key recommendations for a local level-driven energy efficiency financial landscape

CITYnvest key message:
Local action at the core of financial framework

Recommendation 1: Awareness-raising & capacity building

> Recommendation 2: Technical assistance

Recommendation 3: Regional one-stop shops

 Recommendation 4: Long-term plans for CO₂ emissions reduction

Recommendation 5: Citizen-based initiatives

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ABOUT THE PROJECT: CITYnvest is an EU-wide initiative funded by the European Union's Horizon 2020 research and innovation programme, focused on supporting and replicating successful innovative financing models for energy efficiency renovations in buildings.

Preface

Important challenges lay ahead for improving access to finance at local level

Putting energy efficiency first is the underlying principle that will drive the Energy Union into the future and put Europe at the forefront of climate action. A combined effort of stakeholders at all levels of government is needed to deliver the objectives of the Union and implement the Paris Agreement. **A strong role for local governments is crucial for success**.

Many European cities already lead in clean-energy solutions and have joined local, EU-wide and global initiatives such as the Covenant of Mayors for Climate and Energy. However, **matching local ambition with appropriate and adequate financing presents a major challenge**. In its communication on Clean Energy for All Europeans published in November 2016, the European Commission brought forward proposals to tackle this issue by providing new opportunities to finance energy efficiency projects. The Smart Finance for Smart Buildings initiative is part of the package of measures, *responding to the need to mobilise and unlock private investment is key for a successful energy efficiency policy*.

CITYnvest is an EU-wide initiative funded by the European Union's Horizon 2020 research and innovation programme. For the last three years, CITYnvest has been supporting European local authorities in implementing innovative financial models for energy efficiency building renovations. Through on-theground experience in three regions (Murcia (ES), Liege (BE), Rhodope (BG)) and a large-scale capacitybuilding programme in 10 countries (Italy, Romania, Latvia, Lithuania, France, Hungary, Belgium, Spain, Bulgaria, and the Netherlands), barriers linked to governance/regulatory framework, technical know-how or the financial and political environment have been analysed and key recommendations formulated.

With this publication, CITYnvest proposes evidence-based recommendations with the aim of improving the energy efficiency financial framework from a local authority's point of view. This booklet summarises the **key messages** CITYnvest aims to pass **to decision & policy makers** at the EU, national and local levels.

CITYnvest and Smart Finance for Smart Buildings

The European Commission's communication on Clean Energy for All Europeans highlights the *Energy Efficiency First* principle, and establishes the Smart Finance for Smart Buildings initiative. The Initiative includes practical solutions to further unlock private financing for energy efficiency and renewables in buildings.

CITYnvest considers Smart Finance for Smart Buildings a welcome step towards a clean energy transition led by the local level. With this publication, key unsolved issues are addressed and proposals for improving actions under the Smart Finance for Smart Building pillars are proposed.

Pillar 1 More effective use of public funds

Encouraging more effective use of public funds, including through the development of flexible energy efficiency and renewable financing platforms to boost the combination of the European Fund for Strategic Investment and other public funds, including European Structural Investment Funds;

Pillar 2 Assistance and aggregation

Helping project developers bring good project ideas to maturity with more project development assistance and aggregation mechanisms;

Pillar 3 De-risking

Making energy efficiency investments more trusted and attractive for project promoters, financiers and investors.







CITYnvest key message Put local action at the core of the energy efficiency financial framework

In order to unlock the tremendous potential of energy savings in the building sector in the European Union (EU), and to be able to **use public funds more effectively** and **leverage private investments**, the use of financial instruments can be increased by combining public funds with private investments. Private investments are indeed available in large amounts, but are often underexploited.

The increase in public/private funding for project development assistance under the Smart Financing for Smart Buildings initiative is a welcoming step in the right direction that should be followed by further actions to ensure that the funds actually reach the local authorities, which need them the most. Yet, the **existing support schemes exclude smaller investments** and discourage some local authorities from applying due to their **specific conditions and complicated procedures**.

