A €420bn investment programme for the European Union
Massive financing of the energy transition in schools, hospitals, etc. for a competitive EU

The SFTE[1] project aims to establish a broad partnership between public and private entities to stimulate the economy and deliver between €180bn and €420bn of investment in Europe over 10 years for the benefit of medium-sized projects (in the order of €1m) that are necessary for the energy transition. It will enable EU banks to finance the energy renovation of public buildings under excellent – cheap and long-term – conditions.

A feasibility study has been conducted by the AFTER association with an exemplary consortium of public and private stakeholders[2] in France: local authorities, industry players, banks/financial institutions, NGOs, Plan Bâtiment Durable[3]. Many European institutions have expressed their interest in the initiative. Now the implementation of the SFTE project requires a commitment from European and national public authorities. Such a proactive real-estate policy would significantly contribute to economic recovery, cut costs, CO2 emissions and the external deficit and improve energy independence, and could quickly create jobs.

1. Background and issues

a. Economic environment

The economic environment has changed considerably over the past year. The inflation rate in the euro area is extremely low, and long-term interest rates have entered territories uncharted for the past 200 years. The ECB is attempting to initiate a programme to massively boost the funding of the "real economy" through banks. However, the lending market has yet to recover, and Europe is facing a worrying lack of quality long-term investment. Policy decision-makers are wondering how their long-term projects will ever be funded. In addition, the ECB's clear desire to act on exchange rates should further increase imported energy prices.

b. Prioritising the energy efficiency of public buildings as a quality investment

Since buildings represent 40% of energy consumption in Europe, they are a major segment of the energy transition, accounting for hundreds of billions of euros. The share of public buildings (excluding social housing) is estimated at around 10% of total surface area. The SFTE project builds on the duty of European, national and local authorities to set an example and stimulate quality investment. In Europe, public buildings (schools, offices, hospitals and so on) are estimated to be a largely untapped source of potential of financially sustainable renovation (entirely funded by energy savings as opposed to subsidies) of at least €180bn, that is to say €120bn more than the current investment trend (BAU of €60bn or even less over 10 years). These projects would benefit from growing market demand for "green bonds". This untapped potential is reason enough for action by public authorities:

- public accounting standards are a burden on projects and their "conventional" financing mechanisms;
- project finance mechanisms remain ill-suited to these medium-sized operations;
- stimulating demand (currently weak and politically undervalued) calls for a clearly articulated long-term real estate strategy and key projects to achieve it;
- current financing capacities and regulations would be insufficient for such a proactive policy.

c. Strong potential of socio-economic benefits

Energy renovations bring key socio-economic benefits: local job creation through SMEs[4], development of an industry of excellence which would boost EU exports, improvement of the trade balance[5], reduction of CO2 emissions in the context of COP21, and – last but not least – energy independence[6]. In France alone, €30bn of investment in public buildings (+€20bn versus BAU) would reduce their energy consumption by 20%, whereas €70bn of investment (+€60bn versus BAU) would reduce their CO2 emissions by 40%.

d. A key European dimension

While it is proposed to kick off the SFTE project as a national experiment, its scope will be very much European. We have seen a broad demand for innovative proposals through our European contacts: the EIB, the European Commission (DGs ENER, CLIMA, MARKT, ECFIN and others), KfW, NGOs and so on. The EU is reviewing a number of quality investments

1 Société de Financement de la Transition Energétique ; Energy Shift Financing Agency (ESFA) in English.

2 We would like to thank the SFTE consortium (Aquitaine, ARKEA, CDC, Centre, Crédit Agricole, EDF, ECF, FFB, FNH, GDF SUEZ, BPCE, Landes, Meridiam, Plan Bâtiment Durable, Rhône-Alpes, Schneider, The Shift Project, Vinci) and the many specialists who have already agreed to contribute to AFTER's work with around 200 experts, stakeholders and officials interviewed in France and Europe.

