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Investment  
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*The EU bank*



EUROPEAN  
INVESTMENT  
FUND

**SEIF - National Roundtable on Financing Energy Efficiency in Croatia  
Combining European Cohesion policy funds and private  
capital for smart buildings**

**Robert Pernetta, Financial Instrument Advisory**



# Using Cohesion Policy Funds for EPC

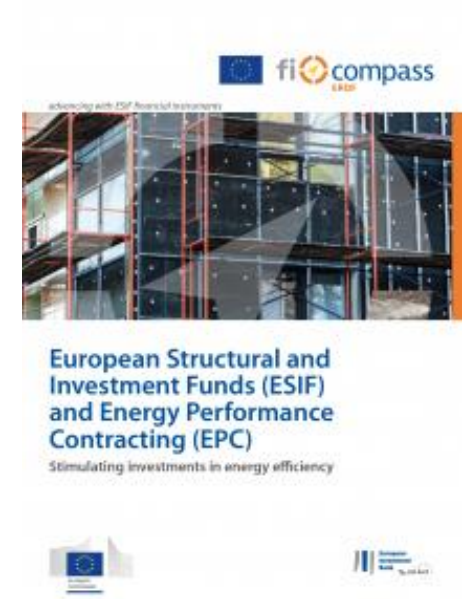


# Financing EPC

## Why using Cohesion Policy Funds for EPC?

- **Grant**
  - Making it possible to undertake comprehensive renovation with EPC. Grants shorten repayment time to a length acceptable for ESCOs
  - EU funds are “Maastricht neutral” – no impact on government debt and deficit
- **Financial instrument**
  - Reducing cost of financing for ESCOs
  - Allowing for longer EPC contracts
  - Overcoming balance sheet limitations of ESCOs
  - Crowding in banks or debt funds to finance the ESCO market

for more information <https://www.fi-compass.eu/publication/factsheets/european-structural-and-investment-funds-esif-and-energy-performance>



# Balance sheet treatment of EPC

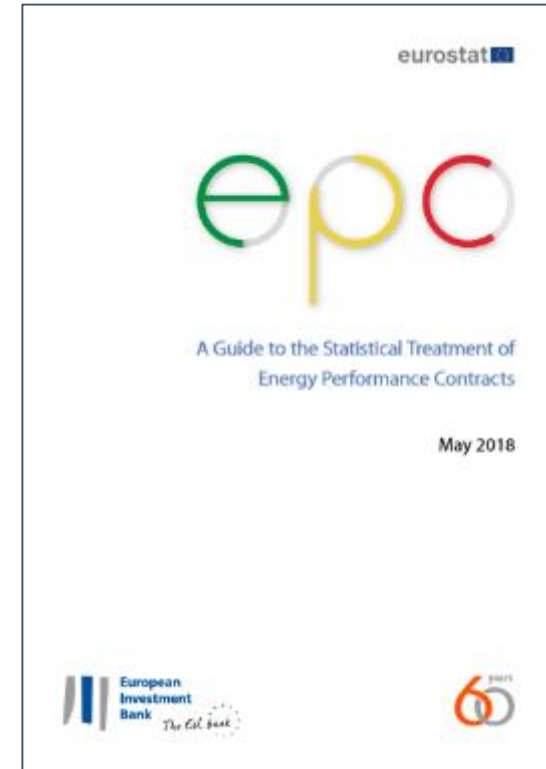
## To be or not to be ... on the balance sheet

Eurostat accepts that EPC are accounted as off-balance sheet (“**Maastricht neutral**”) under certain conditions, e.g.:

- Full payments to ESCO only if guaranteed energy savings are achieved
- Guaranteed savings  $\geq$  payment by government to ESCO
- Guaranteed energy savings for at least 8 years
- ESCO has to receive at last 2/3 of additional savings
- EPC asset may include equipment for energy generation (e.g. renewable energy)
- Government financing has to be less than 50% - EU financing is neutral

