

Dear Mr Hodson

Thank you for the opportunity to comment on the consultation paper "Financial support for energy efficiency in buildings". As requested, we have focused our feedback on the set of consultation questions outlined in section 5.2 of your document (repeated below in **bold**). The EBRD's comments are provided in *italics*.

(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.

(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 response to this question depends on the sectoral focus. From a sector-wide perspective, the persistent lack of full-cost reflective energy prices continues to be a disincentive to sustainable energy investments.

In the residential/commercial buildings context we consider that the issue of split incentives (landlord-tenant problem) requires the most urgent attention. It is a pervasive problem that has an enormous impact (see for example, http://www.iea.org/publications/free_new_Desc.asp?PUBS_ID=1954). Interestingly, we are aware that split incentive issues have been effectively addressed in some circumstances in Japan.

In the public buildings context, we consider the most urgent issues to address are:

- i) the lack of adequate regulatory framework for enabling energy performance contracts*
- ii) the lack of skills within the public sector to prepare bankable project proposals for investment.*

(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?

We have the following recommendations to make regarding how to address the priority market failures:

- A critical priority is to establish robust compliance and enforcement mechanisms. The EU already has a broad range of policy initiatives that, together could deliver significant energy savings. However, evidence suggests that the lack of compliance and enforcement is limiting the ability of these policies to capture energy efficiency improvements on the ground. Experience shows that addressing such compliance issues can be more cost-effective than the resources required to develop new policies. In this regard, we encourage the Commission to adopt a systemic approach to energy efficiency policy development and implementation. That is, where energy efficiency policy development is not seen in isolation from the on-the-ground realities of policy implementation.*

- *In the field of public buildings the EBRD considers the priority to be the development of a legislative framework that enables, rather than hinders, the provision of energy efficiency services. This requires ensuring that procurement rules and budget codes are amended to accommodate the characteristics of energy performance contracting. In addition, capacity building and assistance is required to ensure that public-sector officers have the skills/resources needed to develop bankable investment projects. In this regard, facilities like ELENA can play an important role, in particular if they provide assistance in conjunction with clear objectives and guidance for reaching them.*

(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?

Yes, many of the EU-level financial tools are effective. However, we would like to encourage the Commission to develop and use a greater diversity of financial instruments. For example, we note a predominance of revolving loan funds to deliver energy efficiency investments in the EU. In some situations these funds have significant limitations. EBRD experience shows it can be more cost effective to use financial instruments such as credit line facilities with local partner banks that build on existing commercial relationships.

Another financial instrument that appears to have been effective in North America is the Pay As You Save (PAYS) regime implemented through utilities (and in some instances municipalities). We would encourage the Commission to consider how this model could be usefully applied to the European context.

Finally, we welcome the recent change in the EU Financial Regulations to enable IFIs to engage in co-management of financial engineering instruments under the Structural Funds.

(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.)?

Regarding the use of public funding, the consultation note correctly noted there is a dependency on grants to reduce the cost of energy efficiency investments. The EBRD welcomes the Commission's attempts to reduce the use of grants in favour of instruments that have potentially less distortionary impacts on the market. For example, we encourage the Commission to consider the use of public money for risk sharing instruments. However, we acknowledge that in the absence of effective carbon markets in many sectors, grants can be necessary. To this end, several of the EBRD facilities (such as the REECL and SLOVSEFF mentioned below) integrate grant components and provide three useful lessons on the use of grants to stimulate sustainable energy investments:

- i) These facilities provide grants of up to 35% . As such, they provide an indication of what can be achieved at a level of grant intensity that could be considered an upper level of intensity;*
- ii) They are both designed with a phase-out trajectory for the grant use;*
- iii) In REECL, the grant component is made more effective through the addition of a risk mitigation instrument;*

- iv) *In public sector buildings, grants can (1) finance efficiency measures with longer payback periods than ESCOs can finance; (2) finance structural measures that are a prerequisite for efficiency measures; (3) enhance the credit quality (e.g. first loss guarantee) of otherwise not credit worthy public clients. EU Structural and Cohesion Funds can play an important role, if sufficiently flexible regarding their use.*

The consultation document correctly highlights the need for project development technical assistance. This is a critical issue and is well addressed through ELENA.

(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)?

See comments above.

(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?

EBRD experience suggests that often energy efficiency investments are perceived as risky as a result of both inadequate policy frameworks and lack of familiarity by financial institutions of energy efficiency investments. The Commission can assist with reducing risk associated with policy by continuing to encourage widespread transposition of cornerstone Directives and monitoring compliance and enforcement of these policies.

The Commission should also focus on extending the training and capacity building of local financial institution employees.

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

The EBRD considers the following instruments to be examples of good practice. These instruments have combine the smart use of grants with debt finance and sponsor equity and have resulted in a significant volume of energy efficiency investment in the built environment:

- *Bulgarian Residential Energy Efficiency Credit Line facility (REECL) (see <http://www.reecl.org/indexen.php>)*
- *SLOVSEFF in the Slovak Republic (see http://www.slovseff.eu/en_o_programe.html)*
- *public sector Bulgarian ESCO Fund (BEF) (see <http://www.ebrd.com/pages/project/psd/2007/38100.shtml>)*

(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 EBRD considers that rather than developing further EU-level regulation there is a need for more effort focused on compliance and enforcement of existing legislation (building codes etc.).

(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 EBRD considers that the following are important in this regard:

- *compliance and enforcement actions*
- *enabling regulatory framework that provides clear and enabling administrative instructions that help public building owners (and ESCOs) to develop and implement projects according to procurement law, budget code etc.*

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

No additional comments.

Thank you again for the opportunity to comment on the important issue of energy efficiency in buildings.

Kind regards

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