BPIE

CHAIRMAN'S CONCLUSION

BPIE Roundtable meeting:

"How to make energy-efficient building retrofit happen in Romania?"

Bucharest, March 16th, 2012

The Buildings Performance Institute Europe (BPIE), which is dedicated to increasing energy efficiency in buildings at Member State level and to creating a platform for change, organised a roundtable meeting in Bucharest March 16th to debate how to successfully leverage EU funding for the renovation of the building stock in Romania. The aim of the event was to actively promote the development of financing schemes for the thermal rehabilitation of Romanian buildings based on the use of EU Structural Funds.

The roundtable was the second one to take place over the last 12 months and set out to share EU best practices as well as to support national efforts in implementing EU energy efficiency policies in Romania.

The roundtable brought together all the key energy efficiency and energy policy players including the relevant government institutions, the Ministry of Regional Development and Tourism (MRDT), consumer and industry associations, industry representatives, banks, NGO's and academia in an effort to stimulate the debate on the energy efficiency of buildings and also to identify the main action points for Romania.

The event was opened with welcoming remarks from Serban Danciu, BPIE, Taskforce Manager in Romania, while an introduction to BPIE and the roundtable meeting was made by Oliver Rapf, BPIE's, Executive Director, who was also the event's moderator. An overview of "EU funding sources for large-scale building renovation" was made by Tudor Constantinescu, Principal Advisor at DG Energy, while the former Secretary of State at the Ministry of Regional Development and Tourism, Eugen Curteanu reported on "Current Strategies for the refurbishment of the Romanian building stock".

This was followed by a lively discussion on how third party financing opportunities can be leveraged and successfully deployed in the context of Romania's national market conditions.

The experience of Lithuania in using EU Structural Funds for increasing the energy performance of buildings was presented by Simona Irzikeviciute, Head of Project Management Division at the Housing Urban Development Agency of Lithuania.

The Greek experience in using EU Structural Funds for increasing the energy performance of buildings was presented by Costis Stambolis, IENE's Executive Director.

The timing of the roundtable debate was well chosen, as building renovation is currently high on the agenda of national policy makers. All key stakeholders are

currently actively engaged in the debate about how to access and especially how to best make use of available third party funding. The government (MRDT) is currently in the process of applying for EU Structural Funds to optimise the energy performance of the existing building stock.

Negotiations with the EU Commission (DG Regio, DG Energy) started at the end of March, involving high-level representatives from the Ministry of Regional Development and Tourism.

Today, a number of Member States are successfully leveraging EU Structural Funds to improve the energy performance of the existing building stock or making effective use of other available financing solutions. The renovation of the building stock is of considerable importance in Romania as in most Eastern and Central European countries. The European Union allows the Member States to allocate up to 4% of their national available budget to energy efficiency and renewable energy activities in residential buildings and has launched several complementary funding instruments - such as those provided by the EIB (through the JESSICA instrument) - which are not yet sufficiently used by the Member States.

In the past, the uptake in Romania has been hindered by the complex administrative approval procedures for citizens who apply and short pay back times for the loans. However, one of the major constraints up until now on the use of EU funds has been the required national leverage. National budgets need to match EU funds with a certain percentage of their own funding. This can be very challenging in times of economic and financial crisis. Another major constraint is the need to set up high impact schemes with proper monitoring and control mechanisms which are able to demonstrate significant energy and CO_2 savings and are funded in a transparent manner.

RETROFITTING OLDER, INEFFICIENT HOUSES IS A BIG CHALLENGE IN ROMANIA

- Romania is the second largest country within the EU Member States from Central and Eastern Europe (after Poland). The housing stock in Romania consists of around 8.2 million dwellings in an estimated 5 million buildings. Up to 40% of dwellings are situated in urban areas in multi-family block of flats. The biggest share of single-family houses is in rural areas. The normal lifespan of buildings in the Romanian housing stock is often exceeded and in many cases the buildings are made with low quality materials. This is the consequence of past policies which focused on minimal investments (despite the operating costs which became higher). Most residential dwellings (97%) are privately owned and inhabited by the owners. After 1989, residential dwellings in blocks of flats (mainly state-owned property until then) were sold by the state to their inhabitants and many old buildings which had been taken by the state under the communist regime were returned to their owners.
- More than 50% of residential buildings were built before 1970 (more than 40 years old), and have a poor energy performance level (between 150-400kWh/m2). A feature of the building stock is the rather high number of buildings in urban areas connected to district heating networks: some 2.47 million dwellings, most of them apartments (approx. 2.4 million).
- Public sector buildings represent an important share of the existing building stock (4,82 %) and have a large energy saving potential.
- The estimated potential for energy savings is about 1.2 million TWh/year, and the CO_2 reductions could be 1.5 million to CO_2 eq/year. To achieve such objectives, however, more ambitious programmes for the thermal rehabilitation of existing buildings would be required. The current economic crisis points to the need for making better use of Structural funds.

