



# EUROPEAN BUILDERS CONFEDERATION

*The Voice of construction crafts and SMEs in Europe*

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## REPLY TO THE COMMISSION CONSULTATION

May 2012

### Financial support for energy efficiency in buildings

Established in 1990, the European Builders Confederation - E.B.C. - is a European professional organisation representing national associations of Craftsmen and SMEs working in the construction sector. Through its national members, E.B.C. represents 2 million micro, small and medium sized enterprises from the construction sector.

The construction sector is of vital importance to the European Economy. With 3.2 million enterprises, an annual turnover of €1,665 billion, a total direct workforce of almost 13 million people, the construction sector contributes about 12% to the GDP of the European Union.

The European construction sector is composed at about 99% of Small and Medium-sized Enterprises (SMEs), who produce 80% of the construction industries output. The small enterprises (less than 50 employees) ensure 60% of the production and employ 70% of the sectors working population.

#### General Comments

The European Builders Confederation EBC welcomes the Commission's consultation to find financial solutions to support energy efficiency in buildings. Indeed, energy efficiency is a pillar of the future for construction crafts and SMEs in Europe. Construction represents a large part of the EU economy and the vast majority of the companies are SME. In this sector indeed, SMEs represent 99% of all the 3 million companies in the European Union and are accountable for 80% of the total construction turnover. In addition, micro-enterprises (less than 10 employees) represent 92% of the sector. As widely known, buildings are responsible for about 40% of energy consumption and about 36% of all greenhouse gas emissions in the EU: therefore investing in energy efficiency in buildings is key to help reducing the impact on environment and climate change.

The challenge of boosting the energy efficiency of existing buildings can only be met if sufficient and stable financial incentives are made available and easily accessible. Indeed, energy efficiency in housing is slowed down by the fact that upfront costs are often high with a long return on investment. Therefore it is essential that private owners/tenants are put in a position where they can afford starting construction work to improve the energy efficiency of their building. At the same time, local SMEs must also be financially helped – the workforce need to update its skills to the new innovative techniques, therefore training programmes should be developed for professionals in the construction sector on new eco-construction techniques, eco materials and new ways of evaluating the energy performance of buildings. Insurance costs could be reduced by introducing a funding or other type of instrument at EU level that would reduce the cost of the risk for insurance companies.

#### Questionnaire and replies from EBC

Based on the clusters of barriers identified in the previous chapter, stakeholders are requested to provide answers on the following questions:

##### (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?**

**(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?**

**The main market failures are interlinked and come from both the supply and the demand sides. They include the following points:**

- Lack of knowledge and information by clients and financial institutions
- Lack of upfront capital to finance the works
- Lack of confidence in the market
- Lack of available and capable enterprises (or groups of SMEs) to perform energy efficiency improvement works

- **Information campaigns** (at national and/or local level) must be launched to familiarise final users with energy efficiency. It is essential that the final-user understands the real benefits of energy efficiency and the ratio cost/benefits on the long term, in a situation where he will be tempted to only look at the price. Information should also better be displayed regarding the possibility to apply for funds linked to energy efficiency.

- Information campaigns alone are not sufficient. the client must also have access to a qualified workforce, and be economically encouraged to do the necessary investments. One of the main obstacles to the implementation of energy efficient technologies remains that the return on investment requires a fairly long time, therefore incentive mechanisms should be strengthened to overcome the issue of the **lack of private financing**. It is important to note that in general older people have the resources to invest in retrofitting, but not much interest in doing it. On the contrary younger families have fewer resources but more willingness. There is a lack of demand for energy efficiency measures except where they are supported by a sufficient incentive, therefore direct financial support must be given, especially to young households. It is also important to note that, very often, the difficulty to access financial support leads to unwillingness of the clients to take the necessary administrative actions to obtain this support.

**Supply-side market failures include:**

- The **availability of reliable construction SMEs** to offer energy services at local level and for small projects. Connected to this is the fundamental problem of **market confidence** and how to build it.

- **Qualification / skills**. Construction enterprises are trying to face the new environmental and energy related issues by becoming greener but the sector currently lacks of skilled workers capable of meeting the energy efficiency challenges. **Information and training plans** must be developed so that construction crafts and SMEs are fully knowledgeable of the legislation, can carry out energy performance evaluation and advise the clients. Action should be taken at national level to fine-tune diplomas in order to be adapted to these new needs. It is necessary to train more and better.

All these market failures must be addressed jointly at all levels, knowing that each level has to play a significant role and a moment in which this role must be played, both in supply and demand sides of the problem.

**(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?**

It is useful to address the **lack of information**. As mentioned in the above question, national information campaigns can help households to understand the real benefits of energy efficiency and the ratio cost/benefits on the long term, in a situation where people are tempted to only look at the price. Local SMEs which perform the works can also relay the information and bring tailored information that will suit the needs of the client.

But for households, the main obstacle to the development of an energy services market for households is **access to finance**, therefore stable incentive mechanisms or low interest loans, tax credits, reduced

VAT rates etc. to amortization for households that buy or install goods and/or services to encourage the development of an energy services market must be made general. The sustainability of these mechanisms is of high importance. Indeed, national recovery plans had introduced such measures to counter the crisis but their withdrawal or modifications (which can be observed in most of the EU countries) prevent household from taking action. By changing game rules, players become more cautious in their investments.

