SF ENERGY INVEST

Structural and Cohesion Funds
for Sustainable Energy Investments

Practical recommendations to increase the share of sustainable energy investments in the upcoming SCF programming period 2014-2020

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Executive Summary

This report is the fruit of a series of events and discussions organised within the framework of the SF Energy Invest project, whose aim is to help Structural Funds Managing Authorities to increase the spending for sustainable energy projects. After setting out the new policy scene for the Structural Funds in 2014-2020, the report tried to identify barriers and obstacles to a greater use of Structural Funds for sustainable energy projects and proposes recommendations at all levels of governance and on different issues, for instance partnership, prioritization of the funds on low-carbon economy, integrated approach, selection of projects, etc.

This revised version of the report intends to take into account the latest evolution in terms of EU draft legislation of the Funds for the 2014-2020 programming period. Thus, the target groups of the recommendations are decision makers and other key stakeholders at the EC level, Member States and Managing Authorities as well as potential beneficiaries.

SF Energy Invest recommendations:

Prioritisation of EU spending

1. Member States should agree to significantly increase the amount of Structural Funds dedicated to sustainable energy (energy efficiency and renewable energy).
2. Member States should spend a minimum percentage of their Structural Funds allocation on investing in low-carbon economy.
3. Member States should align their priorities with the EU energy and climate objectives as well as with relevant national energy/climate programmes/ strategies/ etc. (such as National Renewable Energy Action Plans and the National Energy Efficiency Action Plans).

Partnership:

4. Member States and Managing Authorities should be obliged to organise wide consultation fora with relevant actors in the field of sustainable energy (such as the energy agencies) for the preparation of the Operational Programmes even before the adoption of the legislative texts for the Structural Funds 2014-2020.

Capacity building:

5. European Commission and Member states should set up a Concerted Action for the implementation and management of EE/RES projects funded by SCF.
6. Managing authorities should make more use of technical assistance opportunities (with in some circumstances a 100% co-financing rate) in order to prepare well-designed calls for projects based on shared evaluation of regional needs but also in order to help project promoters to set up good projects.

Integrated approach:

7. Managing authority should use a significant part of the European Social Fund to support projects whose main or ancillary activities consists in training workforces on sustainable

energy related professions (installers, certifiers, engineers, workmen able to carry out deep retrofitting of building etc.).

Synergies:

8. Managing authorities should rely on public authorities and other stakeholders already involved in existing initiatives such as the Covenant of Mayors to develop integrated plans on sustainable energy (such as Sustainable Energy Action Plans)

Legal certainty:

9. the European Commission should provide managing authorities with some guidance on state aid rules and urge them to use the most flexible option if different rules apply to the situation.

Financing:

10. Managing authorities should make more use of ERDF as financial engineering instruments
11. The European Commission and Managing authorities should allow Energy Performance Contracting by Energy Services Companies (ESCO) to be widely used by final beneficiaries
12. Managing authorities should make more use of the modulation of co-financing rate according to the level of energy savings achieved in selected projects

Quality of projects:

