



Covenant of Mayors Investment Forum
Energy Efficiency Finance Market Place – 18 October 2022

CFs4EE Financing Schemes funded by public-backed investment platforms

Key learnings and recommendations from CitizEE



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement N° 847147. The sole responsibility for the content of this publication lies with the authors. It does not necessarily reflect the opinion of the European Commission. The European Commission is not responsible for any use that may be made of the information contained therein.



CitizEE's objectives?

- **Creating national or regional Investment Platforms** backed by European Fund for Strategic Investments or Invest EU fund.
- Supporting the **integration of tailored and widely adopted citizen financing schemes**, cooperative and/or crowdfunding models, with adequate available or to be developed Public Financing Instruments (PFIs).
- **Enabling the set-up of large-scale community energy efficiency programs** that attract private investments while **strengthening know-how** of regional/national stakeholders.

CitizEE's steps?

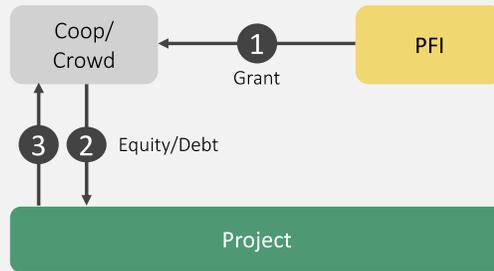
- **Learning from existing public financing schemes supporting citizen funding models:** Combining the cooperative funding or crowdfunding model with public financing instruments has shown relevant impact and benefit in those cases where it has been done!
- **Understanding how to set-up public-backed investment platforms :** investment structure blending public and private funds in order to reduce the risk and exposure of private investors.
- **Looking how to apply public-backed investment platforms to Citizen Financing schemes:** by integrating within the investment platform the funding of citizen investment schemes, ensuring that capital allocation is totally or partly done on collaborative terms with citizen!

Intervention models of public funds to support citizen funding

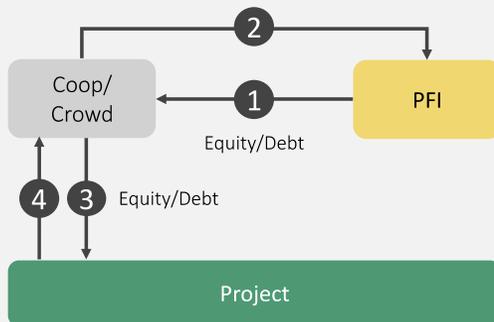
Six possible models to support **operators, project holders or investors**