Many local authorities are ready to facilitate the implementation of innovative financing schemes for energy efficiency refurbishments. At the same time, EU funds can support risk- capital investment in areas where local resources are limited. However, **local authorities often lack the necessary in-house capacity and/or are not aware of the support they could receive** to get started with investment projects.

In order to overcome these barriers, CITYnvest calls on EU, national and local decision & policy makers to promote the better use of existing funds, reaching the local level via **financial instruments**, increasing **technical assistance** and **capacity-building** programmes.

First recommendation to the **EU policy makers** in the area of **awareness raising & capacity building**:

Reinforce awareness-raising & capacity-building initiatives to accelerate take-up of existing funds



BARRIER: TECHNICAL KNOW HOW

Realising investments in Energy Efficiency requires expertise and know-how to create sustainable project pipelines. Public funds made available by the EU and the Member States can be a valuable support to local authorities. However, there is too little awareness and understanding of the financial support that the EU can provide to local authorities to mobilise investments in energy efficiency. On one hand, there is a big gap between the European Commission's offer in terms of "off-the-shelf" financial instruments, such as Urban Development Funds, and the local authorities' knowledge of these instruments. On the other hand, there are multiple national interpretations on the purposes and accessibility of EU funding, preventing the best exploitation of EU resources at the local level. Furthermore, many local authorities consider that the procedures to apply for EU funding (especially Horizon2020) too complicated and costly to make an application worthwhile, as well as presenting language barriers (most programmes are in English).

POSSIBLE SOLUTIONS

At the EU level, more resources for developing capacitybuilding and awareness-raising programmes should be made available. These should be also directed to support a standardised interpretation for the allocation of EU funding, avoiding different understandings at local level.

Channels like the Covenant of Mayors should be provided with more resources to develop tailor-made programmes and develop new tools, methods and best cases examples to support local authorities in the different Member States in the local languages and promote more effective use of the pubic funds available in each region.

At the same time, information services already available, such as the European Investment Advisory Hub and the Financial Instruments Advisory "Fi-Compass", should be enlarged and could be coupled with specialised national/ regional competence centres that act as national/regional market facilitators, able to provide support and advice to local authorities in the different EU's languages.

Example supporting this recommendation

Via the capacity building programme organised by CITYnvest, local authorities in key EU countries such as **Hungary, France, Italy, Romania** and many others became aware of the possibilities offered by EU funds. They have shown interest in using these funds to launch innovative financing schemes for energy efficiency projects. Without CITYnvest efforts toward local authorities, it would have been difficult to raise such great interest in innovative financing schemes.

Second recommendation to the **EU policy makers** in the area of **technical assistance**:

Further adapt support schemes to local realities with a small-scale technical assistance facility



BARRIER: **REGULATORY/GOVERNANCE**

Launching innovative financing schemes often requires an increase in local authorities' expertise. Technical assistance has been identified by cities as an important tool for increasing capacities to implement energy efficiency investments. However, there are **three key aspects** that need to be taken into account to ensure that current technical assistance facilities reach the local level:

High investment volumes required for an ELENA grant are a challenge **for smaller municipalities** and for Member States where project aggregation is in practice impossible in the **absence of a coordinating provincial or regional authority.**

Competitive calls for proposals with the same conditions as other Horizon 2020 calls, based on which project development assistance (PDA under H2020 Energy) can be granted to local authorities, **does not meet local authorities' needs, resources and decision-making processes.**

Pre-studies needed to prepare **technical assistance applications are expensive** and local authorities often lack the right skills and expertise to prepare the applications on their own. This is especially relevant considering that European Local Energy Assistance (ELENA), Project Development Assistance (PDA) and European Energy Efficiency Fund (eeef) **applications can be only submitted in a limited number of EU languages**.