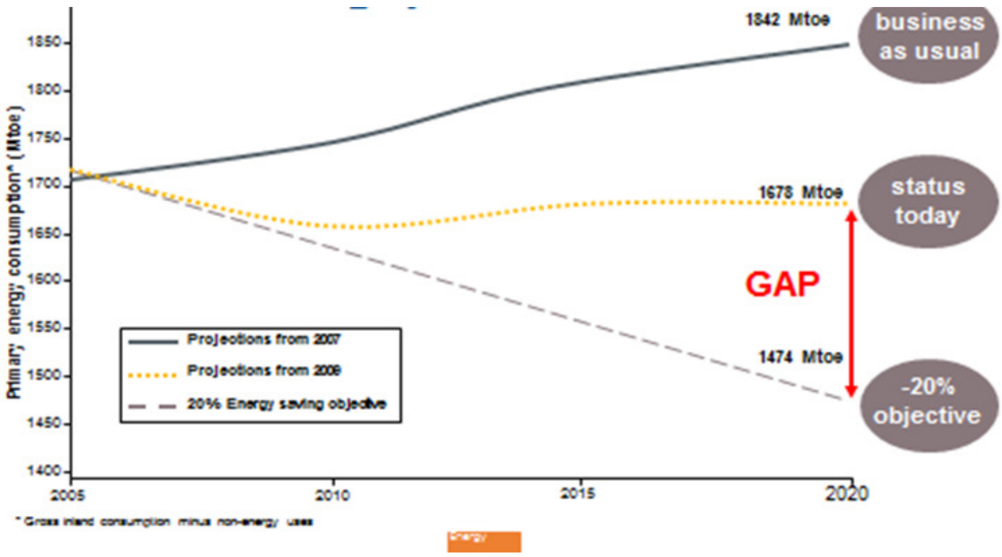
13. Managing authorities (with the support of the European Commission) should improve the visibility of the Operational programmes and its opportunities for sustainable energy projects among the potential project promoters
14. Managing authorities should simplify the application procedures to the Funds and propose tools to project promoters in order to help them apply for funding

1 Introduction

"If the benefits are so self-evident, why are things not moving faster? A number of barriers hold back large scale improvement of energy efficiency – many of which are well-known. But whether it is about the size of up-front investments, the landlord/tenant-split or long pay-back times, the bottom-line is the same from a political point of view: In this area the market does not deliver progress at the necessary speed and scale. Therefore, robust policies are needed at EU, national and local levels."

(Connie Hedegaard, EU Commissioner for Climate Action, March 1st 2012, Brussels)

The European Union is facing a severe challenge to meet its objective of reducing the overall EU energy consumption by 20% by 2020. This objective has been agreed on by the EU member states in 2008 as it was the minimum required in order to have an above 50% probability to avoid an unsustainable global warming. However the EU is not on the right track on energy efficiency at the moment (see figure below):



Source: European Commission, 2012

The EU Cohesion Policy (in other words the Regional Policy) is seen as a major (if not the main) source of funding to put the EU back on track to reach the energy efficiency objective.

Cohesion Policy is also meant to support clean energy, i.e. energy from renewable sources (which should made 20% of the total EU final energy production by 2020). The European Union is on good track to meet this target. However, the indicative trajectory will get steeper in the years before 2020. Hence, financial efforts will need to be increased. According to the Commission's Communication on renewable energy[1], annual capital investments in RES would need to double to €70bn to reach the 2020 target.The European Commission has therefore proposed for the next programming period of the Cohesion Policy (Structural Funds 2014-2020) to almost double the proportion of the Cohesion Policy budget dedicated to climate-related expenditure including sustainable energy (energy efficiency and renewable energy) from currently 2.5% to 5% of the 376 bn€ strong Cohesion Policy. As we will see in this report, increasing the level of available funding for sustainable energy projects at the EU level is a good step forward. However, much needs to be done at the national and local levels to trigger the necessary energy transition on the ground.

An analysis of the previous programming periods shows that there was not a very strong connection between regional policy and sustainable energy projects so far. The European Parliament estimated that the financial allocations for sustainable energy in the period 2000-2006 were about 1.16 % of the total budget. The "PromoSCene" project financed by the Intelligent Energy Europe Programme has analysed the Operational Programmes for the current programming period 2007-2013, which revealed that the share of the budgets allocated to sustainable energy has slightly increased. On average, New Member States (NMS) have allocated 2.4 % of their SCF budget to renewable energy sources (RES) and energy efficiency (EE). This low average share of the SCF budget in NMS still represents an absolute amount of 4.3 billion Euro.[2]

The next programming period 2014-2020 offers new opportunities to make a significant change in allocation of SCF budget towards sustainable energy, and let SCF play a more important role in realising the energy policy objectives of the EU. According to the Commission, this will require a concerted effort by all stakeholders and decision makers at the level of each Member state. Only a joint effort of all Member States will lead to the achievement of Europe 2020 goals. Managing Authorities are especially encouraged by the Commission to use the remaining years of the current programming period to prepare the ground for EU regional policy funds to play a major role in sustainable growth and resource efficiency in the future. Concretely, the Commission asks the Managing Authorities to start preparing the next generation of programmes with:[3]

- a focus on green investment and a shift to a low carbon and climate resilient economy while ensuring an integrated approach to sustainable urban and/or rural development, and fully taking into account the territorial context and opportunities;
- increased capacity building, using technical assistance budgets, to involve local, regional and NGO actors in regional climate change adaptation and mitigation strategies.