- For example in France in 2011, in three households only one in the end have decided to do the necessary works to improve the energy efficiency of its building, the other ones have delayed it or canceled it because it is too expensive or the return on investment was considered to be too long.
- Another example coming from UK: the government's Feed in Tariff (FiT) scheme saw home owners with micro generation technologies able to sell excess generation capacity back to the national grid at highly advantageous rates. The scheme was so successful that the government was forced to cut the subsidy that supported the financial returns to home owners. The cutting of the FiT has had a serious negative impact on installers of micro generation technology.

To tackle the behavioural barrier related to the unwillingness of a client to take the necessary administrative steps to receive some financial support to perform energy improvement works, EBC proposes to introduce a new scheme.

This foresees the possibility for the enterprise performing the energy efficiency works to apply for the funds on behalf of the client. This would include the preparation of the necessary documentation and management of the investment process better than the client. Thanks to this approach, it will be in the interest of the SME or aggregation of SMEs/microenterprises to find clients and to inform them about this new possibility.

This scheme would introduce the role of intermediary beneficiary, played by the small enterprises, which will ensure the information and administrative obligations and will interface with the client, who is the financial beneficiary and co-investor in a project aimed at improving the energy efficiency of the property.

**Qualification and skills requirements are issues that must also be tackled.** Training in SMEs is often carried out "on site". Therefore, the validation and recognition of informally acquired competences is vital for construction SMEs and the employability of the workforce. Whilst construction SME employers value vocational training extremely highly and require a workforce with more vocational qualifications, vocational training is still not being promoted equally with university education in many countries and the teaching of entrepreneurial skills is widely neglected. Also trainers must undergo training to have an adapted knowledge of the challenges linked to energy efficiency issues and technologies. Therefore, EBC calls for part of the European Social Fund to be specifically earmarked for training the managers of small companies and micro businesses and their staff in energy efficiency.

The possibility for SMEs from the construction sector to **group themselves into clusters/consortia** must be encouraged. Small businesses are the one currently present in the energy services market for households. But more and more, the client wants simpler relationships with the hired company; he just wants one interlocutor and a global offer with guarantees. In this sense, the energy performance contracting (EPC) seems the most suitable contract to offer. But an EPC is a rather complex contract and a local SME cannot offer such type of contracts as it requires strong financial backing and structure for the pre-financing. Therefore, all barriers that impede or restrict the possibility to constitute groups of independent SMEs should be tackled. The creation of consortia of SMEs will improve the organisation and the presence in the market of SMEs that provide energy services, increase the reliability of the energy services provided, heighten customer confidence in SME suppliers of green energy services and facilitate communication between them. The sector is currently relatively fragmented which can slow down the take up of the energy services market.

The difficulty in aggregating enterprises comes from financing the starting of the project. The most successful clusters are the ones that are promoted and supported by public bodies with public funds. Public bodies could also provide cluster members with the infrastructure and installations needed to start the action. The problem is that not all regions have got enough resources or supporting politics toward this direction. Therefore, EBC thinks that the ERDF could allow the allocation of funding to start clusters of enterprises which activities are dedicated to the improvement of energy efficiency in buildings. The involvement of public bodies and the government in the promotion of cluster development seems deemed necessary not only to help financing but also to promote the image of the cluster and enhance the trust of private owners/tenants who need to improve the energy efficiency of their building.

In this field, EBC highlights the relevance and interests of the EU-funded project PROMETHEUS on clusters of SMEs to deliver energy services. <http://www.prometheus-ieee.eu/Home.aspx>

## **(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?**

Construction SMEs and EBC members have mixed experience with EU financial tools as the administrative and financial requirements are too burdensome. It is therefore essential to simplify arrangements for accessing and using existing EU financial tools in full coordination with local authorities which manage these funds. Several steps should be taken:

- Facilitating EIB and EIF funding for mutual banks, neighbourhood banks and other financial institutions to fund investment in projects to enhance the energy efficiency of housing.
- Enhancing bank guarantee systems for SMEs so as to promote this type of investment and establishing a risk guarantee system to enable insurance companies to cover eco-energy investments;
- Encouraging the use of microcredit for low-cost investments and training the staff of neighbourhood banks to objectively evaluate the projects presented by SMEs;

Regions should be encouraged to use, in the framework of the new financial perspective, the part of the structural funds that can be allocated to rehabilitation and improvement of energy efficiency in private housing projects, without limiting it to the social housing. A stronger coordination work – also in order to make sure that the energy efficiency objective is pursued – has to be done by DG REGIO of the European Commission.

The future impact of centrally-managed financial instruments is uncertain, since it strongly depends on the financial dimension and allocation of resources. The IEE (Intelligent Energy Europe) programme is for example very relevant as an information and awareness raising tool and usually finances very valuable projects, but has no impact in structural projects and does not finance real energy improvement operations. The recently established European energy efficiency fund EEEF <http://www.eeef.eu/home.html> is also too small and counts too heavily on private leveraging of additional resources. In addition, these tools – also because they are centrally managed – are not widely known in the Member States.

