



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
REGIONAL POLICY

MEETING OF THE COORDINATION COMMITTEE OF FUNDS

**Technical meeting on sustainable energy and presentation
of the Commission Communication on sustainable growth**

23 March 2011

Summary Report

Introduction

The **aim of the technical seminar on sustainable energy** held on 23 March 2011 was to briefly **present the recently adopted Communication on "Regional Policy supporting sustainable growth in Europe 2020"**¹, and to discuss with Member State representatives how the Commission can further **support programme implementation and stimulate the development of high quality projects in the area of sustainable energy**.

The January 2011 **Communication on Regional Policy contributing to sustainable growth** sets out the role for Regional Policy in contributing to the implementation of the Europe 2020 strategy², and in particular to the flagship initiative "Resource Efficient Europe"³. Given the current fiscal situation in the Union and the substantial funds still available under the current Cohesion Policy 2007-2013 programming period, this Communication calls on Regional Policy stakeholders to act without delay, invest more in sustainable growth, and use funds more effectively. It recommends that regions and cities should accelerate investments in renewable energies (RES) and energy efficiency (EE), including seizing the new opportunities available for energy investments in buildings, in particular when it comes to using revolving funds for investments in this sector, and provides good practices.

Indeed, investing along Europe 2020 and achieving its objectives is in the interest of all EU regions and cities and for their benefits in terms of competitiveness, jobs, growth, innovation, secure energy and protected environment. That is why managing authorities need to act now, **using the flexibility in the programmes to increase their impact on environmental protection, climate action, energy efficiency and eco-innovation**. The seminar could thus be considered as a call to action now as well as early preparation for the next financial period, encouraging Member States to **use the scope still available in current programmes and at the same time start to lay good foundations for future ones**.

As to the implementation so far, there are **still substantial funds available** from the EUR 105 billion allocated for sustainable growth activities overall in the current period, including from the EUR 9 billion allocated for sustainable energy investments. The **Communication on Strategic Reporting 2010**⁴ showed that the overall level of selected projects in the area of **sustainable energy** stood at 15 % vs 27 % (European average rate of selection) for Cohesion Policy as a whole, reflecting the situation on the ground in September 2009. There were **significant variations** in the allocation rates **at Member State level**, as well as **between the different categories** of expenditure. Overall, implementation in the area of RES was lagging behind (10%), in particular the area of wind energy (3%), while implementation in the area of EE progressed somewhat better (20%). See Annex I for some possible reasons for the delays.

¹ COM (2011) 17 final 26.1.2011, with the accompanying Commission Staff Working Document, SEC(2011) 92 final

² COM (2010) 2020 final, 3.3.2010

³ COM(2011) 21 final, 26.1.2011

⁴ COM(2010)110 final, 31.3.2010. The Commission is aware that the data reflect the situation on the ground some 18 months ago and that, by now, the implementation situation may have changed radically in a number of Member States. The reports on activities up to end 2010 (due in end June 2011) will provide complementary information on implementation progress.

Covenant of Mayors Sustainable Energy Action Plans translated into action with the European Regional Development Fund

The presentation from **Abruzzo, Italy**, gave a concrete example of the synergies between the Covenant of Mayors⁵ and the European Regional Development Fund, showing how the development of the municipal Sustainable Energy Action Plans (SEAPs) required under the Covenant could lead to a more strategic use of the ERDF. For this reason, it is important to plan for the corresponding availability of funds in the medium to long term, in order to ensure the further development and implementation of the SEAPs and, ultimately, the achievement of the objectives linked to the Covenant of Mayors. The importance of identifying the right players was also stressed, as this will allow for quick and appropriate action. The Abruzzo region also intends to apply for ELENA⁶ funding later on, as the energy audits will be available and the buildings refurbishment projects prepared. As the nature of the market for sustainable energy in buildings includes so many actors, including public authorities, SMEs and households, a territorial approach was deemed very useful.

Renewable energies driving local development

The presentation from **Burgenland, Austria** showed how European regional funding has been used particularly effectively in the field of renewable energy, and in a highly interactive and innovative environment, has been able to have a multiplier effect, which has leveraged the total funding from the ERDF in the Burgenland energy sector despite a relatively low volume of funding. The long-term strategy of achieving energy self-sufficiency in Burgenland based on renewable energy sources relies mainly on the four action areas of biomass, wind power, photovoltaic and related research. The proportion of ERDF financial support in the total investment in renewable energy sources in Burgenland is low, but it has become more important due to the strategic application of the funds. ERDF support has helped to plug gaps in financing, partly due to private contributions and partly due to the mobilisation of national or regional co-financing.

