

ROUNDTABLE ON FINANCE FOR ENERGY EFFICIENCY IN SPAIN



25 April
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Madrid

Event organised in the frame of the Sustainable Energy Investment Forums funded by the Horizon 2020 programme of the European Union

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EXECUTIVE SUMMARY

The European Commission, in partnership with the Instituto de Crédito Oficial (ICO) and the UN Environment Finance Initiative, organized a round table in Madrid on 25 April 2018 on financing energy efficiency in Spain. The event was attended by 46 experts from Spain and European institutions who are engaged in financing energy efficiency across multiple sectors of the economy. Those represented included national Government, local and regional authorities, the financial sector, project developers and the renovation supply chain.

The objective of the National Roundtable was to reinforce the dialogue on energy efficiency finance with key stakeholders in Spain, in order to identify common objectives and potential improvements to be made in the policy framework within the country.

The Roundtable resulted in three key actions, to be revisited in six months' time:

1. In support of the use of EU Structural Funds, further work needed to be undertaken on the appropriate opportunities for and type of financial instruments in different sectors. There should be more active involvement of banks in the following meeting.
2. There are well recognised issues when talking about credit in private multi-family apartment buildings. It would be very helpful to prepare a text in 6 months' time that explains the problem with term "owners property". The legal form of this goes against the building of trustworthiness with banks. More openness and transparency is needed.
3. We need the legal report allowing us to understand what kinds of tax changes and methods need to be implemented to enable financial mechanisms such as PACE to work. The Ministry of Finance is looking into new fiscal policy and the report of the national group of experts on the energy transition will be relevant too. We should be able to see some progress here in six months' time.

The outputs from the three in depth topic groups were summarized as:

On Structural and Investment Funds

- Clarity is needed on standardisation in order to increase deal size, reduce transaction cost percentages and attract more forms of private finance
- There is a need to think about integrated renovation – for example taking forward energy efficiency improvements that go hand in hand with other building improvements – e.g. if lifts etc are being renovated in a building, then other energy efficiency improvements should be implemented too
- Modifications to legal and contractual principles are needed - From a bank standpoint, there is no legal certainty when dealing with associations of building owners or management companies in a condominium. Energy service companies can find it hard to go to the residential sector, due to these complexities. Facilitation and technical assistance are needed to improve the market.
- Communications and marketing (which builds on the three previous points). There is a need to identify who wants and who can have project finance – there are restrictions on some public administrations. It is also important to join up around just one brand – there

is still confusion around project finance and multiple financial products are available through one brand. Can products be brought together through one portal?

On renovation of Multi-Family apartment blocks

- Generating trustworthiness is key – this is considered to be what pushes a building owners' group to start a project. Communication is important as part of this. There is a bigger role for one stop shops that can combine technical and financial advice and specialist outreach.
- There has been exponential growth in the sector and the supply chain is not ready to address the scale of the building renovation challenge. Capacity has been lost through the financial crisis and new and emerging technologies require new capacity building.
- Fiscal initiatives are needed, in particular to incentivise early adopters who would like to boost innovative products or sectors.

On on-tax financing for home renovation:

- PACE can be competitive funding and is attached to the building, not an individual person
- Safeguarding the quality of investments is very important and PACE allows for this.
- Legislative and policy changes are needed for Spain to be able to implement PACE type solutions. This includes consideration of the extent to which energy efficiency constitutes a service. It also implies a significant role for the public sector. Effective and feasible reform is need to enable PACE to become incorporated via taxes. There should be work on IBI in Spain and how this can be implemented.
- There is a scale challenge. €9 billion per year is needed to meet the renovation challenge. Efficient systems are needed to reduce transaction costs and grant funding needs to be optimised for those most in need.

BACKGROUND TO THE EVENT

As part of the "Smart Finance for Smart Buildings" initiative, the European Commission is organising a series of "Sustainable Energy Investment Forums" to enhance the capacity of and co-operation between public and private stakeholders to develop large-scale investment programmes and financing schemes. The SEI Forums will consist of more than 30 events in up to 15 Member States in 2016-2019; information on past and upcoming events can be found on the SEI Forums [webpage](#).

An initial public conference on Financing Energy Efficiency in Spain and Portugal took place in Madrid on 15 June 2017. This event gathered 163 participants from the financial sector, project developers, the renovation supply chain and local and regional energy agencies. The presentations and proceedings from that event can be found [here](#), and make useful background reading in relation to the National Roundtable.

