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# MULTIANNUAL FINANCIAL FRAMEWORK BEYOND 2020: FIVE PRINCIPLES TO IMPROVE HOW THE EU FINANCES BUILDING RENOVATION AND A NEARLY ZERO ENERGY BUILDING STOCK

Discussion Paper

*The EU budget helps to deliver on the things that matter for Europeans<sup>1</sup>*

The upcoming EU Multiannual Financial Framework (MFF) beyond 2020 is a unique opportunity for the EU to examine into the functioning of its funding system and propose solutions to unlock barriers, with the aim to fully deploy public and private financing to improve the quality of life of its people.

The approaching departure of the UK from the EU and the resulting gap in Member States' contribution will require the next MFF to be sufficiently large to manage new priorities (it is currently about 1% of the EU combined Gross National Income) and flexible enough to be used efficiently. In this context, the lessons learnt from the current use of these funds are paramount to guide the European Commission and the Member States in the development of a new strategic approach for the next MFF.

To move beyond the 'net balance debate', the European Commission proposes to shape the future Financial Framework by the principle of **European added value<sup>2</sup>**, focusing on common policies, priorities, and areas where the EU budget can deliver goods and services that national spending alone cannot. To be valuable, the MFF budget should meet four main objectives:

**Strengthen innovation and growth at all level of the society and the economy**

**Address market failures and leverage private investment**

**Overcome inequalities among regions and citizens (economic and social inequalities are present also within wealthy regions)**

**Deliver co-benefits (e.g. relieve poverty, create local jobs, reduce GHG emissions, support social stability) across Europe**

The next MFF period will be the first one after a series of strategic political agreements regarding the EU's future climate change and energy policy, such as the adoption of the Paris Climate Agreement, the inclusion of "efficiency-first" principle within the Energy Union and the Clean Energy Package for All Europeans. Integrating these strategic decisions in the way the budget is shared and allocated is necessary to operationalise the transition to a clean and sustainable future for Europe.

The European Commission estimates that, to achieve the EU's targets for energy and climate policy, additional annual investments of €170 billion are required. Decarbonising the EU building stock, which accounts for 36% of CO<sub>2</sub> emission in the

<sup>1</sup> European Commission (EC) reflection paper on the future of EU finances, 2017

<sup>2</sup> EC Communication on a "new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", COM(2018) 98 final

EU, and renovating it to the highest efficiency standards is essential to fight energy poverty, improve living conditions and achieve the EU commitments to the Paris Agreement. The scale of this challenge is beyond the sole capacity of the public sector. However, despite being critical in reducing energy dependency, increasing energy savings, and improving health and comfort of its occupants, buildings are not yet recognised as a **critical infrastructure** and funds for renovation are not earmarked and allocated accordingly.

Promoting building renovation and nearly zero energy new buildings as viable **alternatives to increasing supply investments should be fully ingrained in the next funding period**. Dedicated building renovation programmes increase comfort, wellbeing and productivity of their occupants, reduce the energy consumption of the building stock, and can significantly cut outdoor air pollution. These programmes can be partly covered by EU funds, but to date funds do not target building efficiency upgrades at large scale and have a limited impact on leveraging private investments. Consequently, **opportunities for investments in demand-side infrastructure are ignored or not fully exploited**.

In Central, Eastern and South-East Europe (CESEE), much of the building stock is in poor condition, and large shares of the

population are exposed to the risk of energy poverty. The region is vulnerable to gas-supply disruptions and a recent BPIE analysis concluded that seven countries in this region are facing a significant risk should gas supply be reduced or interrupted [1]. Despite this risk, investment opportunities are currently underused and existing financial instruments (non-repayable grants for the large part) trigger very little private investment in building renovation. In the CESEC region<sup>3</sup>, the investment need is estimated at €81 billion within the next 20 years [1]. The use of public funds alone will not be sufficient to renovate the building stock, but a leverage factor of 5 to 6 on the base of the current financial flow volume for energy efficiency in the region would provide the necessary funding to make large part of the building stock highly efficient. Better mechanisms for an easier and more effective allocation could help to trigger higher investments in this area.

The MFF revision, therefore, should not be limited to a discussion around net beneficiaries, total cap of the future multi-annual budget and on the total amounts allocated to each programme and priority, but it should assess and revise eligibility conditions, accessibility, and availability of the funds. In the case of building renovation, funds should be easily available and accessible to local communities, cities, and municipalities, who are closer to citizens and know their local markets.

## FIVE PRINCIPLES TO DELIVER THE EU CLIMATE PRIORITIES (INCLUDING BUILDING RENOVATION)

1

### ELIGIBILITY AND CONDITIONALITY CONSISTENT WITH PARIS AGREEMENT FOR ALL FUNDS

All financial flows should be consistent with a zero-carbon trajectory and a clean energy development. This is particularly relevant for investments in the building sector, which account for 40% of the EU energy consumption and where 97% of the building stock should be upgraded to achieve high efficiency standards.

