Policy recommendations

Innovative Financing Schemes for Local and Regional Energy Efficiency Policies

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Innovative Financing Schemes in Local and Regional Energy Efficiency Policies

Members of FEDARENE - European regions supported with their regional and local energy agencies give the following recommendations to European Commission:

1. **Easier access and smarter use of ESI Funds**

   Even though most Member States can be considered as experienced with the use of EU Structural Funds project developers often face barriers in form of complex set of rules and legal framework imposed by Member States themselves which results in difficulties in spending (absorbing) these funds. **Simplification of administrative procedures and a more open dialogue with project developers on this matter must be considered.** ESI Funds must be used for initiating projects and leveraging involvement from the private sector. In this regard, *off the shelf* financing models offer an effective blend of European, public and private funds that maximizes the impact of energy efficiency policies. The European Commission should continue promoting the inclusion of European funds in this type of schemes. Highly specific requirements for this type of blending are barriers that should be removed and further guidance on how to design such blends must be provided.

2. **A more energy efficiency – considerate interpretation of public debt rules**

   Public accounting rules do not take into account the benefits of energy efficiency investments, only their cost. The European methodology on national debts (EUROSTAT) includes energy efficiency projects in the calculations for public debts. The interpretation of public debt rules should not be an additional obstacle for regional and local authorities. There should be a distinct and specific category for this type of projects, especially when they serve goals enshrined in the Sustainable Energy Action Plans. An exemption from applicable debt caps would alleviate the regional and local authorities’ missions.

3. **An improved and multiplied offer of Project Development Assistance**

   In order to tackle the regulatory and financial requirements in the shortest time frame and in a systematic manner, support and guidance in the form of legal advice and/or technical financial advice is needed for market-based financing schemes. In-house capabilities of local authorities are limited when it comes to setting-up new “finance related” instruments. The European Commission should continue promoting initiatives such as ELENA and multiply its offer of Project Development Assistance. PDA is crucial in organising market facilitation and aggregation initiatives. The possibility of launching a facility where municipalities receive support in developing feasibility studies for financing without a payback obligation for unrealised projects should also be explored. Such a structure could become an incubator for further innovative solutions.
4. Energy prices need to be transparent and predictable within a completed and regulated EU internal energy market

The rise of the energy price is a major political concern and a significant driver for energy efficiency. However, if energy prices are not transparent (or subsidised) this may also become a significant barrier for energy efficiency projects (e.g. in street lighting or industry). The European Commission should make all EU countries implement the relevant EU legislation in order to complete the internal energy market and maintain energy price fully transparent. The European Commission should also ensure that retail prices of energy converge across Europe. This is still not the case because of differences in network distribution systems, uncoordinated national energy and climate policies, taxes, levies and network tariff regulations which are all fragmenting the internal market.

5. Maximizing the use of the European Fund for Strategic Investments

The decision to initiate the European Fund for Strategic Investments in order to be able to capture riskier projects and engage in activities that are of greater strategic interest is a welcome move towards attracting private sector investors. In order to maximize the use of and access to the EFSI, the European Commission should encourage and support the creation of regional platforms aiming at aggregating small energy efficiency projects (of the same type) in order to reach the €25 M eligibility cap. These platforms could enable public authorities to present their projects and entice private sector entities to participate as investors. Reducing the eligibility cap would also be an effective measure in maximising the use of this fund for energy efficiency investments.

6. Creation of a unified European legal framework for crowdinvesting

European level policy action in the field of citizen inclusion is needed to enable easier participation of small investors and address the risks associated with this type of project financing. New rules could offer a harmonised and functioning framework for crowdinvesting, tackling issues such as obligation to disclose investment risks or right to refund. Such regulation could catalyse more and larger investments. European legislative initiative is therefore needed in order to protect this type of investors but also provide easier access to finance for business start-ups. Additionally public authorities should be allowed to use the peer-to-peer lending model that enables citizens to directly invest in projects within their community.