[1] COM (2011) 31 final Renewable Energy: progressing towards the 2020 target.

[2] Greening the economy with structural and cohesion funds, results of the IEE "PromoSCene" project, August 2009

[3] COM(2011) 17

The relevance of sustainable energy policy is also reflected in the Multiannual Financial Framework (MFF) for the period 2014-2020 proposed by the Commission.[4] The Commission for example proposes to allocate relevant budgetary resources to:

- energy infrastructure, through the creation of the Connecting Europe Facility;
- developing and deploying energy technology, within the “Horizon” 2020 framework for research, innovation and technological innovation;
- promoting energy efficiency and renewable energy sources.

Based on lessons learnt in several countries in the programming period 2007-2013, this report (compiled in the frame of the IEE SF-Energy Invest project) includes some concrete barriers and recommendations for increasing the share of sustainable energy investments in the new SCF programming period 2014-2020. Target groups of the recommendations are decision makers and other key stakeholders at the EC level, Member States and Managing Authorities as well as potential beneficiaries.

Before providing the recommendations, the report briefly reminds the reader of the new context (both from an institutional and policy point of view) of the Cohesion Policy for the programming period 2014-2020.

[4] COM(2011) 500 final

2 The EU Cohesion Policy 2014-2020

2.1 Its mission and objectives

The mission of cohesion policy is defined in the Treaty on the Functioning of the EU (Chapter XVIII); to promote balanced and harmonious development, in particular by reducing social and economic disparities between regions. Cohesion policy is a development policy aiming at promoting long-term sustainable growth and prosperity in European regions through removing barriers to growth and facilitating processes of structural adjustment. A further motivation behind a development policy run at EU level lies in the existence of strong cross-border interdependencies and the need for reinforcing linkages between leading and lagging areas, maximising cross-border spill-over effects and gearing investments towards EU priorities.

Regional spending for 2007-13 accounts for over one third of the EU budget – or some €350 billion.

Depending on what is being funded, and in which country or region, the money comes from three difference sources:

The European Regional Development Fund (ERDF) – general infrastructure, innovation, and investments.

The European Social Fund (ESF) – vocational training projects, other kinds of employment assistance, and job-creation programmes.

The Cohesion Fund – environmental and transport infrastructure projects and the development of renewable energy. This funding is for 15 countries whose living standards are less than 90% of the EU average (12 newest EU members plus Portugal, Greece and Spain).

2.2 Its functioning

Regional policy involves all levels of scale from EU to local: its legal basis is in the EU Treaty and its priorities are set by the EU, and it is implemented by national and regional actors in partnership with the European Commission through operational programmes (OP). The OPs present the priorities of the country and/or regions. Workers, employers and civil society bodies can all participate in the programming and management of the OPs. The operational programmes are implemented by the member countries and their regions. This means selecting, monitoring and evaluating thousands of projects. This work is organised by 'management authorities' in each country and/or region[5]. •The Commission commits the funds (to allow the countries to start spending on their programmes)

The Commission pays the certified expenditure to each country. But since the EU cohesion policy is not thought to replace national funding but to complement it, member states also commit to spend money on those programmes. Furthermore at the project level, project promoters have to take charge of at least 50% of the costs of a project, as the Cohesion Policy only part-financed the projects. (In general, EU cofinancing rates go from 50% in the richer regions to 80% in the poorer ones)

2.3 Main new elements of the 2014-2020 programming period

a. ***Partnership contracts***:

In 2013, each Member State will be asked to draw up Partnership Contract where they will assess their development needs and define their national priorities supporting their National Reform Programmes and the achievement of their national targets for delivering on the Europe 2020 strategy. The Partnership Contract will contain notably:

- thematic objectives (Member States can choose out of a menu of 11 objectives in line with the "Europe 2020" strategy);
- investment priorities for each thematic objective;
- conditions which will be the pre-requisite to EU funding (see below);
- targets that the Member States plan to reach by the end of the programming period, as well as performance indicators and milestones.