### State of play in implementing “Maastricht neutral” contracts

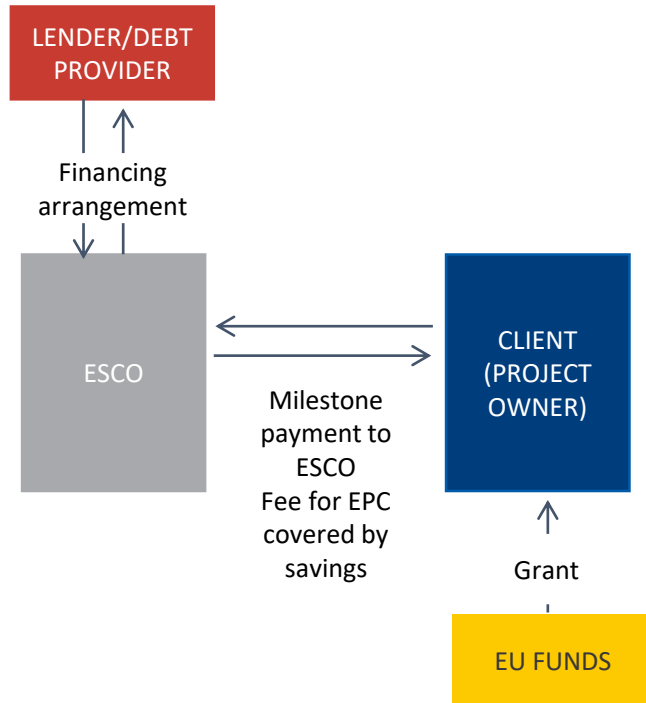
- Eurostat has approved model contracts in Slovakia, Scotland and Latvia
- Slovakia has published first “Maastricht neutral” EPC tender
- Catalonia has awarded first “Maastricht neutral” EPC contract



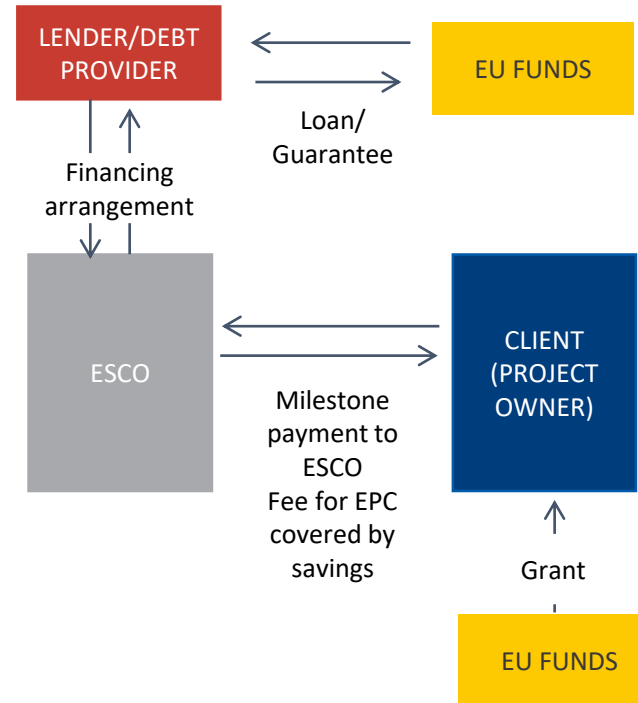
# Financing EPC with Cohesion Policy Funds

## Financing EPC with Cohesion Policy Funds grants and Financial Instruments under current rules

### EPC with EU grant to project owner



### EPC with EU grant and FIs



Experience with combination of EU funds in form of grants and FIs exist in several countries:

- Slovenia EPC Programme (with our without loan to ESCO)
- Marche Region (Italy) EPC for health sector
- Czech EPC forfeiting guarantee (in preparation)



# Challenges to EPC in Croatia – Ways to overcome them



# EPC market in Croatia

## *Significant potential but barriers*

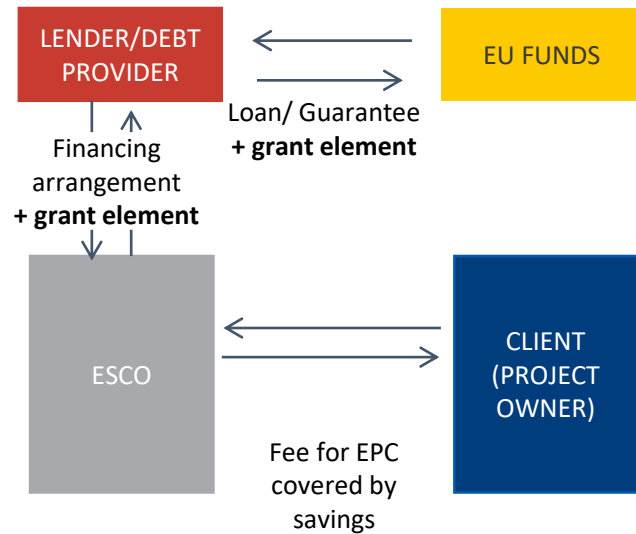
- **Market situation**
  - Several successful projects in public lighting, hospitals and schools
  - Small market, growth has been stalled
  - Large potential (EUR 1.1bn for 2021-2030 period)
  - Number EPC providers is sufficient for effective competition
- **Market barriers**
  - Balance sheet treatment for public entities
  - Loans from HBOR own resources are counted as government finance
  - Existing support model from Environmental Protection and Energy Efficiency Fund not compatible with Cohesion Policy funds (eligibility rules)
  - ESCOs difficulties to access financing (affordable long-term debt and equity)



