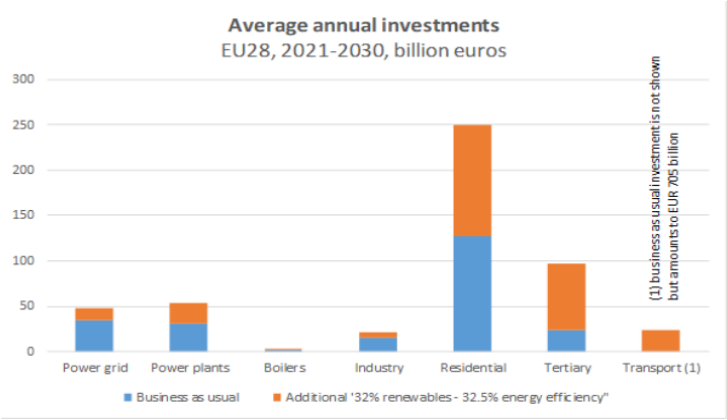
WEBINAR SERIES #1 ON THE RENOVATION WAVE - SUMMARY REPORT

This Summary Report sets out the main learning from the EuroACE Webinar Series #1 on the Renovation Wave, which took place between 26th March and 3rd April. For each webinar, the main presentation is summarised, and responses to the questions from the audience are integrated where relevant.

Webinar 2: the Renovation Wave, how to finance it?

Investing in energy renovation of buildings, a huge task



Reaching climate neutrality by 2050 translates into **huge investment needs for our building stock**. It is estimated that at EU level, the deep energy renovation of buildings needed to make it highly energy efficient and decarbonised, is worth €300 billion per year. We also know that in order to reach these long-term goals, we need to **focus our actions in this decade**. According to Commission estimates[1], additional €260 billion per year are needed in the next ten years to attain the 2030 targets, while the biggest part of the investment should be directed towards the renovation of residential buildings (see graph).

There is a high volume of investment needed to bring our building stock to the required energy performance levels. However, the amount of public financing needed is limited – as in any other sectors, we need to mobilise private financing to reach our goals. But more than an issue of volume, the renovation

[1] European Commission, Communication 'United in delivering the Energy Union and Climate Action – Setting the foundations for a successful clean energy transition', COM(2019) 285 final, 18th June 2019.

market experiences **difficulties in accessing financing** - and the reasons are varied. First, the construction and renovation sector is quite fragmented, which means that **specific intermediary work of aggregating projects is key to reach to a critical mass** which makes it interesting enough for financial institutions. Second, renovation works often entail high upfront costs while economic benefits entail long payback times. This is also mirrored by the discrepancy between financing, which often takes place in one step (e.g. a subsidy scheme disbursed in one payment) while renovation works are most of the time done in several steps. Finally, we also experience a **lack of (reliable) data**, which is nonetheless the basis for a lot of financial institutions, especially commercial banks, to support renovation works.

However, **barriers linked to financing are neither much more nor less important than any other barriers**. This has been found in a study done by the Commission[2], in which the consumer survey shows that 70% of respondents encountered a financial barrier to undertake an energy renovation. As a comparison, 58% of respondents experienced barriers linked to skills and 63% experienced issues related to administrative or regulatory matters.

What has been done so far…and its limitations

Many funds are actually available for energy renovation of buildings. The Joint Research Centre (JRC) of the Commission has undertaken a study[3] reviewing all financial and fiscal schemes available at national level, and found that **Member States mostly use subsidies (61%), loans (19%) and tax incentives (10%)** to finance energy renovation of buildings. Overall, €15 billion is spent every year across the EU by Member States on building renovation.

Looking at what is available at EU level, we can highlight three main sources of financing. The first source is all the **programmes and funds from the EU Budget** (the Multiannual Financial Framework), and first and foremost, the European Structural & Investment Funds, more commonly known as Cohesion Policy funds. In the last period (2014-2020), around €14 billion were available for energy efficiency in buildings. Other EU funds are relevant, such as Horizon Europe, LIFE or InvestEU. Another big source of financing is the **European Investment Bank**, which adopted a new Energy Lending Policy in November 2019, with a big focus on building renovation, and financing up to 75% of eligible capital expenditure. The EIB is also very strong on advisory services with the ELENA facility, which will continue until 2023, at least (€97 million available). A third source of funding is the **revenues from the EU ETS**. According to an analysis from the Regulatory Assistance Project[4], investing carbon revenues into energy efficiency projects saves seven to nine times more carbon that carbon pricing alone. This type of financing has for example been used in France, Germany but most notably in Czechia where for many years now, the 'New Green Savings' Programme distributed €440 million to more than 50,000 building renovation projects since 2014. Even though Member States are required to dedicate the equivalent of 50% of their ETS revenues on climate spending, it is unclear how this amount is really spent as reporting requirements are quite low.

[2] European Commission, *Comprehensive study of building energy renovation activities and the uptake of nearly zero-energy buildings in the EU*, 2019, p.56.
[3] Joint Research Centre, *Accelerating energy renovation investments in buildings*, 2019.
4 Louise SUNDERLAND, *Learning from the Czech Republic on using EU ETS revenues for residential renovations*, 2019.

