

Financing ESCO Projects: Views from Belfius Bank in Belgium

An Interview with Joost Declerck, Energy Efficiency Promoter at Belfius Bank

The ESCO market in most European countries is growing but still lacks behind its potential. Access to appropriate financing solutions remains a barrier.

Belfius Bank in Belgium tackles this barrier by offering dedicated financing to Energy Service Companies and their clients. Through the *Belfius Energy Efficiency Package (BEEP)*, which is backed by the European Investment Bank's *Private Finance for Energy Efficiency (PF4EE)* instrument, Belfius has already financed over 25 ESCO and third investor projects at an aggregate loan amount of over 25 mio EUR.

In this interview, Joost Declerck, Energy Efficiency Promoter at Belfius Bank, shares his view on drivers of success for developing the ESCO market segment.

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Can you name a few ESCO projects that Belfius financed through PF4EE / BEEP?

We recently financed several flagship projects through which we can further increase the visibility in the market. This includes one of the biggest Energy Performance Contracts (EPC) in Belgium: We provided 5 mio EUR to finance energy efficiency measures related to heating, insulation and photovoltaics in more than 40 rest homes of a large healthcare group in Flanders. To the same ESCO, we provided financing to implement an EPC in a school (investment costs of 900.000 EUR for insulation, heating improvements, PV and an energy management system). This was the first EPC contract in a school in Flanders that was financed through the sales of receivables financing technique. Another example is the 'Anderlechtse Haard' project: EDF Luminous Solutions implemented an EPC to improve the energy efficiency in more than 15 apartment buildings of a social housing company, e.g. through cogeneration units and PV panels. A BEEP loan of 3,75 mio EUR was provided for this purpose. Other examples involve cogeneration systems in apartment buildings in Brussels and rooftop PV through third investors.



“Financing solutions alone are not a sufficient answer for the energy efficiency needs of our clients. They need one-stop-shop solutions including consultation on project development; information about energy audits, ESCOs, and third-party investment; support in public procurement procedures; and follow up on their energy efficiency investments.”

Joost Declerck
Energy Efficiency Promoter
Belfius Bank



“With Belfius we have mapped out which interventions we can make to save energy. A number of our schools are now in the preliminary stages. If it is clear which energy saving measures are of interest to us, we will compare the proposals of various ESCOs. The fact that our schools can call on third-party funding via Belfius is a major plus.”

Evelien Cruyplandt
Energy coach for 54 schools in Sint-Niklaas

How do you develop the pipeline for BEEP?

The most relevant way for promoting BEEP is through direct interaction with the market. We present BEEP intensely in the market, in particular through targeted events where the largest share of the audience is from the final customer side and the remaining audience represents facilitators. This included also events such as ‘ESCO-speed-dating’.

We engage in framework agreements only to a limited extent and never in an exclusive partnership. Being strongly associated with a specific stakeholder (e.g. a specific ESCO) can be disadvantageous when developing the market. Nonetheless, we maintain close relationships with several ESCOs and relevant groups. For example, Belfius is a member of BELESCO (the Belgian ESCO association) which we meet at least once or twice per month.

What financing solutions do you offer in relation to ESCO financing?

Depending on project and client, we use different financing mechanisms: Investment loans, leasing, or sales of receivables. Financing through sales of receivables (without recourse) is particularly relevant in relation to ESCOs, for several reasons: 1) the credit risk is with the final beneficiary rather than with the ESCO; 2) the energy performance risk does not concern Belfius since the ESCO guarantees the savings towards the final beneficiary, who in turn pays the bills to Belfius; 3) the ESCO is 100% financed and does not have an impact

on its balance sheet, implying that more projects can be conducted.

Other than attractive financing, what makes Belfius’ offer interesting for clients?

We already offer several special services and specific know-how to clients to boost the EE market. To lower the threshold of obtaining high quality energy savings documentation, we partially reimburse energy audits, provided that the investment is financed via Belfius. We also provide tailor-made advice around ESCO financing and EPC contract development and we often conduct the financial side of project development for the client.

“Belfius was able to quickly analyse the whole project and demonstrate the need for it. Thanks to our cooperation, we can borrow at an advantageous rate from the EIB. For us, this is an excellent opportunity to invest even more in energy efficiency and renewable energy.”

Raoul Nihart
CEO of EDF Luminous Solutions

How does Belfius further develop the energy efficiency financing segment?

Developing the EE financing segment requires a changing role of the bank. Financing solutions alone are not a sufficient answer to the energy efficiency needs of our client base. Their needs include assessing and monitoring the energy performance of their buildings, consultation on action plans and support in obtaining an energy audit, information and support regarding ESCOs and third party investments, regarding structures for citizen participation and public procurement processes, and also support regarding the implementation and follow up on energy efficiency investments. To answer to these needs, we need to consider the bank not only as a financier, but as an integrator of one-stop-shop solutions that support clients throughout the process of energy efficiency investment.

To develop further in this direction, we are working on different aspects. We have applied for EIB's ELENA facility (European Local Energy Assistance) to fund an in-house project development unit, which would essentially be a team of commercial experts and project developers who can package a deal and put together action plans for each sector. The team would support clients along the project development cycle: From choosing a company that can conduct a good quality energy audit, to engaging with relevant ESCOs, to implementing tools for project monitoring. In this way, we will develop best practice cases for different sectors and eventually boost the market through active engagement in project development.

We are also developing deconsolidated standardised EPC contracts to reduce transaction costs related to ESCO financing and to increase the attractiveness of energy efficiency projects for public clients (due to the possibility for off-balance sheet financing). On the latter point we are engaging with Eurostat authorities to ensure that the contracts will be in line with the guidance on off-balance sheet treatment of EPC contracts. Regarding the first point, the reduction in transaction costs, it is key to develop these standardised contracts in such a manner that ESCOs accept them rather than insisting on using their own contracts.

Where do you see the highest potential as well as challenges for the future?

Improving the energy efficiency of buildings is a top priority. Belfius' study 'Energy Efficiency' shows that many buildings in our country should have an energy audit conducted. 74% of school buildings in Wallonia date from before 1945. In Flanders, 40% of the public patrimony was built or renovated between 1930 and 1975.

However, in the buildings segment where the need for energy efficiency investments is particularly high, energy efficiency financing

through an EPC model is also particularly challenging: Currently, only the 'low hanging fruits' can be picked through EPC contracts in this segment. Deep building retrofits are still not very interesting for Belgian ESCOs. This is due to the long payback times related to deep retrofits, but also to the sector background of existing ESCOs. In Belgium, ESCOs are related to utilities or HVAC companies, so they would have to cooperate with construction companies to work on deep renovation. Thus, solutions to advance the market further should focus on deep building retrofits conducted in partnership with ESCOs and ideally through Energy Performance Contracts.

Belfius Energy Efficiency Package (BEEP):

Reducing energy needs, generating your own energy or switching to alternative energy sources? With the Belfius Energy Efficiency Package (BEEP), Belfius encourages institutions to invest in energy efficiency and renewable energy. As the only bank in Belgium, Belfius has an exclusive cooperation with the European Investment Bank (EIB) in the context of the Private Finance for Energy Efficiency (PF4EE) instrument, allowing Belfius to offer favourable lending conditions and flexible credit granting thanks to the EIB's portfolio guarantee.



Please find more information on:

www.belfius.be/BEEP

pf4ee.eib.org

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