

Round table on financing energy efficiency measures and deep renovation of public buildings in the Republic of Croatia

Zagreb, 21/Jan/2021

09:00 – 12:00

Virtual (online) event

The round table is organised under project SMAFIN (funded by the Horizon 2020 programme) implemented in Croatia by the North-West Croatia Regional Energy Agency – REGEA, and with the Interreg MED Efficient Buildings Community (MED EBC).

Form: Introductory plenary session, thematic session, summary session

Participants: a small group of selected representatives including key Croatian stakeholders, representatives of the Ministry of Physical Planning, Construction and State Assets, the Ministry of Regional Development and EU Funds, the Agency for Transactions and Mediation in Immovable Properties (APN), Croatian Bank for Reconstruction and Development (HBOR), Croatian cities and Joint Research Centre (JRC).

Objectives:

As a part of the SMAFIN project (Supporting smart financing implementation for energy efficient Balkan Buildings) funded by the [EU program Horizon 2020](#) and following the successful organisation of the first National Round Table on financing energy efficiency measures in the Republic of Croatia - SEIF (Sustainable Energy Investment Forum), REGEA alongside Energy Cities network want to keep the building debate high up on the political agenda. That is why we are organizing together with the Interreg MED Efficient Buildings Community a virtual round table with a focus on financing energy efficiency measures and the complete renovation of public buildings in the Republic of Croatia.

The aim of the round table on financing energy efficiency measures and renovation of public buildings in the Republic of Croatia is to encourage dialogue between key Croatian stakeholders on improving the availability and allocation of funds for investments in energy efficiency measures. The debate will also build on experiences from local authorities that designed and tested investment evaluation and planning tools in the framework of Interreg MED projects like NewFinance, PrioritEE and Impulse.

Context:

The objectives of the Long-Term Strategy for Encouraging Investment in the Renovation of the National Building Fund will be impossible to achieve without securing private investments and combining it with public funds. In addition to useful tools and methodologies from the Interreg MED Efficient Buildings Community, the roundtable will also highlight good practices in neighbouring countries, such as Slovenia, where projects funded by both private and public funds are successfully implemented. Pointing out good examples will provide space for discussion and pave the way for the implementation of beneficial practices in the new financial perspective. Involving experts from the research and business sectors in policymaking will create opportunities for cooperation, but also shed new light on responding to the challenges of aligning all available funding sources and strategic documents.

AGENDA (21/Jan/2021)

09:00 - 09:15 Welcome to SMAFIN/EBC round table

Ivana Belić & Ivan Pržulj, REGEA

09:15 - 09:30 SEIF and SMAFIN results – How to connect stakeholders, projects and policies?

dr.sc. Julije Domac, Managing Director, REGEA

09:30 - 09:45 Combined financing in EPC (JRC EnPC Report findings)

Paolo Bertoldi, Joint Research Centre

09:45 - 10:30 Combining structural and investment EU funds and private capital for financing energy efficiency measures and complete renovation of public buildings in the Republic of Croatia (analysis of the potential application of the Slovenian EPC model)

- Energy Performance Contracting as Deep Renovation Programme in Slovenia
Damir Staničić, Jožef Stefan Institute
- Possibilities of financing the implementation of the energy transition from EU funds,
Dijana Bezjak, Ministry of Regional Development and EU Funds
- Execution of specific goals 4c1 and 4c2 in OPCC 2014-2020,
Olja Milošević, Head of Sector for Public Buildings, Ministry of Physical Planning, Construction and State Assets
- Public sector needs in the period 2021 -2027,
Ivan Ivanković, City of Zagreb

10:30 - 10:45 Break

10:45 - 11:55 Discussion including questions and answers session

In addition to the invited participants of the Round Table, representatives of the following institutions are also involved:

- Ministry of Physical Planning, Construction and State Assets,
- Ministry of Regional Development and EU Funds,
- Ministry of Finance,
- European Investment Bank (EIB),
- Croatian Bank for Reconstruction and Development (HBOR),
- Agency for Transactions and Mediation in Immovable Properties (APN),
- Cities and counties,
- Energy and development agencies.