Access to funds should be proportionate to the country's national climate ambitions, its commitment to invest in low carbon projects and reduce investments in supply-side infrastructures (e.g. gas pipeline) in favour of projects delivering energy savings and Greenhouse Gas (GHG) reduction. All projects funded by the EU should at the very least not be detrimental to the achievement of its climate targets (fossil fuel subsidies, priority to road freight vs rail transport, etc.) and priority should be given to projects with a positive impact on the EU's 2050 objectives and which deliver co-benefits, like the

creation of long-term local, non-transferrable jobs and the alleviation of energy poverty.

Eligibility of funds focusing on reducing regional disparities (income, rural and urban development) and fostering cohesion, like the Cohesion Policy Funds, and funds for infrastructures and connectivity networks (e.g. Connecting Europe Facility), should be linked to the country's National Energy and Climate Plans (NECPs).

The Efficiency First principle should be systematically applied by introducing the requirement to provide a cost-benefit analysis comparing supply-side investments with demand-side alternatives (e.g. build new gas pipeline vs. investing in deep renovation to decrease gas demand). For example, the Connecting Europe Facility should be extended to demand-side investments replacing new network infrastructures.

<sup>3</sup> Including 9 Member States (Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Romania, Slovenia and Slovakia) and Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia (FYROM), Kosovo, Moldova, Montenegro, Serbia and Ukraine

## 2

### INVESTMENTS FOR DEMAND-SIDE INFRASTRUCTURE RECOGNISED AS A STRATEGIC PRIORITY

Clear political support for long-term energy efficiency investments and demand-side projects, such as building renovation, paired with valorising the importance of the co-benefits of these investments (e.g. reduce energy poverty, improve living conditions and wellbeing, productivity, free funds for other investments) will send a clear message to investors: demand-side investments are as important as more traditional supply projects.

Mirroring one of the recommendations of the EU High-Level expert group on Sustainable Finance<sup>4</sup>, a Sustainable Buildings Infrastructure Europe should be created to:

- Work directly with national and local authorities and financial institutions to facilitate the preparation of

bankable renovation projects;

- Establish regional hubs to facilitate the investments for building energy renovation by increasing the leverage effect of public funding and enabling a greater engagement of private financial institutions and ESCOs in the energy renovation market;
- Adjust the policy and regulatory framework to enable and facilitate energy efficiency financing;
- Address common barriers to investments in building renovation;
- Provide training and capacity building to overcome the lack of technical capacity and knowledge for project development and aggregation.

## 3

### ACCESSIBILITY AND AVAILABILITY

Understanding the availability and accessibility of the EU funds, their use for energy efficiency investments and building renovation and their ability to leverage private finance is essential to evaluate the impact of these investments. In the CESEE region, for example, only 4.35% (€3.96 Billion) of the Cohesion Policy Funds are allocated to demand-side infrastructure and over 94% of these funds are allocated as non-repayable grants [2]. There are multiple reasons for this situation, like the lack of knowhow and capacity for project

development, the limited project aggregation to incentivize private investments, the lack of resources within small cities and municipalities, etc.

Programmes should introduce specific rules to simplify the access to funds by promoting project aggregation and facilitating project development assistance for community-based projects, to allow cities and municipalities to aggregate proposals and obtain funds for renovation.

## 4

### FLEXIBILITY, AGGREGATION, AND BLENDING

Demand-side investments are usually 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 both public and private investors (especially small public administrations).

A lack of capacity for project development, combined with difficulties of structuring projects for attracting public and private investors are common bottlenecks for the allocation of funds. The lack of capital is often not the most pressing issue, many large-scale private funds are eager to find and finance

bankable projects, but the fragmented nature of the renovation market (at least until solutions to deliver high volumes of renovation are available) hinders their interest and ability to fund building renovation at large scale.

Changing the regulatory framework and the governance structure allowing flexibility in using and blending different funding sources would enable project aggregation (at regional, national or transnational level) and increase the opportunities to finance renovation across Europe.

<sup>4</sup> « Financing a sustainable European Economy », High-Level Expert Group on Sustainable Finance (2018) [https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf)

EU, national and local priorities and investment plans must pursue the same objectives and reinforce each other. Coherence across distinct levels of governments would help remove silos hindering effective governance and reduce red tape or heavy administrative requirements that impede an effective use of the funds allocated and could empower and support local administrations to develop platforms and solutions to enable them to work as part of a system, instead of individual entities.

Coherence could also reduce the risk of “unspent money”:

currently, funds that have been committed to the EU budget but which are not spent in the implementation of EU programmes are cancelled. The Commission estimates that around €21 to 28 billion<sup>5</sup> over 7 years could be put instead in a common reserve to be used to meet common priorities and challenges.

Finally, project results should be systematically monitored and evaluated to assess if they met the expected results and if they are aligned with the NECPS.

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<sup>5</sup> COM(2018) 98 final

## 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.



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The Buildings Performance Institute Europe is a European not-for-profit think-tank with a focus on independent analysis and knowledge dissemination, supporting evidence-based policy making in the field of energy performance in buildings. It delivers policy analysis, policy advice and implementation support.

Buildings Performance Institute Europe  
Rue de la Science / Wetenschapsstraat 23, B-1040 Brussels  
info@bpie.eu / www.bpie.eu / @BPIE\_eu