CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

Selecting appropriate financial instruments to deploy 2014-2020 structural funds on energy efficiency and building renovation

Executive Summary 4.4

Financing

Elodie Trauchessec - ADEME, FR
Karen Strandoo - Energy Saving Trust, UK
Krisztina Ligetvári - ÉMI Non-profit Lld., HU

Date: November 2014

1 Introduction

The new European Cohesion Policy for 2014-2020 will go further than ever regarding the promotion of energy efficiency (EE) and renewable energy sources (RES) because a minimum share of each region's European Regional Development Fund (ERDF) envelope will have to be invested in measures supporting the shift to a low-carbon economy (from 12% to 20% depending on the region's level of development).

This should ensure an investment of **at least €23 billion for 2014-2020** from the ERDF to support the shift to a low-carbon economy. Furthermore, around **€66 billion** from the Cohesion Fund will be focused on priority Trans-European transport links and key environmental infrastructure projects.

In order to properly plan and deploy this funding, Member States (MS) have prepared new Operational Programmes (OP) directing an increased proportion of European funds towards the low carbon priority area **through dedicated financial instruments**. These new programmes are likely to go live from autumn 2014 onwards, so it is timely to examine the opportunities to direct any new funding allocations towards energy efficiency and building renovation. In order to this, it is now more than ever necessary for MS representatives and Managing Authorities (MA) to understand the various financial mechanisms available to deliver finance for their EE programmes and projects.

Through this research participating MS examined different funding mechanisms that are available to support their energy efficiency programmes, first through a technical presentation on individual financial instruments, their advantages and disadvantages and how to combine them to reach a specific target, and then through numerous practical presentations on existing good practices (Lithuania, Czech Republic, Poland and UK).

2 Technical guidance: financing the energy renovation of buildings with Cohesion Policy funding

Discussion was stimulated by a presentation from ICF International, who explained the European Commission's published guidance on financing the energy renovation of buildings with Cohesion Policy funding[1].

2.1 Objectives of ICF Technical Guidance

- Help managing Authorities (MAs) to plan and deploy sustainable energy investments in buildings within OPs
- Provides good practice approaches and case studies
- Inform MAs about the European requirements on buildings and energy efficiency
- Explore the different financing mechanisms that MAs can use to support Sustainable Energy (SE) projects with the aim to:
    - Launch large-scale investments in the energy renovation of buildings
    - Attract greater levels of private sector investment

2.2 Reminder on existing support for financial engineering

- **JEREMIE**: Joint European Resources for Micro to Medium Enterprises
- **JESSICA:** Joint European Support for Sustainable Investment in City Areas

  For the 2014-2020 programming period, JEREMIE and JESSICA will be included within a 'Financial Instruments - Technical Advisory Platform' (FI-TAP).

- **Project Development Assistance (PDA)**
- **Horizon 2020**: €59m to help build capacity under Horizon 2020 calls for proposal (opens December 2014; closes June 2015)
- **European Investment Bank, KfW, CEB and EBRD - European Local Energy Assistance (ELENA)**

For more information visit:
- http://ec.europa.eu/regional_policy/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf
- http://ec.europa.eu/energy/intelligent/getting-funds/project-development-assistance/index_en.htm

2.3 Practical steps:

ICF Technical Guidance sets out a number of practical steps which can be followed by the Managing Authorities to support the delivery of sustainable energy projects.

Step 4 describes how to choose the appropriate financing mechanism:

Step 4.1 Choose an implementation option

Step 4.2 Assess individual financing mechanisms

Step 4.3 Evaluate combinations of support

[1] http://ec.europa.eu/energy/efficiency/studies/doc/2014_guidance_energy_renovation_buildings.pdf

Step 4.4 Choose the right financing options

MAs need to evaluate the appropriateness of financing mechanisms. The best option will depend on:

- local context
- building types
- final recipients targeted
- programme objectives- such as a combination of energy savings, support for local supply chains, skills enhancement.

3 Practical Examples

A number of practical examples of financial instruments (FI) were presented by the speakers. Including:

➢ Tees Valley Unlimited, North East England, UK - Example of a regional agency investigating use of FIs

Focus: Retrofitting of social housing – tender for consultancy work, October 2014

Investigating the potential to establish a 'Financial Engineering Instrument' to support the retrofit of existing social housing stock in the Tees Valley. Initial discussions suggest sufficient need and demand for a £20m (€24m) programme.