11:55 - 12:00 Concluding remarks (REGEA)

What is SMAFIN?

The concept of SMAFIN project relies on the creation of permanent discussion forums on energy efficiency investment topics in order to advance cross-fertilisation between government, local and regional authorities, energy service companies (ESCOs), stakeholders from financial, construction, industry and small and medium enterprises (SMEs) sector. The formation of the forums will contribute to setting up the prosperous ground for constructive dialogue, upscaling existing best practices at national and European level and further developing energy policy frameworks and measures with a focus on the creation of new market initiatives.

SMAFIN project objective is to create a complete roundtable methodology and implement it in the four participating countries - Bulgaria, Croatia, Greece and Romania - for enabling smart financing of energy efficiency renovations, mainly in buildings, involving stakeholders of political, financing, public, enterprise and academic sectors.

Foundation for roundtables and roundtable methodology are findings collected by project partners in policy analysis and market assessment in their countries. Project partners will record the necessary framework information in each country and explore relevant initiatives to build on them. This will include assessing the barriers and the challenges that hinder the effective implementation of energy efficient policies and the realization of large scale investments, gathering EU and national investment frame and regulation, financial models, initiatives such sustainable energy investment forums and their results.

What is the Efficient Buildings Community?

This national online roundtable is the first of a series to be organised in different countries by the Interreg MED Efficient Buildings Community. This community emerged from the Interreg MED-funded project MEDNICE. MEDNICE served as an umbrella to 10 (modular) projects which all tackled the same challenge: improve the energy performance of public buildings in the Mediterranean area. All participating organisations, both public and private, elaborated capacity-building and awareness-raising strategies, designed and tested innovative building and financing solutions.

Three years later, this has become a community holding a wealth of expertise in the field and sharing the very specific Mediterranean perspective. Between 2020 and 2022, the Efficient Buildings consortium focuses on spreading this know-how, both in technical and political terms.

Conclusions of first National Roundtable on Financing Energy Efficiency in Croatia – SEIF Zagreb, 28-29 October 2020 (excerpts)

Through the **Recovery Plan for Europe (RRF 2021-2023)**, namely Next Generation EU instrument, Croatia is allocated around EUR 9.4 billion over the next four years. These are primarily focused on financing the implementation of key structural reforms in areas where the consequences of the crisis and the need to strengthen resilience are the greatest. In addition to the funds available through this Recovery Plan, Croatia will also have at its disposal funds from the **multiannual financial framework (ESIF 2021-2027)**, around EUR 9 billion). Preparation of operational programmes has officially begun, and the first working groups are expected to be established soon. One of the working groups is Green Croatia, which will deal with topics and strategic objectives related to the energy transition.

It is necessary to establish grant schemes for projects according to the model of energy performance contracting (EPC) in buildings as well as financial instruments using ESIF and Recovery and Resilience Facility. Such financial instruments would also include a grant component for projects developed under the energy performance contracting (EPC) model and public-private partnership (PPP) model in buildings. In particular, it is necessary to co-finance a private partner fee (ESCO or private partner in the PPP model).

Croatia has adopted strategic documents that provide the basis for the use of these funds: National Development Strategy until 2030, Energy Development Strategy, Integrated National Energy and Climate Plan (NECP) and Long-term strategy to encourage investments in the reconstruction of the national building fund. These documents set the direction for investment in a green and digital transition, emphasizing the need to combine public and private capital and stronger involvement of the private sector. **Combined financing (combining private capital and ESIF/RRF/national funds) is key to achieving large leverage (multiplier effect)** and is the only way to achieve the overall goals of energy renovation of the building stock by 2030 and 2050.