This is an excellent example of 'smart specialisation', as suggested in the Communication "Regional Policy contributing to smart growth in Europe 2020"⁷. This Communication recommends to national and regional governments to design 'smart specialisation strategies'. Regions are the key actors in developing technology clusters as well as R&D and innovation, which can be perfectly suited to the energy needs of their specific region. The Burgenland example involves a holistic approach and a search for complementary activities within the promotion of renewable energy sources, such as promotion of training and research, expansion of ecotourism, industrial policy stimulus of SMEs and financial support for photovoltaic high-tech. The readiness to cooperate between various stakeholder groups has been harnessed through timely coordination related to their interests and this has allowed for relatively conflict-free mobilisation of natural resources.

The local and regional commitment at scientific, economic, and above all, political level is ultimately the actual breeding ground for successful implementation of the

⁵ http://www.eumayors.eu/home_en.htm

⁶ http://www.eib.org/products/technical_assistance/elena/index.htm?lang=en

⁷ COM (2010) 553 final, 6.10.2010 with the accompanying Commission Staff Working Document, SEC(2011) 1183 final

programmes. From this viewpoint, the partnership element is the most important of all. With centralised allocation of funds from Vienna – or Brussels – it would have been far more difficult to understand the energy policy potential of the region, motivate key people for the implementation at scientific and local policy level, and convince the wider population about the strategic importance. Although there was already great awareness about the renewable energies issue in Burgenland a long time ago, it is mainly local commitment and a small steps policy which has put an energy policy strategy into practice.

Over a period of some 15 years, the region has been transformed from a state of economic decline to a thriving, forward-looking area, with new companies and new jobs. This was illustrated for example by the town of Güssing, with more than 50 new companies and more than 1 000 new jobs created, coupled with a substantial growth of the revenues from the communal tax in the municipality between 1990 and 2006.

Energy efficiency and renewable energies in buildings

The main piece of EU legislation in the buildings sector is the **Energy Performance of Buildings Directive, EPBD**, the recast of which was approved by the European Parliament in May 2010. The recast aimed to set tougher efficiency standards to help the EU to meet its 2020 goals and help European consumers to cut their energy bills. The new directive requires all new buildings to comply with high energy-efficiency standards by the end of 2020. Public authorities will assume a leading role here, as they must implement the new requirements two years earlier than the private sector. The energy performance of existing buildings will also have to be improved when major renovations are made, provided that the improvements are cost-effective. The new directive extends the scope of application and covers now almost the entirety of the EU building stock, whereas before only large buildings above 10 000m² were covered. Also, its most visible provision, the energy performance certificate, will need to be strengthened.

The new **Energy Efficiency Plan 2011**⁸, adopted in March 2011, also stressed the need for **public authorities** to set a leading example and envisaged to double the current rate of renovation of public buildings, up to 3%, a proposal which will still need to be finally endorsed by the Council and the European Parliament. Regional Policy can support the public authorities in this task. Moreover, to respond to the economic crisis, the ERDF regulation⁹ was amended in May 2009. Up to 4% of national ERDF amounts can now be invested in EE and RES in **residential buildings** throughout all the 27 Member States, so as to support social cohesion. Such investments have potentially multiple benefits in terms of local jobs and growth, tackling energy poverty and enhancing energy security. Furthermore, a second regulatory amendment¹⁰ came into effect in June 2010 to clarify the eligibility and use of financial engineering instruments to promote sustainable energies in buildings, including residential buildings. In this way, Regional Policy encourages public-private partnerships tailored to the specific market needs in this sector. A combination of grants and revolving funds can be developed in collaboration with financial institutions to set up regional support schemes. About half of the Member States

⁸ COM(2011) 109 final, 8.3.2011

⁹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:126:0003:0004:EN:PDF>

¹⁰ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:158:0001:0006:EN:PDF>

have so far made use of the amendments, and the overall additional allocations on EE, RES and housing in those countries are some EUR 320 million, see Annex II. Nevertheless, it is clear that Member States that do not use the ERDF for EE and RES refurbishments, be it in residential or public buildings, might well use other funds at EU or national level in order to promote EE and RES. This is the case, for example, in Denmark and Austria.

The presentation from **France** showed that the 4% ceiling for ERDF investments in EE and RES in **housing** has now almost been reached at the overall national level (in the planning, not implementation on the ground), corresponding to some EUR 230 million (not including the Overseas Departments and Territories).