Identified benefits

- Reduce CO_2 emissions
- Help tackle fuel poverty
- Incentivise house builders to provide energy efficiency measures in new homes not currently commercially viable due to current house prices and market demand
- Provide training opportunities
- Assist Tees Valley to reduce its environmental footprint

The agency is currently engaging with Tees Valley Registered Providers (social landlords) on the approach, housing unit numbers, locations, technologies to invest in, costs, the funding model and opportunities to link into European Social Fund (ESF) training projects.

➢ Experience of Lithuania Using Financial Instruments with European Regional Development Fund (JESSICA)

A JESSICA fund was created in Lithuania to invest in energy efficiency. The fund:

- Provides **only soft loans** for energy refurbishment investments
- **Targets 2 specific types of buildings**: multi-apartment buildings and secondary education buildings (student dormitories and teaching buildings)

State support (through the Climate Change Programme) is also available in addition to the fund's soft loans for implemented energy efficiency measures that go beyond initial requirements.

The contribution committed into the JESSICA Holding Fund consists of:
- European Regional Development fund: €127m
- National funding: €100m

Actual results:

- Importance of renovation fund recognised
- Basic financial instruments supplemented with additional measures
- State support at national level
- Functional participants network
- Reduction of borrowers share: 40/60
- Additional compensating measures
- Simplicity and accessibility
- Renovation process goes forward

➢ Implementation of financial instruments in Czech Republic

In the past the Czech Republic has used financial instruments in the form of guarantees and loans and in the future (2014-2020) 15 financial instruments are expected to be used in the OPs.

➢ Financing energy efficiency: the Polish experience

Poland has overcome a number of barriers in setting up a national fund which uses a number of financial instruments including grants, loans, interest rate subsidies and partial loan redemption.

➢ Investing in a sustainable Hague - Best practises using the JESSICA financial instrument

The Hague uses JESSICA in order to reach its ambition of climate neutrality by 2040.

Benefits from having a Holding Fund

- Allows MA to delegate some of the tasks required in implementing JESSICA to appropriate professionals
- Allows JESSICA funds to be combined with other public and/or private sector resources for investment in Urban Development Funds (UDFs)
- Audit Authority checks Holding Fund instead of beneficiaries

Take away points

- State Aid does not have to be a threat.
- An interest rate of 7% is not a problem.
- Marketing of the JESSICA initiative is important.
- A Holding Fund with financial and managerial expertise has a lot of advantages.

For more information visit: http://www.ca-eed.eu/good-practices/member-state-presentations/financing/selecting-appropriate-financial-instruments-to-deploy-structural-funds

4 Summary & Conclusions

The following summarises the discussions from the sessions

- There is wide acceptance and many good exemplars to show that FIs can effectively finance energy renovations in buildings, yielding many benefits.
- Common Provisions Regulation governing European Structural and Investment Funds (ESIF) provides implementation options for MAs to consider and sets rules on how to make a business case for FIs.
- Different financing mechanisms can be deployed and blended together (e.g. grants and loans) depending on the objectives of the MA and the OP's level of ambition.
- Support is available through EU-wide schemes to help with Project Development Assistance (PDA) covering, inter alia, energy audits, and the preparation of tendering procedures and contractual arrangements. PDA can aid development of "bankable" sustainable energy projects to increase 'absorption' of funding.

Challenges in MS

- Decision between grant and loan regarding which project is bankable.
- Quality of business/financial plans of the projects are often not good enough.
- Marketing/communication of financial instruments is very weak and should be strengthened. Marketing of initiatives (e.g. JESSICA) is as important as getting the right projects.
- Loan - Equity balance: more equity would be needed for Small and Medium Enterprises (SMEs) in order to multiply projects.

Lessons from Milan and future expectations

- The general level of understanding around FIs has significantly improved
- It's time to go to the next level and understand the practical challenges
- Participants are keen to hear more from the people implementing financial mechanisms, the good and the bad. For example
    - How to establish baseline-audits
    - How to make projects bankable
    - How to organise procurement
    - Timeframes

For more information please email
kligetvari@EMI.HU

Legal Disclaimer

The Concerted Action for the Energy Efficiency Directive (CA EED) was launched by Intelligent Energy Europe (IEE) in spring 2013 to provide a structured framework for the exchange of information between the 29 Member States during their implementation of the Energy Efficiency Directive (EED).

For further information please visit **www.ca-eed.eu** or contact the CA EED Coordinator Lucinda Maclagan at **lucinda.maclagan@rvo.nl**

CONCERTED ACTION
ENERGY EFFICIENCY
DIRECTIVE

Co-funded by
the Intelligent Energy Europe Programme
of the European Union