

Module 3: English

Tools to Support Refinancing of Energy Efficiency Services

REFIN 



REFINE has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement no. 894603

ENGLISH

To address the existing barriers that limit the wider uptake of the refinancing model, REFINE consortium has developed several tools to support the wider acceptance of energy efficiency investments and refinancing schemes. These include:

- Standardisation of contract stipulations,
- Rating system for quick risk evaluation of energy efficiency service project,
- Public guarantees instruments for handling project risks,
- Facilitation services.

Standardisation of contract stipulations

Broader acceptance of refinancing is often limited by high transaction costs and one possibility to tackle this issue is to use standardised contract stipulations.

On top of minimising project preparation costs, standardised procedures and contract stipulations encourage project aggregation and enable the pooling of smaller projects that in turn bring transaction costs further down.

Standardised documentation and contract stipulations can be used by a larger number of stakeholders thus reducing project preparation costs and preparation time and increasing transparency of the procedure.

The developed REFINE stipulations are not meant to be contractual clauses, since each European country has its own legal reality, but are meant to show which concepts are recommended to be incorporated in energy efficiency service contracts signed between the energy efficiency service provider and the client.

REFINE stipulations, if incorporated in energy efficiency service contracts, could increase the chance of projects being refinanced by a financial institution after they have been implemented.

The suggested set of REFINE standardised stipulations related to energy efficiency service contracts is divided into:

- A. **Must-Have-Stipulations** deemed indispensable in order for the energy efficiency service contract to be refinanced at a later date.

B. **Nice-to-Have-Stipulations** that, if included in the energy efficiency service contract, would increase the chances of it being refinanced at a later date.

A full overview of suggested contract stipulations, that would enable refinancing can be found on the [REFINE website](#).

Rating system

Another tool developed by the REFINE consortium is the rating system which can be applied when a financing institution analyses the refinanceability of energy efficiency service projects.

Rigid risk evaluation of EES projects can be attributed to the overall lack of standardised documentation and contractual agreements, that further contribute to the dissonance in the discussion, analysis and finding of potential solutions for mitigating specific risk types in this sector.

REFINE consortium developed a REFINE rating system that

- Incorporates elements specific to energy efficiency projects,
- Diminishes financial institutions' analysis and transaction costs,
- Diminishes refinancing costs.

Numerous risk elements were identified in the analysis that preceded the development of the REFINE rating system, such as:

- EES provider risks,
- Client risks,
- EES project risks,
- Project refinanceability risk.

To create a suitable risk assessment tool for refinancing previously mentioned risk elements were categorised into three different risk layers:

- **Layer 1** is a Standard Financial Institution Default Risk Evaluation that refers to the traditional default probability evaluation of any financing operation. It takes into account risks such as credit risk, operational risk, legal risk, contractual risk, fraud risk, country risk, etc.

- **Layer 2** represents Energy Efficiency Project Risk Evaluation. It refers to the specific risks and mitigants associated with a project.
- **Layer 3** is the Energy Efficiency Service Contract Risk Evaluation. It refers to the risk of the project not being refinanced that may arise from the absence of recommended standard Energy Efficiency Service contract stipulations.

A detailed rating system overview is available [here](#).

Public guarantee

Another element that can play an important role in facilitating the energy efficiency service business and the application of refinancing schemes are public guarantees and REFINE consortium has developed a policy suggestion for public guarantees that can be implemented in EU countries.

Having a public guarantee in place that would protect financial investors purchasing receivables against the risk of payment default by the customer would encourage further investments in refinancing energy efficiency services projects.

The suggested REFINE guarantee concept would be an unconditional bank guarantee which is covering exactly any scheduled forfeited receivable amount when due.

Guarantees covering the credit risk of a financial investor can facilitate capital-market based refinancing schemes for energy efficiency investments if they are:

- Unconditional,
- Assignable,
- Callable when payment becomes due.

A full overview of a suggested guarantee policy can be found on [REFINE website](#).

Facilitation services

To further foster investments in energy efficiency services, REFINE consortium partners are offering various facilitation services that depend on the different stages of the refinancing process, and the nature and the degree of connection with the refinancing operation.

Each REFINE partner offers facilitation services based on the local market and stakeholder needs and facilitation services include:

- Matchmaking between refinancers and clients,
- Estimation of the operation returns,
- Due diligence during the refinanceability check,
- Concluding the refinancing operation

To find out more about how REFINE partners can support you in facilitating your refinance-based investment contact: info@refineproject.eu

DISCLAIMER

The REFINE Project receives funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No. 894603. The sole responsibility for the content of this document lies with the authors. It does not necessarily reflect the opinion of the European Union. Neither the EASME nor the European Commission is responsible for any use that may be made of the information contained herein.