Supporting market operators

1 PFI providing grants to operators

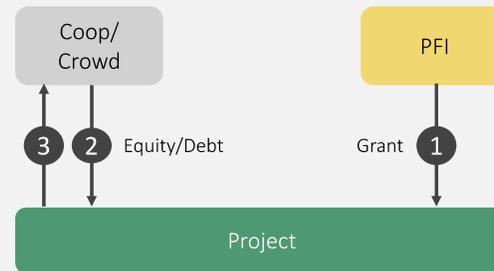


2 PFI providing debt or equity to operators

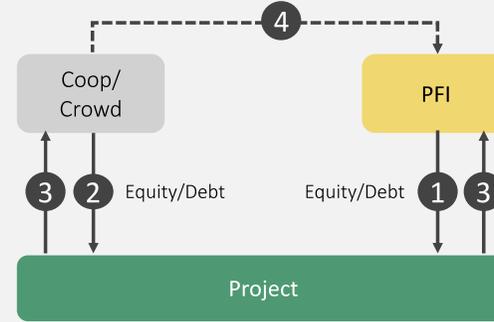


Supporting project owners

3 PFI providing grants to project owners

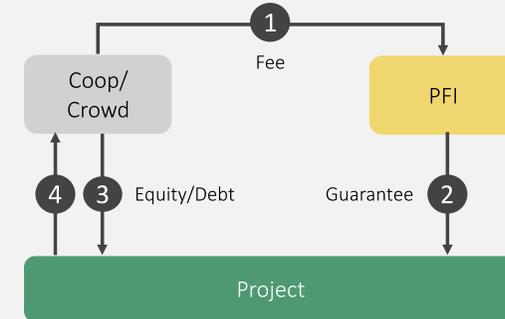


4 PFI providing debt or equity to project owners

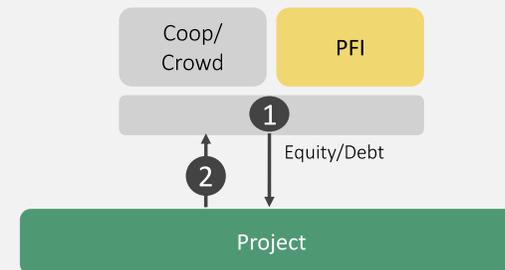


Supporting investors

5 PFI providing guarantees to investors



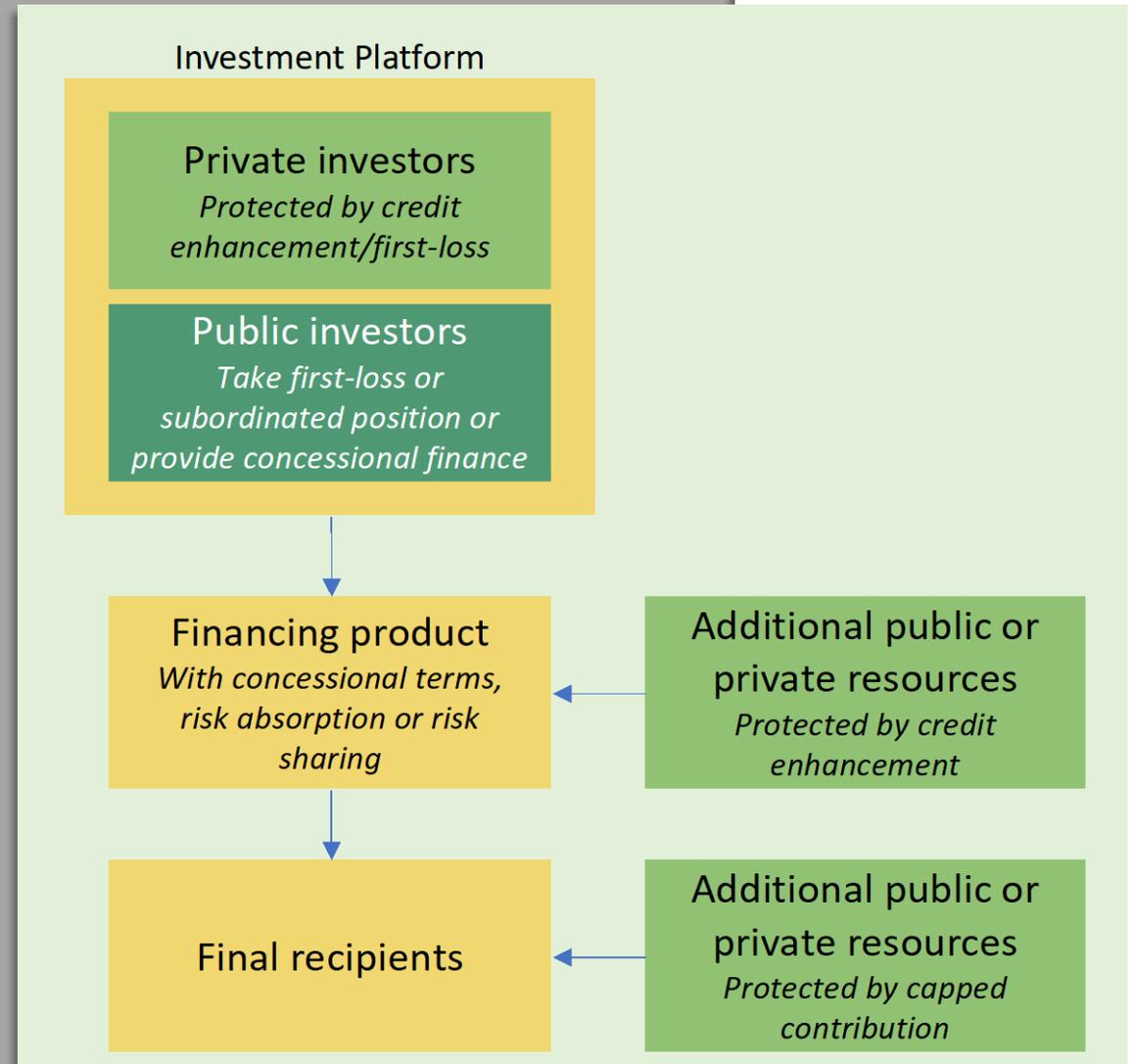
6 PFI co-investing through the operators



