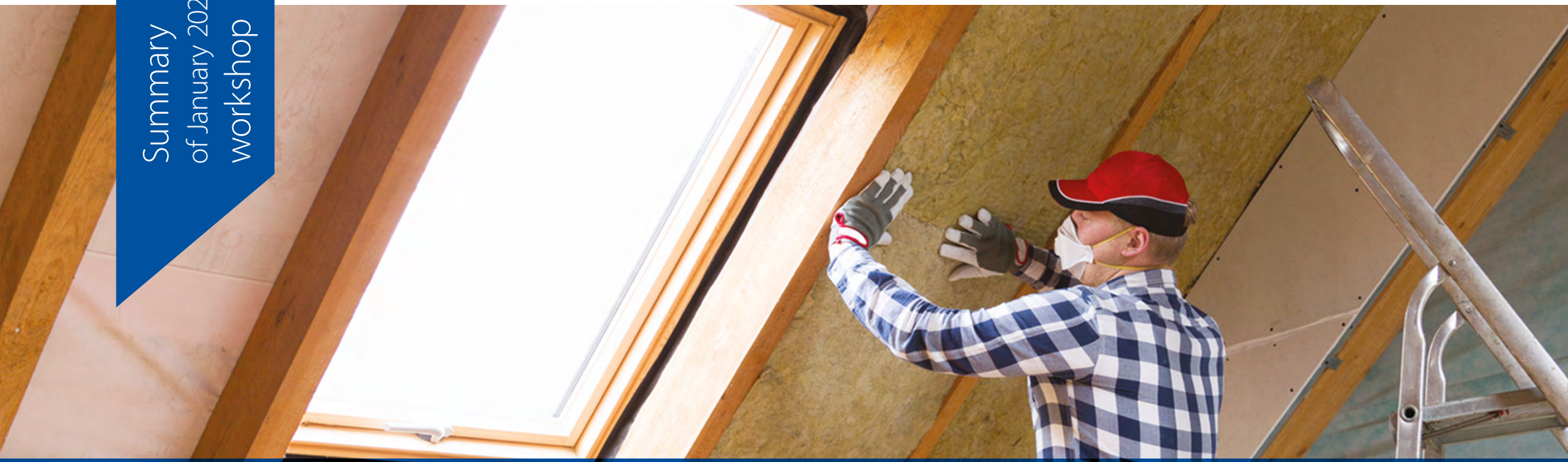
Summary of January 2025 workshop



Scale up initiative

29 January 2025 workshop

How to involve financial institutions in Energy Efficiency Financial Instruments?

European Commission

European Investment Bank

How to involve financial institutions in Energy Efficiency Financial Instruments?

On 29 January 2025, the 3rd workshop organised under the Scale-up initiative took place in EC DG REGIO premises in Brussels. The aim of the workshop was to discuss the conditions and opportunities to involve financial institutions in energy efficiency ('EE') combined financial instruments.

The workshop gathered representatives from managing authorities ('MA'), public and private financial institutions as well as experts from legal and consulting firms.

The discussions were structured around four main topics as follows:

- the management of grants by banks – best practices and limits, in the context of combined financial instruments,
- the regulatory framework applicable to loans for multi-apartments buildings' EE investments,
- eligibility rules and impact assessment of EE investments as well as
- market products and recent developments for EE investment financing.

The first morning session was dedicated to the combination of grants with financial instruments to support energy efficiency investments, with a particular focus on the perspective of commercial and public banks. The session included two main presentations: one from BNP Paribas Bank Polska and another from the Croatian Development Bank ('HBOR'). These presentations provided practical insights and lessons learned from implementing energy efficiency financing programs and managing grants in combination with financial instruments in the respective countries.

- **The example of the Polish Sustainable Energy Financing Facility ('POLSEFF'), Adam Hirny, BNP Paribas Bank Polska S.A.**

BNP Paribas Bank Polska SA presented their experience with POLSEFF, launched in 2011 in partnership with the European Bank for Reconstruction and Development ('EBRD'). The program aimed to raise environmental sustainability awareness among small and medium-sized enterprises ('SMEs') and to support their investments to become more energy efficient and cut their greenhouse gas emissions. The program combined a EUR 200m credit line provided by EBRD to Polish banks and leasing companies, in combination with grants covering 10-15% of project investment costs, disbursed after project completion. POLSEFF also included free technical assistance for SME final recipients.