To fight against energy poverty, it is important that financial programmes are put in place to support investment in energy efficiency also in social housing, such as French ANAH's "Habiter Mieux" programme <http://www.anah.fr/habitermieux.html>. This programme is very useful and resourceful, but in some cases, providing these sums to private citizens with very small financial means has proven risky, because the sums have been used to cover other expenses, instead of paying for the works performed by the enterprise. Therefore it is necessary to secure the payment of the works by facilitating the direct payment by ANAH to the enterprise, upon presentation of the invoice.

**(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.)?**

EBC proposal to set up a new financial method scheme where the SME/ cluster of SMEs performing the renovation works could apply for a financial support on behalf of his client (please see question 1 (c)) gives a first answer on how more private financing could be mobilised. It should also be noted that a well-aimed information campaign would be conducive to a considerable improvement of social awareness in this respect. A mechanism of subsidising the provision of credit investments in energy efficiency could

additionally be established, with preferential loans offered by banks and distributed as commercial loans. It should be conducive to involving more funds from both financial organisations and building owners.

**(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)?**

Since access to credit is a very important issue for both enterprises and households guarantee systems to secure investments are vital.

Guarantee systems already exist at EU level like the Loan Guarantee Facility (LGF) which provides counter-guarantees and other risk sharing arrangements for guarantee schemes and direct guarantees and other risk sharing arrangements for any other financial intermediaries meeting the eligibility criteria. But access to this kind of instruments remains problematic. Indeed banking organisations or public authorities are not necessarily aware of the abilities of small construction enterprises operating in renovation work and energy efficiency improvement projects. Therefore, they do not lend money to the latter. The lack of training of banks and other intermediaries on energy efficiency issues is a vital problem.

Energy Performance Contracting (EPC) offers a good guarantee to the client but the problem of an EPC is that it is currently a contract which is not generally accessible to SMEs (see question 1 (c) to know how this problem could be solved for SMEs). Next to the precise energy saving guarantee which an EPC can give, it may be important to allow smaller EPCs that could guarantee the improvement of the building in terms of energy classes (e.g. from G to C). Funding strategy or schemes to offer financial guarantees and access to insurance for SMEs for the deliverance of an EPC would also be necessary.

**(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?**

Regional, local authorities and banks are key players and are essential supporters for energy efficiency improvement. However they are often unaware of the constraints and needs of SMEs. Therefore it would be useful to set up a consultation with the economic and social partners from the construction sector at national and regional levels on energy efficiency. These direct talks and possible consequent partnerships are very useful ways to raise the awareness of the viability of financing operations in this field and of the reliability of the enterprises involved in this.

Financial institutions charged with funding energy efficiency projects should follow trainings in order to be able to understand what is at stake, what the real risks are and be able to understand that small companies are totally capable of conducting energy improvement works but that they need to be accompanied from a financial point of view.

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

ANAH – Habiter Mieux programme in France

55% tax deduction system in Italy – Confindustria study on this programme shows that the overall cost of this fiscal measure is close to zero, because of tax income being generated by increase in business activities and in reduction of black labour.

KfW – German development bank has extensive programmes supporting energy efficiency investments.

The UK government is introducing the “Green Deal” (GD).

The basic concept of GD is that it will provide loans to home owners for energy efficiency upgrades to existing properties as long as their payback period does not exceed the lifetime of the measures being undertaken. The idea is that the loan, which is attached to the property, not the owner, will be repaid through lower energy bills.

**There are two main problems with this.**



A) it is a loan with strings attached and therefore slightly less attractive than taking out a loan and doing the work without the scheme.

B) it is feared that the charge against the property may be reflected in the valuation of the home. In another way, it may be seen as a debt/outgoing, and the property may be devalued as a result.

The Federation of Master Builders (EBC UK member) and other organisations supporting the green deal believe that the programme will not work unless it is supported by meaningful incentives such as reduced rates of council tax, VAT reductions etc.

### **(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 Commission proposal on the energy efficiency directive does not foresee indicative targets for the number of buildings to be renovated every year by the Member States. This is a real missed opportunity. EBC was very surprised that not all existing buildings were covered by the directive whereas renovation of all existing buildings will be essential to achieve the overall EU energy efficient target. Indeed, public buildings only represent around 12% of the European building stock.

The ITRE Committee of the European Parliament amended the text encouraging Member States to reduce, by 31 December 2050, the energy consumption of the existing building stock by 80% compared to 2010 levels. This crucial amendment to boost energy efficiency works in existing buildings should be backed by the Commission and the Council.

**(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?**

Firstly, it is essential to closely follow the transposition of the directives linked to energy efficiency in buildings in order to ensure a real implementation of the directives.

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

From EBC point of view, small enterprises from the construction sector need to receive more information in order to be fully aware of the legislation. They should also receive information on consortia/clusters for small enterprises and the benefits that these latter offer, in order to be able to offer more complex contract such as EPCs. Finally they should be informed on available financial means. A system of support should be put in place for the SMEs performing activities in the energy efficiency field through their professional industry association.