Main characteristics of a public-backed investment platform

Using the leverage power of **public Funds**

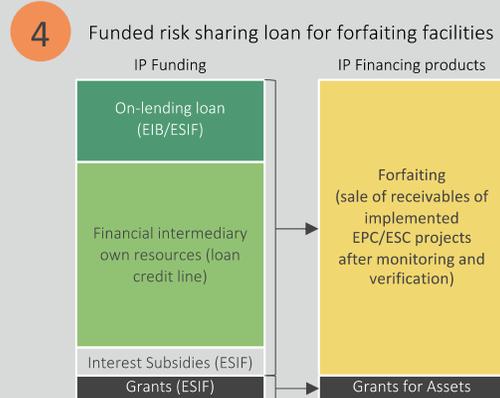
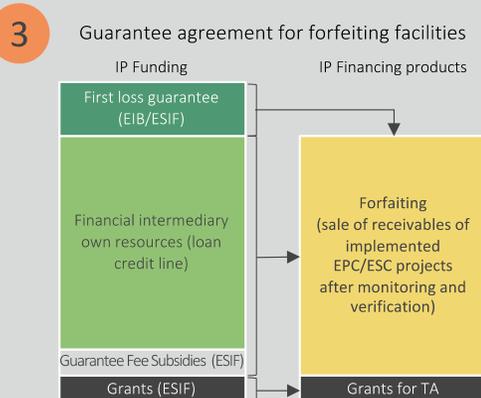
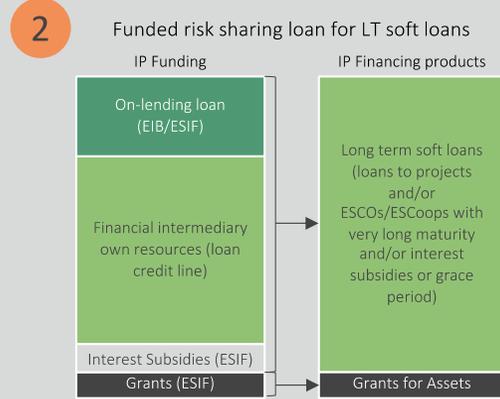
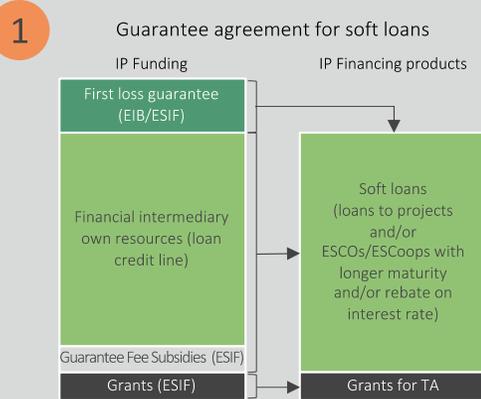
- Financing structure **to overcome market failures and suboptimal investment situations** (investment projects that are not financed on market-based conditions due to financing barriers such as risk perception, limited access to capital or limited viability) leading to financing gaps.
- Where first loss and concessional public funds are used **to blend/crowd-in private and additional public funds** (leverage effect thanks to the capital and/or risk relief).
- With appropriate public financing instruments (risk mitigation instruments, co-financing and refinancing instruments, grants instruments), **aimed at removing barriers leading to the suboptimal investment situations**.
- In order **to aggregate and pool smaller and/or riskier projects** with a focus on geographic and/or sectoral/thematic scope (e.g. building renovation).



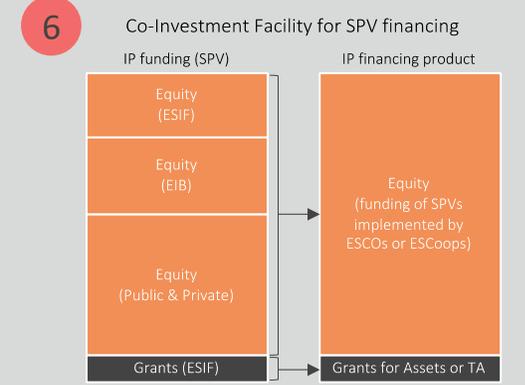
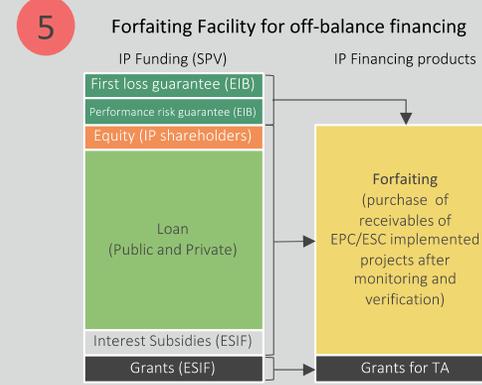
IP structures according to the objectives of the pilot demonstrators