POSSIBLE SOLUTIONS

The establishment of a small-scale (pre)technical assistance facility with the aim of supporting local authorities in carrying out studies and preparing applications for the existing technical assistance facilities could help in overcoming these barriers. Such an instrument could be similar to the Technical Assistance grants under the LIFE programme, and should allow applicants to prepare proposals in their local languages using a system similar to the Urban Innovative Actions initiative.

Here again, specialised national/regional competence centres acting as intermediary technical assistance facilities could be valuable solutions to facilitate and accelerate access to EU technical assistance facilities, address national barriers and flag them at the EU-level.

Example supporting this recommendation

Thanks to CITYnvest, local authorities in the **Rhodope region** have joined forces and submitted a successful application under the H2020 PDA. CITYnvest, acting as a kind of pre-technical assistance, played a key role in supporting the municipalities in developing a detailed action plan and giving local authorities the opportunity to receive advice from experts, carrying out technical studies and developing a business plan for a local onestop shop.

Third recommendation to **National Governments** in the area of **regional one-stop shops**:

Dedicate resources at the National level to the set-up of regional one-stop shops that provide integrated energy efficiency service packages



BARRIER: FINANCIAL/REGULATORY

Realising project aggregation requires coordination structures at the regional level that are able to connect different local authorities to the financial market. Regional one-stop shops for energy efficiency investments are being developed in several EU regions to promote bundling and project aggregation. Still, **setting up such structures requires financial resources** to employ people with the right skills and train personnel, and also requires measures to **remove regulatory barriers** that make the use of financial resources (when available) difficult.

Example supporting this recommendation

Many models identified in the CITYnvest comparison report act as one-stop shops for energy retrofits that provide support to local authorities. Many of them have largely demonstrated their ability to create large-scale energyefficiency investment programmes. Through the CITYnvest capacity-building programme, local governments in several EU countries became aware of the benefits of these innovative financing models and showed interest in replicating them. For instance, local governments in EU Baltic countries (Latvia and Lithuania) became aware of the benefits of the **GRE Liege** model, one of the CITYnvest pilot regions, and became interested in replicating the model. At the same time, regional authorities are lacking resources to get started and fully replicate these models. Next to the lack of financing, in countries such as France, the complexity of EU state aid rules has represented a major challenge in the ESIF support to launch energyefficiency renovations in social housing, via for example one-stop shop structures. National support schemes could be game changing in this replication exercise.

POSSIBLE SOLUTIONS

At the national level, Member States should allocate more resources and best practices databases for the set-up of regional one-stop shops that provide integrated energy efficiency service packages to cities' authorities and support preparation of renovation projects, aiming at higher levels of investment in energy-efficiency retrofits.

National support schemes should complement existing technical assistance facilities at the EU level and should better support the replication of financing solutions for energy-efficiency projects developed in the frame of projects funded via H2020 PDA, eeef and ELENA.

Member States should include upfront local authorities in the preparation of operational programmes to make sure to tackle the most pressing needs and to allocate the right resources via European Structural and Investment Funds (ESIF) to the set-up of one-stop shops that promote project aggregation. When preparing the ground for a better use of ESIF, particular attention should be paid to the application of public procurement rules and state aid laws, which can result in a very complex on-the-ground implementation.

To complement the resources available via ESIF, Member States should develop specific national climate measures (financed, for example, by carbon prices, such as those in the Emissions Trading Systems schemes) to support the setup and running of regional one-stop shops and to provide further assistance to local governments in the preparation of their energy-efficiency investment projects.

Fourth recommendation to **National Governments**, **Local Governments** in the area of **clear commitment & long-term plans**:

Commit to clear CO₂ emissions reduction targets and prepare long-term plans and programmes to meet the targets



BARRIER: POLITICAL

It is important to have a long-term strategy in place when renovating the building stock. This is particularly relevant when aiming at attracting private investors and contributing to the local economy in terms of employment and market opportunities. **Lack of long-term plans** and **clear political commitment** can indeed discourage private investors from financing projects with longer-term return on investment periods (typically energy projects). At the same time, the lack of clear ambitions, structured implementation plans and certified monitoring systems often leads to "silo" approaches and scattered investments projects using (limited) public available funds in an inefficient way.

