



BUILDINGS  
PERFORMANCE  
INSTITUTE  
EUROPE

# FINANCING THE FUTURE OF BUILDINGS

## Executive briefing

### AN ANALYSIS OF PUBLIC FUNDING STREAMS FOR BUILDING UPGRADES IN CENTRAL, EASTERN AND SOUTH-EAST EUROPE

The EU Multiannual Financial Framework (MFF) and the Smart Finance for Smart Buildings initiative intend to unlock private financing for energy efficiency and renewable energy in buildings. As discussions about the next MFF 2021-2027 are starting, this analysis of current funding streams, both from the EU budget and multilateral institutions for the countries in Central, Eastern and South-East Europe (CESEE<sup>1</sup>), describes the current situation and suggests steps to increase the impact and reach of available funding. Innovative funding tools, aggregation and assistance for project development, and a better understanding of the availability and accessibility of these funds in the CESEE region are necessary. The lessons learnt from the current use of these funds should guide the European Commission and Member States in the development of a new strategic approach for the next MFF.

Much of the building stock in CESEE is in poor condition, and large shares of the population are exposed to the risk of energy poverty<sup>2</sup>. At the same time, CESEE is the only region in Europe with a significant vulnerability to gas-supply disruptions. Recent BPiE analysis concluded that seven countries in this region are facing significant risk<sup>3</sup> should gas supply be reduced or interrupted [1]. Buildings are critical in reducing energy dependency, increasing savings on the energy bill and improving health and comfort levels, but are not yet recognised as a critical infrastructure. Adopting an “efficiency-first” approach and promoting building renovation would be a viable alternative to increasing supply investments. A dedicated building renovation programme could upgrade all gas-using buildings in the region and reduce the current gas consumption of the building stock by 70% (as much as 8.2 bcm/a) within 20 years, at a cost of €81 Billion. These investments could be partly covered by EU and international funds available in the region.



<sup>1</sup> The region covers: Bulgaria, Croatia, Greece, Hungary, Romania, Slovenia, Slovakia (EU), Albania, Bosnia and Herzegovina, FYROM, Kosovo, Montenegro, Serbia (Western Balkans), Moldova and Ukraine (Eastern Europe)

<sup>2</sup> BPiE and al., “Energy Poverty Handbook”, 2016

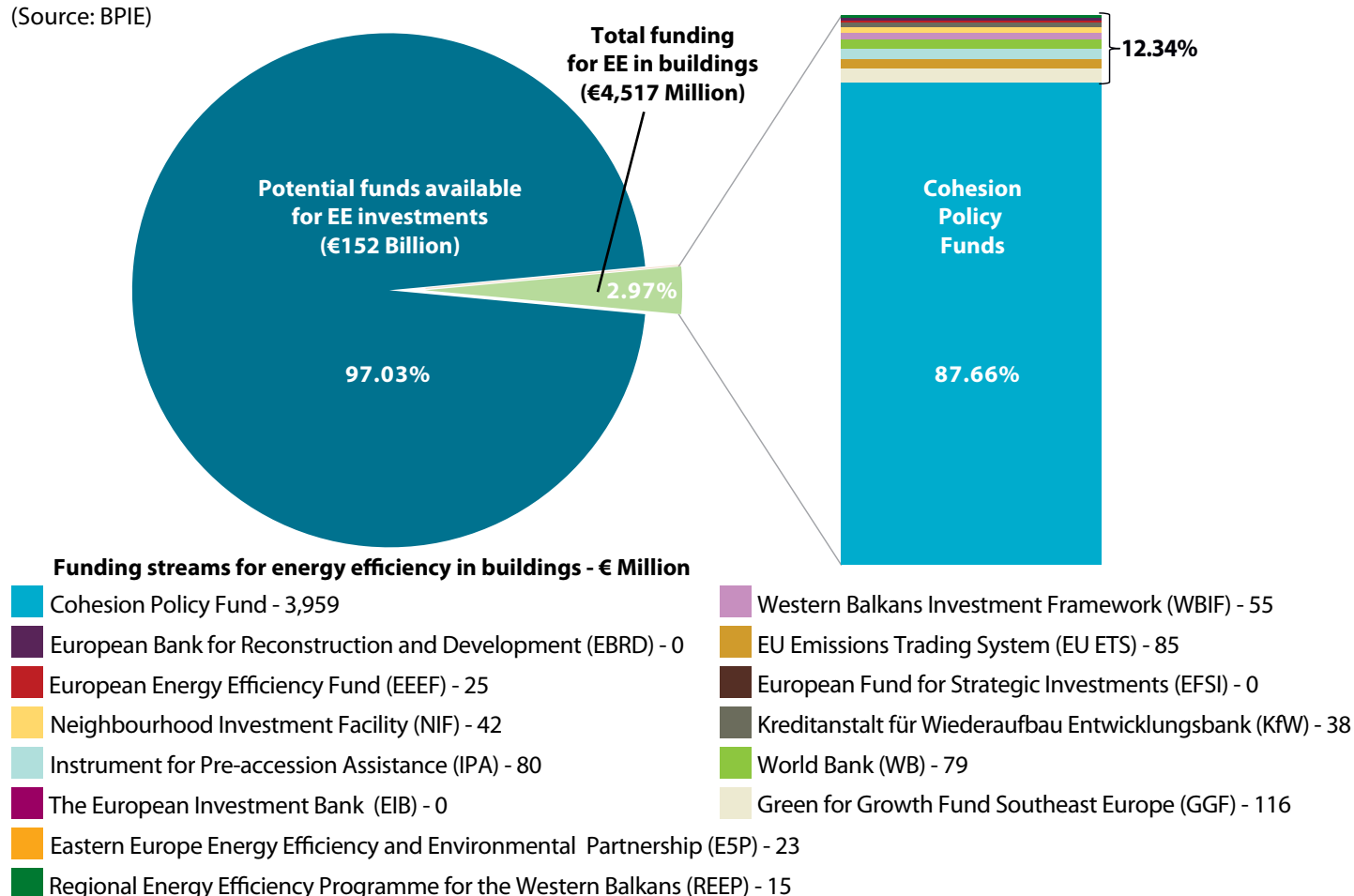
<sup>3</sup> Countries with severe to moderate risk to be unable to heat their national building stocks: Slovakia and Hungary (severe), Bulgaria (substantial), Bosnia and Herzegovina, FYROM, Serbia and Slovenia (moderate)