Eight proposed **Investment Platform** structures

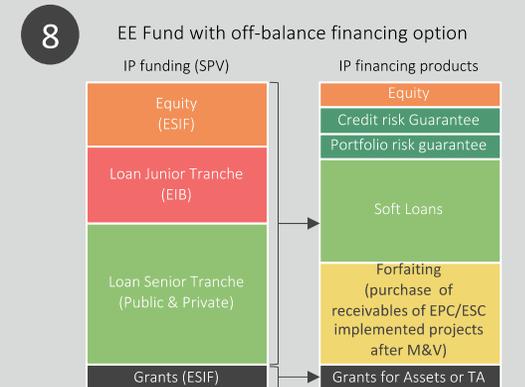
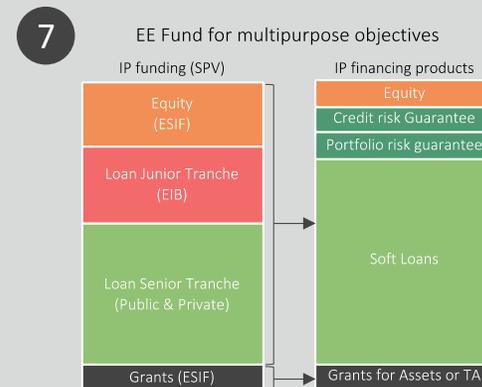
Agreements/arrangements with a financial intermediary



Special Purpose Vehicles for off-balance ESCO/ESCOop financing



Special Purpose Vehicles for multipurpose objectives



Three steps for pilot demonstrators

- **Setting up a Citizen Financing Scheme:** pilot demonstrators to assess which model of citizen finance could be applied to their investment objectives and how to implement it.
- **Setting up an Investment platform:** pilot demonstrators to assess which investment platform structuring is appropriate for their investment objectives and how to implement it!
- **Integrating the Citizen Financing Scheme within the Investment Platform:** pilot demonstrators to assess how to organise the cooperation between the investment platform and the Citizen Finance Scheme and how to implement it.

Options to integrate citizen funding within an IP

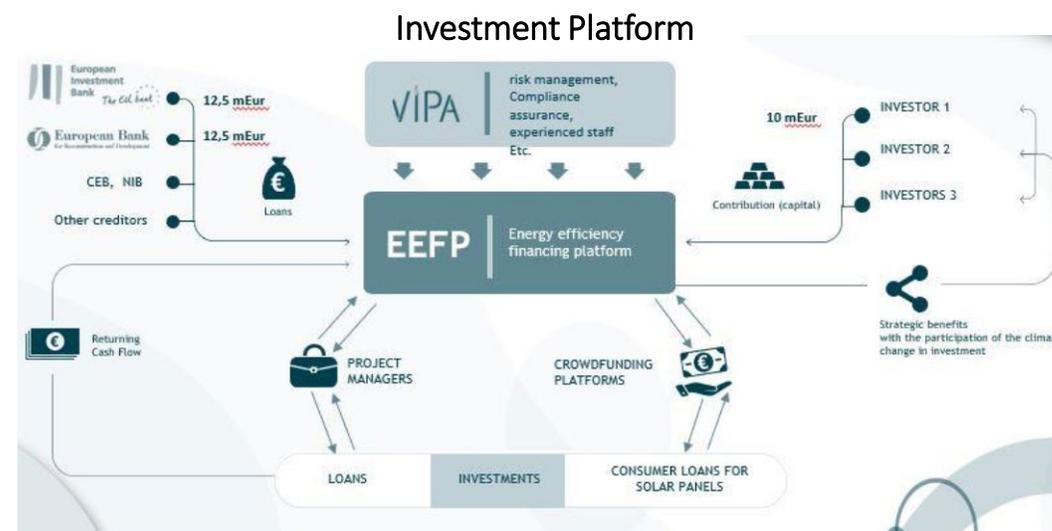
- **As co-investor at IP level:** Citizens can invest at the IP level through retail bonds or co-financing by cooperatives and/or crowdfunding platforms. Strong impact on the structuring of the IP!
- **As financial intermediary for the IP:** Cooperatives and/or crowdfunding platforms can act as financial intermediary for the IP providing IP funding alongside citizen funding. Strong impact on the structuring of the IP!
- **As co-investors at project level:** Citizens can invest at the project level (project by project) through co-financing by cooperatives and/or crowdfunding platforms. No impact on the structuring of the IP!