According to the BNP Paribas' representative, POLSEFF included simple application procedures and forms (only 2-3 pages), an easy access to technical assistance, such as energy audits and eligibility verification through a publicly accessible list of energy-efficient technologies (automated process - LEME), and strong engagement of several financial institutions creating competition and keeping credit margins low. The LEME list was a dynamic, market-driven catalogue of technologies proven to be at least 20% more energy efficient than standard market alternatives. Suppliers and producers were incentivized to register their products on LEME as they could demonstrate better conditions for their clients who could benefit from the grant. Over 7,600 items were listed on LEME from more than 900 suppliers.

The program's simplicity and automation allowed commercial banks to integrate it smoothly into their existing processes, overcoming the challenge that relationship managers often struggle to sell complex energy efficiency products. The grant was made available after the completion of the investments financed by the banks and was mainly used to repay the loan or leasing, reducing risks for lenders and aligning incentives. The verification process of the investment projects was efficient, with desk-based checks for LEME - listed projects and an on-site verification for more complex cases carried out by external parties. The program achieved a high level of customer satisfaction, significant energy savings, and greenhouse gas reductions, with very few projects found ineligible after completion.

In summary, the key to success was the low complexity of procedures, which enabled to achieve high leverage and impact with relatively moderate grant amounts (10-15% of total investment costs). In total, the costs of technical assistance provided to commercial banks accounted for about 2 to 3% of the total investments financed. This program gave the opportunity to BNP Paribas Bank Polska SA to build internal capacity and expertise in energy efficiency financing, enabling them to further leverage EU funds and technical assistance programmes (e.g. ELENA) in this sector.

The discussion following BNP Paribas presentation highlighted questions about the setup phase, ownership of LEME (initially managed by EBRD and later evolved into the Global Technology Selector1), risk management, and the incentives for bank staff selling these products. It is noted that the bank applied its usual standard credit risk procedures when providing financing under POLSEFF. Risks related to grant management (such as clawbacks) were not borne by the banks, which helped keep procedures simple and risk manageable at their level.

- **Combined financial instruments to be implemented in Croatia in the 2021-27 programming period, Ivana Mikulić Matković, HBOR**

HBOR presentation focused on their experience and new projects in the field of energy efficiency financial instruments, focusing on the combinations of grants and financial instruments in one operation, which have been facilitated by the regulation applicable to current EU programming period (2021-27)2. Croatia has developed several financial instruments targeting energy efficiency loans for entrepreneurs, urban development funds for public investments, and sustainable tourism loans. The new energy efficiency loan FI for SMEs and large companies to be implemented by HBOR as Holding Fund in 2021-27 is based on a risk-sharing model, combining ERDF and commercial banks' funds. This loan FI comprises a capital rebate mechanism, where part of the loan is converted into a grant based on achieved energy savings.

The presentation offered a comparison with the previous programming period (2014-20), where grants and financial instruments were combined as two separate operations, facing operational difficulties such as the need to pay invoices proportionally from grant and loan funds simultaneously, leading to delays and reputational issues for banks. The new one-operation combined FI model simplifies this by integrating the grant as a capital rebate into the loan, which is partly written off after verification of energy savings being attained. This mechanism makes the product more attractive and easier to manage for banks.

The Croatian model allows loans up to EUR 3m with long repayment periods (up to 15 years) and grace periods, with interest rates combining zero-cost ERDF funds and commercial banks' interest rates. The capital rebate is graduated based on the percentage of energy savings achieved, incentivizing higher performance. The selection of commercial banks to implement the program is done through public procurement.

