

TRANSNATIONAL STRATEGY AND ACTION PLAN - how to implement EEPs with alternative financing models

D.T1.3.6

Version 1



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1. Introduction

‘Transnational Strategy and Action Plan - how to implement EEPs with alternative financing models’ is a tool for local and regional authorities and other relevant stakeholders in the context of energy efficiency plans and sustainable energy action plans implementation. It provides an overview and relevant examples of existing financial instruments for financing energy efficiency improvements and renewable energy investments in rural regions of Central Europe based on analysed best practices.

The action plan gives an easy to use tool for the analysis of available financial models for the implementation of EEPs and SEAPs measures in rural regions - backed by real-life examples developed through feasibility studies provided by the project partners. Finally, the strategy gives guidance to the political decision-makers on enabling alternative financing sources in regions.

The strategy is partly a result of partners’ analysis of best-practices on regional, national and EU level including valorisation of former EU-projects as VIS NOVA, RENERGY, SEA Alps, CombinES for alternative financing models and implementing EE/RES measures. This research has been summarised in the D.T1.2.2 Report of analysed Best-practices about alternative financing models of EE and RES measures. It also includes the input of partners through analysis of planned investments in the context of available conventional and alternative financing sources, which has been done through the development of feasibility studies.

The goal of the strategy/action plan is to inspire political decision-makers, interest groups and further stakeholders to implement EEP and enabling alternative financial models for its implementation.

2. Results of the best practice research

This chapter briefly presents conclusions from the research and analysis of the alternative financing sources for energy efficiency and renewable energy development in the Central European region. The analysis was carried out within the DT1.2.2 Report of analysed Best-practices about alternative financing models of EE and RES measures.

2.1. Typical financing sources

Obviously, the main source of funding for investments in rural municipalities is the municipal budget. Apart from that, there are other sources of external capital for carrying out investments in energy efficiency and renewable energy sources in rural regions of Central Europe.

Currently, the most important funding are EU funds, which provide different types of funding opportunities, such as grants, loans, guarantees, subsidies and prizes.

1. Grants - funding for projects contributing to EU policies. Grants are awarded to private and public organisations, and exceptionally to individuals. Grants are a form of complementary financing. The EU usually does not finance projects up to 100 %. In other words, the project will be co-financed by the beneficiary organisation. Grants are mainly awarded through calls for proposals.
2. Loans, guarantees and equity - as forms of assistance, in relation to EU policy and programmes). The financing goes through local financial institutions – banks, guarantee societies or equity investors – which determine the exact financing conditions: the amount, duration, interest rates and fees.
3. Subsidies and other types of funding - are managed directly by EU national governments, not by the European Commission.
4. Prizes - are rewards to winners of contests from Horizon 2020.

These funds are provided mainly through funds and funding programmes:

- European Regional Development Fund (ERDF) - regional and urban development,
- Cohesion Fund (CF) - economic convergence by less-developed regions,
- European Agricultural Fund for Rural Development (EAFRD),
- European Maritime and Fisheries Fund (EMFF),
- Horizon 2020 programme.

For the EE and RES investments, the most important source of EU funding is the ERDF and CF. Also, national governments provide funding for these types of investment through national programmes as well as regional funding programmes.

Most of the best practices provided by project partners concerned energy efficiency improvement in buildings as it is the most common investment undertaken by the municipalities in Central Europe. In this context main funding source used were the EU funds (ERDF and CF), however increasingly popular are investments involving third-party financing (PPP), described in the alternative section.

EU funding - the most popular funding source for EE and RES investments - especially through grants which are dedicated to projects with low profitability (with low SPBT, not profitable in terms of financial analysis criteria). EU funding provides a high share of investment capital (up to 85%) needed for the success of the municipal initiatives. However, this type of funding (grants) is becoming less common in the EU with more funds coming in revolving funds offering loans on better than market conditions. It is

important for the municipalities to be prepared for a smaller share of grants and a larger amount of loan type financing through EU revolving funds.

2.2. Alternative and emerging financing opportunities

For the purpose of this study other than EU and national/regional funding options are called alternative models. They specifically include (but are not limited to) public-private partnership model (PPP), ESCO, financial instruments (offering technical assistance), bonds, citizen participation (like crowdfunding) and others.

The PPP focuses mainly on energy efficiency through the Energy Performance Contracts (EPC), under which an Energy Services Company (ESCO) invests in a comprehensive refurbishment (building insulation and renovation of the heating systems) and repays itself through the generated savings. This is the most common case. To lower the risk of investment in many cases, EU funding may be included in the PPP project.