## HOW ARE THE AVAILABLE FUNDS CURRENTLY USED?

The funds available in the region come from two main sources: the funding streams coming directly from the EU and those provided by international financial institutions and regional investment programmes (e.g. World Bank, European Bank for Reconstruction and Development (EBRD), KfW, Western Balkans Investment Framework).

Currently, less than 3% of the total funding that could be used for energy efficiency investments in Central, Eastern and South-East Europe is dedicated to upgrading buildings. To date, EU and non-EU funds do not target building efficiency upgrades at large scale and the opportunities for investments in demand-side infrastructure are not fully exploited.

**Figure 1 - Overview of the share of funding streams dedicated to energy efficiency (EE) in buildings in the CESEE region**  
(Source: BPiE)



Cover more than one-third of the whole EU budget. They include the EU's Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF), with a focus on reducing regional disparities in income, wealth and opportunities. In the CESEE region, only 4.35% (€3.96 Billion) of the Cohesion Policy Funds is allocated to demand-side infrastructure. Non-repayable grants are the most common method of channelling financial support (>94% of Cohesion Policy Funds take this form).

**Table 1 - Summary: EU funding streams in CESEE (2014-2020). More information in [2]. NIF for 2008-2015**

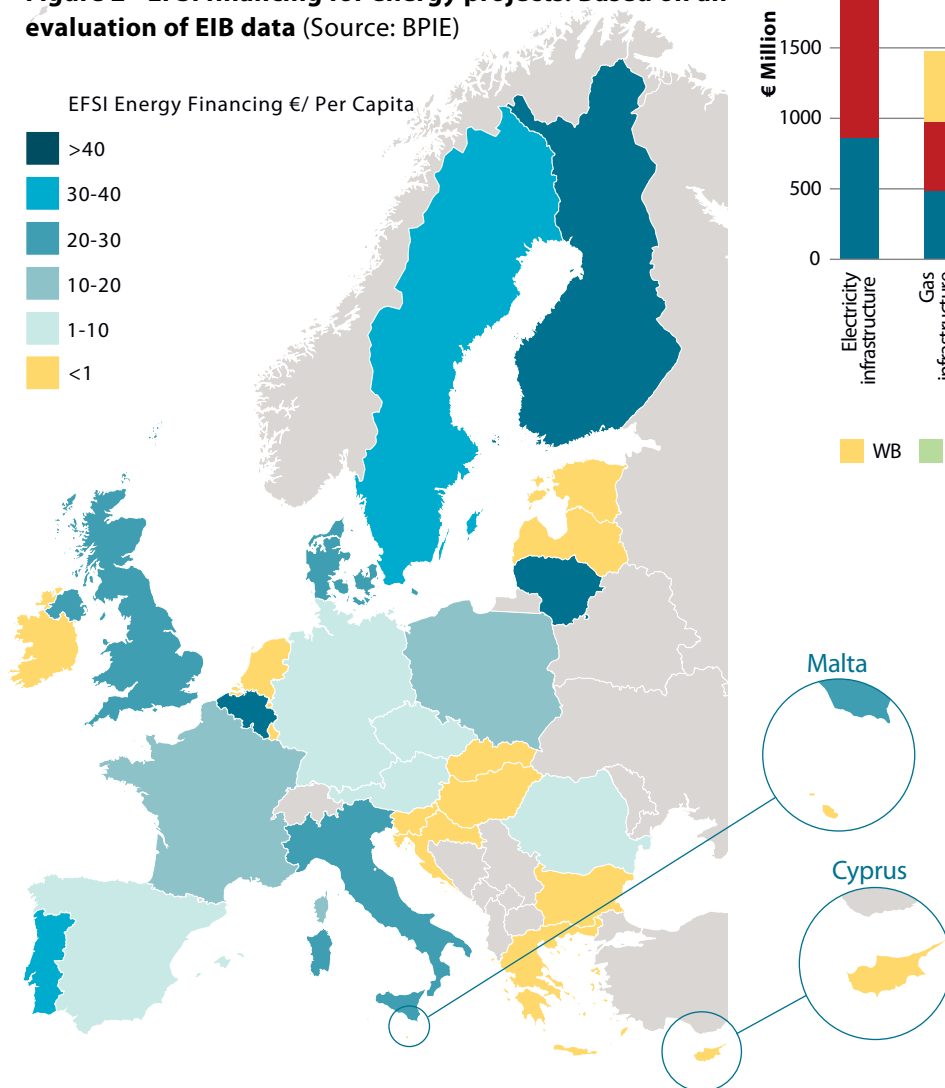
(In € Million)	Cohesion Policy Funds	EFSD	EEPR <sup>4</sup>	IPA	NIF
<b>Total Investment</b>	91 924	2 040	25	3 553	155
