

## **Consultation Paper DG Energy "Financial Support for Energy Efficiency in Buildings"**

**Brussels, 15 February 2012, - Consultation period ending May 18th 2012**

Improving energy efficiency is key to mitigating climate change and maintaining energy security. Yet despite the high relevance of energy efficiency there is a lack of investments due to market failures and barriers that have to be overcome.

KfW Bankengruppe has been promoting investments in energy efficiency in buildings in Germany for more than 15 years. In 2001 the German government launched the Energy Efficient Construction and Rehabilitation (EECR) programme, the first programme in Germany focused on the comprehensive refurbishment of residential buildings with respect to energy efficiency. From 2001 to 2011 KfW's EECR programme has resulted in approximately 740,000 loans with a volume of roughly 45 billion Euros, reaching 2.1 million housing units.

Since 2006 the impacts of the programme are evaluated on an annual basis. The evaluation shows that since 2006 the average CO<sub>2</sub> reduction accumulated to 7.7 million tons per year. In sum, the programme triggered investments of over 70 billion Euros and created or safeguarded on average more than 200.000 jobs a year. Accumulated savings in heating costs were EUR 1.5 billion Euros, contributing to a reduced dependency of Germany on fossil fuels. The success and effectiveness of the EECR has also been internationally acknowledged, e.g. by the WWF.

With this background we welcome a strong focus of the EU on energy efficiency measures for buildings to be supported by the EU. The topics addressed in the consultation contain the relevant challenges and is commented on the basis of our experience with financings in this area.

### **1. Addressing market failures**

(a) Which barriers are the most important?

- The various market failures outlined in the Consultation Paper are from KfW's point of view in general responsible for EU not being on track regarding the CO<sub>2</sub> savings targets.
- Among the various market failures mentioned, the high level of initial investment cost is deemed by KfW as most important.

(b) In our view the most urgent to address are the following aspects:

- The dependency or focus of EU policy instruments on grants should be complemented or to a certain extent replaced by providing financial instruments such as loans on EU level. Revolving instruments enable a more efficient use of the financial budget. Furthermore, recipients are challenged to make their investment a success if they had to repay the funds.

- There is still a lack of awareness regarding the implied benefits of energy efficiency investments. The break-even point for investment and savings should be taken into account. Actions shall be taken on all political levels (EU level, national level, regional and municipal level) to improve information and awareness.

(c) How shall these aspects be addressed

- Best practice exchange, consulting activities and information campaigns on different levels (national financing institutions, investors, national governments) can improve level of awareness.
- Each member state shall have an effective regulatory frame work (building code) in line with the energy efficiency targets of the EU that fulfills certain minimum standards.
- Financial institutions should be supported through risk mitigation instruments.
- A European brand for energy efficiency shall be created. This raises awareness of investors and allows a standardisation of energy efficiency requirements as well a a better comparison of buildings .
- Access for investors to long term financing at favourable conditions shall be secured either through providing earmarked funds to national or multinational financing institutions or through providing guarantees or other schemes of risk mitigation.

## 2. Improving access to financing

- The allocation of EU financing facilities on national level through financial intermediaries in the member countries where possible and appropriate.
- The EU shall provide funds that can be used by member states to create revolving financing mechanisms in order to secure long term availability of funds and to enable a sustainable structure of promotional schemes
- Promotional schemes should be run over a long period (up to 20 years) of time to facilitate long term planning for investors.
- A nationwide offer of promotional loan programmes shall be obligatory. Eligibility for the programmes shall be strictly focused on the investment in energy efficiency in the building. Acceptance of all types of applicants is crucial (individual/company; owners/tenants; private/public entity) as well as in all geographic EU regions.
- Promotional incentives shall be provided only for technologies/standards that are more ambitious than regulatory requirement.

- An EU facility for technical assistance and advisory (similar to the already existing ELENA scheme but with a much broader focus) in order to build capacity in national governments and financing institutions shall be provided. This will facilitate the implementation of energy efficiency financing schemes on a national level.
- A modular design of EU financing facilities will help to create broad scale impacts and include many potential investors within the different member states. Modules for a comprehensive refurbishment, modules for different measures and modules for different types of buildings shall be provided. A combination of different modules shall be possible.

### 3. **Strengthening the regulatory framework**

- A stable set of regulatory framework conditions within the member states applying to the required levels of energy efficiency to be reached is a precondition for effective financial support.
- Frequent changes in national regulation shall be avoided since these contribute further to the already existing level of complexity in this sector and prevent from investing.
- The implementation of an effective control mechanism in the member states for the compliance of investments in the building sector with regulation shall be mandatory and supervised on EU level.

KfW's statement bases on the experience and lessons learnt over more than 15 years of financing energy efficiency investments in the building sector.

We are aware that each European country is different and has different needs. Therefore, we tried to focus on issues that can be useful for designing programmes to enhance energy efficiency investments on a European level.