Presentation Q&As
September 2024

September Workshop – Scale up

26 September 2024 - Combined Energy Efficiency FI for public sector building

1st Session: What are the specificities/challenges of a combined FI for public sector buildings? - Bulgaria

European Commission

European Investment Bank

1st Session

What are the specificities / challenges of a combined FI for public sector buildings?

Bulgaria

Presenter: Iva Petkova, Fund FLAG

Presentation: "Good practices in providing financing for energy efficiency of public sector buildings"

- Presentation of Fund FLAG and financing of energy efficiency in public buildings via the Urban Development Fund in 2014-2020.
- Opportunities and challenges for energy efficiency investment under Cohesion Policy and RRF.
- Overview of new FI for clean energy transition (FLAG FICET), combined with technical assistance.

Note: The answers are provided by the Presenters.

Q: What type of public entities are eligible for the FI? How do you deal with the owners of buildings that are budgetary institutions? Maybe in Bulgaria you don't have the same borrowing restrictions as in other countries.

A: In most cases, the buildings are either owned by municipalities (or municipality-owned entities) or by the state. Both are eligible and can borrow. They have not financed ministries but have financed water and wastewater companies which are 100% public, state owned. The projects were assessed case-by-case.

Student dormitories are owned by the Ministry of Education and there is a borrowing ceiling (this article was introduced in the regulation because they were interested in receiving support from the FI). They need to ask for the permission from the Ministry. It's a complicated procedure but they can still borrow. However, the real problem is the lack of collateral. Banks do not finance without this so, Fund FLAG financed the two projects directly. This kind of financing seems to be not very appropriate for banks.

Q: What conditions do you take into account in order to increase the grant intensity level up to 85%?

A: The grant component in these projects has been assessed via a business plan. The grant covers the financing gaps established in the business plans provided by each municipality which were audited and checked. The high grant amount is because these kinds of public building require more grants. FIs involving loans should involve talks with the whole community. It's hard to convince one municipality to go for an 80% grant with a loan of a million and another to take a loan for five million without the biggest grant possible. Thus, it is also political but the grant part is based on the business plan and it is on a case-by-case basis.

It is also important to note that the programme envisaged an obligation to combine a FI with grants. So, recipients could not receive the grant without financing from the FI. The Urban Development Fund served as one stop shop where the municipality requests a loan, the UDF assesses their capacity to service the loan and the remainder, which cannot be covered by revenue from the project, is considered for grant financing. This is normally for cultural and tourism projects (e.g. museums, tourist attractions), which have very low revenue.

Q: Is there a positive correlation between the grant intensity and the level of economic prosperity/poverty in Bulgaria? In Poland, when we were negotiating an energy efficiency FI, Poland argued that less developed territories should receive more grants.

A: In 2014 – 2020, all Bulgarian regions under NUTS 2, were less developed regions. In the current framework, only Sofia and the whole southern region is in transition. So, all of our municipalities are not quite wealthy and yes, they require greater grant intensity. However, I don't think that grants are always the solution for poverty. If they are targeted in a more structured way, at energy poverty, then they may have the effect we would like. In the residential sector there were probably arguments for this because with our associations of homeowners, it’s a complete mess and without higher grant intensity, these projects could not happen.

For public buildings and public infrastructure, I think municipalities are ready for FIs. They are ready even for investment loans that are provided by Flag, and these are not provided at 2%. First, FLAG’s interest rates are market based, so they are not considered good prices. Good prices might be offered under the UDF only with European money. FLAG is still the desired option for municipalities, not for the grants but for the speed of implementation. It's about the contact with people and experts that truly support them. The whole process is easier.

The municipalities and mayors are increasingly reluctant to opt for grants because of numerous financial corrections in the end. All the municipal projects had financial corrections of at least 25%. This is due to deficiencies in procurement procedures mainly with selection and award criteria and discriminatory conditions. They are finding it quite burdensome because at the end of the programming, as it was now, they are coming to FLAG asking for loans for financial corrections and they are saying that they do not want more grants.

However, there were good examples of FIs for Urban Development where we have seen that when the grant intensity is lower even in two-operation combination, the financing through the loan is providing this flexibility which is much needed for this renovation project. Those that went for more loan than grant have done better and it's more than obvious.

Not all the municipalities are ambitious. Some 60 of 265 municipalities are into this adaptation climate pact, 2 are in the 100 cities pact, etc. Each should develop climate energy transition plan and energy efficiency plans. They have already set up structures where they are growing their expertise, but they need central political decision-making on strategic plans. And of course say where the grants are needed, there the grants are going and it's not one-size-fits-all, the grants are for everybody. Because if we really want to scale up energy efficiency investments we can't depend on grants. We are really lagging behind. Under RRF €1 billion will be used to renovate 700 multi residential buildings and the building stock is 20,000. How can we make it?