1 Green Technology selector.
2 Common Provisions Regulation (EU) 2021/1060.

The discussion following HBOR's presentation addressed issues such as potential delays linked to national public procurement procedures, administrative burdens on banks, the complexity of combining different state aid rules for various types of investments, and the challenge of calculating state aid for overlapping grant and loan components. HBOR has developed tools and manuals to assist banks with these calculations. Questions also focused on the risk management approach, the attractiveness of the capital rebate model to banks, and the need to keep procedures simple to ensure uptake.

A key takeaway from the Croatian experience is the importance of cooperation with commercial banks from the outset, simplification of products and procedures, and the need for sufficient program scale to justify the investment in product development and IT systems by banks. The capital rebate model is favoured because it may avoid complex clawback mechanisms, making it easier for banks and clients.

- **The 'administrator model' used in Lithuania for multi-apartment EE renovation, Vilius Bernatonis, TGS Baltic**

The second morning session featured a presentation from Vilius Bernatonis, partner in TGS Baltic, a law firm having worked with the MA and the European Investment Bank in the design and implementation of the successful Lithuanian multi-apartment building modernization program. The Lithuanian program started in the 2007-2013 period and targeted the renovation of approximately 35,000 buildings built before 2000, which were energy inefficient and used to impose high heating costs on households during the six-month heating season.

This program has evolved over the years and now combines EU funds, national co-financing, government subsidies, and loans provided through financial intermediaries (banks). The government provides subsidies of up to 50% of project costs, and loans have favourable terms such as a 20-year maturity and a fixed 3% interest rate. Technical assistance is also provided to final recipients to ensure investment projects meet energy efficiency targets.

A unique feature of the Lithuanian program is the 'administrator model', where the loan is extended not to individual apartment owners but to a building administrator (a business entity managing the building). This model addresses the complexity of multi-owner buildings, where typically 50 owners co-own common areas and must collectively decide on renovations. The administrator acts as the borrower and manages loan repayments collected from individual owners through monthly payments added to utility bills.

This model overcomes legal and operational challenges such as the need for large majority approval (usually 50%+1 vote threshold applies in the Lithuanian context), collective liability of owners (including those who voted against), and the absence of traditional loan security or foreclosure rights. The law ensures that loan obligations are attached to the property, so new owners remain responsible for future loan repayments upon purchase. The administrator model also facilitates securitization of loan portfolios, enabling higher leverage and attracting private capital.

Initially, banks were reluctant to invest their own funds into the scheme due to the novelty and the perceived complexity of the loan structure, IT system challenges, and regulatory capital requirements. However, innovations such as pre-financing models using loan reflows as collateral and first-loss guarantees funded by EU Funds and implemented by EIB helped banks become more comfortable and progressively investing their own funds in the scheme, thus increasing leverage from an initial 1:1 to 1:5 and beyond.

The program has been successful, with several hundred buildings renovated annually, improving energy efficiency and household well-being. Challenges remain, such as managing loan payment defaults, coordinating contractors through public procurement, and addressing construction sector capacity limits. The program also benefits from a state agency that verifies energy savings and compliance with energy class requirements before releasing grants.

The discussion following the Lithuanian presentation covered topics such as the impact of increased property values on program attractiveness, handling of empty apartments, land ownership issues, and the legal basis for the administrator model. Participants from other countries shared their experiences and expressed interest in adopting similar models, noting differences in legal frameworks and the need for adaptation.

- **Lessons learned and ideas from the Green Gateway programme in supporting financial intermediaries, Rainer Agster, Aimplifin**
- **The EE financial instrument model, Foteini Michailidou, EIB**

The afternoon sessions discussed the EU taxonomy's application to the building sector and the integration of the EU taxonomy requirements into financial instruments and grant mechanisms, as well as the usage of IT tools such as the EIB Green Checker to help financial intermediaries assess and verify green criteria compliance, aiming to simplify and harmonize processes for banks and clients.

It was reminded that the EU taxonomy defines criteria for what constitutes a substantial contribution to climate change mitigation, focusing on activities such as acquisition and ownership of buildings, construction of new buildings, renovation of existing buildings, and installation or maintenance of equipment. These activities must meet specific thresholds, such as energy performance certificates / ratings, or achieving at least 10% better than nearly zero-energy building (NZEB) standards for new constructions, and at least 30% energy savings for major renovations.