Pilot	Financing scheme	Citizen funding channel	Investment Platform	Financing product
VIPA (Lithuania)	Solar PV investments in residential buildings	P2P crowdfunding platforms as co-investors and financial intermediaries	Public-private loan fund (35 million EUR) for multi-purpose EE investments	Direct & intermediated concessional loans up to 10 years
VEB (Belgium)	Deep retrofit EPC contracting in public buildings	ESCOs/ESCOOPs as co-investors at project level	Fully public loan fund (250 million EUR) for deep retrofit investments	Direct concessional loans up to 40 years.
GoParity (Portugal)	Energy Efficiency & Renewable Energy investments in public & private buildings	Existing P2P crowdfunding platform (GoParity) as co-investor at project level	Public-private loan fund (20 million EUR) for multi-purpose EE investments	Direct concessional loans up to 10 years
REGEA (Croatia)	Solar PV investments in public, private & residential buildings	P2P crowdfunding platforms as co-investors at project level	Public-private loan fund (20 million EUR) for solar PV investments	Direct concessional loans up to 15 years

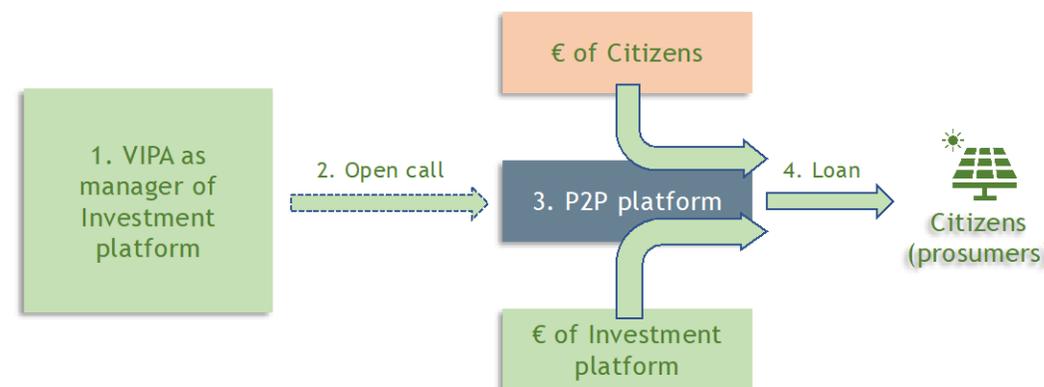
Lithuanian pilot (VIPA) : crowdfunding model using a P2P platform as a financial intermediary CFs4EE Financing Scheme **to boost prosumers investments through P2P**



- VIPA (Lithuanian National Promotional Institution) has already set up at the beginning of the project an EFSI-backed investment platform under the form of a debt fund **to provide preferential loans up to 10 years.**
- **IP to provide direct loans to legal bodies:**
 - Loans for EE measures to public/private bodies and ESCOs
 - Loans for RES developers dedicated for remote prosumers who can buy or lease part of the built power plant
 - Loans for shallow renovation focusing on heating systems to condominium administrators
- **IP to provide intermediated loans to citizen prosumers through P2P crowdfunding platform** selected through an open call.
- **Prosumer loan will consist of three parts in a single operation :**
 - Intermediated loan from the IP (ROI lower than the market's)
 - Investments from the citizens (market ROI)
 - Investment from P2P operators (ROI under negotiation)



CF4EE Financing Scheme



Main problems / obstacles encountered

Established jointly by VIPA and the Lithuanian Energy Distribution Operator (ESO) on 3 July 2028, the IP has been temporarily suspended due to the withdrawal of ESO for legal reasons.

VIPA has encountered some difficulties in leveraging private funds for the IP with an amount of EUR 37,5 millions reached during the CitizEE timeframe, whereas the initial objective was to mobilize up to EUR 100 million.

