

FINANCING OPPORTUNITIES IN ADDRESSING ENERGY POVERTY

POLICY BRIEF

AUTHORS
ANDREEA VORNICU
MARIA POZSAR



All rights reserved. The content of the work created by Center for the Study of Democracy and the work itself are subject to Romanian copyright law. Third party contributions are marked as such. Duplication, revision, distribution and any kind of use beyond the limits of copyright require the written consent of Andreea Vornicu, Center for the Study of Democracy. The duplication of parts of the work is only permitted if the source is mentioned.

Imprint Publisher: Center for the Study of Democracy

Strada Minerilor, nr. 85, Sala 302 400132 Cluj-Napoca, jud. Cluj,
România

+40 264 431 505

jiglau@fspac.ro

<https://www.democracycenter.ro/>

Authors: Andreea Vornicu (Center for the Study of Democracy) and Maria Pozsar (Center for the Study of Democracy)

Photo credits: iStock

© 2021 Center for the Study of Democracy

Financing opportunities in addressing Energy Poverty

Policy brief

For achieving the targets included in the LTRS (LTRS, 2020), which aim to increase the pace of renovation from 0,69 to 3.39% by 2030, with the ambition to maintain a constant pace of 4% by 2050 and rehabilitate more than 40% of the multi-family building blocks, there is a need of more than 12 billion Euro for the 2021-2030 time framework. Same strategy indicates that 3 billion Euro are needed only to rehabilitate the lowest energy performance buildings.

While the financial prognosis asks for large amounts of money, there are both European and national instruments that can be accessed by the national and local authorities, and in some cases by the individuals, and used for thermally rehabilitating the residential sector.

In terms of European instruments, there are several funds available including the Recovery and Resilience Facility, the Next-Generation EU and the Just Transition Fund. These mechanisms are adapted to the European priorities of renovating the inefficient building stock as one of the means for achieving the carbon neutrality in 2050 and supporting the green economy paradigm. Among these instruments, there are also the Structural and Investment Funds, mechanisms already used by national and local authorities. If it is to make a list of the most important mechanisms, there are 9 important funding instruments that can be used for thermally rehabilitating the Romanian residential stock and addressing energy poverty:

- 1. The Recovery and Resilience Facility (RRF)** (European Commission, 2021): it is a COVID-19 recovery fund included in the Multiannual Financial Framework (MFF). The European Commission proposed EUR 672.5 billion to form the fund and be available in grants and loans, with additional funding meant to finance renovations specifically. This is because renovation was considered by the Commission as one of the key short-term ways through which the negative impacts of the Covid-19 pandemic could be alleviated. To access this fund, member states need to develop a national Recovery and Resilience Plan, which should be based on their National Energy and Climate Plans and Long-Term Renovation Strategies. The Commission encouraged MS to make renovations a priority in these plans and include a detailed Renovation Wave component, which would enable access to funding from RRF for renovations.

Romania sent to the European Commission the National Recovery and Resilience Plan (European Commission, 2021) which included a renovation component of the Green Transition chapter. Through the NRRP, Romania asked for 2,2 billion Euro for the rehabilitation of both public and private building stock, out of the 13 billion Euro necessary to implement the National Rehabilitation Strategy up to 2030. Even though the European Commission encouraged member states to address the problem of energy poverty in their NRRPs, Romania does not directly engage into solving the various aspects of EP, but only marginally it addresses its effects.

- 2. The Next-Generation EU** (European Commission, 2020): is another Covid-19 recovery component adopted along with the MFF. It includes the fund REACT-EU (Recovery

Assistance for Cohesion and the Territories of Europe), that will make available EUR 47.5 billion to be included in the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Fund for European Aid to the most deprived until the end of 2023. These extensions are meant to enlarging the scope of the three funds in order to cover green, digital, and growth-enhancing investments. This is why MS could use Next-Generation EU funds which are part of ERDF to finance renovation projects. Meanwhile the Next-Generation EU funds which are part of ESF should go towards integrating the most vulnerable residents, including those living in energy poverty, within the Renovation Wave. These funds are meant for short term action following that, in the long term, the other Cohesion policy funds should continue improvement in energy efficiency of buildings and renovation.