Out of the 4 million social housing dwellings in France, the target is to refurbish 800 000 over 10 years. In the current programming period, some 80 000 dwellings will be refurbished with ERDF support (i.e. corresponding to 10% of the 10-year target), in principle, targeting the worst buildings in terms of energy efficiency first.

It is up to the regions, but mainly grants have been used, with an average ERDF contribution of EUR 3 200 per dwelling, corresponding to around 20% of the cost. However, a performance criterion has been used, so that the better the energy performance improvement is, the higher the ERDF co-financing rate. The public co-financing sources are a specific green loan from *Caisse des dépôts et Consignation*, national and regional subsidies. Based on local feedback, for the tenant, the rent could be slightly increased because of the investment, but the heating fees have been diminished with 40% on average, so the tenant is a beneficiary in the end.

The important mobilisation and leverage effect of ERDF was stressed. By March 2011, the total investments represented some EUR 769 million, corresponding to five times the committed ERDF amount.

On the basis of the commonly accepted ratio of created jobs versus amount invested, it could be estimated that between 11 000 and 14 000 local jobs have been created or maintained by the renovation projects supported by the ERDF, and it had been observed that the work was mainly carried out by local SMEs, i.e. generating jobs that cannot be delocalised.

Greece has chosen to make use of the second regulatory amendment mentioned above, in relation to financial engineering instruments under Article 44 (c) of the General Regulation, by establishing a revolving fund to provide repayable assistance for EE in **housing**. The programme had been designed with the aim to stimulate citizens to make intervention to their buildings of an integrated character that will allow for CO₂ emissions and energy needs reduction.

The new Fund "*Eksikonomo kat' oikon*" was established in July 2010, with a total budget of EUR 241 million funded by ERDF and national public funds, and with TEMPME, a public financial institution, as fund manager (holding fund). Subsequently, a funding agreement was signed between the Greek Government and TEMPME in August 2010, including a donation of EUR 396 million. A call through the Hellenic Bank Association, widely publicised across EU27, was launched in October 2010 and four banks were selected as intermediaries, with contracts signed in January 2011.

Eligible houses should be built before 1 January 1980, be used as main residence, be located in areas with maximum cost of EUR 1 750 per m², and be in the energy performance class D or worse. The maximum eligible budget per owner is EUR 15 000. Low-income households can benefit from flat interest loans and a 30% grant, medium income households from low interest loans and a 15% grant, while higher income households only benefit from low interest loans. For all three income household categories, the fees for both energy inspections (ex ante and ex post) will be covered at 100% from the programme, provided that the application has been approved and the energy targets set forth therein have been achieved.

The launch of the fund was accompanied by an intensive publicity campaign, resulting in 92 000 unique users of the web site, 49 000 telephone calls and 650 e-mails to the helpdesk by mid March 2011. By mid March 2011, almost 15 000 loan applications had been received, of which some 9 000 had already been approved or were still pending (and some 6 000 had already been rejected).

Two energy inspections are carried out, ex ante with a proposal for interventions with cost analysis, and ex post with a verification of the implementation of the interventions and the energy saving results. By mid March 2011, 1 459 energy performance certificates had been issued and 1 769 were pending.

Depending on the results of the first round, there will possibly be a second round later on.

Problems encountered included the long period for programme maturity due to difficulties by all players to adapt to its philosophy and parameters, a perceived reluctance as to the attractiveness of the financial engineering scheme, an identified need for shaping an energy “culture” to citizens, and the complexity of the building sector.

Choosing to move away from a previous government grant scheme, **Lithuania** makes use of the EU's JESSICA financial instrument to support renovations for energy efficiency in **housing**. 66 % of the Lithuanian population lives in multi family buildings built before 1993. Most are in poor condition, lack proper management and display inefficient heating systems and engineering equipment, poor quality windows, roofs, and seals between panels. During privatisation, only the apartments were privatised, but not the buildings as such. 97% of the apartments are privately owned, and only 3% is municipal rental stock.

The JESSICA holding fund set up in Lithuania, developed by the European Commission, the EIB and the Council of Europe Development Bank (CEB), amounts to EUR 227 million, with EUR 127 million coming from the ERDF and EUR 100 million from national co-financing. The first contract between the EIB and a financial intermediary was signed in June 2010.