The Lithuanian Consumer Credit Law allowed only natural persons to invest through P2P platforms, which prevented legal bodies (e.g. the IP) from participating in P2P platforms investments.

The national financial regulation on P2P platforms financing operations limits the loan amount to EUR 500 per single creditor, which prevents the IP from providing the required level of intermediated loans to projects.

Mitigation actions / final results

ESO was replaced by the European Energy Efficiency Fund (EEEF) as cornerstone investor which took over the EUR 10 million equity stake of ESO completed by a EUR 2 million equity contribution from VIPA.

VIPA to further crowd-in co-investors at the IP level.

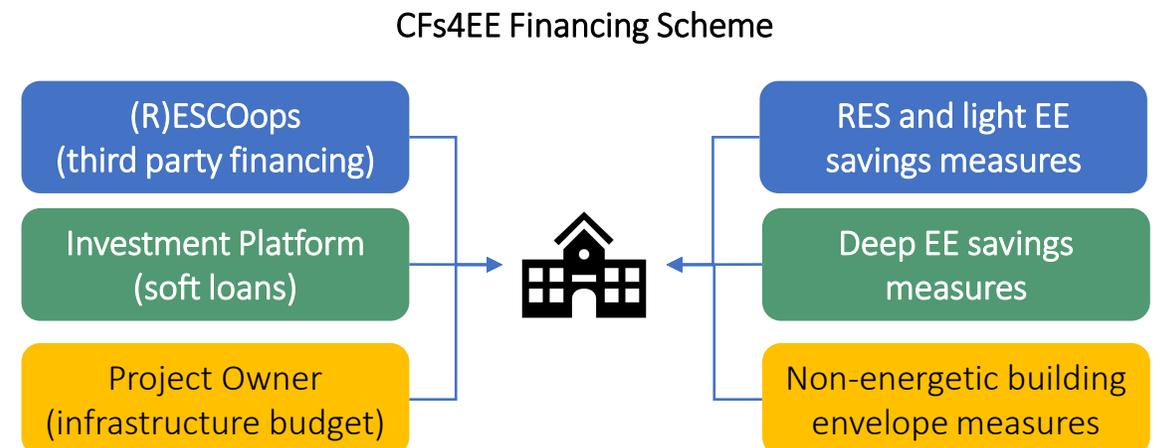
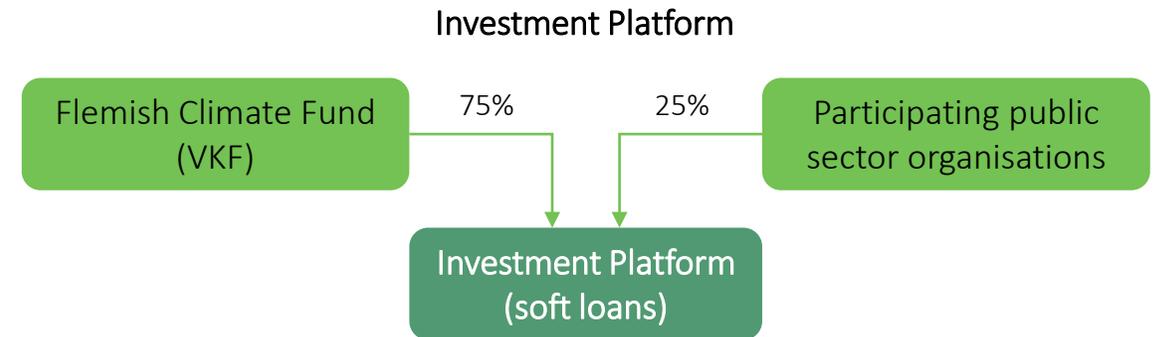
Amendment of the law prepared in the beginning of 2020 and adopted by the Parliament of Lithuania in December 2020.

VIPA engaged discussion with the national regulator to explore investment options allowing to provide funds exceeding the EUR 500 limit per loan (e.g. buying right of recourse on loans instead of being a direct investor).