7. Raised awareness at the decision making level

Strong political support is a fundamental success factor for effective financing of energy efficiency projects. The lack of awareness at the decision making level of the benefits of and opportunities for energy efficiency projects is hindering the success and multiplication of these initiatives. The European Commission should henceforth develop a more active promotion of these concepts and the need for support during meetings and summits of
decisions on different levels. Such fora could become an opportunity to ignite willingness to lead in this domain.

8. Dissemination of successful projects to support replication

The share of successful methods of innovatively financed projects is determinant for replication of tested and proven implementation models leading to improvement of financing mechanisms. The creation of helpdesks assembling experts on these schemes could be an effective way of centralizing access to information and utilizing feedback from successful projects. This measure could better serve the dissemination of proof of concept but also promote standardized products, thus lowering transaction costs. Successful projects that blended European Structural and Investment Funds with innovative schemes and/or contracts should be prioritised. The European Commission should continue investing in and supporting initiatives that aim at sharing good practices whilst promoting standardized procedures and practices crucial for project success.

9. Capacity building and standardization in Energy Efficiency innovative financing

Given the complexity of alternative financing schemes and their method of deployment both public and private sector are in need of capacity building and better understanding of risk management. Energy agencies and regional and local public organisations would benefit from improvement of financial and legal skills, managing authorities need guidance on how to blend ESIF with innovative schemes and experts in financial institutions should be trained on financing energy efficiency investments in order to properly advise clients. Standardization of procedures would have a positive effect on implementation of innovative financing schemes especially since many resources have already been developed under various EU initiatives. The European Commission should renew and multiply its offer of capacity building on innovative finance models in both public and private sector focusing on the effective use of financing opportunities whilst promoting standardization.

10. Encouraging adaptation of public procurement procedures

Rules on public procurement present considerable hurdles for the implementation of energy efficiency projects. The high costs of tender processes are barriers to investments. The European Commission should encourage an adaptation of public procurement procedures to Energy Efficiency policies.
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FEDARENE BACKGROUND

FEDARENE is the premier European network of regional and local organisations which implement, co-ordinate and facilitate sustainable energy and environment policies. Regional and local agencies, ministries and departments working in these fields are represented in FEDARENE.

FEDARENE was created on 6th June 1990 by 6 regional authorities – Rhône-Alpes, Provence-Alpes-Côte-d’Azur, Wallonie, País Vasco, Aquitaine and Nord-Pas-de-Calais. Encouraged by different programs of the European Commission, these authorities wanted to make the voice of the regions heard in the debate on energy and environment policies at the European level. The Brussels Office was created in November 1991 and, now FEDARENE counts more than 71 members in 20 EU MS countries. Since 2008, FEDARENE is part of the consortium of European networks (with CEMR, Climate Alliance, Energy Cities, Eurocities) which forms the Secretariat/Office of the renowned European initiative - the Covenant of Mayors for Climate and Energy.

Local and regional governments play an essential role in the implementation of energy efficiency policies and in achieving the Europe 2020 objectives. They embody the relevant decision making level in sectors such as transportation, urban planning, buildings and welfare, which makes them the most appropriate level for coordinated actions in energy efficiency. As public funds alone are deemed as insufficient for delivering ambitious EU energy targets a different approach relying more on the use of market-based solutions is needed.

However, as the trajectory in the Energy Efficiency Directive becomes steeper closer to 2020 and regulatory uncertainty and administrative barriers continue to impact private investment in the sector, additional measures identified in this position paper might be needed for a number of member states.

An insightful meeting was held between the FEDARENE Board members which marked the beginning of the development of a FEDARENE position paper on innovative financing schemes in local and regional energy efficiency policies. The research process was conducted and led by the FEDARENE office in Brussels in collaboration with a number of members from all across the EU.

The outcome of the research is a comprehensive overview on innovative financing mechanisms on EU territory including identified barriers and selected case studies as share of good practices. The conclusions drawn in this report were used as a basis for the formulation of a set of recommendations to the European Commission presented in this position paper.