INTRODUCTORY PLENARY

INTRODUCTORY REMARKS

Charo Casero, ICO

ICO provide finance through debt capital or guarantees. They are working on new credit lines, including a new programme for financing energy efficiency in privately owned buildings, which part of Spain's national housing plan. ICO are designing a line of funding for homeowners or condominium management companies, working with the European Investment Bank and private financing institutions.

For public buildings, they are waiting for the updated Eurostat guidance note on accounting for energy performance contracting to decide what operations are viable for the improvement of energy efficiency in public buildings.

ICO are also managers of risk capital and have an infrastructure financing vehicle – this should be used to support the roll out of alternatively fueled vehicles.

ICO is also interested in the development of national financing platforms as foreseen under the Smart Finance for Smart Buildings initiative and using the second phase of the European Fund for Strategic Investments. These platforms should support work in specific geographic areas and regions and act as vehicles for integrated refurbishment.

ICO view energy efficiency as a strategic sector to be involved in and can be relied on for support in this area.

Paula Rey Garcia, Comisión Europea, DG ENERGY

Presentation [here](#).

Renovation rates across Europe need to improve markedly if Europe is to be on track to deliver against 2030 climate and energy goals. The buildings sector has a key role to play. Renovation rates are currently typically less than 1% per year. In order to achieve these increases, funding needs to improve too. The Commission have made efforts in quantifying the multiple benefits of energy efficiency – in emissions reductions, health and wellbeing improvements, growth and jobs and skills, all of which are important. The Clean Energy for All Europeans package will revise the Energy Efficiency Directive and reinforce the role of buildings in meeting targets. For the Energy Performance of Buildings Directive, political agreement was reached in November 2017 and the revised Directive has now been agreed in the European Parliament too. There is now a timeline for entry into force. The amended Renewable Energy Directive and Energy Union Governance regulations will also be soon ready to apply.

The Commission have tried to set up a series of supporting measures – including Smart Finance for Smart Buildings, which looks out to 2050. The initiative has three main pillars: The more effective use of available public funds, project development support and aggregation and de-risking.

Activity on public funding includes the development of new national financing platforms that can combine different forms of public funding (for example based on combining EFSI and ESIF). Spain has already expressed an interest in these kinds of platforms.

The new Eurostat guidance amendment has been completed and the new note will be released during May. Many countries want to develop framework contracts to improve investment in public buildings.

In conclusion, the EU are working to try and change culture and financial models. There is a lot of work underway on sustainable finance. The High Level Expert Group on sustainable finance reported at the end of last year. The European Commission believe that this is necessary to help with the decarbonisation of the economy.

Maria Teresa Velasco, Ministerio de Energía, Turismo y Agenda Digital

In April of 2017, the Ministry of Energy, Tourism and the Digital Agenda received a report on the energy transition, which had been prepared by an independent panel of experts. Fourteen experts appointed from the private sector and political parties have now been given six months to look in more detail at variables affecting Spain's energy infrastructure.

The Paris Agreement and its goals go hand in hand with energy efficiency goals. To meet these goals, investment is needed to meet all of the available cost effective energy saving potential. Barriers encountered in Spain have included access to finance and improving cost effectiveness analysis to deliver robust business cases. Putting energy efficiency first, as per the Clean Energy for All Europeans package is a crucial tool to achieve all of the pillars on which an energy system is based, as well as helping with competitiveness and reducing energy import dependence.

The Spanish expert group pointed out that some investments may not be cost effective in the medium term, and that there may need to be more focus on the longer term. To promote energy efficiency projects, a national energy efficiency fund of 207 million euros had been established, and some actions had been launched to help meet the Commission's goals, including energy efficiency obligations under article 7 of the Energy Efficiency Directive. These are being linked to ESIF and are being leveraged, with an overall investment of €1.1 billion plus €328 million for local administrations. This investment package includes help for SMEs, building renovation programmes, streetlighting upgrades and information and awareness raising campaigns. There are also specific programmes in the hotel and hospitality sector and policy support, for example in the new national housing plan, which fosters sustainability in buildings.