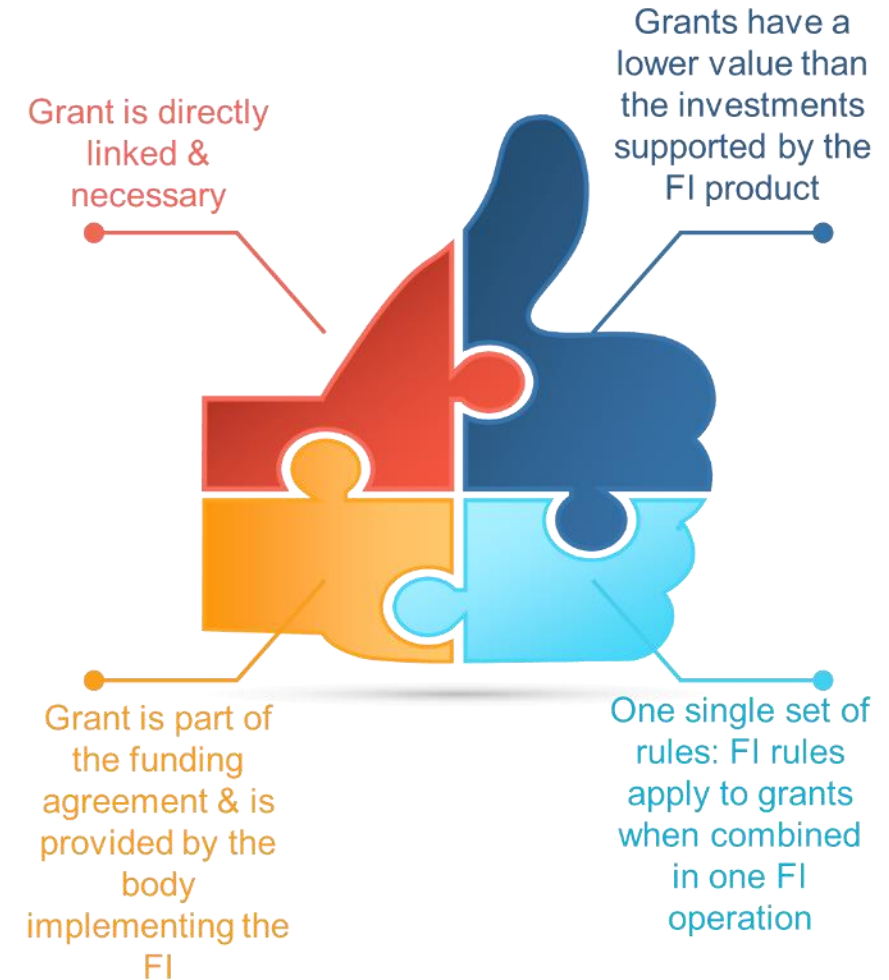
# Opportunities for EPC support from Cohesion Policy Funds

*Combination of financial instrument and grant in one operation - draft CPR Art. 52(5)*