Despite the number of funding schemes available for building renovation, **most projects are actually paid by own capital** (between 53 and 72%, depending on the type of building considered).[5] This demonstrates again that more than the volume of capital, it is its **simplifying its access which is crucial** in the years ahead. This might mean that some schemes will need to be re-defined, re-oriented and better communicated.

The EU Institutions have already worked on this matter in order to unleash the flow of financing towards energy efficient buildings. In 2013, the European Commission DG ENER and the United Nations Environmental Programme Finance Initiative (UNEP FI) created the **EEFIG – the Energy Efficiency Financial Institutions Group**[6], bringing together energy efficiency experts, banks and other financial institutions in order to identify barriers and draw policy recommendations. The **revision of the Energy Performance of Buildings Directive** in 2018 brought some improvements in terms of financing: the long-term renovation strategies were strengthened, Member States were required to improve access to finance and to link their financial measures to the targeted or achieved energy savings, and the Smart Finance for Smart Buildings (an EIB facility) was created.

Nevertheless, there are still limitations and financing for energy renovation of buildings still did not take up at a scale needed. Regional and local authorities still find it **difficult to absorb all Cohesion Funds, or to blend them with private financing**. Although aggregation of projects is widely recognised as a way to overcome some of the barriers, it does not materialise often on the ground, and thresholds to unlock financing from the EU level are not easily met (e.g. €30 million for ELENA). Finally, the **financing landscape still lacks clarity** and even for experts, trying to get a clear picture of which fund is available and how to access it, takes time and effort.

The way forward: how to include financing aspects in the Renovation Wave?

So, what could be done in the framework of the Renovation Wave to improve access to financing for building renovation projects? **Adopting a Segment-Based Approach**, whereby the building segment would be divided into a matrix depending on the building type, the ownership structure and the consumer preference, would enable an **easier aggregation of similar projects**. And in turn, each part of the 'segment matrix' could be **matched with a specific financing scheme,** which would avoid overlaps between different schemes targeting the same segment, and would make the 'financing landscape' more readable to building owners. This work could be done by the ***Open Platforms for Renovation***, which the Commission intends to create within the framework of the Renovation Wave. Those platforms should then be able to work at a level-playing field with the EIB for example, taking up the role of facilitators for aggregation. Besides, if aggregation of projects is made easier, it should facilitate the use of industrialised approaches such as in the *Energiesprong* project, thereby leading to decreased renovation costs.

Similarly, adopting an **Area-Based Approach** can also facilitate access to **financing for small-scale projects**, while enabling the creation of a locally-driven supply chain. We could also imagine scaling up projects whereby financing is linked to the property (rather than to the owner).[7] Finally, some activities supporting

[5] European Commission, ibid.
[6] http://www.eefig.com/
[7] EuroPACE is an H2020 project looking into this kind of financing and experimenting it in a few cities across Europe.

the success of the Renovation Wave, such as **re-skilling of workers**, could be funded with this area-based approach in mind, for example through the **Just Transition Fund**.

Whether in a Segment-Based or an Area-Based Approach, the Renovation Wave should put a strong focus on **creating the 'missing link' between renovation projects and sources of financing**. Due to the diversity of renovation projects, even if they are more structured into a Segment Approach or an Area-Based Approach, a certain level of complexity will always exist, which in turn will manifest itself in the financing landscape. This is exactly where and why the 'missing link' should be boosted. It could take the shape of advisory services, one-stop-shops, Building Renovation Passports…In any case, those services, whether taken up at national, regional and even local level, need financing to get started but they also **need to find a suitable business model to last over time**. This again reminds of the need for **stability of support schemes** put in place by public authorities, which should also be accompanied by **continuous communication**.

Conclusion

Financing should be one of the key aspects of the Renovation Wave, but it is only a part of a wider eco-system of policies and measures which need to be put in place if we want to (re-)create a vibrant construction and renovation market. Also, to mainstream and scale up successful financing schemes, we need qualified people and motivated policymakers.

3 Top Questions asked during Webinar 2

- Given the Commission's findings that most renovations are "self-funded", clearly the people taking the renovation decision need to know how to access all these instruments. In your opinion, are the instruments oriented to provide buildings owners easy access?
- I believe one of the reasons many of EU funds have not been absorbed is because of the sheer volume of programmes and advisory facilities, which sometime confuse and deter stakeholders at local level to apply. Do you think all these initiatives could be optimized?
- Renovation needs to also be climate resilient. Have you considered involving insurance companies through "resilience contracting", similar to energy performance contracting? Insurance companies financing climate resilient renovation and then delaying the lowering of risk premiums to recover the costs.

Concrete Recommendations for the Renovation Wave

- Creating and strengthening the intermediary actors (one possibility being the *Open Platforms for Renovation*), between financial institutions and owners deciding on building renovation, in both their advising and aggregating capacity
- Enabling the EIB to do more capacity building, notably in regions and cities, to help building a project pipeline, better absorbing EU funds, and improving the mix of private and public funds
- Requiring a significant share of the EU ETS revenues to be dedicated to building renovation

END

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About EuroACE

EuroACE represents Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ around 200,000 people in these activities in Europe and have around 900 production facilities and office locations. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe's commitments on climate change, energy security and economic growth.

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