- 3. The Just Transition Fund (JTF)** (European Parliament, 2021) was adopted along with the MFF with the special purpose of supplementing the transition to climate neutrality as prescribed by the European Green Deal of those MS and territories with structural disadvantages. There will be EUR 17.5 billion allocated to two areas of eligibility, energy efficiency and circular economy investments. Only territories mentioned in the just transition plans are eligible. Romania is the third biggest recipient of funds, under this mechanism, and all the investments will be directed in the areas with coal mines and intensive exploitative industries.
- 4. The Modernisation Fund** (European Commission, 2020), established under the EU Emissions Trading System (ETS) includes EUR 14 billion available to the 10 lower-income MS for the modernisation of their energy systems and for energy efficiency improvements. The priority areas of this fund, which should account for 70% of the Fund, are: energy efficiency in buildings, thermal rehabilitation of buildings and modernisation of district heating pipelines. Both individual investments and building rehab projects are eligible, but MS are responsible to select the projects they should submit for funding.
- 5. The European Structural and Investment Funds** (European Commission, 2014) (**ESIF**) have the main aim to enhance the economic development within EU and consist in a collection of 5 funds supporting the cohesion policy. The 5 funds are: European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development and European Maritime and Fisheries Fund. These funds are designed to support the research and innovation, digital technologies, the conversion to low-carbon economies, the sustainable management of natural resources and the small businesses. Out of these, ERDF, ESIF, CF and EAFRD allocate money for projects improving energy efficiency and energy poverty.
For example, Romania's Long Term Renovation Strategy (LTRS) plans the attraction of EUR 595 million from ESIF for public building renovation and public lighting renovation. During the financial period 2014-2020, Romania benefitted from EUR 30.8 billion of funding coming from ESIF.

Moreover, for the period 2021-2027, the Cohesion Policy funds have a budget of EUR 330 billion. The main use of these money should be that of correcting regional imbalances in achieving the goals of the European Green Deal (European Commission, 2019), including the renovation targets assumed by Member States. The European Commission proposed Member States to use the European Agricultural Fund for Rural Development (EAFRD) for projects improving energy efficiency, including through renovations, and renewable energy in the rural areas. Related to the European Regional Development Fund (ERDF), the main aim of this fund is to reduce the inequalities among the European regions and increase the socio-economic cohesion. For the 2021-2027, the funds will be granted for projects that are in line with the EU Green Deal, including the ones designed for the thermal rehabilitation of residential building blocks.

6. Another important mechanism is the **European Local Energy Assistance (ELENA)** (European Commission, 2021), that provides technical assistance for energy efficiency and renewable energy investments in buildings (EUR 30 million) and urban transport (EUR 5 million).

The funding is implemented by the European Investment Bank. The actors eligible for accessing these funds are both the public and the private actors (national and local authorities, financial institutions and banks and other private entities (social housing associations or homeowner associations, mixed public/private entities, foundations, etc). The projects eligible are related to technical studies, energy audits, financial and legal advisory, business plan support and project management. This programme does not finance the actual rehabilitation activities, but only the steps needed for thermally rehabilitation a building unit.

7. While not offering grants, the **European Bank for Reconstruction and Development (EBRD)** has designed a credit line that supports the thermal insulation programmes.

For example, the **Municipal Energy Efficiency Financing Facility (MEEFF)** provides a credit line to participating financial institutions so they can lend to municipal borrowers based on projects addressing energy efficiency and renewable energy. The EBRD will collaborate with national commercial banks for developing specially designed credit lines for the Green Businesses, including renovation ones. Moreover, for the residential sector there is also the Green Economy Financing Facility (GEFF) available as credit loans for energy efficiency and renewable energy. The loans can be accessed though banks in the form of green personal loans or green mortgages.

8. **The Framework for Private Investment, InvestEU** (European Commission, 2021), was proposed by the European Commission to centralize private investment support within the EU. Its role will be to support private financing, including for renovation through the Sustainable Infrastructure Window.

The funds allocated to InvestEU (EUR 9.1 billion) can be used to support debt and equity financing of building renovation. In the residential sector, the focus of using this instrument should be on social and affordable housing as well as schools and hospitals and SMEs. For

example, the European Energy Efficiency Fund, having a proposed capital of EUR 140 million, provides market-based financing for the renovation of public buildings and social housing. This programme should be taken as example of what MS can do with funds from InvestEU, by offering guarantee facilities, technical assistance, loans, grants, in order to incentivize commercial banks and other investors to invest more in renovation.

9. Another relevant instrument available upon request to member states is the **Technical Support Instrument (TSI)**. This instrument aims to support the design, development, and the implementation reforms in building renovation. It offers technical support for:
 - Scaling up investments in building renovation
 - Developing sound long-term renovation strategies
 - Improving capacity of public administrations involved in building renovation
 - Improving the capacity of social housing associations, housing cooperatives and organizations of owners and residents, especially in less developed regions
 - Developing and implementing reforms funded by the Recovery and Resilience Facility

At national level, there are several public and private instruments available, for funding the rehabilitation of the residential building stock.