The Partnership Contract will constitute a firm agreement between the Commission and the Member States regarding the use of funds and performance. Failure to achieve progress may lead to suspension or cancellation of funding.

b. ***New category of eligible regions:***

Regions will continue to receive support within three (3) defined categories:

- less developed regions, whose GDP is below 75% of the Union average, will continue to be the top priority for the policy.
- transition regions, whose GDP is between 75% and 90% of the EU 27 average.
- more developed regions, whose GDP per capita is above 90% of the average.

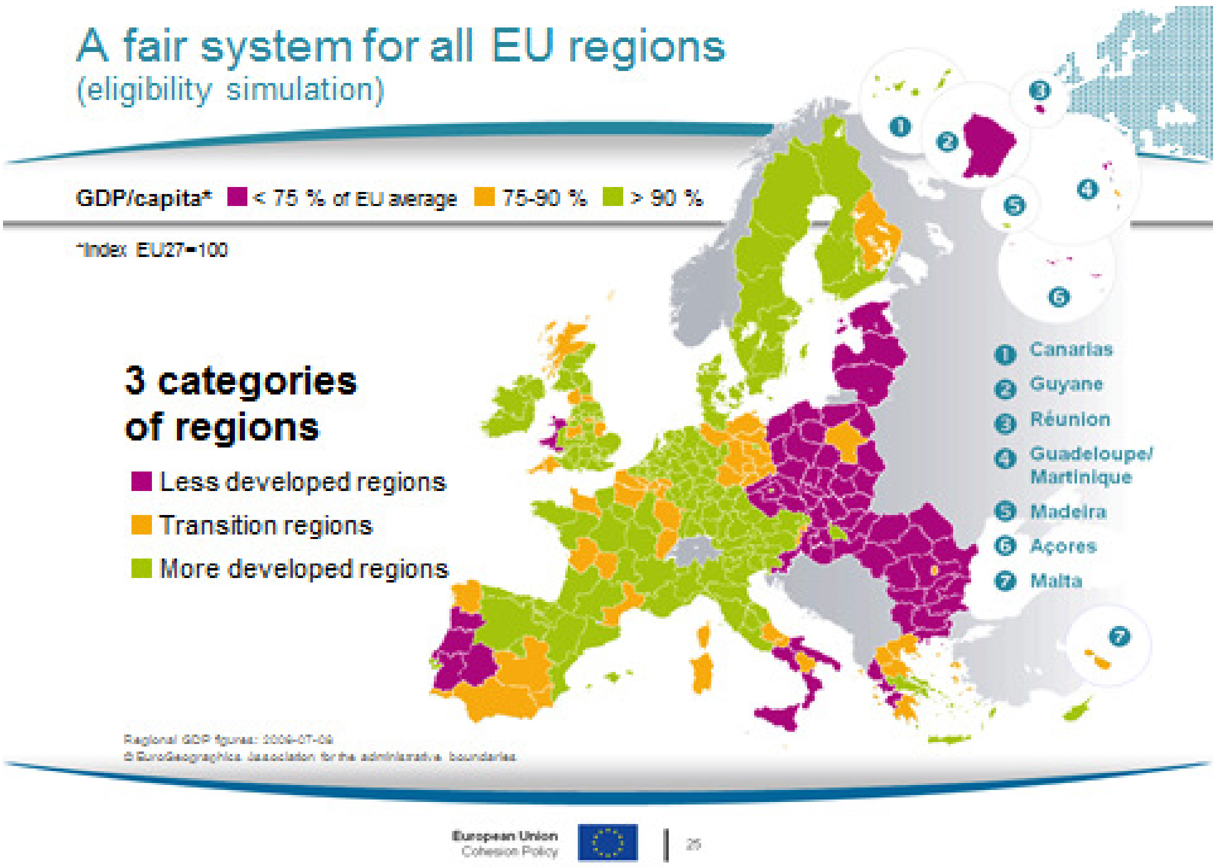
[5] You can find the list of managing authorities here: http://ec.europa.eu/regional_policy/manage/authority/authority_en.cfm