Jorge García Castaño, Ayuntamiento de Madrid

Over 3 years, the administration have saved 21% of the municipal energy bill. Local buildings, are acting as beacons of good practice in energy saving. The greater challenge is in private buildings. The emissions reduction plan, Plan Madre, is looking to deliver 60% energy savings. The Plan has already helped 60,000 families. Renovation grants have been made available and were delivering on improvements to building fabric etc and not just cosmetic changes.

On finance and access to investment funds, the city administration would like Madrid to become a benchmark city. Joint working is needed to look for finance solutions for private buildings and administrative barriers should be removed. The Eurostat accounting rule changes are important for example and could unlock additional finance in Spain.

The city administration are looking to combine different funds and types of financial instrument to speed up the energy transition. Without coordination and with mistrust it will be difficult.

María Francisca Rivero, IDAE

Presentation [here](#).

As part of Europe's 20% energy saving goal for 2020, Spain has a target of 24.7% savings. Primary energy consumption in 2016 is already below this 2020 requirement, the challenge now is to keep the level there, even if the economy grows.

Funds for energy efficiency are channeled through various mechanisms. Some of these are linked to e.g Energy Efficiency Directive article 7. This has been used to co-finance federal funds for energy efficiency. IDAE is the manager of energy efficiency funds. A wide range of mechanisms are employed including low and no interest loans and grants, guarantee instruments and specific funds for smaller administrations with less than 20,000 inhabitants, plus action on state infrastructure.

There are two support programmes with calls for proposals currently open – on energy efficiency in industry and SMEs (30% grant funding for eligible costs on technology and process improvements). The limit for funding has now increased to €50 million and these funds are reserved 40% for SMEs. Secondly the PAREER programme for works to improve the energy rating of buildings.

Since the National fund was created in 2015, there have been €1.3 billion of energy efficiency improvements funded, plus €300 million through PEREER-CRECE. IDAE has managed €1.4 billion into energy efficiency since 2015.

Ana Martínez, ICO

Presentation [here](#).

There are three axes for ICO funding of energy efficiency:

Firstly, direct finance, then finance mediated by ICO-IDEA through intermediary institutions and thirdly private finance into district heating projects. ICO and IDEA have a long history of collaboration, €785 million has helped to support almost 10 thousand organisations.

For the ICO-IDEA line, recipient companies have up to 12 months to execute a project in the hotel sector and 24 months in industry sector. So the time to use the funds is quite extensive. Where funding is granted through a loan, 100% of a project can be financed. €30 million has been allocated for hotels and €70 million in the industrial sector.

ICO have extensive experience and can provide support and advice. They are preparing a newsletter on the ICO-IDEA funding line.

Moderator's summary comments, Peter Sweatman, Climate Strategy & Partners

Three important points to be developed and discussed during the Roundtable arose from the public conference last year:

1. How do we build bridges between public and private finance? The energy efficiency sector has huge potential, but what can be done by 2020, 2030 and 2050.
2. How can we streamline support for the consumer?
3. How can we build the confidence between the different stakeholders?

TOPIC GROUP ON EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

Invited speakers:

Francisco Tovar, Ministry of Housing, European Funding Directorate. Presentation [here](#).

Luis Cañete, European Investment Bank. Presentation [here](#).

Background:

The Public Conference included presentations giving an overview of European Structural and Investment Funds in Spain (available [here](#)), detail on how this has been deployed under the low carbon priority in Spain ([here](#)), on the role of the Instituto de Credito Oficial and the potential to combine funding sources ([here](#)) and on support available from the European Investment Bank and their relevant programmes ([here](#)). The new State Housing Plan (2018-2021) can also be seen [here](#). Alongside standardisation, a major challenge is the perceived risk profile of energy efficiency which leads to higher capital costs. A solution to this could be the development of risk sharing instruments such as guarantees, which can be provided from the EU level through the European Fund for Strategic Investments and Private Finance for Energy Efficiency guarantee scheme, alongside existing national initiatives such as the Czech-Moravian Guarantee and Development Bank.

Given the significant size of the public funding available through ESIF and its material impact on national investments, the [Smart Finance for Smart Buildings communication](#) that was released as part of the Clean Energy for All Europeans policy package makes it clear that the aim of the initiative is to “maximise the use of available public funding via financial instruments addressing identified market failures and by better targeting grants towards vulnerable consumers”. One pillar of Smart Finance for Smart Buildings contains related actions to encourage more effective use of public funding. Details of each of the Operational Programmes for Spain can be found [here](#).