The fund provides long-term loans, up to 20 years, with a two years grace period (during construction) and a fixed 3% interest rate for the implementation of all modernisation measures, including such energy efficiency measures as the replacement of windows and external doors, fitting insulation and installing renewable energy technologies. Additionally, 100% of costs incurred in preparing technical renovation documentation are reimbursed, and 15% of the loan is written-off if a certain energy efficiency level has been achieved upon completion. As to low

income families, 100% of reimbursement of instalments can be granted. No collateral is needed.

The number of eligible apartment blocks in Lithuania is 24 000. The estimated cost to renovate one apartment block (60 apartments of 50 m² each) is EUR 290 000. After the modernization, one house would halve energy consumption and save 125 MWh a year.

Home-owner associations act as project proponents, and the establishment of such associations was deemed important for the success of the scheme. Commercial banks, acting as Urban Development Funds (UDFs), assess creditworthiness, award and administer loans. By mid March, agreements with three UDFs had been signed, and this had resulted in three signed loans with home-owner associations. So far, 71 home-owner associations had decided to join the programme and 31 investment projects had been vetted by Housing and Urban Development Agency (HUDA). Five applications were currently under review by UDFs.

A number of challenges had been identified during the negotiations with the UDFs, including possible state aid issues (as to shops, dentists, etc. on the ground floor level, the *de minimis* rule could normally be applied), the legality of personal data handling, turning the apartment owners into borrowers (possibly) against their will, and as a consequence the questioning of the constitutionality of the entire scheme.

The initial demand had been somewhat disappointing and the major challenge now is to overcome the distrust and to restore confidence in government-sponsored programmes generally. Some of the challenges with the new approach, as compared to the previous grant scheme, included a general aversion to borrowing during an economic downturn, suggesting that the self-financing part could in fact possibly be matched with grants to a larger extent. However, the Lithuanian authorities judged that a frequent change of model and conditions would risk creating further distrust and might be counter-productive and had thus concluded that it would not be wise to change anything at this stage.

The three examples above, in France, Greece and Lithuania, all showed different ownership structures and it was clear that the schemes developed needed to take this, as well as other different circumstances, into account.

The Greece and the Lithuanian models both aimed for around 40-50% of energy savings. At the same time, certain examples from Germany and Hungary show that 50-70% of savings would seem cost-effective. Under the EPBD, a "cost-optimal methodology" is currently under development. Pending the finalisation of this methodology, foreseen for 2013, the general advice of the Commission's Energy Directorate-General is to carry out all the improvements which seem economically feasible, since the buildings will normally not be renovated again for a long period of time.

In this context, it was emphasised that it is important to take an integrated approach and not carry out energy efficiency improvements in isolation, but rather consider them as part of a general refurbishment leading to the overall improvement of a particular area. There is thus a big advantage in carrying out this kind of work within a territorial approach linked to regional and local development.

EBRD support to prepare terms of reference and system for a call for energy efficiency and renewable energies for enterprises

As to EE in businesses, the presentation from the European Bank for Reconstruction and Development (EBRD) on the **Bulgarian** Energy Efficiency for Competitive Industry Financing Facility (BEECIFF) gave an example on how a support scheme can be set up. The BEECIFF is a financing vehicle created by the Bulgarian Ministry of Economy, Energy and Tourism and the EBRD to promote energy efficiency investments among Bulgarian enterprises.

Based on a Memorandum of Understanding between the two parties signed in March 2011, the facility combines EBRD's credit lines and grant financing from the ERDF (OP Competitiveness). This is a pilot project that brings together a number of innovative elements. The Ministry will leverage substantially the ERDF with private sector funding (both commercial lending and SMEs own funds). The financial creditworthiness assessment will be 'delegated' to the local financial institutions. In case of more complex projects, the technical appraisal will be entrusted to local energy auditors (registry of auditors) and cross-checked by a project assistant who will be part of the Evaluation Committee in the Ministry. This exercise should lead to the establishment of a sustainable model of operation between the SME sector, energy auditors and local banks. If this is successful, this scheme may become a highly replicable model for other OPs and also in other Member States.

The scheme envisages two approaches: 1) A technology-driven approach for small-scale energy efficiency projects: To be eligible for financing, projects must consist of the acquisition and installation of equipment specified in a list of eligible materials and equipment. 2) An energy audit approach for larger and more complex energy efficiency projects: To be eligible for financing, each project will be analysed and screened against a set of requirements related to the ownership, type of activities, technical parameters, energy savings, environmental impact and financial viability.

Bulgaria confirmed their readiness to possibly host a workshop before the end of 2011 (when the scheme should become operational) for all interested managing authorities to go through both the details of the scheme and the experiences with the process of setting it up.