The second category would cover 51 regions and more than 72 million people, including 20 regions that are forecasted, as of 2014, to move out of the current "convergence" objective (less developed regions), reflecting the success of the policy. The purpose of the new category is to ease the transition of these regions, which have become more competitive in recent years, but still need targeted support. It also ensures fairer treatment for regions with similar levels of economic development.

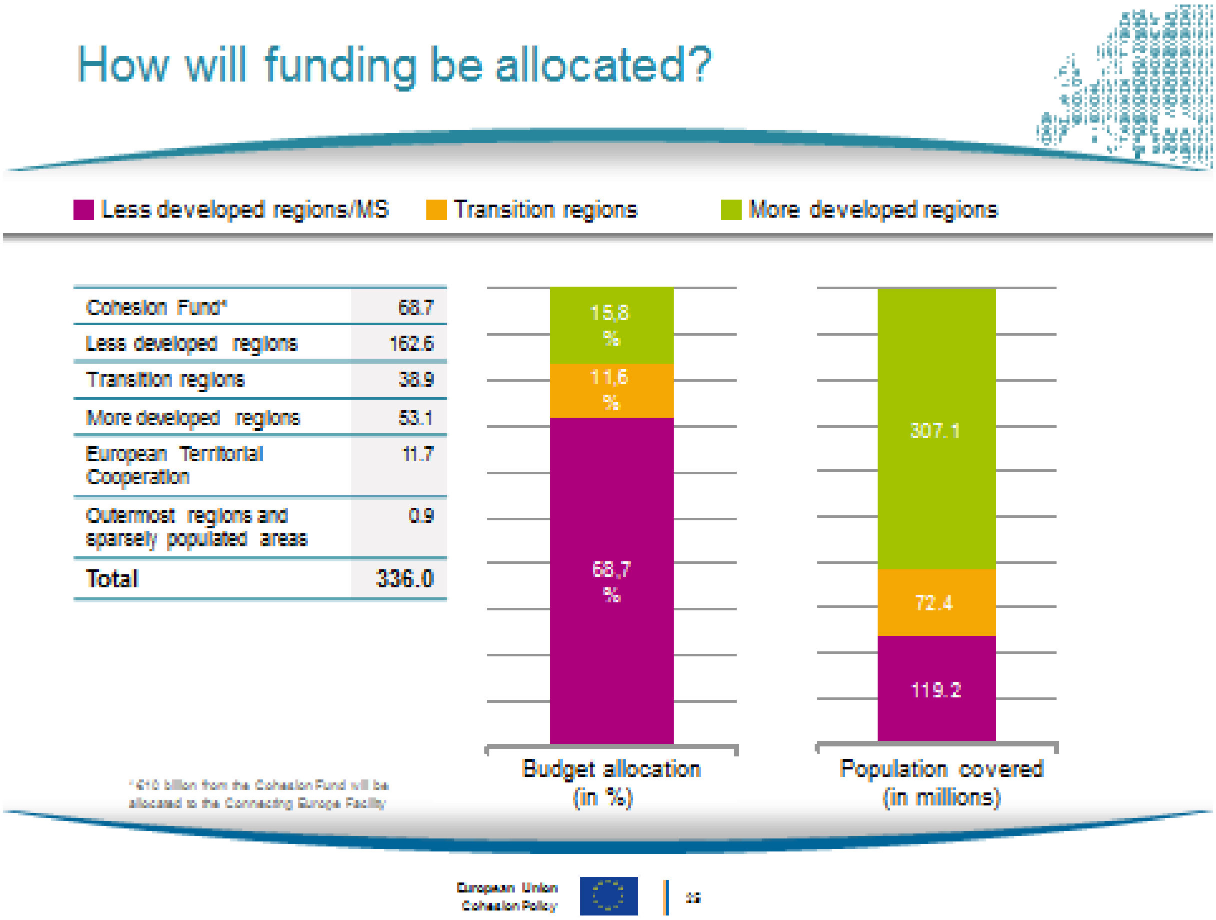
The objective of the new transition system, covering regions with a GDP per head between 75% and 90%, is to treat regions at a similar stage of economic development uniformly.