The building sector in Croatia has a very large potential, but also the need for investment in sustainable energy and energy efficiency. **The Long-Term Strategy for the Renovation of the National Fund of Buildings until 2050** is the umbrella document for implementing energy efficiency measures in buildings. The strategy plans to increase the renovation rate from the current 0,7% to 3% by 2030. The renovation will also encourage highly efficient renewable energy systems (RES), activities to ensure a healthy indoor climate, protection against seismic activity, but also the modernization of district heating systems using RES, as well as focusing on a comprehensive renovation of building blocks.

Good practice examples of **combining private and public financing**, i.e the possibility of using financial instruments and grant components (from ESIF 2021-2027) in the implementation of the **ESCO financing model**, exist in a number of EU countries. Slovenia has successfully implemented combined financing projects. It was also pointed out that the Slovenian model of the EPC contract is developed under PPP procedures and the legislative framework, the so-called Maastricht neutral treatment, and that Slovenia consulted EUROSTAT during the preparation of the EPC documentation on the issue of contract stipulations and risk sharing.

It is necessary to launch a technical assistance program through the European Investment Advisory Hub (EIAH), which would support the development of a program framework. This framework would include the preparation of standardized EPC and PPP documentation and risk allocation to achieve the so-called

Maastricht neutral treatment of these contracts (EUROSTAT), as well as the development of the financial mechanism that would support the financing of projects for the complete renovation of the building stock. It is necessary to use a national model of the EPC contract, in accordance with the legislative framework (Law on Energy Efficiency, Regulation on Contracting and Implementation of Energy Services in the Public Sector), to achieve the Maastricht neutral treatment. When preparing EPC documentation, it is necessary to take into account the differences and separate between EPC and PPP, in accordance with the interpretation of EUROSTAT. While the model of energy renovation of buildings using EPC should be used in case of sufficient energy savings, the PPP model should be applied to investments that include other requirements/needs of building owners such as upgrades or adaptations to new working conditions.

The challenges Member States, including Croatia, are facing are **the harmonisation of all available sources of financing, strategic documents and increasing the level of readiness of projects for financing**. Involving experts from the research and business sector, as well as raising awareness of the opportunities provided by EU programmes should be a priority when planning and implementing projects in the coming period. Croatia has a good starting position to use the EPC model more intensively. However, it is crucial to identify all necessary measures for buildings as well as to **combine sources of EU funds** to enable the financing of deep renovation of buildings in future programmes. The details of the State Aid treatment of grants awarded to ESCOs under the EPC contract are considered the biggest obstacle in combined financing.

The very successful results of the implementation of the **Program for the energy renovation of public sector buildings** for the period from 2014 to 2018 in which the building renovation projects were realized through the ESCO model were highlighted. The implementation of the Program was the responsibility of the Croatian Agency for Transactions and Mediation in Immovable Properties (APN). The Environment Protection and Energy Efficiency Fund (EPEEF) co-financed 40% of the works, and 100% of energy audits and certificates and, where necessary, preparation of project tasks. This grant component was necessary to make EPC projects financially viable but also acceptable to ESCOs and clients (public authorities). However, due to the limited financial capacity of the EPEEF, the implementation of the Programme was suspended during 2018. In the panel discussion, the representatives of the EIB and DG REGIO pointed out several possible ways to use the ESIF and stressed the possible support of the EIB to work together in the future to develop a national program or model for the implementation of EPC projects by combining funds. In addition to the above, there is a possibility to use funds from the Recovery and Resilience Facility, where the promotion of energy efficiency in buildings is flagged as one of the key reforms that can be financed.

In the next financial perspective, it is recommended to use a model in which financial instruments (FI) and grants are awarded automatically (not on a project basis) through an implementing body (IB), i.e. paid on the escrow account. In that case, the grant component must be smaller in relation to the FI (based on the program and project portfolio, because specific beneficiaries can be awarded more than 50% of the grant, with an acceptable explanation). It is necessary to define the method of awarding a grant with an emphasis on the primary use of a dedicated escrow account through which the awarded component can be disbursed during EPC or PPP contract (which is expected to be longer than the period of the financial perspective).

To prepare and implement projects based on combined financing, it is necessary to allocate a share of funds from the Operational Program 2021-2027 for technical assistance.