

EIB advisory services for EPC

National Roundtable on Financing Energy Efficiency in Latvia

Riga, 26 April 2018

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European Investment Bank Group

The EIB: the EU bank



- ▶ Natural financing partner for the EU institutions since 1958
- ▶ Around 90% of lending is within the EU
- ▶ Shareholders: 28 EU Member States

**Investing in
Europe's growth**

EIB products

We help catalyse investment

LENDING	BLENDING	ADVISING
<p>Loans</p> <p>But also:</p> <p>Guarantees</p> <p>Equity participation</p>	<p>Combining EIB finance with EU budget and other public sources</p> <p>European Fund for Strategic Investment (EFSI)</p> <p>Smart Finance for Smart Buildings Initiative (SFSB)</p> <p>Private Finance for Energy Efficiency (PF4EE)</p> <p>Instruments combining ESIF with EIB resources</p>	<p>Support for projects and investments</p> <p>European Investment Advisory Hub (EIAH)</p> <p>Project Development Assistance (ELENA, JASPERS)</p> <p>Improve access to finance (Financial Instrument Advisory, <i>fi-compass</i>)</p>

Attracting FUNDING for long-term growth

Financial Instrument Advisory

Support for ESIF FIs and beyond

- Supports public authorities and other stakeholders throughout life-cycle of Financial Instruments
 - Carrying out ex-ante assessments and market studies for ESIF financial instruments
 - Develops a suitable investment strategy and governance structure
 - Advises on the combination of FI and grants
 - Provides through *fi-compass* awareness raising and information for ESIF FI (www.fi-compass.eu)
- Supports the setting up of Investment Platforms bringing together ESIF, EFSI and other public and private resources, e.g. Smart Finance for Smart Buildings Initiative
- Prepares a Practitioners Guide for EPC accounting treatment with Eurostat