<b>Investments in Energy</b>	6 275	100	25	225	42
<b>Investments in Demand-Side Infrastructure</b>	<b>3 959</b>	<b>0</b>	<b>25</b>	<b>&lt;225</b>	<b>&lt;42</b>

<sup>4</sup> European Energy Programme for Recovery – EEPR

### The European Fund for Strategic Investments (EFSI)

Introduced as a response to the 'investment deficit' following the 2008 economic crisis, it intends to mobilise private financing for investments in 'strategic infrastructure'<sup>5</sup>. However, the fund is not being exploited in the region. EFSI differs from other EU funds, as it is designed to mobilise additional investments and targets financially riskier and more innovative projects (for example, setting up an ESCO service in a new market). Projects under EFSI are not funded based on geographic or sector quotas, but evaluated on their specificities and merits. Out of a total of more than €8 Billion<sup>6</sup> allocated to energy projects approved and confirmed under EFSI, only €100 Million (1.25%) is allocated to South-East Europe, where two projects (including a gas project) are funded.

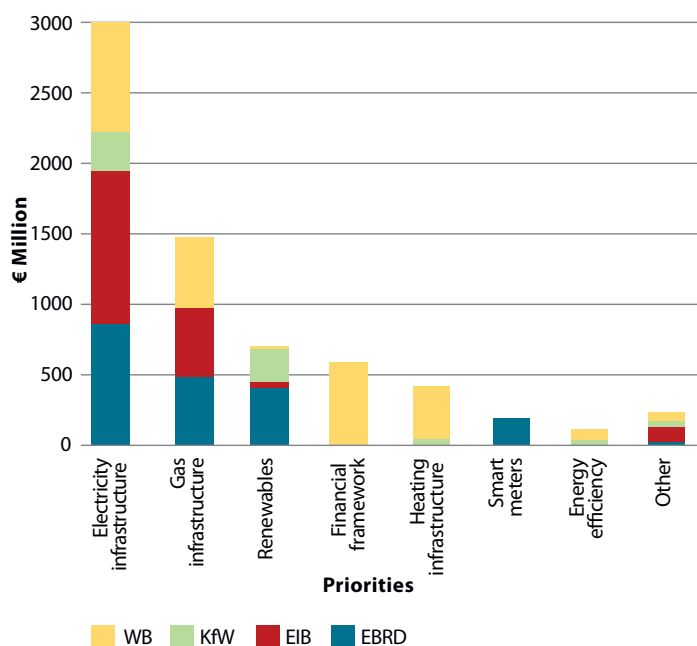
**Figure 2 - EFSI financing for energy projects. Based on an evaluation of EIB data** (Source: BPIE)



### International financial institutions

Regional programmes and international development banks play a key role in facilitating growth and sustainable development as well as directing investment to strategic projects in non-EU countries in the region. However, only 1.7% of the total committed investments is allocated to demand-side infrastructure.

