

Plugging into energy efficiency pays dividends



Despite the need to cut energy use to meet EU targets and the international community's target to limit climate change to 2°C, investment in the sector has not taken off in the same way as funding for renewable energy. A new EEFIG report aims to change this.

[Download the EEFIG report on www.eefig.com](http://www.eefig.com)

With 40% of emissions in Europe coming from the built environment and 26% from the corporate sector according to EU data, there is huge potential to cut power bills and emissions. Payback periods for such investments can be as little as a few months and even larger investments pay for themselves within a few years.

Energy efficiency is one of the cost-efficient methods of increasing energy security, and reducing energy consumption and greenhouse gas (GHG) emissions.

“Energy efficiency investing is more complex and less well understood than other forms of asset finance such as investing in infrastructure and renewable energy,” says Peter Sweatman, chief executive of Climate Strategy and rapporteur of the Energy Efficiency Financial Institutions Group (EEFIG), which recently published its report, ‘Energy Efficiency - the first fuel for the EU economy; How to drive new finance for energy efficiency investments’. “The problem is that there is no single solution,” he adds.

“There are lots of opportunities but they are not being focused on,” Sweatman says. One reason for this, says Stephen Hibbert, global head of energy and carbon efficiency finance at ING and the bank's representative to EEFIG, is that “while efficiency is applicable to all our

client groups, it is a subject that is difficult to classify within the organisational structure of a bank in terms of making sense of future business opportunities".
Sweatman for energy efficiency art



Peter Sweatman, EEFIG

The range of energy efficiency's impacts means that it cuts across traditional sector lending and product groups, affecting areas ranging from buildings, infrastructure and energy to public health but not really being the responsibility of any of them – and because the benefits are so widely dispersed it can be difficult to build a single, cohesive business case. It can also lead to similar issues for businesses. "If a client wants to make an investment in energy efficiency, that funding can cover a whole range of different actions and investment in different parts of the operations that are not easily ring-fenced and financed on a stand-alone basis," Hibbert points out.

The introduction of the EU's Energy Efficiency Directive in 2012 and the subsequent implementation of National Energy Efficiency Action Plans from 2014, presents opportunities and risks to a wide range of the bank's clients, he adds. "Alongside new business development opportunities, there are the costs of having to make extra investments to comply with the directive and the risk of penalties for not doing so. We hope new markets will develop, such as the energy services sector, which is not currently catered to by existing products. There's a massive investment gap that needs to be filled if governments are to achieve their long-term energy and climate commitments. It's a significant market opportunity."

One of the biggest opportunities is in industry with manufacturing and processing companies. However each individual measure is relatively small, making projects at this level difficult to finance. In addition, these companies often have limited resources or lack experience and will need technical support to help them do things such as carrying out audits and interpreting them so they know what investments they should make.
Hibbert for energy efficiency



Stephen Hibbert, ING

“SMEs are an important sector for ING,” says Hibbert, “but one of the main issues is that a lot of the building blocks for the sector still need to be developed. We are not a development bank, like European Bank of Reconstruction and Development, so we will not be able to invest in areas such as technical assistance. To mobilise significant investment at scale, there will need to be close co-operation between private sector banks, the development banks and policymakers.

“It is an approach that was very successful in financing the reconstruction of central and eastern European countries after the collapse of the Soviet Union, so there is a precedent for it.

“We also need a different way of product development and lending than we have dealt with in the past,” he adds. “It ties in well with our Think Forward strategy and new approach to sustainable lending – we are in the business of contributing to the transition to a low-carbon future through sustainable transactions and energy efficiency is one of the best ways of doing that. It is also good business. If you are helping your customers to save money, it helps you to build a relationship.”

One challenge that EFIG identified was a belief that financing must be individual to each project. “People think that every building is different so you need a tailored approach to each one. I think that is wrong,” Sweatman says. “A mortgage is a standard financial product for home finance, we need more standardised products for energy efficiency investments.”

“No-one in the group thought there would be any similarity between buildings and the industrial sector, but we found a number of cross-cutting themes, including the need to drive demand by engaging with asset owners, portfolio managers and regulators; the importance of managing uncertainty in relation to energy performance, investment returns and value for money; and the need to aggregate the benefits when individual projects are often very small,” he adds.

There is also a need for smarter tools, such as the EBRD’s lists of eligible materials and equipment that make it easy for project developers to see what options are available. Another useful tool is “clustering” approaches such as infra-red surveys of entire streets and more extensive mining of property registers to identify poorly-insulated buildings or heating oil users and the use of “energy savings kits” for sectors such as hotel chains, bank branches or retailers, where many of the designs and issues are the same.

Another key requirement is to improve investor confidence. “One reason energy investment doesn’t happen is that there is a lack of confidence that investments will pay a return,” Hibbert says. “We need instruments to tackle this.” One such initiative is a European version of a project by the Environment Defense Fund in the US, called the Investor Confidence Project, which is working to build a market of “investor-ready projects”. “A tipping point is coming,” he adds. “Over the next two to three years, energy efficiency will rise ever higher up the corporate investment agenda and become more of a mainstream financing activity. It’s not going away.”

The report, executive summary and related information can be found at www.eefig.com

EEFIG is a working group of the European Commission convened by DG Energy and UNEP FI, the United Nations Environment Programme’s Finance Initiative to tackle the question of why more investment is not flowing to energy efficiency, despite its evident benefits, not just in terms of cutting emissions and energy consumption but also in creating jobs, improving the competitiveness of companies, the health of workers and householders and even improving countries’ fiscal balances.

[Download the EEFIG report on www.eefig.com](http://www.eefig.com)

<http://www.ingcb.com/insights/research/plugging-into-energy-efficiency-pays-dividends>

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