ROMANIA'S REFURBISHMENT PROGRAMMES

In Romania, a thermal rehabilitation programme for multi-level residential buildings built before 1985 had been launched in 2002, coordinated by the Ministry of Regional Development and Tourism.

After years of hesitation the programme was re-launched in 2007 as part of the first National Energy Efficiency Action Plan (under the 2006/32/EC Directive). The programme was extended in 2009 by the Government Ordinance OUG 18/2009. The programme addresses multi-family blocks of flats built between 1950 and 1990. Around 39% of the Romanian dwellings are in multi-family blocks of flats, most of them built during the above-mentioned period and having a poor energy performance. The aim of the programme was to decrease heating energy consumption in renovated buildings from an actual estimated energy consumption of 180-240 kWh/m2 to below 100 kWh/m2. The measures could comprise thermal rehabilitation of the external walls, basement floors and roofs, the replacement of the existing windows and external doors with double-glazed ones, the thermal insulation of the basement pipes and painting of the exterior walls (for aesthetic reasons). Initially the financing was divided between the national budget (34%), the local budget (33%) and the owner's contribution (33%). However, the programme uptake only happened in 2008 due to an increased level of public grants which now cover the renovation costs with 50% financed from the public budget, 30% from local budgets and only 20% by the owner. Moreover, several local administrations also covered also the owner's contribution and, in some cases, the thermal renovation was a cost-free measure for the owners. In addition, the renovation contracts were agreed between the contractors and public authorities, without the involvement of the buildings' owners.

As a result of the programme implementation 89 blocks of flats (2 551 apartments) were rehabilitated in 2008. In 2009, 24 834 apartments were rehabilitated and in 2010, the rehabilitation of 29 000 apartments was foreseen and the start of works on a further 25 000 apartments.

The implementation of this renovation programme created public awareness and boosted confidence in energy efficiency measures. There are many examples where owners improved the thermal insulation of their buildings even at their own expense.

The thermal rehabilitation programme helped safeguard employment in the construction industry during a deep period of recession and it is estimated that it created nine times more employment than the investments in new energy capacities. In 2010 a Government Ordinance (OUG 69/2010) introduced a new financing scheme offering dedicated loans over a 5 year period for thermal renovation of the residential buildings (houses and blocks of flats) built by 2000, with 100% state guarantees and up to 100% subsidized interest rates. Moreover, local authorities may finance up to 30% of the eligible costs. The value of the loan shall account for 90% of the value of the works to be executed but not be above the following thresholds:

- the equivalent amount in RON of EUR 1 850/room, VAT inclusive, in the case of residential blocks,
- the equivalent amount in RON of EUR 7 400/room, VAT inclusive, in the case of individual residences.

Former Secretary of State, Eugen Curteanu, put the current application for EU Structural Funds in its historical perspective and summarized the former renovation programmes (see box).

Tudor Constatinescu from the EU Commission's DG Energy highlighted the importance of the EU's internal objectives: an integrated energy market with an optimised use of resources and decarbonisation. Today it is key to invest for the next generations and manage a process of transformation.

Mr. Constantinescu also highlighted the point that it is essential to make energy affordable for Romanian consumers, and improved energy efficiency can help in that direction, especially in a period of energy price liberalisation.

Currently, out of the EUR 245 million that were initially reserved for energy efficiency and renewable energy in Romania in context of the Operational Programmes financed by the EU Structural funds, only EUR 100 million have been allocated to energy efficiency projects, mostly to energy efficiency in industry and nothing related to housing. A reallocation of funds would be necessary for the rehabilitation of buildings, including public sector buildings. However, all projects financed partly through the EU Structural Funds need to be supported from the national budget (around 50% co-financing, but this percentage can be higher for public buildings or for social projects in the residential sector).

The lively discussion following the presentations focused mainly on the issue of how to set up an efficient funding scheme, supported by the national budget, accessible to a large number of citizens and achieving the expected results in terms of energy and CO_2 savings.

Several questions were raised regarding the timeline and process of Romania's application for EU Funds. Mr Constantinescu stressed that the quality of the proposals have an impact on the speed of conclusion. At a national level, the money would need to be allocated within a short time frame, by 2014.

"Energy efficiency is essentially a problem of culture, political will and realistic financing solutions," he said.

During the debate various participants emphasized the following key challenges:

CONTINUITY IN POLICY MAKING – CROSS-PARTY COMMITMENT FROM GOVERNMENTS

- While the issue of large-scale building retrofit is high on the political agenda at election times, the matter should not dwindle in importance afterwards. The upcoming elections should not prevent any new initiative being launched. Long-term commitment across all parties is necessary to create stable market conditions and the 'security framework' requested by industry. It will be important to create a free, demand-driven market. Hereby private industry needs to take the required initiative and should be ready to liaise with the public sector.
- In the future, it could be an advantage to delegate building responsibilities to the specific competent departments within the specific ministries and administrations, less subject to changes of political parties and their programmes.