The European Energy Efficiency Fund is a facility providing technical assistance by way of consultant services. Beneficiaries can use the consultant services to carry out, for example, feasibility studies, energy audits and evaluate the economic viability of their investments. European public entities are eligible for funding of energy efficiency, small-scale renewable energy projects. The investment following technical assistance phase has to be financed through the eeef mechanisms (by loans, bonds or ESCO services).

Apart from PPP and eeef funding, there are also other non-conventional sources of capital needed for the investment in RES or energy efficiency - especially through financial mechanisms. The public participation model can be based on the crowdsourcing model (eg. bonds).

3. Analysis of planned investments

Within the project framework, five pilot investments were initially planned by five project partners:

- Ventilation system with heat recovery in public sports centre - planned by the City of Leisnig (Germany);
- Intelligent water metering (IWM) - planned by the Municipality of Pałecznicza (Poland);
- Solar "E-Tree" - planned by the Municipality Puconci (Slovenia);
- Establishing a renewable energy-yard - planned by the Zala County Government (Hungary);
- Energy efficient administrative building in Cakovec - planned by the Regional development agency Medimurje REDEA Ltd. (Croatia).

A detailed description of these investments has been provided in the draft feasibility studies provided by the partners. Apart from the investments planned in the project proposal, the partners were supposed to analyse and select other potential investments for their later implementation that could contribute to the achievement of energy autonomy in rural regions. These investments also have been analysed and summarised in the feasibility studies provided by the partners.

To analyse the investments in the context of possible financing sources a simple, unified methodology has been developed. It has been based on the D.T.1.2.2 Report of analysed Best-practices about alternative financing models of EE and RES measures. The following steps for the analysis have been designed:

1. Definition of the general funding possibilities for energy efficiency/renewable energy development investments. It covered all general funding measures available in the Central European region for municipalities and other involved stakeholders. It has been based on the DT 1.2.2.

2. Assessment of the availability of the financing source for the investment.
3. Assessment of the applicability of the financing source for the investment.
4. Specification of the source in the specific context of the country/region of the investment.
5. Assessment of upsides and downsides of the financing source.

The methodology required the investment to be analysed in the context of all identified financing sources in a simple matrix presented below. After completing the table it was possible to select the best possible option and see alternatives for financial implementation of the investment.

The planned investments resulting from EEPs (planned as pilot investments and as future investments) have been analyzed in the context of the following general financing schemes:

- Own budget,
- Bank loans,
- EU-level funds (eg: Interreg, Horizon2020 etc.),
- EU funds national & regional level,
- National funds,
- Regional funds (non-EU),
- Local funds,
- PPP,
- Energy performance contracting,
- Crowdfunding,
- Other (to be specified).

The following matrix provides a simple tool for the analysis of financial source applicability for a specific investment.

ANALYSIS OF POSSIBLE FINANCING SOURCES FOR THE INVESTMENT

Investment title:

Estimated value of the investment (expenditures):

- Investment cost:
- Operational cost:

Available financing resources:

Financing source	Availability	Applicability	Specification of the source (if available and applicable)	Pros	Cons
Own budget					
Bank loan					
EU-level funds (eg: Interreg, Horizon2020 etc.)					
EU funds national & regional level					
National funds					
Regional funds (non-EU)					
Local funds					
PPP					
Energy performance contracting					
Crowdfunding					
Other (please specify)					

Short summary:

(Which financing source is the best option for this project?)

4. Key findings and suggestions for the future

The Transnational Strategy and Action Plan has been developed based on the research of existing conventional and alternative financing models - focusing more on new, developing financing models. The proposed methodology has been designed in a way allowing stakeholders to explore different opportunities for financing of planned investments (which are/could be included in existing EEPs and SEAPs) providing a high degree of flexibility for adapting to specific circumstances.

During the development of the strategy, best practices have been researched by all project partners fostering transnational cooperation and knowledge exchange. It appeared that in many cases there are no big differences in financing schemes of energy efficiency improvements and renewable energy investments in rural regions of Central Europe. But apart from a high degree of similarity of researched projects, especially those regarding the thermal improvement of buildings, partners provided valuable input on new and innovative financing schemes for different kinds of energy improvements specific to some countries.

Due to the evolving financial market and possible changes of availability of EU fund, which tend to be the basic source of financing of energy improvements and RES in Central Europe, the main lesson learned is that all stakeholders will have to engage more innovative financial mechanisms available on the market. It is also important to note that some innovative financial mechanisms do not always comply with existing law regulations in some Central European creating barriers and risk for the investors.

