



Black Sea Basin Joint Operational Programme 2007-2013

BSBEEP

Black Sea Buildings Energy Efficiency Plan

GA1: Knowledge and information collection and dissemination -
Analysis of external current situation

Activity GA1.2

Executive Summary

**Collection of Information about Funding Opportunities,
Programs and Political Initiatives at EU, National and Local Level
and Evaluation in Order to Meet the Needs of Partners**



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GA 1.2: Collection of Information about Funding Opportunities, Programs and Political Initiatives at EU, National and Local Level and Evaluation in Order to Meet the Needs of Partners

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Black Sea Basin Joint Operational Programme 2007-2013
Black Sea Buildings Energy Efficiency Plan
(BSBEEP)

Black Sea Buildings Energy Efficiency Plan (BSBEEP) project aims at the establishment of strong regional partnerships and cooperation schemes in Black Sea area through the reinforcement of administrative capacities of local authorities and bodies in a very crucial sector (energy efficiency in buildings) having major environmental and economic impacts locally and globally.

The ultimate goal is to achieve change in the way they treating energy for buildings; facilitating change in the way local societies are acting. Furthermore, the project focuses on the establishment of a knowledge and experience exchange network aiming at the promotion of buildings energy efficiency. The network will engage a wide spectrum of organizations such as local and regional authorities, universities and research centres and NGOs which will help promoting energy efficiency in buildings at local and regional level. Meanwhile it will focus on raising awareness and mobilising private sector and leverage funds to support future initiatives.

Ten partners are participating in the BSBEEP Project from six different countries; Municipality of Kavala (GR), Municipality of Galati (RO), Municipality of Cahul (MD), Municipality of Mykolayiv (UA), Municipality of Samsun (TR), Municipality of Tekirdag (TR), Democritus University of Thrace (GR), University Dunarea de Jos of Galati (RO), American University of Armenia (AM) and Renewable Resources and Energy Efficiency Fund (AM).

More details about BSBEEP Project and the full GA1.1 study (available in English) are available on its website: www.bsbeep.com.

GA1.2:

Collection of Information about Funding Opportunities, Programs and Political Initiatives at EU, National and Local Level and Evaluation in Order to Meet the Needs of Partners

Current Financing Schemes and Resources

A diverse portfolio of financing schemes exists in the Black Sea region, each of them has different features, targets, advantages and drawbacks. Despite all efforts to promote energy efficiency, energy demand in the Black Sea area is growing and investments will be necessary both in infrastructure development and in energy efficiency and sustainable energy development. With limited availability of budget funds and remaining limitations on municipal borrowing, private sector participation in energy sector investments, as well as commercialization of energy efficiency services should be enhanced through policy reform, capacity building, as well as development of customized financing schemes, which can offer adequate terms for public sector projects with participation of private players. The market for abated CO₂ emission tons can also affect the availability of financing for sustainable energy projects, especially since more and more IFIs distinctly require the carbon footprint to be monitored and reported.

Lastly, as mentioned before, the investments are also being delayed due to the market distortion resulting from tariffs for energy carriers set below cost-recovery levels. Such fiscal barriers need to be eliminated to make a transition to market-based energy prices with built-in energy efficiency incentives, while in EU member states this transition is stipulated by the

requirements of the Directive 2006/32/EC. ESD further requires that EE is encouraged including through designated funds supporting energy efficiency improvements through investments. The legal requirements in EU member states have reflected this provision in a populated atlas of state-subsidized programs which provide for the full or partial cost coverage of energy audits, home energy retrofits, applied energy efficiency-integrated renewables in Romania, and to a larger extent - Greece.

The BSBEEP program has reviewed the EU structural and cohesion funds, as well as cooperation programs. The present report further well reviewed the financial resources available in the countries of the region on national and regional level, including state budget allocations, IFIs (such as the World Bank, EBRD), the Global Environment Facility (GEF), United Nations (UN) organizations such as the United Nations Economic Commission for Europe (UNECE) and UNDP, the European Union (EU) through the Instrument for Pre-Accession Assistance (IPA) facility, Green for Growth Fund, bilateral FIs such as the German Development Bank (Kreditanstalt für Wiederaufbau, KfW), and commercial banks. TA funds may also be available from the USAID, GIZ, and the TA facilities established by the EU in cooperation with the European Investment Bank (EIB).

Many of the countries have a certain blend of the following financing schemes operating in the field of energy efficiency:

- Grant financing from public or donor funds.
- Direct investments from the state budget.
- EE funds (stipulated by sectoral laws).

- EE credit lines through an existing financial institution, such as a development or commercial bank, often with grants or subsidies (up to 20% of the investment cost), and with technical assistance (TA) provided to local banks and borrowers (EBRD, EIB, KfW, GGF, WB, EC).
- Commercial financing from existing banks and financial institutions.

In addition, many of local commercial banks also advertise loan products for energy efficiency. Some of these banks are operating as sub-lenders within the framework of the larger regional loan facilities, such as EBRD SEFF, IFC or GGF. The support from the European Commission is in form of grant financing and guarantees to the above regional credit lines in different proportions.

