

European Commission
DG Energy
Unit C. 3.

Budapest, 2012.05.18

Re: **Views from the Hungarian Energy Efficiency Institute on the
Consultation Paper “Financial support for energy efficiency in
buildings”**

1. Introduction

The Hungarian Energy Efficiency Institute (**MEHI/Huneff**) is a research and advocacy organisation in cooperation with the energy efficiency business sector. The Institute's strategic goal is to expand the Hungarian market for energy efficiency products (construction materials, machinery, technical equipment, services) by encouraging energy efficiency investments. The Institute's main methods include professional analysis, raising policy issues and disseminating research findings as well as participation in the legislative process and expert discussions taking place in the public eye.

1. General comments

MEHI/Huneff welcomes the Consultation Paper, as it explores a very timely and important issue. The document sets out the scene and the key issues properly. We hope that it will lead to effective action on an EU level.

We would like to note that the job creation effects cited on page 3 (according to MEDDTL, every 1 M EUR invested in thermal insulation results in 14.2 jobs) are much smaller than the job creation effects forecasted for Hungary. According to a 2011 study made by Energiaklub Climate Policy Institute¹, 1 EUR invested in energy efficiency would yield 100 jobs, due to direct and indirect effects. This value is seven times over the value calculated by MEDDTL.

2. Specific replies

¹ http://energiaklub.hu/sites/default/files/energiaklub_macro_economic_impacts_pdf.pdf

(1) Addressing market failures

(a) Are the barriers identified in this document the most important ones? If not, which barriers are missing and why are they important?

Yes, the barriers are well set out in the document, adding that the lack of credit is a key problem in CEE Member States. MEHI/Huneeff would like to add another barrier: the lack of guarantees for homeowners for the outcome of the energy efficiency investment. At present, within the designer - builder - building owner - credit institution spectrum it is the building owner who has the least knowledge on energy efficiency investments, yet he/she has to make the decision on the investment and has to bear the financial responsibility.

(b) Which market failures would be most urgent to address? At what level (i.e. EU, national/regional/local) would these failures be best addressed ?

In the CEE region, the most urgent non-financial barrier is the lack of clear and predictable regulation. As there are many small MS in this area, clear EU-level standards and regulations can have a great advantage as they can emerge faster and result in a less fragmented market.

On a national level, the unreliability of the building process is a key problem that hinders investments. In Hungary, there is no independent and institutionalized quality control of buildings

(c) How could these failures be best addressed? For example; how could behavioural change needed for quicker uptake of energy efficiency measures by society be triggered at the national level? How could the development of an energy services market for households be further stimulated? What could be done to increase awareness raising and promotion of energy efficiency in buildings? How could the business community (e.g. building sector, ESCOs, local banks, etc.) be better supported in delivering energy efficiency in buildings? How could the split incentive problem be best tackled?

As regards the absence of guarantees for the outcome of the investment, we should develop investment mechanisms where the risk for the proper evaluation and the realization of the investment is borne by the parties who are best placed to assess the risks and ensure the investment's success. These would naturally be the builders. However, as building companies are notoriously short lived, other institutions should be set up to guarantee the success of the investment. This could take the form of an investment insurance, for example, where the insurer

reimburses the building owner if the investment does not deliver the expected results.

(2) Improving access to financing

(a) Are the current EU-level financial tools for energy efficiency in buildings effective? How could the uptake of EU-level funding for energy efficiency (including cohesion policy funding) be improved? As a complement to tailor-made national or regional financial instruments (e.g. set up with a contribution from cohesion policy funds), what could be the future role of centrally -managed financial instruments at EU level in this context?

No, they are not effective, because they rely chiefly on grants, and do not assist the public in obtaining the funds for its own contribution to the investment. It would be more important to provide loans that require no initial downpayment, and whose repayment is funded from the reductions in the energy bills.

In addition, institutions providing EU-funds should combine their EU resources with private funds to allow a greater penetration of these funding programmes.

Finally, in order to alleviate their risks, funding organizations should help homeowners identify reliable builders

(b) How could more private financing (both from institutional investors as well as building owners) for energy efficiency projects be mobilised? What would be the role of public funding (both at EU and national level) in this context? Is access to (project development) technical assistance an issue and how could it be provided most efficiently at the national, regional and local level? How could both national and EU financing schemes be improved to best cover all segments of the market (residential, commercial, public buildings, etc.)?

The role of EU funding should be to act as seed money, i.e. to cover some of the risk involved in lending to homeowners for energy efficiency.

The EU should also prescribe and enforce building standards in buildings that receive funding from EU sources.

Technical assistance is a key issue, as many banks lack the expertise to evaluate energy efficiency projects. The level of standardization, government control and standardization of the building industry is different in various Member States. On EU level, there should be minimum standards, e.g. technical evaluators inspecting completed building works should be independent from all other participants in the process, heating renovations should not be carried out without an appropriate renovation plan, etc. These should be seen as measures aimed at protecting the

homeowner as consumer from shoddy workmanship and incorrectly designed building refurbishments.

(c) Is there a need for guarantee systems related to building efficiency investments? If so, what guarantee systems for efficiency investments would be necessary and how should they be designed? Is there a need for other enabling mechanisms (e.g. risk-sharing, investment vehicles)?

Yes, guarantee systems are very important and very necessary from multiple aspects. First, banks need financial guarantees that can replace putting mortgages on houses. Second homeowners need guarantees that the work carried out on their property is good. This can be done in the form of a financial guarantee directly by the builder. Builders in turn, take out insurance against such losses. Insurance companies' bonus-malus systems could alleviate the problem posed by the short lifespan of the typical building company.

(d) How could the capacity, knowledge and risk perception regarding energy efficiency investments be improved, both at financial institutions as well as with private investors and administrations at all levels?

Private investors will always remain the least knowledgeable about these issues, so the objective should be to ensure that they do not bear the greatest risks. Banks should increase their capacities by pooling their resources to create nation-wide lists of "pre-approved" builders, architects, etc.

(e) Are there examples of good practice at national or regional level (with data on costs and benefits) that could be applied more widely?

With respect to Hungary, are not aware of good practices that should be emulated.

(3) Strengthening the regulatory framework

(a) Is there any need for further EU-level regulation to stimulate energy efficiency investments in buildings beyond the Commission proposal for a new Energy Efficiency Directive? If so, what should these measures entail?

The EU should achieve a stronger linkage between building energy efficiency policy and climate policy. This could be done through a European policy framework wherein energy efficiency projects in buildings are funded through an innovative mechanism. In this mechanism, annual emission allocations under the EU's Effort Sharing Decision Mechanism (covering greenhouse gases outside the EU ETS after 2013) would be sold with a promise that the funds will be used to fund building renovations to improve energy efficiency. These promises should be guaranteed by financial institutions who undertake to locate and fund these investments.

There should be a harmonized EU-system for calculating the CO₂ reductions achieved through such projects, thereby facilitating their EU-wide commerce.

(b) What could be specific measures to be taken at national level to implement and complement most effectively the EU-level regulatory framework for energy efficiency?

The government should set up long-term, predictable sources of funding upon which homeowners can rely

(c) What are the specific needs for policy guidance and awareness raising among different stakeholder groups?

The public needs hands on best practice examples which send the message that you can do this too.

Building professionals need to learn new ways of building, and put a stronger focus on energy efficiency in every building project (i.e. mainstream building energy efficiency).

The government needs to fully grasp the benefits of building energy efficiency programmes, and their relative cheapness if done with the involvement of private money.

Best regards



dr. István Bart, director