Conclusion

Concluding the seminar, the Chair stressed that, as had been clear from the presentations, many cities and regions have already clearly demonstrated the value added of structural funds investments into local and regional sustainable energy. It is now up to all the different actors involved to build on the central messages of the Communication and those good practice examples to design their own sustainable development path in all of the regions.

Over the course of the seminar, several examples of national, regional and local authorities doing pioneering work were given, which should be able to inspire other regions to invest more in sustainable energy and reassure them that such investments really can bring excellent results for their area.

In general, the Commission is working on a bilateral basis with each Member State to address the specific issues that have arisen with a view to reinforcing the rate of

implementation. In relation to sustainable energy priorities, the services of the Commission responsible for Regional Policy and for Energy are working closely together to promote the take up of energy allocations under Cohesion Policy.

Finally, as the attention is now geared towards the future Cohesion Policy and given the long lead time and complex planning for investments in sustainability at local and regional level, it is crucial to underline that the steps taken now towards the Europe 2020 objectives will make future programmes and projects easier to deploy.

Background on implementation delays and constraints in the area of energy

The Strategic Report identified difficulties in mobilising Cohesion Policy allocations in certain specific areas. However, this does not mean that it is impossible for these resources to be used effectively, as is demonstrated by the fact that in each theme there were Member States that had higher than average rates of project selection. In general, the main reasons for slow project selection are:

- Lower demand for certain types of measures due to the economic recession;
- Constraints on national sources of co-financing;
- Delays in preparing projects that conform to EU State aid, environmental or procurement rules;
- Delays in the preparation of major infrastructure projects on the ground;
- Insufficient administrative capacity in certain managing authorities.

In relation to progress with energy priorities, the more specific constraints appear to be linked to:

- The increase of allocations related to energy, mainly under the ERDF, since the previous period, 2000-2006, which has not always been accompanied by clear implementation strategies.
- Energy strategies and plans are, in a number of Member States, in need of revision or are currently being revised. Therefore, lists of projects have been insufficient, and major projects announced have not been ready. This has often involved delays in preparing state aid approval.
- The priority given at EU level to energy issues is not always reflected at local, regional and even national level.
- There is a lack of flexibility in some administrations. This affects possible financial reallocations between implementing institutions or between categories of expenditure within the energy sector from less successful ones to the ones in high demand.
- Lack of capacity reflected in understaffed / under skilled administrations; calls for proposals requiring energy audits are made when insufficient number of energy auditors is unavailable; unfamiliarity in managing authorities with financial engineering mechanisms; complexity of permits systems; inappropriate incentives; unclear legislation and contractual frameworks.
- As to RES, the Commission is also aware that success in the production of energy from RES relies largely on having an appropriate economic, fiscal and administrative framework conditions (e.g. sufficient feed in-tariffs).

Background on the take-up of the regulatory amendments

As to the first amendment, the 4% ceiling was a theoretical maximum rather than a target. While there was no "new money", the first amendment added a potential EUR 8 billion to the allocations mentioned above, to the extent that the original allocations did not cover EE/RES in housing planned in EU-12. Realising increased allocations to EE and RES depends on the extent to which Member States choose to use these new possibilities. Reallocating funding implies that EU funds are:

- reduced in another unrelated area, or
- funding is reallocated within the existing EE / RES categories.

It is not possible to estimate an overall amount that will be finally allocated to EE and RES in residential buildings for the EU as a whole. The Commission is aware of the following:

- EE and LV were active in this area already from the outset of the period (which was possible in EU-12).
- Activities in this area triggered by the regulatory amendments are being undertaken in BE, BG, EL, FR, IT, LT, MT, NL, PL, PT, and UK.
- Currently, we understand that HU is also considering taking action in this area, and possibly also some parts of DE and ES (NB: to a very limited extent; considerations reported in Hessen and Nordrhein-Westfalen (DE) and the Basque Country (ES)).

In many cases, the focus is both on EE and RES, and in some cases on EE only.

The Commission is aware that some Member States are proceeding with mid-term reviews of their programmes and might still decide to reallocate additional funds to this area. On the other hand, the Commission is also aware that some Member States will most probably not use any ERDF funding for this purpose in the current period. This can be for several reasons, including

- the choice to rely on functioning national or regional schemes already in place, and
- the fact that the overall ERDF funds are already allocated to projects so that the amendment came too late in order to be able to re-programme. In some competitiveness regions, large scale investments in EE and RES in the housing sector are not seen as possible due to the limited resources in the programmes.