The difficulty to assess these criteria was underlined, in particular for bank loan officers, who typically favour simple, financial-based metrics rather than technical or non-financial standards. One of the challenges mentioned was the application of the 'do no significant harm' ('DNSH') principle, which requires ensuring that activities contributing to climate mitigation do not adversely affect other environmental objectives such as water, pollution, or biodiversity. This adds another layer of complexity for financial intermediaries, which must verify compliance.

A key part of the discussion revolved around the EIB Group's 'Green Checker3' tool, developed to simplify and automate the eligibility assessment of green investments according to the EU taxonomy and EIB's green eligibility criteria. The Green Checker allows loan officers or clients to select green investment measures, input minimal data, and receive an automated report confirming eligibility and quantifying environmental impact. This tool is praised for reducing transaction costs, speeding up loan processing, and providing standardized impact reporting, which is crucial for banks' reporting obligations to the EIB and the European Commission. The tool is currently available in multiple languages and is continuously updated to include new investment measures and criteria. It is also customizable to national or regional requirements and can be integrated into banks' existing systems, even allowing customers to input data directly.

The participants discussed the potential for a wider adoption of the Green Checker at national levels and by other guarantee providers beyond the EIB. It is noted that the tool is open to everyone and is funded by the EU budget. The importance of keeping the tool simple and user-friendly is stressed, as overly complex questionnaires reduce usage.

The conversation then shifted to the practical challenges of implementing the EU taxonomy in financial instruments, especially regarding the alignment of eligibility criteria for energy efficiency loans. Several managing authorities and financial intermediaries shared their experiences. For example, some countries apply minimum energy savings thresholds of 30% or higher for building renovations to qualify for financing or grants, while others have more flexible or pragmatic approaches, especially for industrial investments where projecting exact energy savings is difficult. The discussion revealed a tension between the ambition of EU taxonomy criteria and the practical realities of market demand, administrative complexity, and the need for flexibility.

3 EIB Group Green Checker.

- **EIB energy efficiency financing products – recent trends, Karoly Taksz, EIB**

A significant part of the dialogue focused on the design of financial instruments, including loans, guarantees, and securitization products, to support energy efficiency investments. A representative from the EIB's Financial Institutions Department presented various products offered by the EIB to support EE investments, ranging from simple investment loans to more complex securitization and guarantee structures. These products aim to reduce banks' capital requirements, mitigate credit risks, and mobilize private investment by providing credit enhancement and risk-sharing mechanisms. Examples included framework loans for residential building renovations, securitization of mortgage portfolios with green commitments, and synthetic securitizations with credit default swaps.

The EIB representative emphasized the importance of simplicity and automation in product design to facilitate uptake by banks and borrowers. The Green Checker tool is noted as a positive evolution from earlier, more cumbersome eligibility assessment tools.

The meeting also addressed the challenges of reporting on common policy indicators required by the EU Regulation for financial instruments, such as the level of CO2 emissions reduction, energy savings, and employment impacts. Managing authorities and banks expressed concerns about the administrative burden on clients and intermediaries, emphasizing the need to simplify data collection and reporting processes. Some managing authorities use automated data aggregation and limit the reporting requirements imposed on banks to reduce this burden.