Belgian pilot (VEB) : Cooperative funding model using ESCOOPs as co-investors at project level CFs4EE Financing Scheme to finance deep retrofit EPCs with (R)ESCOOps



- Objective is to set up a **fully public investment platform under the form of a dedicated credit line to provide concessional loans to public entities up to 40 years.** IP to be funded by the Flemish Climate Fund (VKF) and the public sector organisations participating in the scheme.
- VEB to develop an **EPC public tendering program** for deep retrofit of public buildings **with (R)ESCOOps as co-investors at project level.**
- **CFs4EE Financing scheme structured into three parts:**
 - (R)ESCOops to finance renewable energy and light energy saving measures (under third party financing).
 - Investment platform to finance deep energy savings measures (with soft loans)
 - Project owner to finance non-energetic building envelope measures (with infrastructure budget)
- **VEB to test the financing scheme on 65 school buildings** (28.6 million EUR investment) before setting up the Investment platform for upscaling.



Main problems / obstacles encountered

VEB faced many challenges in designing the appropriate investment platform structure for the financing scheme (several options were explored and discussed without success) and in negotiating agreements on funding sources with relevant parties once the design was defined. This took almost the entire duration of the CitizEE project.

The VEB encountered many difficulties in launching the pilot investment projects with the Flemish education sector organizations (Agion and GO!) due to apprehensions about the EPC contractual model and the investment structure and funding sources of the projects.

The scheme is based on the treatment outside the public accounts of the investment made by the (R)ESCOops with the potential risk of reclassification.

Mitigation actions / final results

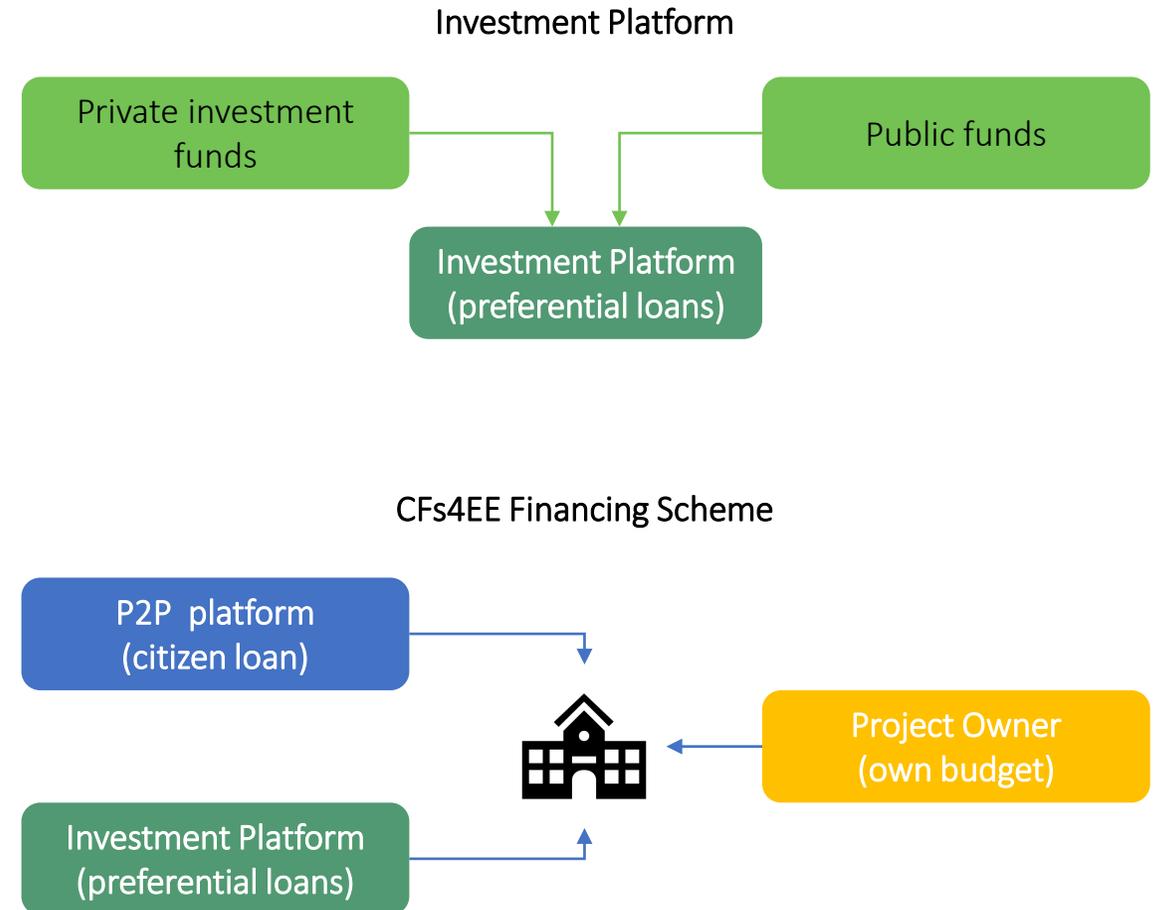
Agreement was reached on an allocation covering 75% of the funding needs by the Flemish Climate Fund (VKF) and an allocation covering 25% from the infrastructure budget of the healthcare (VIPA) and education (GO!) sector organizations participating in the program.