1. One of the most important national instruments is the **Thermal rehabilitation fund** (Romanian Government , 2009). The main aim of this programme is to insulate the residential building blocks, followed by investments for the improvement of the public heating systems. This programme is coordinated by the national Government, through the Ministry of Local Administration and Development, and the funds can be accessed by the local municipalities and the tenants' associations. The financial scheme behind this programme follows the formula: 60% of the costs are supported by the Government and 40% by the local authorities and/or other legal sources, including the tenants' associations own budgets. The tenants' associations cannot contribute with less than 10% of the values and for the well-documented cases (low-income households), the municipality can increase its own contribution and subsidize these cases.
2. **Casa Verde Photovoltaics** (Romanian Government), is the only "Casa Verde" program managed by The Environmental Fund Administration and funded by green certificates, which is still continuing. In the past, Casa Verde Clasic and Casa Verde Plus offered subventions for improving heating systems and thermal insulation, but they are now discontinued. CVP offers up to RON 20.000 for installing photovoltaic panels, but it only provides the grant after the installation. The grant is awarded in instalments during the execution of the installation.
3. **The Energy Efficient House** ("Casa eficienta energetic") (Romanian Government), is a program started in May 2020 by the Ministry of Environment, dedicating EUR 100 million to grants for energy renovation of single-family homes, including the residential units from the rural area. Homeowners can get up to EUR 9000 in their energy savings achieved

through renovation up to 40%, EUR 12000 for 50% and EUR 15000 for 60%. The funds are however received only after the renovations are complete and may cover up to 60% of total costs. The project is financed from green certificates. Because of its design, this programme is not accessible for low-income families and does not address the problem of energy poverty from the rural areas.

4. **Photovoltaics for isolated dwellings** (Romanian Government, 2020). This program offers grants up to RON 25.000, covering 100% of costs for the installation of solar panels on isolated houses not connected to the electricity grid. Such houses must be located at least at 2 km distance from the national electricity grid.
5. **The Romanian bank ProCredit** (ProCredit Bank) has opened a climate action loan encompassing EUR 30 million, financed by the European Investment Bank. It offers loans to small and medium sized enterprises (SMEs) and Mid-caps in Romania and Bulgaria. While the European Bank for Reconstruction and Development encourages the national banks to develop credit lines for thermally rehabilitating the residential dwellings, so far, in Romania, the banks have not developed consistent programmes in this sense.

Recommendations:

1. National authorities need to develop their institutional capacity for attracting more European funds. The pressing challenge comes from the small municipalities and rural authorities who have limited institutional capacity to directly access the EU grants. While the European funds are numerous, there is a need to develop the institutional capacity to administer these funds, deal with EP and develop, where it is feasible, one-stop-shops mechanisms.
2. Addressing Energy Poverty should be included as a top priority when designing the national rehabilitation programmes and accessing the EU funds.
3. Both national and local authorities need to better cooperate with the private actors (experts, NGOs, banks) in designing the best solutions for their communities. For example, tenants' associations together with energy auditors' professional organizations and municipalities can collaborate and develop integrated financial and non-financial solutions that can tackle energy poverty.
4. Through public/private partnerships, commercial banks can issue guaranteed by state loans, with a low interest-rate issued specifically for the thermal rehabilitation of the residential unit.

Bibliography

- EBRD. (n.d.). Retrieved from <https://www.ebrd.com/home>
- European Commission. (2014). *European structural and investment funds*. Retrieved from https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes/european-structural-and-investment-funds_en
- European Commission. (2019). *The European Green Deal*. Retrieved from https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF
- European Commission. (2020). *Modernisation Fund*. Retrieved from https://ec.europa.eu/clima/policies/budget/modernisation-fund_en
- European Commission. (2020). *Recovery plan for Europe*. Retrieved from https://ec.europa.eu/info/strategy/recovery-plan-europe_en
- European Commission. (2021). Retrieved from https://ec.europa.eu/info/news/continued-eu-funding-commitment-support-energy-efficiency-urban-areas-2021-jan-29_en,%20https://www.eib.org/en/products/advising/elena/index.htm
- European Commission. (2021). *Questions and answers: InvestEU Programme*. Retrieved from https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_1045
- European Commission. (2021). *Recovery and Resilience Facility*. Retrieved from https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en
- European Commission. (2021). *The National Recovery and Resilience Plan* . Retrieved from https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en
- European Parliament. (2021). *Just Transition Fund*. Retrieved from <https://www.europarl.europa.eu/factsheets/en/sheet/214/european-groupings-of-territorial-cooperation-egtcs->
- LTRS. (2020). *Long-term renovation strategies*. https://ec.europa.eu/energy/topics/energy-efficiency/energy-efficient-buildings/long-term-renovation-strategies_en.
- MEEFF. (n.d.). Retrieved from https://ebrdgeff.com/romania_facilities/
- ProCredit Bank. (n.d.). *Creditului ProEco*. Retrieved from <https://eco.procreditbank.ro/ro/content/creditul-proeco-pentru-imm-uri>
- Romanian Government. (2020). *COMUNICAT DE PRESĂ*. Retrieved from https://www.afm.ro/main/media/comunicate_presa/2020/comunicat_presa-programe_finantare-dosare_aprobate-2020_09_15.pdf
- Romanian Government . (2009). *National Programme for the Improvement of Energy Performance in Residential Blocks*. Retrieved from <https://www.mdlpa.ro/pages/pncrestereperformanta>

Romanian Government. (n.d.). *Casa Verde fotovoltaice*. Retrieved from https://www.afm.ro/sisteme_fotovoltaice.php

Romanian Government. (n.d.). *The Energy Efficient House*. Retrieved from https://www.afm.ro/casa_eficienta_energetic.php