Regarding the RES investment currently, there are available support schemes for the development of RES (like feed-in tariffs, subsidies, certificates of origin etc.) in many countries which provide additional income for the operators of RES sources at the operational phase making the investment more profitable. However, the CAPEX for this kind of investment is still a barrier for small municipalities. To overcome this EU funding or private capital may be introduced - this study presents both types of investments. Due to phasing out of RES support schemes in coming years in the EU this type of support (PPP) should become of main interest for the municipalities

This tendency leads to an increased share of PPP based projects which include both EU and private financing allowing for de-risking of the investment (lower risk means lower cost for the municipality). It is foreseen that this type of investment, especially in the energy efficiency measures (in the form of ESCO) will be predominant in the next programming period of the EU (2021-2027) therefore it is important for the municipalities to become familiar with this type of project-based financing following available best practices in this field.

National and regional funds are specific to countries and regions and in general financing schemes resemble those of the EU funds. In many cases these funds may be used as a source for additional funding for the project, covering parts of the owners share of the investments financed through EU funds or in the form of PPP. Presented best practices provide examples of such complementary funding.

In the context of the implementation of energy efficiency plans and SEAPs/SECAPs, a good overview of financial possibilities is provided on an up-to-date basis by the Covenant of Mayors Office through their website (<https://eumayors.eu/support/funding.html>).

European Structural and Investment Funds	European Funding Programmes	Project Development Assistance	Financial Institutions Instruments	Alternative Financing Schemes
Cohesion Fund	CEF	EEEF	EFSI	Citizen Cooperatives
EAFRD	Horizon 2020 ▾	ELENA	Municipal loans	Crowd-funding
EMFF	JPI Urban Europe	Horizon 2020 PDA	NCCF	EPC
ERDF	LIFE	JASPERS		Green municipal bonds
ESF	Territorial Cooperation ▾			On-bill-financing
	UIA			Revolving loan funds
	URBACT			Soft loans, guarantees

An interactive and up-to-date financial resources overview for the SEAP/SECAP implementation provided by the Covenant of Mayors (source: <https://eumayors.eu/support/funding.html>)

5. Recommendation for stakeholders and policymakers - action plan

As it appears from the analysis there is a need for the development of other alternative funding schemes/sources apart from PPP and EU funds. This is vital for the municipalities as the main source of funding stream from the EU will be drying out in the coming years. The EU funds will also focus more on revolving instruments than non-refundable ones.

5.1. Action plan for the implementation of energy efficiency plans and SEAPs/SECAPs

Presented here are main actions to be taken to improve the implementation of the EEPs and SEAPs in a financial context and specifically enable alternative methods of financing, like especially: crowdfunding, revolving funds, PPP.

1. National decision makers

- should focus on developing official guidance for using alternative financial sources - especially in the context of their accordance with existing law. This is very important especially for the crowdfunding type of sources which are currently underregulated.
- Should further develop national financing instruments not dependent on the EU funds which could be main or supplementary sources of financing for municipalities (e.g. national environmental funds, specific ministerial funds).
- Should focus on the development of regulations regarding financial institutions and private investors which could decrease the level of investment risk undertaken by these stakeholders when financing the investments in energy efficiency and renewable energies.

2. Regional decision makers

- should address European regional development funds more specifically to rural regions taking in to account the specific needs of their regions.
- Should analyse available financing sources in their region and provide instruments filling the gaps - in a form of regional funds.
- Arrange regional exchanges allowing for the transnational knowledge transfer between regions of similar characteristics.

3. Municipal decision makers

- Should focus more on alternative financing sources - test new possibilities by implementing pilot actions to gain new experiences.
- Engage in peer-to-peer learning and other exchange possibilities to gain knowledge and inspiration for the implementation of actions foreseen in the plans.
- Should use the financial sources analysis matrix to select the best-fitted options for the investment implementation.
- Should look for developing investments in the PPP projects formula involving EU and private funds
- Should focus on the development of local support funds for individual investments.

6. References to other project's deliverables

- D.T1.1.1 Minutes and Decisions of Local Support Group (LSG) meetings
- D.T1.2.2 Report of analysed Best-practices about alternative financing models of EE and RES measures
- D.T1.3.1-5 Feasibility studies for implementing EE and RES measures in partners regions
- D.C2.2 Best-practice Handbook