

# Financing Mechanisms for Europe's Buildings Renovation

Assessment and Structuring Recommendations for Funding European 2020 Retrofit Targets



## Executive Summary

A review of recent research shows that from both policy and financing perspectives, Europe is delivering energy efficiency retrofit activity rates below 50% of those required to meet the buildings component of its energy efficiency goals for 2020. Indeed, research also suggests that the present rate of energy retrofit and refurbishment of European buildings is sub-optimal from economic, strategic and environmental perspectives.

Appropriate national policy frameworks remain the most significant drivers of optimal national energy efficiency and refurbishment outcomes, however there is also a clear need to create mechanisms and support programmes which have the absolute financing capacity to stimulate investments in the order of Euro 100 billion per annum into European buildings in aggregate from public and private sources (consistent with individual Member State target financing levels of 0.5-0.8% of GDP<sup>1</sup>).

While we believe that it is essential that new energy efficiency financing instruments aim at the better and more effective engagement of third party co-funding, we also think that economic subsidy is a necessary requirement to achieve a national optimal retrofit portfolio as the national Government is the only stakeholder who, at present, can perceive the wider scale macro-economic and strategic benefits and value the emissions reductions resulting from the energy savings delivered by retrofits.

Government's role is central in bridging the policy and funding gap through the structuring and catalysing of solutions which involve banks, energy suppliers, ESCOs and other distribution agents to efficiently connect the low cost, broad-scale debt capital markets with the specific deal economics and co-benefits for the retrofit customer (in most cases the Building Occupier).

We identify and examine two countries (the UK and Germany) whose current and future disbursement structures and associated policies have successfully engaged banks and energy suppliers respectively as distribution agents, and also have the potential programme capacity to reach the absolute funding amounts forecast for their optimal national energy efficiency retrofits. We also identify EU level funding sources (such as the EIB's ELENA programme) which can play an increasingly instrumental role in establishing the essential structures, processes and criteria to enable public bodies to confidently accelerate the energy efficiency retrofit of public buildings and design programmes to engage new private sector financing sources designed using the best practices and tested components already visible in existing successful models. The common theme among these programs is their ability to lever significant amounts of private capital investment in buildings energy efficiency refurbishment ("the waterfall effect").

To unlock the significant amount of private sector financing which is required to deliver an optimal European outcome for energy efficiency retrofits in buildings we employ a simplified framework to highlight four key policy gaps. Once identified and prioritised, we describe a series of complimentary policy options which we believe can substantially resolve them.

Finally, we conclude with what we believe to be the critical components and mechanisms that can be quickly rolled-out across Europe to more than double the financing which is presently deployed into the energy efficiency refurbishment of European buildings.