Conclusions

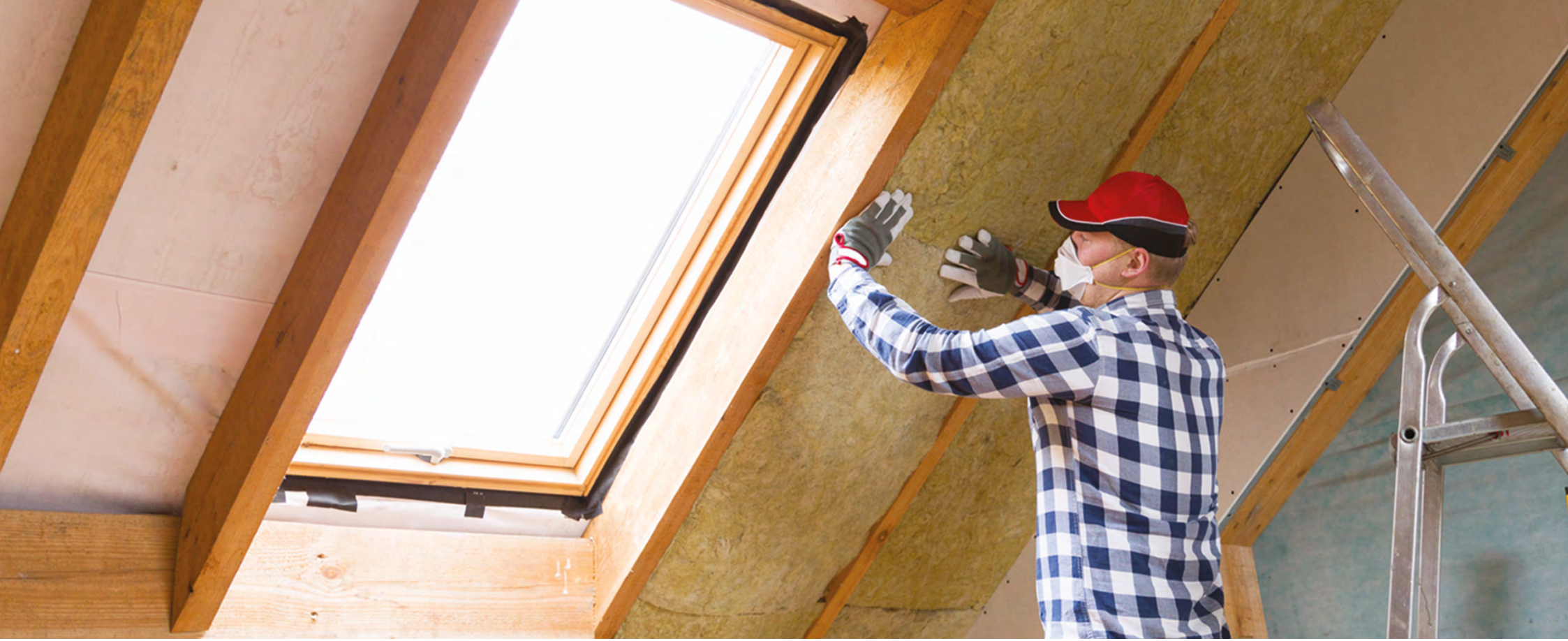
Throughout the workshop, several recurring themes emerged as critical success factors for scaling up energy efficiency financing:

- **Simplicity:** Financial instruments and eligibility criteria must be straightforward and intuitive to encourage adoption by banks and clients.
- **Automation:** Streamlined, automated tools like the Green Checker reduce transaction costs, speed up processing, and improve data quality.
- **Replicability:** Solutions should be designed to be easily replicable across different countries or regions and financial institutions, allowing for scaling up.
- **Technical Assistance:** Providing advisory support to banks and clients helps reduce risk aversion, build capacity, and stimulate demand for green investments.

Participants also discussed the need for flexibility in eligibility criteria to accommodate different national contexts and market conditions, balancing ambition with practicality. The importance of aligning financial instruments with the EU taxonomy's substantial contribution criteria is acknowledged, but there is recognition that the 'do no significant harm' criteria remain challenging to implement at scale.

Overall, the meeting provided an overview of the current state of play in scaling up financial instruments for energy efficiency and green investments in the EU, highlighting practical experiences, challenges, and promising tools and approaches to better involve financial institutions and leverage EE financial instruments. It underscored the challenge of integrating technical environmental criteria into financial products and the critical role of automation, simplicity, and technical assistance in overcoming these challenges to achieve broader market impact.

The meeting concluded with reflections on the ongoing work to develop updated guidance and fact sheets to support financial instruments aligned with the EU taxonomy, and the intention to continue consultations with stakeholders.



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