DATA SCARCITY - A CLEAR VISION OF THE POTENTIAL WITHIN THE ROMANIAN BUILDING STOCK.

- The absence of centralised data relating to the existing building stock and its performance level makes it difficult for Romania to demonstrate the effectiveness of planned renovation programmes. While there is a relatively good evaluation of block of flats (the main target of the current National Thermo-rehabilitation Programme), a database on public sector buildings is currently non-existent, leading to important discrepancies in the understanding of the status quo (the starting point for each renovation scheme). This absence of a clear vision hinders the effective design of programmes, hindering the full exploitation of the cost-optimal savings potential. A better knowledge

of the situation would help avoid lock-in effects and help define realistic payback periods. National investment schemes should be based on life-cycle costs and on cost-optimal levels of renovation.

- In this context, it seems important to clearly (re) define the roles and responsibilities of each market player, including the national and local authorities, such as the national housing agency and municipalities.

ALIGNMENT BETWEEN NATIONAL PROGRAMME DESIGN AND MARKET NEEDS

- The Romanian refurbishment programme through dedicated credits launched in 2010 introduced state-guaranteed loans that had to be reimbursed within a maximum period of five years. This extremely short payback time led to very high monthly loan repayments which were unrealistic for the real estate owners as well as for the lending banks. This issue was accentuated by the fact that Romanian citizens are reluctant to take on loans. Consumer organisation stress that the beneficiaries should have liberty of choice and that the saving-lending schemes need to be realistic (max. 4.5 – 6% interest rate).

CONSUMER RESPONSIBILITY AND INFORMATION

- Awareness-raising campaigns and consumer education are key to the success of refurbishment programmes. The government and the financial institutions providing the loans will need to invest in consumer information and education. According to several participants, Romanian consumers have a tendency to under-nvest in renovating their homes. The communist era created passivity and the lower level of incomes in the country (well below the EU average) channelled people's investments towards products with low values and short payback time (e.g. in household ICTs and appliances).

ESTABLISHMENT OF A TRANSPARENT SYSTEM THAT ALLOWS MAXIMUM FLEXIBILITY

- The experience of current practice in other EU countries shows that it is important to ensure a direct and transparent relationship between the customers, the financing organisation and the construction companies. It appears that one of the most effective solutions for using Structural Funds is to provide funds to the customers via financial institutions such as dedicated credit lines through existing banks or specifically designed Environmental Investment Funds. Learning from the Greek experience, there should not be any intermediaries between the banks and credit takers. Attractive incentives for banks (fee and interest rate) will help to create initiative and motivate sales.
- The administrative burden should be reduced to a minimum; the treatment of dossiers should be smooth, with a rapid application procedure. This process could be accompanied on an individual basis, as has been demonstrated in Lithuania.
- It is important that the responsible parties assure maximum transparency, with a precise monitoring of financing flows.
- The level of agreement necessary among apartment owners to make renovations in multi-apartment buildings is currently too high (90%). A simple majority should be enough.

POST-PROJECT SCAN AND MONITORING

- It is essential that refurbishment programmes be executed in a highly qualitative way based on defined performance criteria. The existing Energy Performance Certification system may be successfully used for monitoring the energy performance of buildings post-refurbishment (according to the Greek experience and as currently happens in the Romanian National Refurbishment Programme).
- The obligatory post-work inspection should be managed by independent monitoring and control bodies. The post-work control is essential to the success of the scheme. The implementation of building renovation should be performed in a technically correct way and achieve a cost-optimal level. The importance of the certification of materials such as windows and insulation material is also crucial in this context.

LESSONS LEARNT FROM THE LITHUANIAN CASE

Lithuania financed its national programme for the modernisation of multi-apartment houses through a combination of JESSICA funding support (EUR 227 million), EU Structural Funds (EUR 127 million) and the state budget (EUR 100 million).

Key success factors were:

- Realistic credit conditions with a fixed interest rate of 3% per year with a duration of 20 years
- Two year grace period during construction work
- Rewarding more ambitious measures: an additional 15% grant if certain energy efficiency levels were achieved (more than 40% energy savings)
- Special support to low income families in the form of a 100% reimbursement of instalments
- Extensive promotion with a focus on one-to-one communication. One of the main challenges: to convince people that the new scheme based on a mix of loans and grants provides better incentives, more than the old programme scheme based exclusively on grants.
- A major effort to reduce the administrative burden

LESSONS LEARNT FROM THE GREEK CASE

Key success factors were:

- The necessity to reduce the involvement of governmental authorities in the credit taking process (no intermediaries between the banks and loan takers) for increased transparency and independence.
- Little administrative effort and a rapid application procedure
- Independent energy audits for buildings and energy building inspectors are key for the application of energy efficiency measures and for realising sizeable energy conservation benefits on a national scale and on a long-term basis.
- Post-work control is required for checking the real performance of buildings after refurbishment
- Public education on energy efficiency ideas and techniques and on building energy performance in general is needed. Suitable programmes in this direction should be devised.

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