## EPC with EU grant and FI combined



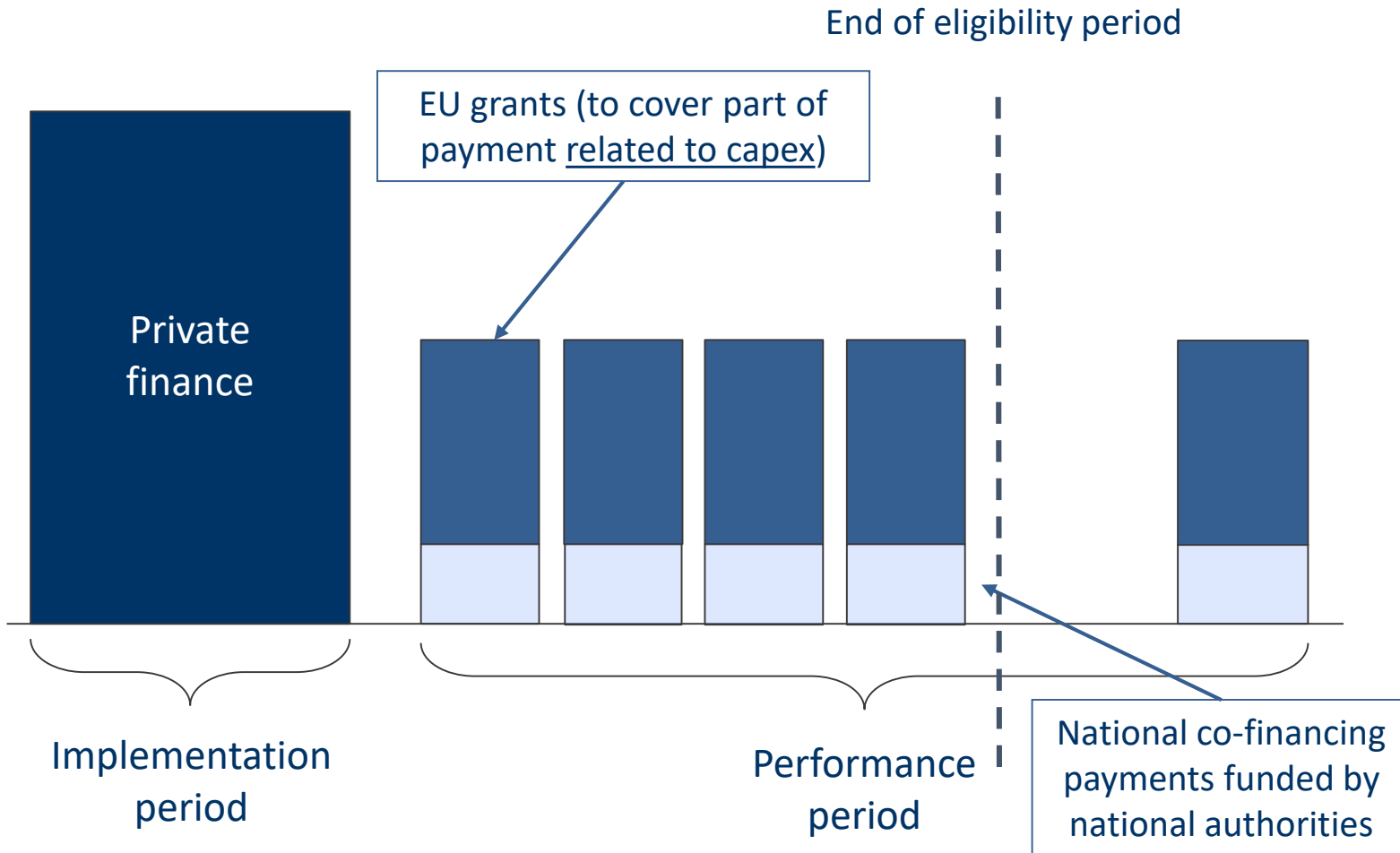
- Possibility to combine loans and guarantees with interest rate subsidy, technical support or investment grant
- Single rules for loan/guarantee and grant
- Financial intermediary can provide combined loan/guarantee and grant
- Final recipients (e.g. ESCO) can access support without participating in call for grant
- Grant can be made available together with loan/guarantee at the beginning of projects





# Opportunities for EPC support from Cohesion Policy Funds

## Timing problem of payment to ESCO



- ESCO is financing investment cost during implementation period
- Public sector pays ESCO for capital expenditure (capex) and service (opex) over duration of project
- Under EU funds payment for eligible expenditure must be made during eligibility period (until 2029)

For PPP there are two solutions:

- a. Making private party beneficiary of the grant (after selection of private party)
- b. Making payments for the private party into an escrow account

# Opportunities for EPC support from Cohesion Policy Funds

## *Flexibilities for PPP projects in draft Common Provision Regulation*

- **'PPP operation'** an operation which is implemented in line with a PPP agreement (CPR Art. 2(14));
- **Private partner** selected for PPP implementation **can be beneficiary** (CPR Art. 2(8)(b));
- **'Escrow account'**, a bank account covered by a written agreement between a public body beneficiary and the private partner approved by the managing authority or an intermediate body used for payments during and/or **after the eligibility period** (CPR Art. 2(35))
- For PPP operations, the managing authority shall carry out **payments to an escrow account** set up for that purpose in the name of the beneficiary for use in accordance with the PPP agreement (CPR Art. 68(1))

*More information can be found in EPEC guide on blending ESIF and PPP*

**Can a comprehensive renovation EPC agreement in Croatia be considered a PPP in the meaning of the CPR?**





# EIB can help



# EIB Group financing to ESCOs

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## Selected operations

### Direct financing of ESCOs

- EIF is invested equity in Slovenian ESCO Resalta along Bulgarian private equity investor (backed by EFSI)
- EIB venture debt (subordinated loan) loan to Resalta (backed by EFSI)