Financial Barriers

- In addition to the legal and regulatory barriers discussed in the GA 1.1 study, several additional barriers hamper lending for sustainable energy investments. These include the following:
 - Absence of affordable EE financing schemes due to high interest rates and overcollateralization
 - High level of commercial losses and non-payment of energy bills diminish the incentive to invest in EE measures
 - Legal restrictions on municipalities' ability to borrow money and lack of credit history with banks
 - Lack of resources for project preparation (energy auditing, project development, investment portfolio preparation)

Conclusions and Further Needs for Capacity Strengthening

Energy Efficiency

The countries of the Black Sea will continue to work on their National energy efficiency action planning (NEEAP) process, with Georgia initiating its first NEEAP, Moldova, Armenia and Ukraine - on their second NEEAP, while EU member states on their third NEEAP. These are not only planning documents, but also an elaborate investment plan, as well as a profound monitoring and verification exercise, which is aimed at helping these countries observe the progress in achievement of the energy saving targets within the set timeframes. It is noteworthy, that the national M&V process is also a valuable asset for overall national policy in energy sector, environmental protection, climate change mitigation strategies, etc. As part of the NEEAP energy efficiency improvement measures, the legal-regulatory framework should be further developed. The highest priority in these countries is the development of legislation and regulation dealing with the energy efficiency in buildings, including proper inter-institutional cooperation, which would enable implementation of the energy efficiency directives.

The secondary legislation is particularly needed in areas, which would help eliminate the market barriers for energy efficiency, commercialize the implementation of the promoted energy efficiency reform, and channel investments into the sustainable energy projects. Specifically, the secondary legislation is in various stages of advancement in various countries and needs to be completed in the following areas:

- Energy Performance Contracting and Legal Framework for Energy Service Companies, such as procurement guidelines, model contracts and amendments to the existing laws on public budgets;
- Public procurement of energy efficient goods and services
- Continued tariff reform, metering and consumption-based billing, EE policies with participation of utilities
- Comparable methodology and software tool for calculating cost-optimal minimum building energy performance
- Improved understanding of the near-zero energy buildings (NZEB) and planning for their gradual introduction by 2021 under EPBD
- Regulation and procedures for energy performance certification and inspections systems
- National Registries (system and institution) for: certificates, inspection reports and certified experts
- Developing energy labeling regulations for transposition of new framework Directive 2010/31/EU

Similarly, there is pronounced need for setting up a regional web-based knowledge portal on where information on new accomplishments from all countries will be generated and made available for supporting development in other countries. The transposition also creates a large cadre of professionals who will performing new tasks related to assessment of energy performance, certification and labeling on the basis of a new set of norms, regulations and standards. This requires that the awareness on the EU policy processes is not only built with the policy-makers, but also technical professionals, sectoral decision-makers, local authorities, etc.

Potential Financing Schemes for Energy Efficiency in Buildings

The national governments, donors and IFIs have looked at the financing resources for the public buildings: a priority for all countries where the Governments can demonstrate their commitment, lead by example, demonstrate the benefits of EE, as well as demonstrate the capability of all those involved and to give confidence to the energy sector in general that EE is a well-run and serious business with potential rewards for all participants. Such a solution is important as a means to support the local authorities in managing municipal energy bills and improving the quality of municipal services.

The approach in the private, residential buildings has been to offer subsidized, soft financing, or grant-blended loan programs creating the market demand for investments in various residential energy efficiency technologies.

The various financing options that are suitable for the Black Sea area countries were considered by this study included national and municipal budget resources, international donor resources, commercially based transactions and hybrid arrangements involving some or all of the above. National and municipal budget resources can be used to support a public investment programs that deliver infrastructure improvements, or Special Funds, long-term financing schemes set up to facilitate implementation of, for example, EE projects. Funding from international donors is typically used to provide grants, loans and technical assistance. Commercially based transactions include bank loans, ESCOs or other private sector initiatives

involving, for example, utilities, manufacturers or service providers.

As it is important to use limited donor funds to not only upgrade the energy efficiency of selected buildings but also to facilitate the development of EE service providers, such as ESCOs. Several of the models that have been used to disburse funds on a commercial basis are similar to the ESCO concept - that the cost of an investment in EE can be more than covered by the energy savings that it generates. Piloting the use of ESCO contracts within donor programs should be given a high priority in all countries. Initial attempts of ESCO energy performance contracting with donor or IFI support exist in Romania, Armenia, Ukraine, and Turkey.

Hybrid arrangements combine some or all of the other sources of finance to produce a financial mechanism that in some way mitigates the risk or financial costs for at least one of the parties involved, for example:

- Provision of grants by donor agencies to ‘soften’ commercial loans;
- Establishment of an EE ‘credit line’ by a donor agency with funds channelled to customers through local commercial banks;
- Partial credit guarantees to cover commercial loans.

In the medium- to long-term, EE investments have to be financially sustainable and generate sufficient savings to ensure repayment of loans. However, in the short-term the reality is that because of market distortions - which mean that consumers do not pay fully cost-reflective energy prices -

and the fact that many public and private buildings do not deliver minimum comfort levels to their users, these conditions are unlikely to be met in every case.

Cross-Cutting

Considering the lack of awareness among national counterparts as well as complicated nature of the above practices and episodic experiences of their implementation in some countries of the region, all countries will strongly benefit from regional exchange of experience, awareness raising and demonstration exercises, that can be showcased regionally.

In addition, strong continued donor coordination will be needed to adequately streamline limited donor resources to adequately populate the capacity strengthening and technical assistance needs' atlas of the Black Sea area countries.