors that are less familiar with energy efficiency investment performance can derive comfort and enter the market more easily and in greater size.

If ESFI doesn’t put Energy Efficiency First, it is likely to come last...

Well researched barriers such as high initial costs, long payback periods, split incentives and perceived risks hamper energy efficiency improvements in buildings and energy efficiency investing is not inherently easy for many public and private financial institutions: Projects are relatively small and heterogeneous, transaction costs are currently relatively high, behavioural barriers exist, the supply chain for buildings renovation can be composed of smaller and local firms and in many countries the long-term incentives and policies which would support cost-optimal energy efficiency investments are not evident or not enforced. In addition, there is an institutional momentum within many financial institutions - due to the structure of their teams, the lack of knowledge and experience in efficiency projects and past client engagement - to favour large, size, single transaction asset investments (like energy production facilities or interconnectors) over multiple, small, heterogeneous investments (like energy efficiency). This is a classic “market failure” and indicates a significant resourcing and investment gap which requires public intervention and which ESFI is designed to fill.

Yet energy efficiency investments are among the most societally attractive investment choices for their delivery against the key objectives of the Junker Plan: Specifically, the amount and type of jobs which they bring, their positive energy security, resilience and environmental benefits, their positive impacts on competitiveness and their direct fiscal returns. It is in Europe’s strong self-interest to prioritize energy efficiency investments and put them first in the context of ESFI. For society and finance institutions to choose energy efficiency projects a concerted development effort is required and for an appropriate balance of energy efficiency projects to benefit from ESFI a specific target investment amount should be earmarked or ring-fenced to deliver these benefits.

Without a Specific Sub-fund for Energy Efficiency ESFI Will Not Deliver Optimal Energy Efficiency Investment Levels

Successful energy efficiency investment programmes are specific instruments that are tailored and “fit for purpose” such as the KfW home energy efficiency improvement programme, the European Energy Efficiency Fund and Kredex’ Energy Efficiency Facility. Successful energy efficiency investment funds and facilities have to work harder with their end-customers to ensure the development of good quality projects and overcome the natural barriers which exist. Without specialist resource focus and specific energy efficiency investment processes, generalist funds - and even sustainable energy funds - find it hard to deploy significant investment amounts into energy efficiency in the short-term. However, once energy efficiency programmes are working and correctly tailored they have a capacity to scale-up very well, like many retail products, once their own momentum is established (illustrated by KfW, Kredex and various other national housing energy efficiency investment schemes).

Having the EIB, private and public financial institutions and the energy efficiency supply chain work harder to deliver more energy efficiency investment projects is a very worthy objective given the extra economic, societal and environmental benefits that this specific effort can deliver.

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