3 Ministry of Ecology, Sustainable Development and Energy.

4 Approximately 15 jobs/year per million euros invested.

5 EU-28 imports about 50% of the energy it consumes and the Ukraine crisis has recently underlined Europe's vulnerability.

6 Energy consumption for heating in public buildings: 50% gas and 20% fuel oil (France).

in infrastructure. At this time, AFTER's proposal could be considered as a highly relevant energy-climate project for a European economic recovery plan.

2. AFTER's proposal for an EU economic recovery plan

a. Financial, industrial and political tools

At the core of the scheme, the SFTE will provide a high-quality guarantee (counter-guaranteed by the national state) for dedicated loans by commercial banks, in order to improve the investment climate. Simple, transparent and safe securitisation will enable the refinancing of these very long-term loans, 100% high-quality "green bond" assets, by institutional investors, the EIB, or even directly by the ECB whose policy, in 2014, is ostensibly moving towards targeted funding of the real economy. Economic and industrial levers will also need to be used to maximum advantage: economies of scale, pooling of operations, standardisation and adaptation of project finance practices. Finally, this widely publicised initiative should make it easier for local elected representatives to politically promote their energy efficiency projects.

b. Energy Performance Contracting (EPC) as a key public policy tool

EPC is perfectly adapted to investment in the energy renovation of public buildings. It is based on a contractual commitment to achieve a given energy efficiency target, subject to actual and systematic *ex post* monitoring. AFTER proposes several adaptations to EPC that will increase its integrity and enable to justify European and national investment through demanding impact assessments. Moreover, EPC benefits from strong European support («EPC Campaign» of DG Energy, Energy Efficiency Directive, IEE, JRC work on the ESCOs market, EESI 2020, etc.). In a nutshell, the SFTE proposal represents a shift from tailor-made to standardised, ready-made EPC projects, for wide-scale use with the help of the state guarantee.

c. A massive impact without increasing the public debt

Like a number of leading participants in the European debate, AFTER recommends applying a specific accounting treatment to these public investments. In the absence of a revision of European treaties, the SFTE will benefit from: (1) an off-balance sheet treatment of the public guarantee and (2) the funding of projects under EPC partnerships (PPP-EPCs) that really transfer a significant level of risk to private operators or semi-public companies. Not all of the projects will be financed under PPPs or EPCs, but PPP-EPCs should at least be promoted for operations performed in addition to current low BAU volumes. Like other institutions in Europe with which it is in contact, AFTER is calling for a technically limited evolution of the European accounting framework so as to better adapt it to energy efficiency improvement projects: the accounting of PPP-EPCs outside the scope of public debt is paramount to bringing about a change of scale in Europe.

3. EU NEXT STEPS

The SFTE project requires a strong mobilisation of all stakeholders:

a. European Union

- Public buildings selected as a quality investment target for the EU
- Creation of a dedicated task-force by the Commission on this very subject
- Creation of a European knowledge-sharing platform: observatory network on energy expenses, renovations, EPCs, costs/savings, RFPs, energy efficiency techniques, etc.
- Fine-tuning of the Eurostat methodology to enable an accurate treatment of PPP-EPCs
- EIB intervention and public balance sheet optimisation: loans, equity (SFTE and/or SPVs), expertise, etc.
- Adaptation of the regulation (EBA/EIOPA) to stimulate the private funding of such quality investments
- Calibration and assessment of the intrinsic level of risk in operations: National Central Banks & ECB

b. National public authorities

- National public building strategy with the strengthening of public project development capacity
- Massive pipeline of projects selected by national and local authorities; consumption track-records
- Specific business plan and creation of SFTE-like entities: bylaws, analysis of existing state-guarantee mechanisms, potential shareholders, governance, team, regulator approval, etc.

c.Industrials, SMEs, banks and institutionnal investors

- Ramp-up of operations, productivity gains and development of a European industry
- Securitisation Funds bringing together energy efficiency medium-sized projects for investors

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