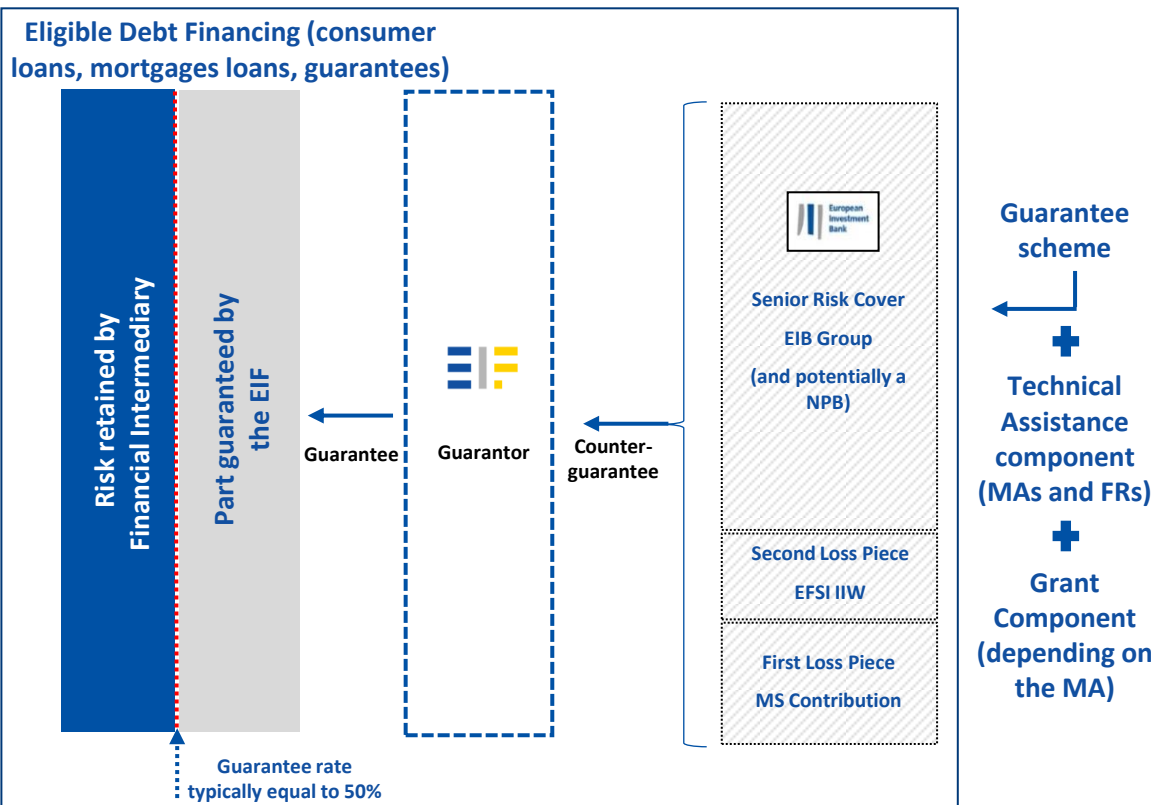


The 'Smart Finance for Smart Buildings' initiative

The SFSB guarantee instrument

Background information

- **Combining** the benefits of a first loss portfolio **guarantee** for banks, **capital grants** and **technical assistance** to both intermediaries and final beneficiaries
- To be made possible by the Omnibus regulation (coming into force in mid-2018)



A comprehensive financial instrument providing SFSB stakeholders with a holistic solution

EPC new Eurostat statistical treatment

- The level of investment in Europe, using Energy Performance Contracts (EPCs), remains relatively low.
 - The European market, approximately EUR 150 m p.a., is small in comparison with the US, where approximately USD 4-6 bn of EPCs investment are undertaken each year.

- This European situation is due to several constraining factors as :
 - Project development capacity
 - The procurement process
 - The statistical treatment of such arrangements

- In September 2017, Eurostat published a new guidance note on the revised treatment of Energy Performance Contracts (EPCs) in government accounts :
 - Explaining how the rules of the European System of National and Regional Accounts (ESA 2010) apply to EPCs.
 - Offering public authorities an opportunity to expand energy efficiency investments using private sector technology, know-how and finance.
 - Describing how, under certain circumstances, EPC arrangements can be statistically accounted for as “off balance sheet” for the public sector.
 - In such cases, these EPC assets, and the associated debt, can then be recorded off the government’s balance sheet.

EPCs in Latvia. Extracts from Joint Research Centre report EUR 28716 EN, 2017: Energy service companies in the EU.

ESCO projects are very rare in the public sector in Latvia.

Market potential and barriers.

- Non residential building sector is the second largest potential client for ESCOs, according to Latvian long term strategy for building renovation, there are 34300 non residential buildings with 27 million m² of floor area.
- There are 7141 public buildings including 2174 State and 4967 Local Government owned buildings, most of them constructed in the soviet era and are of low energy performance levels.

In the public sector some of the barriers identified are related to :

- public procurement and tendering procedures,
- The low quality of technical project documentation,
- Issues related to ensuring appropriate procurement procedures. (gvt of Latvia 2014)
- Commercial banks are reluctant to finance or co finance energy services, largely because of their perceived risk and availability of devoted products to energy renovations.
- Energy efficiency investments are perceived as complicated and risky with high transaction costs.

Energy Performance Contracting (EPCs).

- EPC involves specialized private sector contractors –Energy Service Companies or ESCOs - undertaking and financing energy efficiency improvements in buildings of contracting authorities, where a reduction in energy usage is usually guaranteed.
- EPCs are expected to help public authorities to meet their low-carbon targets for 2020 and beyond by renovating public buildings and therefore were outlined in the "Smart Finance for Smart Buildings" initiative.
- Energy performance contracting offers a number of advantages for public entities:
 - energy efficiency improvement investments are financed directly from cost savings
 - ESCO takes on the performance risks of the works and technology used
 - energy and cost savings are guaranteed by the ESCO
 - ESCO supports the long-term use of improved energy management solutions
 - ESCO supports the public sector building owner in finding the most suitable technical and financing solution.

Practitioners Guide for EPC statistical treatment

- EIB Group, jointly with Eurostat, will launch in May 2018 an accompanying practitioners' guide to help the market make the most of the possibilities now available.
- The guide is aimed primarily at public sector stakeholders, to give them greater understanding/clarity on how statistical rules are applied to EPC arrangements.
- It is expected that more use of EPC arrangements by public authorities, as a result of the clarification of their statistical treatment, could also contribute to foster energy efficiency investment activity in public buildings.
- By supporting both the public sector in preparing and procuring their projects in this way, and by helping to finance the private sector contractors to undertake the investments, EIB Group has a significant role to play in this regard.