As an example, if the current system would be maintained, the Polish region of Mazovia (GDP per head of 86% of the EU average) and the region of Inner London (GDP per head of 338% of the EU average) would be subject to the same rules. The new transition system allows more flexibility and differentiates between these two regions, in terms of the level of funding available, priority areas for investment, applying different co-financing rates etc.

For the new category of transition regions the maximum co-financing rate will be 60% from EU side. The other ceilings for co-financing rates remain unchanged, i.e. maximum 50% for the most developed regions, maximum 85 % for the less developed regions.



Source: European Commission, DG Regional Policy



Source: European Commission, DG Regional Policy

c. A concentration on the resources on some key investment areas:

- In richer regions (the ones with a GDP/capita above 75% of the EU average) 80% of the resources should be dedicated to 3 thematic objectives: (i) support to SMEs, (ii) research and innovation and (iii) low-carbon economy with at least 20 % of the resources for the latter.

- In richer regions, at least 20% of the European Social Fund should be dedicated to social inclusion and combating poverty.

d. A new set of "conditionalities"

1) Conditions linked to the direct implementation of the policy:

This would take the form of both 'ex ante' conditions that must be in place before funds are disbursed and 'ex post' conditions that will make the release of additional funds contingent on performance (see next question).

Ex-ante conditions will be defined in the Partnership Contract at the beginning of the programming period. For example, a Member State wanting to use EU funds to invest in water management will be required to transpose the related EU environmental legislation in full.

If these conditions are not fulfilled at the start of the programming period, each Member State and the Commission will agree when they should be fulfilled. If conditions are not fulfilled by the agreed date, the Commission may decide to suspend all or part of programme payments until such time as the necessary actions are carried out.

2) Conditions linked to macro-economic conditions:

The European Commission wants to establish a tighter link between cohesion policy and the European semester of economic policy coordination. The Commission can invite a Member State to revise its strategy and programmes if economic and fiscal situation in this Member State is deemed to endanger the effectiveness of the Funds.

This element is currently subject to heavy criticisms from the European Parliament and some Member States.

e. An obligation to consult stakeholders at all levels of decision

The European Commission proposes that the managing authorities of the Funds will be obliged through a European Code of Conduct of partnership to consult national regional and local stakeholders in preparing Partnership contracts and Operational Programmes.

3 Recommendations regarding the EU policy formulation

The recommendations are classified according to each stage of the process of utilisation of the Structural Funds (EU policy formulation; development of Operational Programmes; Implementation of the OP and projects; evaluation of the programmes/projects) and they are put under thematic categories reflecting the type of actions required: prioritization of EU spending, partnership, capacity building, raising awareness… They are addressed to one or several target groups: European Commission, Member States, Managing Authorities..

3.1 PRIORITIZATION OF EU SPENDING

Recommendation n°1:

Member States should agree to significantly increase the amount of Structural Funds dedicated to sustainable energy (energy efficiency and renewable energy).

Context:

The 450 operational programmes for Cohesion policy 2007-2013 include investment totalling €9 billion for energy-related projects, € 4.8 billion for renewable energies, and € 4.2 billion for energy efficiency and energy management measures.

Energy savings efforts undertaken or announced by Member States for the period leading up to 2020 will only reach a 9% energy efficiency improvement, failing by half to reach the 20% energy saving target. Closing the gap is a must and additional efforts are needed, as the European Council of February 2011 concluded: "The 2020 20% energy efficiency target as agreed by the June 2010 European Council, which is presently not on track, must be delivered. This requires determined action to tap the considerable potential for higher energy savings of buildings, transport and products and processes".