VEB expanded the discussions with the Flemish health care sector organization (VIPA) and brought the decision-making process to the government level. A final agreement was signed with GO! and VIPA on their engagement in the project. A group of 65 school buildings was secured to prepare for the launch of the pilot tenders.

VEB engaged in several discussion with the National Accounts Institute (INR) in order to validate the Eurostat compliance. This is still conditional on the final review by Eurostat, once the pilot projects will be implemented.

Portuguese pilot (GoParity) : crowdfunding model using P2P platform as co-investor at project level
CFs4EE Financing Scheme **to fund EE/RE investments alongside P2P**

- Objective was to set-up a public-private investment platform under the form of a loan fund **to provide public and private buildings owners with preferential loans with a maturity up to 10 years.** IP to be funded by existing investment funds (several funds approached) backed by public funds (Invest EU).
- **IP to provide loans to legal bodies only:**
 - Direct loans for energy efficiency measures to public & private bodies
 - Direct loans for energy efficiency projects to ESCOs
 - Direct loans for renewable energy projects to RES developers
- **IP to provide loans alongside a P2P crowdfunding platform** (existing GoParity Platform) through a co-financing agreement structured into two separate operations:
 - Direct loan from the IP (**required ROI lower than the market's**)
 - P2P loan from the citizens (**market ROI**)



Main problems / obstacles encountered

GoParity faced many challenges in designing the appropriate investment platform structure for the financing scheme (several options were explored and discussed without success) and in entering into negotiations with private investors once the design was defined. This took almost the entire duration of the Citizee project.

GoParity has encountered numerous difficulties in establishing agreements with the potential final recipients to ensure a pipeline of projects to deploy the financing scheme. This has also impacted discussions with co-investors.

As a private entity, GoParity suffered from the lack of a committed public sponsor for the project and limited access to policy and decision makers, which prevented it from successfully raising public funds in the investment platform.

Mitigation actions / final results

GoParity held multiple discussions with potential public and private investors, including the National Promotion Bank (NPB), commercial banks and private equity funds. They were finally successful in obtaining a letter of intent from the Blue Crow private equity fund to further negotiate the allocation of funds or the structuration of a credit line.

GoParity worked intensively with Portuguese energy agencies to negotiate cooperation agreements with their members. They finally succeeded in obtaining letters of intent from ADENE and RNAE to give visibility to the Citizee investment platform among their stakeholders as a relevant financing solution for their projects.

Initially, a public funding from the National Promotional Bank (NPB) was considered, but a more practical approach was pursued with only private funding from the GoParity and BlueCrow investment community.

- Developing a public-backed investment platform **is a very long and complex issue that requires strong financial expertise and technical resources.** Only one experimented pilot demonstrator (VIPA) has been successful in setting up such an instrument.
- A **strong commitment from a public partner** as sponsor or project owner **is required from the very early stage.** Pilot demonstrators supported by a key decision-making authority has shown better progress towards success.
- **The crowdfunding model** compared to the cooperative model **seems to be more appropriate as a financial partner for an Investment Platform,** as the core business of crowdfunding is the financial intermediation.
- **Financial regulation is a key barrier** when looking to integrate citizen funding operators within an investment platform.

- **Focus first on developing a proper Citizen Financing Scheme** based on public funding: learn from existing experiences where public funds only have proven success! This approach was followed by one pilot demonstrator (VEB).
- Once the scheme is proven, **attract private investors to enlarge the funding capacity of the scheme and further test the public-backed financing model:** a co-investment agreement with one of several private investors would be an easier option before starting the set-up of an investment platform.
- Once the model is proven and a full pipeline of projects is secured, **start the set-up of an investment platform** with existing and/or new private investors to deploy the model at a larger scale.

Thanks!

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Citizen Financing for Sustainable Projects group



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