Under this project, we should put together different types of stakeholders around one table; banks, municipalities, fund managers, etc. who are interested in energy efficiency investments. This is the bottom-up approach, but it takes time.

Key messages from above:

- Municipalities often seek loans for financial corrections, and don’t want more grants due to the associated complications;
- There are good examples of those choosing loans over grants having better results;
- Grants are needed for certain projects but are not the solution for the substantial renovation needs in BG.]

Q: For the other working group members, what are the reasons you set up a combined FI (in one or two operations) for public sector buildings?

- **Marche region:** There is a grant-loan combination for energy efficiency in sanitary structures. The managing authority gives a grant to the public structure and a loan to a bank which then lends to an ESCO selected under public procurement for the works. There were five beneficiaries (sanitary structures) in the region. It has been a good experience but managing the three stakeholders (ESCOs, banks and beneficiaries) was complicated. For his programming period, they want to implement a grant/loan combination FI in two operations only for companies. There are no FIs for public sector, except the possible renewal of this ESCO instrument.
- **Hungary:** Traditionally there was grant support for public buildings. High municipality indebtedness means they now require state approval for borrowing and are thus reluctant to seek loans. Now, we are thinking about instruments in energy efficiency and that's why it's very important to listen to the experience of others and to see that, for example, a pilot can be a good incentive for others.
- **Croatia:** In the last programming period, there was a loan FI for energy efficiency in public buildings implemented by HBOR in combination with grant support (in two operations). The end users of the loans were public sector entities, governmental bodies and similar, who received a decision on grant from the relevant Ministry of Construction. And when receiving this decision, they had the possibility to ask for a loan to close the financial construction. This FI went well but involved a lot of administrative burden for the institutions so they plan to use loan FIs with capital rebate in this programming period. They also now have an Urban Development Fund to finance local and regional public sector entities with financially viable public projects that can repay the loan.
- **Estonia:** We have provided to the public sector only grants, no financial instruments at all. A lot of work is needed to promote FIs in the public sector which relies strongly on grants.
- **Poland:** There were JESSICA FIs for energy efficiency in public and residential buildings, which were very successful, so they chose to continue this FI. In the previous period there were only loans, no grants. The new period will see a grant combination for the first time, hopefully 50% but potentially lower in the end, maybe 20%.

Q: Why a grant combination when the previous FI (no grant element) was a success?

A: Because of politics.

Q: Why was the FI successful without grants?

A:

- We have a lot of old residential buildings and there is willingness to take loans because the costs can be spread to all the apartment owners. The building administration has the agreement with BGK (the FI manager) which does not check the owners. This reduces the administrative burden and is easier for financing, contributing to the success of the FI. There is a bank assessment of the financing, checking the administration of the buildings to ensure they can repay the loan. The owners make monthly payments and vote on the amount of any loan for energy efficiency and how much they will need to pay. It is not a huge cost for each owner because the loan is spread across 40, 50, or even more apartments.

- **Poland:** There are loan FIs (no grants) for energy efficiency and renewable energy investments for SMEs. An energy efficiency FI for public and residential buildings is in the final steps of negotiation with preparation to publish the public procurement call for financial intermediaries. The ex-ante assessment proposes a grant combination up to 50% but it maybe be 30-35%. There is a political reason for grants. However, when funds come back from the FI, they lose their status as EU funds and can go back to the regional funds to be reused.
- **LV:** Energy efficiency and renewable energy programme for SMEs and large companies, public companies can also apply under RRF. The new programme will be funded by ERDF and large companies/public entities/ municipalities are not expected to be eligible. Currently, they are supported by grants and by this programme but there will be limited ability to support them in the future.

Q: In Bulgaria the approach when financing public institutions is to assess the creditworthiness of municipalities. They do not analyse whether the savings from the project will cover the loan payments due to a lack of data. Essentially, they assess the final beneficiary and not project eligibility. What happens in other countries?

A:

- **Poland:** They don’t count the savings right now because these may only appear after three or more years. The housing associations increase rents slightly to create a renovating fund to repay the FI (for residential buildings).
- **Latvia:** They used to analyse the energy efficiency gains or monetary savings. When these covered the investment costs they did not require collateral (similar to a bonus). However, increased interest rates and energy costs, made the case where energy savings were not enough to cover the loan and they tried to find additional parameters, to generate additional cash flow to cover the loan repayments.

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