The Public Conference heard that further analysis is underway in Spain that will:

- Analyse supply and demand of financing by sector
- Characterise and quantify the existing financing deficit
- Examine the possible added value of financial instruments in relation to other forms of public intervention in certain sectors
- Identify possible alternative Financial Instruments: loans, guarantees etc

The roundtable covered these areas of activity and discussed what may be needed to support different sectors, and the most appropriate instruments for each.

Key Questions

1. In which sectors are there funding deficits for energy efficiency investments? What might the right types of financial instruments be to fill these gaps and to develop the market for energy efficiency?
2. What resourcing, policy and/or legislative changes are needed to make it easier for Managing Authorities and Regional Agencies to combine grant and loan funding from different sources into financial instruments?

3. How can technical assistance facilities ensure a sufficient project pipeline? What is the right balance between technical assistance and implementation funding?

Conclusions:

- Clarity is needed on standardisation in order to increase deal size, reduce transaction cost percentages and attract more forms of private finance
- There is a need to think about integrated renovation – for example taking forward energy efficiency improvements that go hand in hand with other building improvements – e.g. if lifts etc are being renovated in a building, then other energy efficiency improvements should be implemented too
- Modifications to legal and contractual principles are needed - From a bank standpoint, there is no legal certainty when dealing with associations of building owners or management companies in a condominium. Energy service companies can find it hard to go to the residential sector, due to these complexities. Facilitation and technical assistance are needed to improve the market.
- Communications and marketing (which builds on the three previous points). There is a need to identify who wants and who can have project finance – there are restrictions on some public administrations. It is also important to join up around just one brand – there is still confusion around project finance and multiple financial products are available through one brand. Can products be brought together through one portal?

TOPIC GROUP ON RENOVATION OF MULTI-FAMILY APARTMENT BLOCKS

Invited speakers:

Francisco Javier Márquez Pocostales, AGENEX (proyecto HouseEInvest). Presentation [here](#).

Beatriz San Martín Zaragüeta, Nasuvinsa (proyecto EFIDistrict). Presentation [here](#).

Emilio Miguel Mitre, GBCe. Presentation [here](#).

Background:

The public conference included presentations on experience with the PAREER-CRECE programme ([here](#)), on experience through the PadovaFit project in Italy ([here](#)), as well as information for individual homes on green mortgages ([here](#)) and a potential way ahead using green mortgages in Spain ([here](#)).

Although there is high potential for energy savings and CO₂ reductions, renovation of the residential sector is complex, especially when dealing with Multi-family apartment blocks. The sector concentrates many financial and non-financial barriers, such as: citizens' low awareness of the benefits of energy retrofits, competing household priorities or a lack of skills to carry out high quality refurbishment. Indeed, most homeowners are 'non-professionals' when it comes to the field of refurbishment, even more so for energy refurbishment. In the case of condominiums, several decision making processes controlled by "Horizontal Property Law" can be adapted to make it easier for multi-family apartment buildings to take positive net beneficial decisions on behalf of the whole. The maintenance of refurbishment funds (a practice used in CEE) is another way to give multi-family properties the opportunity to save for renovation works. The energy renovation process should be as easy and attractive as possible for them. This is not yet the case. Investment horizons also go beyond the decision horizon of private homeowners, as many of them expect to sell their property in the short to medium term. A financial mechanism allowing for a notarised claim against the property which is required to be settled first in a sale or inheritance would facilitate and lower this barrier.

Key Questions

1. Who are the right agencies/organisations to address the difficulties in positive decision making by neighbour communities? Who are their trusted agents?
2. Is the supply chain ready to support an expanded market for these types of works? What is the capacity of local and regional energy agencies to support market development and can they help provide assurances of high quality work in renovations?
3. How can more innovative financial instruments such as notarised claims, forfeiting or guarantee funds be used to help scale the market?

Conclusions:

- Generating trustworthiness is key – this is considered to be what pushes a building owners' group to start a project. Communication is important as part of this. There is a bigger role for one stop shops that can combine technical and financial advice and specialist outreach.

- There has been exponential growth in the sector and the supply chain is not ready to address the scale of the building renovation challenge. Capacity has been lost through the financial crisis and new and emerging technologies require new capacity building.
- Fiscal initiatives are needed, in particular to incentivise early adopters who would like to boost innovative products or sectors.