### Indirect financing of ESCOs via funds and banks

- Belgium bank BELFIUS provides debt financing to EPC projects through purchase of receivables (forfaiting). Project is backed by a EC guarantee and EIB loan (PF4EE)
- European Energy Efficiency Fund (EU wide debt and equity fund) jointly set up by EC, EIB and CDP (Italy), managed by private fund manager DWS
- SOLAS Sustainable Energy Fund (EU-wide dedicated debt fund for ESCO financing) – EIB equity participation under approval

## Technical and financial advisory

- Development of practitioner's guide with Eurostat
- Developing guidance on the use of ESIF for EPC with European Commission - DG REGIO
- Review of the Slovak and Latvian EPC model contracts regarding balance sheet treatment
- Support to public real estate manager in developing an EPC based building renovation scheme in Latvia
- Financial analysis of street lighting project in Vilnius
- Market assessment and development a forfeiting guarantee scheme in the Czech Republic
- Project development assistance from ELENA for City of Ljubljana, City of Bratislava, Region of Flanders, Czech promotional bank ČMZRB...



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More information at:

**EIB Advisory Services:**

**Emily Smith**

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**European Investment Advisory Hub**

<https://eiah.eib.org/index>

**fi-compass**

<https://www.fi-compass.eu/>

**Hvala!  
Thank you!**

# Additional information

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## Guidance and programmes/projects

### Guidance

- Eurostat/EIB: A guide to the statistical treatment of Energy Performance Contracts [https://eiah.eib.org/publications/attachments/guide\\_to\\_statistical\\_treatment\\_of\\_epcs\\_en.pdf](https://eiah.eib.org/publications/attachments/guide_to_statistical_treatment_of_epcs_en.pdf)
- Webinar to the EPC practitioner's guide: [https://eiah.eib.org/publications/webinar/WEBINAR\\_a\\_Practitioners\\_Guide\\_on\\_the\\_Statistical\\_Treatment\\_of\\_Energy\\_Performance\\_Contracts](https://eiah.eib.org/publications/webinar/WEBINAR_a_Practitioners_Guide_on_the_Statistical_Treatment_of_Energy_Performance_Contracts)
- *fi-compass*: ESIF and EPC <https://www.fi-compass.eu/publication/factsheets/european-structural-and-investment-funds-esif-and-energy-performance>
- EPEC – Blending ESIF and PPPs in 2014-2020 programming period <https://www.eib.org/en/publications/epec-blending-ue-structural-investment-funds-ppps>

### Project cases

- Codema Dublin (video) <https://youtu.be/kWF0ywtEvhY>
- Slovakia “Maastricht neutral model contract” <https://www.mfsr.sk/en/finance/public-private-partnership-ppp/energy-performance-contracts/>
- Czech Republic - Energy, Business and Advisory Platform supported ČMZRB by ELENA: <https://www.eib.org/attachments/documents/108-project-factsheet-eb-a-platform-cmzrb.pdf>
- Slovenia EPC programme, London Energy Efficiency Fund, Marche Energy and Mobility Fund [https://www.fi-compass.eu/sites/default/files/publications/Robert-Pernetta-Laurent-Bender-EPC-case-studies\\_0.pdf](https://www.fi-compass.eu/sites/default/files/publications/Robert-Pernetta-Laurent-Bender-EPC-case-studies_0.pdf)

# Additional information

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## Financing of EPC

### Reports

*fi-compass report*: Potential for Financial Instruments in EE in the EU <https://fi-compass.eu/publication/factsheets/potential-investment-energy-efficiency-through-financial-instruments>

### EIB Group operations related to EPC (not a complete list)

- BELFIUS Energy Efficiency Package <https://pf4ee.eib.org/partner-banks/#accordion-belgium>
- EIF equity to Resalta [https://www.eif.org/what\\_we\\_do/equity/news/2019/efsi-resalta-blackpeak-capital.htm?lang=-en](https://www.eif.org/what_we_do/equity/news/2019/efsi-resalta-blackpeak-capital.htm?lang=-en)
- EIB loan to Resalta) [https://ec.europa.eu/commission/news/investment-plan-europe-towards-energy-efficient-europe-eif-backs-slovenian-resalta-eu6-million-2019-apr-02\\_en](https://ec.europa.eu/commission/news/investment-plan-europe-towards-energy-efficient-europe-eif-backs-slovenian-resalta-eu6-million-2019-apr-02_en)
- European Energy Efficiency Fund <https://www.eeef.eu/home.html>
- SOLAS Sustainable Energy Fund <https://www.eib.org/de/projects/pipelines/all/20180414>