POSSIBLE SOLUTIONS

At the national level, ambitious energy-efficiency and energysaving targets, accompanied by systematic implementation plans, will help unlock private investments and promote a better use of public funds. National targets and plans should be built on available local plans, and should ensure re-scaling of good local practices via planning and reporting systems whereby Member States must ensure that barriers hampering local actors in delivering the energy objectives are identified, addressed, and removed.

At the local level, joining initiatives such as the Covenant of Mayors formalises political commitment and encourages city authorities to adopt certified and verified plans and monitoring systems, providing a guarantee to the private market of the city's long-term involvement in sustainable

Example supporting this recommendation

CITYnvest pilot **region Murcia** joined the Covenant of Mayors as Coordinator in 2013, supporting the 45 cities that have signed the Covenant in the region. In this role, Murcia has been able to join several projects, such as ELENA-Fuensanta, which has mobilised investments for some EUR 33 million (mostly in public lighting). Through CITYnvest, Murcia has developed an investment action plan, fully integrated in the regional Sustainable Energy Strategy, for the refurbishment of all public buildings owned by the regional government. Setting long-term plans, the Murcia region has been able to access EU funds and support cities and municipalities in the Region technically and financially in the implementation of sustainable energy projects in a coherent and structured way.

Long-term plans and strong attention to ensure a socially responsible procurement process (e.g. training clause, fight against social dumping, restrictions on sub-contracting) has led **GRE Liege RenoWatt Agency** to success. Promoting energy retrofits as a financial opportunity to meet ambitious EU targets while at the same time boosting local employment, GRE Liege has been able to launch EPC's contracts for several local authorities and hospitals in the region.

energy actions. Moreover, cities with an approved Sustainable Energy and Climate Action Plan (SECAP) can have direct access to dedicated funding lines, such as Horizon2020 Smart Cities and Communities.

Fifth recommendation to the **Local Governments** in the area of **citizen-based initiatives**:

Creating a positive environment for innovative citizen-based financial models by improving collaboration between local authorities and renewable energy cooperatives



BARRIER: REGULATORY

Renewable Energy Cooperatives (REScoops) provide a unique instrument to finance energy efficiency projects via direct citizen contributions. REScoops provide several benefits to local authorities, both monetary and social. These social benefits are, however, often not recognised and are not taken into account in **tendering processes**. Moreover, **the lack of a regulatory framework** to encourage local authorities to team up with REScoops does not support the wide replication of this model.

POSSIBLE SOLUTIONS

Cities should increase citizen participation in sustainable energy projects and should use specific criteria e.g. through the Call for Tender procedure to recognize the value of cooperative market players. Criteria should encourage local REScoops to participate and should highlight non-financial benefits, too.

Example supporting this recommendation

Several local authorities in Belgium are teaming up with **REScoops** to mobilise investments in sustainable energy projects. In several parts of the country, local authorities are proactively promoting citizen participation in energy projects to ensure a balance between policy interests (people, planet, profit), and the interests of private developers (mainly profit). The province of East Flanders, for example, encourages at least 20% direct citizen participation in energy projects. Following this, the municipality of Laarne has decided that new energy projects in their municipality should be open to at least 50% direct participation by citizens. The same trend is occurring in in some parts of Wallonia, where this rate reaches 50%.

EU Statistics

Buildings are responsible for

40% of energy consumption







75% of our building stock has been constructed with close to zero performance codes

75 - 90%

of it will still 2050 be there by

36% of CO₂ emissions in the EU.



Europe 2030 climate target imply

less 80% energy consumption in buildings in the long term, requiring investments with long investment ranging from 20 to 40 years.



CITynvest project results







157.563.000 euros investments

in sustainable energy in three pilot regions triggered thanks to CITYnvest



Local authorities involvement

(650 local authorities in 10 EU countries)

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