**Figure 3 - Energy projects financed by international financial institutions<sup>7</sup>** (Source: BPIE)



## HOW CAN THE LACK OF INVESTMENTS IN DEMAND-SIDE INFRASTRUCTURE BE OVERCOME?

To increase the investments in building upgrades in Central, Eastern and South-East Europe, several challenges must be overcome to ensure more efficient use of funds to leverage new investments, attract additional private and public financial support, and build technical capacity.

<sup>5</sup> [http://ec.europa.eu/growth/industry/innovation/funding/efsi\\_en](http://ec.europa.eu/growth/industry/innovation/funding/efsi_en)

<sup>6</sup> The amounts refer to EFSI financing: tranche of an operation that benefits from the support of EFSI

<sup>7</sup> Projects include: Active projects, or projects that have been signed in 2014 or later

## CHALLENGES



### MAKE INVESTING IN DEMAND-SIDE INFRASTRUCTURE A STRATEGIC PRIORITY

Lack of broad political support for long-term energy efficiency investments, resulting in uncertainty and short-term investments

Low awareness among policy-makers and building owners about the multiple benefits of energy renovation

Demand-side projects, such as building renovation, are more fragmented and often smaller in size than projects focusing on supply. The effort required for the preparation and administration of small projects can be taxing for public administrations

## SOLUTIONS

### STRATEGIC MEASURES

Define energy efficiency as a national priority



Increase public awareness of the economic and social benefits of energy renovations

Ensure that Cohesion Policy Funds support the European Union's decarbonisation goals



Use the pre-accession and neighbourhood processes to support energy efficiency and clean energy

## CHALLENGES



### OVERCOME THE LACK OF PROJECT PROPOSALS FOR DEMAND-SIDE PROJECTS

Almost no EFSI energy project currently being activated in the CESEC region

Lack of experience and expertise on how to successfully apply for projects

The high level of grants risks crowding out more innovative financing mechanisms, such as using private funds

## SOLUTIONS

### INCREASE TECHNICAL ASSISTANCE



Set up national project development groups to assist and assess the development of projects

Create a capacity-building initiative in the region focusing on effective financing instruments and project development skills for demand-side energy efficiency programmes

Assign a certain amount of the EFSI energy funds to projects in South-East Europe



## CHALLENGES



### REDUCE UNCERTAINTY TO SPUR PRIVATE INVESTMENTS

Low project feasibility/bankability due to lack of consumption-based billing and, in some cases, absence of adequate legal structures

Perceived high risks for investing in residential projects

Energy subsidies are on average much higher in the CESEC region than in the rest of Europe, reducing the incentives for investing in energy efficiency

A subdued economic climate hampers public and private investments

Information shortage and lack of confidence in the benefits of demand-side investments

## SOLUTIONS

### IMPLEMENT CROSS-CUTTING MEASURES

Increase EU monitoring to ensure building performance levels are met



Set out comprehensive long-term national strategies for decarbonising the building stock and guiding public and private investments

Set up an independent non-political body, responsible for handling financial streams, in order to increase market confidence



Use EU financial support to reinforce a functioning and competitive market for energy renovations that will leverage private investments

## CHALLENGES



### REMOVE SILOS THAT ARE HINDERING EFFECTIVE GOVERNANCE OF FUNDING STREAMS

No clear link between the National Renovation Strategies and the funding streams for energy efficiency in buildings

Limited impact of the Cohesion Policy Funds in avoiding lock-in effect and achieving deep renovation of the building stock

Red tape or excessive administrative requirements impede governance

## SOLUTIONS

### BETTER GOVERNANCE

Ensure better governance of demand-side energy projects/objectives through more cooperation across ministries and responsible organisations

Increase efforts to target buildings heated by fossil fuels and/or areas with high levels of energy poverty

Empower and support local administrations. Align national and local renovation strategies for their building stock



Encourage participation of citizens and civil society, in order to boost trust and effectiveness

## REFERENCES:

[1] BPIE, "Safeguarding energy security in South-East Europe with investment in demand-side infrastructure", 2016.

[2] BPIE, "Financing the future of buildings in Central, Eastern and South-East Europe", 2017.