TOPIC GROUP ON ON-TAX FINANCING FOR HOME RENOVATION

Invited speakers:

Davide Cannarozzi, GNE Finance (EuroPACE project). Presentation [here](#)

Raquel Del Rio Machin, Madrid municipality. Presentation [here](#).

Purpose:

The Public Conference included a presentation of the EU funded project [EnerInvest](#), a partnership between public authorities, representative associations and private entities aiming to make sustainable energy projects more attractive for investors. The work carried out to standardise energy efficiency projects under the [Investor Confidence Project](#) and the [Energy Efficiency Risk Valuation and Underwriting Toolkit](#) for financial institutions, published recently by [EEFIG](#), were also presented. In addition, the conference gave an overview of the [Financial Stability Board](#) work on climate related financial disclosure. Following the Public Conference, the [EuroPACE](#) project launched with an aim to bring an on-tax financing mechanism, called PACE, to Europe. The concept of PACE comes from the US where it was pioneered in 2007 in Berkeley, CA. To date, more than \$5 billion worth of energy efficiency and renewable energy upgrades to homes and commercial buildings has been funded, with PACE financing covering up to 100% of a project's costs and being repaid as a special charge added to a property tax bill over a term of up to 20 years. Plus, PACE financing is attached to the property and not an individual, which break down a key barrier to energy efficiency investment.

Standardization and scalability are at the core of the EuroPACE approach, alongside with affordability of financing and technical assistance to homeowners. The project will streamline existing standards and practices into a consistent workflow that investors can rely on (instead of having to assess each single investments' characteristics) in order to achieve a securitizable pool of investments. EuroPACE will build upon the best practices of the US PACE market (e.g. financing structures, consumer protection, and customer engagement) and EU's extensive experience in financing energy efficiency projects. Currently, EuroPACE is being piloted in Spain and the roundtable will explore benefits of on-tax financing and how it can be developed.

Key Questions

1. What is PACE financing and how does it work in the US? What are its main features and reasons for success? To which extend these features apply in the Spanish context?
2. Adapting PACE to the Spanish market: policy and market perspectives? Cities point of view? Energy agencies point of view? Professional organisations point of view?
3. Political Momentum in Spain: What efforts are underway to amend the national law to enable EuroPACE? How to get involved?
4. Standardization and scale: what is EuroPACE potential long-term impact and what conditions are needed to unlock energy efficiency investments? How does securitization fit with EuroPACE?
5. Access to affordable financing and technical assistance: What forms of technical assistance to homeowners are prevalent in the US market and how EuroPACE plans to adapt those to Europe? How will the issue of affordability be addressed?

Conclusions:

- PACE can be competitive funding and is attached to the building, not an individual person
- Safeguarding the quality of investments is very important and PACE allows for this.
- Legislative and policy changes are needed for Spain to be able to implement PACE type solutions. This includes consideration of the extent to which energy efficiency constitutes a service. It also implies a significant role for the public sector. Effective and feasible reform is needed to enable PACE to become incorporated via taxes. There should be work on IBI in Spain and how this can be implemented.
- There is a scale challenge. €9 billion per year is needed to meet the renovation challenge. Efficient systems are needed to reduce transaction costs and grant funding needs to be optimised for those most in need.

CONCLUDING REMARKS

Moderator - Peter Sweatman, Climate Strategy & Partners

There are some key elements of the energy efficiency financing jigsaw on which we should take stock in six months' time:

1. In support of the use of EU Structural Funds, further work needed to be undertaken on the appropriate opportunities for and type of financial instruments in different sectors. There should be more active involvement of banks in the following meeting.
2. There are well recognised issues when talking about credit in private multi-family apartment buildings. It would be very helpful to prepare a text in 6 months' time that explains the problem with term "owners property". The legal form of this goes against the building of trustworthiness with banks. More openness and transparency is needed.
3. We need the legal report allowing us to understand what kinds of tax changes and methods need to be implemented to enable financial mechanisms such as PACE to work. The Ministry of Finance is looking into new fiscal policy and the report of the national group of experts on the energy transition will be relevant too. We should be able to see some progress here in six months' time.

Given these important developments, we may also be able to involve Commissioner Canete when we meet – there is a significant interest in implementation of the Energy Union package.

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ROUNDTABLE ON FINANCE FOR ENERGY EFFICIENCY IN SPAIN

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