

## FALCO organises Information Session / Replication exercise

### FALCO – financing solutions for ambitious climate investments

Within the FALCO project, financing solutions have been developed for climate investments that go beyond business as usual. Focus is on three types of investments: (i) energy efficiency measures for SME's, (ii) renovation of private buildings (e.g. apartments / private houses / private schools / ...) and (iii) renovation of public buildings. More information on the developed financing solutions can be found in the attachment to this note. In short:

- For the renovation of private houses (and apartments), a revolving fund is being established. Private house owners can obtain a personal loan that combines following features: (i) a higher loan amount, (ii) a longer loan period and (iii) technical support.
- For SME's, a financing solution has been developed that removes main barriers for third party financing. As such, bundling is important as well as the selling of the receivables. The financing solution has been implemented in Flanders already for a group of nursery homes and for a private school.
- For public buildings, Sustainable Public Real Estate Management forms the basis of systematically renovating the public building to low energy levels. Dependent on natural renovation moments, the renovation takes place gradually or in one step.

### Study of the replication potential of the developed solutions

The financing solutions have been developed in a Flemish (Belgian) context. However, we believe there is a large replication potential of the developed solutions to other regions / countries or towns in Europe. To investigate the replication potential, we organize an online workshop and, depending on the development of the current situation, possibly also a workshop on site in the future.

At the interactive stand, we want to assess the feasibility of the solutions, in terms of:

- *Relevance of the solution* for your country/region: What can you expect from the solution? What are the barriers that can be lifted by this solution.
- *Potential of the solution for your country/region*: Can this solution be implemented in your country/region?

### Call for participants

**Who do we target?** European regions or municipalities, that are looking for innovative financing solutions for ambitious climate investments (public authorities or private companies).

**When and where does the information session takes place?** The FALCO online training takes place on 30 November 2020 from 9.30-12.30 am. You will receive further information after registration. Please send a registration by mail to Wolfgang Hofstetter: [w.hofstetter@climatealliance.org](mailto:w.hofstetter@climatealliance.org).

**What is in it for you?** The financing solutions (including critical success factors, possible pitfalls, ...) will be presented to you. Together with Flemish financial experts, you will be asked to investigate the relevance and the replication potential specifically for the situation in your home country (on the basis of checklists).

More information on the FALCO project can be found on the FALCO website:

<https://www.financinglocalclimateplans.eu/>



## Annex: Information on the developed financing solutions

### 1. Revolving fund for renovation of private houses

- Why?** Against the backdrop of the historically low interest rates, loan instruments for deep renovation of private houses need to satisfy 3 key conditions simultaneously to be attractive (the golden triangle): 1) the authorised loan amount should be sufficiently large to accommodate deep renovation financing needs; 2) the loan period should be long enough to allow for mild monthly instalments, and finally 3) technical (and administrative) support should be available to the borrower so as to assist him with the complexities associated with deep renovation. None of the renovation loans currently offered on the market combine these three elements. At best they satisfy two of the above conditions.
- What?** With the proposed Energy Renovation loan (ER2.0 loan) we want to offer a solution that combines all of the golden triangle conditions. The proposed ER2.0 loan is a personal loan of up to 50 KEUR, available for a period of up to 20 years, that integrates technical assistance features. The solution is structured as a revolving fund where the initial equity is provided by (local) authorities and leveraged by debt secured with financial institutions, such as the EIB and/or regular banks. The loan is marketed via the locally embedded 'energy houses', who already market regional loans (for smaller amounts; shorter periods) and offer technical assistance to renovators.

### 2. Third party financing for SME's

- Why?** Third party financing is experiencing a number of bottlenecks when dealing with energy savings in SME's:
- High transaction costs
  - Focus of ESCO's on low-hanging fruit
  - Limited investment volumes
  - Capital of third party financier is stuck for a long time
- What?** The solution developed under FALCO wants to overcome the above-mentioned bottlenecks. By combining a number of elements, the risk/return ratio can be brought more into balance, which greatly improves the bankability of these EPCs. In the first place by focusing on network organizations, which enables a portfolio of buildings to be tackled. By agreeing the energy savings guarantee at portfolio level, the risk for the ESCO is greatly reduced. Estimating the energy saving potential of buildings is not self-evident: as a result, the actual energy savings may sometimes differ significantly from those in the business case. However, by working with portfolios, the law of large numbers comes into play and the deviation in energy savings at portfolio level remains manageable. In addition, the investment volume of the EPC increases, resulting in lower transaction costs. Finally, energy saving measures are combined with investments in renewable energy. The error margin on renewable energy production is much smaller, which again has a positive impact on the business case.
- Credit risk of SMEs can be addressed through a sale of receivables. The design and implementation is carried out on the balance sheet of the ESCO which, upon completion, sells the investment package to the counterparty (instalment sale). At that time, the future payment flow from the client to the ESCO is assigned to a financial institution. Combining the instalment sale with this assignment ensures that these assets disappear from the ESCO's balance sheet. In order to apply this technique, two financial flows must be defined within the EPC: on the one hand the installment of the investments and on the other hand a service fee for the maintenance and monitoring of the installations during the term of the EPC. This latter financial flow remains between the customer and ESCO and is also performance related. If the actual energy savings are smaller than initially anticipated in the business case, the service fee is adjusted downwards; conversely, a bonus can be provided if the actual energy savings are greater than anticipated.

### 3. Renovation public buildings

- Why?** Public authorities have set ambitious goals to make their real estate portfolio climate neutral. However, most of them do not have a (financial) plan to reach this goal.
- What?** Within FALCO; a (financial) strategy has been developed to assist local authorities in getting started with deep energy retrofits of their real estate. Following actions are part of this strategy:
- Assessing an organization's actual 'need' for buildings/space. Optimize organizational processes accordingly (= Sustainable Public Real Estate Management, SPREM);
  - Selling redundant buildings, and use the generated income to invest in building renovations;
  - Synchronizing energy retrofits with natural renovation moments for other purposes (fire safety upgrades, asbestos removal, etc);
  - Optimizing the financial impact of energy retrofits by assessing various implementation scenarios (stepwise, accelerated, etc). For this purpose, a budget impact model was developed within FALCO.
  - In anticipation of scheduled deep energy retrofits, a *budget-neutral* renovation up to ca. 42 % reduction in energy needs is possible via a second generation EPC formula which was fine-tuned in the FALCO project;
  - Minimizing capital cost for energy-efficiency investments by using public loans (hence avoiding third party finance).