Practitioners Guide for EPC statistical treatment

The guide contains

- ▶ A series of commentaries on the statistical implications of the main commercial features of EPCs.
- ▶ Explanation about how typical EPC contractual provisions are relevant to the application of statistical rules for EPCs, and whether they influence the 'on' or 'off' balance sheet classification for public authorities.
- ▶ Special focus on the effect of grants and financial instruments on balance sheet treatment
- ▶ Clarification/detail with respect to certain contractual details, like:
 - ✓ The nature and functioning of the performance guarantee provided by the private sector contractor (or ESCO)
 - ✓ The minimum length of contract, compared with the economic life of the assets
 - ✓ The factoring or selling of the receivables generated from such contracts to third party finance institutions
 - ✓ Usage of EU grants and/or financial instruments in EPCs.

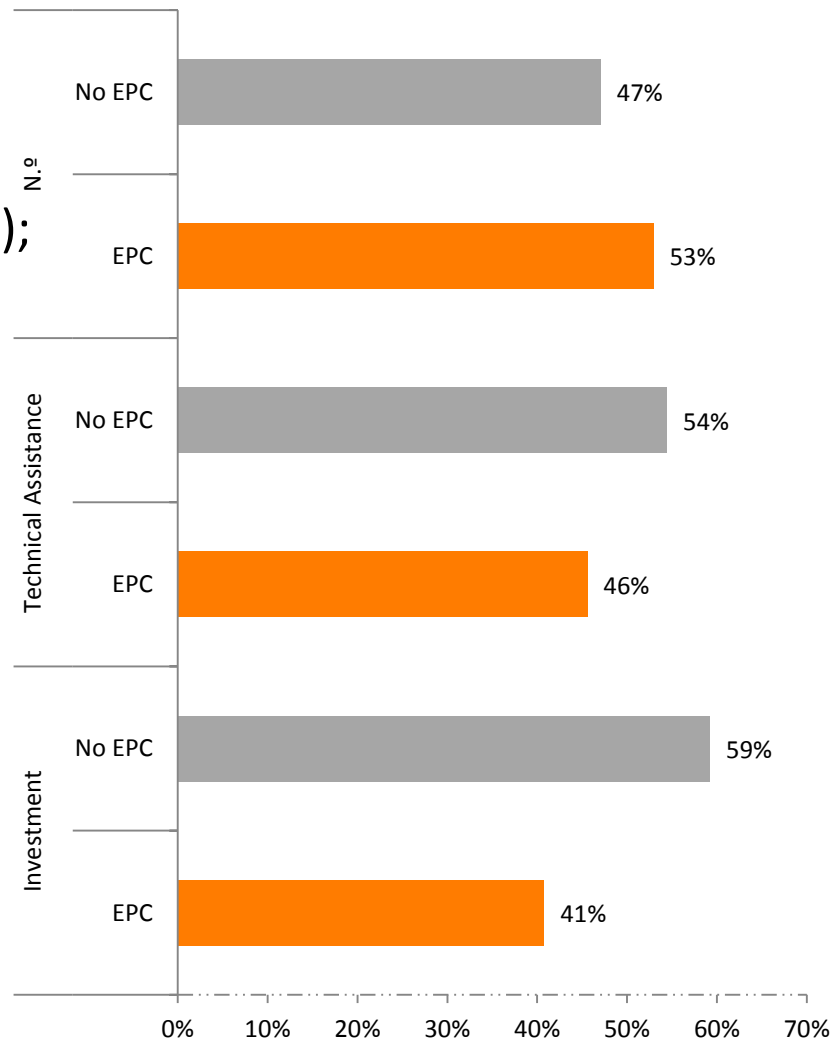
EIB group steps forwards : Practitioners Guide for EPC.

- Guide to be published in May
- Follow up with a series of events and workshops for public authorities, ESCOs, financial institutions and other stakeholders covering all EIB services addressing :
 - awareness raising events for public and private sector stakeholders (e.g. Ministries of Finance and Energy, procuring authorities, ESCOs and financial institutions).
 - other aspects of EPC implementation, such as a detailed scoping of national/regional market demand, and the need for detailed TA support in preparing projects (utilising EIAH, JASPERS and/or ELENA programme support)
 - as well as the design of dedicated financial instruments for the sector.

ELENA TECHNICAL ASSISTANCE

ELENA EPC related supported projects

- Total of 68 projects supported:
 - 24 projects completed;
 - 44 ongoing projects;
- 36 projects include ESCO/EPCs (public sector);
- Expected Investment: EUR 4.8bn;
- Expected TA: EUR 139m



THANK YOU !

More information at:

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ELENA

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