European Union Member States are on good track to reach the 20% renewable energy target by 2020. However, the European Commission evaluated the remaining financial efforts needed to reach 20%s[6]: annual capital investments in RES will need to double to €70bn to reach the 2020 target. Cohesion policy funding can provide a useful help to project developers and local authorities.

According to the Commission's Roadmap to a low carbon economy, an additional €200 billion is needed over the next decade for the refurbishment of existing building stock – a significant amount. But failing in this objective would be more expensive and waste up to €78 billion consumers' money annually in 2020 – largely flowing from Europe to oil and gas rich countries

[6] COM (2011) 31 final Renewable Energy: progressing towards the 2020 target.

Legal or political requirement:

Member States should agree on the proposed Regulation for a Multi-Annual Financial Framework for the EU between 2014-2020 (5% increase from 2000-2006) and thus also agree on the proposed budget of the Cohesion Policy

Recommendation n°2:

Member States should spend a minimum percentage of their Structural Funds allocation on investing in low-carbon economy.

Context:

Current Cohesion Policy, without any fundamental prioritization and concentration, devotes only a meager 2.6% of its resource to both renewable energies and energy savings (€9,1 billion or €1,3 billion a year).

Investing in energy savings and renewable energy has though a positive and well-documented effect on job creation, reduction of energy bills and of fuel poverty. Saving energy is the most cost effective option to reduce CO2 emissions and improve energy security through lower energy imports. Current policies however are set to achieve only half of the EU's 20% energy savings target by 2020.

The minimum ERDF percentage to be earmarked for investment in the low-carbon economy can scale up the investment needed to make a macro-regional impact achieving a critical mass of investment relevant for the EU to get back on track to achieve its 20% energy savings target by 2020. The European Parliament already recognised "that Member States and regions should concentrate EU and national resources on a small number of priorities and projects that are of genuine European relevance"1.

The Cohesion Policy can provide needed leverage to help public authorities speed up the renovation of the buildings they own as proposed in the draft Energy Efficiency Directive

Regions will not bet let alone in dealing with this obligation as they are currently many tools to assist them: they include two technical assistance mechanisms of JASPERS (for large scale projects in the 12 CEE Member States) and ELENA (for energy efficiency and renewable energy investments), and two innovative financial instruments of JEREMIE (loans, guarantees and equity investments for SMEs) and JESSICA (loans, guarantees and equity investments for cities).

More generally, the economics of climate change give strong arguments in favour of investing in the short term in low-carbon economy: "The key conclusion to be drawn from these estimates is that the costs of action can be much less than the costs of inaction. Thus, strong and urgent action makes economic sense" (Edenhoffer and Ster (2009))

Legal or political requirement:

Member States and Members of the European Parliament should agree to keep or even strengthen the earmarking provisions on low-carbon economy in the draft ERDF regulation (article 5)

Recommendation n°3:

Member States should align their priorities with the EU energy and climate objectives as well as with relevant national energy/climate programmes/ strategies/ etc. (such as National Renewable Energy Action Plans and the National Energy Efficiency Action Plans).

Context:

The Energy Services Directive called on the EU Member States to come up with National Energy Efficiency Action Plans (NEEAP). A first round of NEEAPs had to be submitted in 2007. A second round was expected for June 2011. The third round is scheduled for 2014.

The National Energy Efficiency Action Plan plans offer an opportunity to compare the Nnational energy efficiency measures in the European countries and review the actual national achievements compared to the targets.

The same kind of national plans exist for renewable energies. Those plans as well as other national strategies offer a coherent approach to meeting the national and EU targets. Managing authorities should build upon them to ensure that Structural Funds will be used within such coherent approach while responding to the territorial needs.

Some examples of national sustainable energy strategies

Within the framework of the Green New Deal **in France**, special attention is paid to the reduction of energy consumption of existing buildings: the reduction of at least 38% by 2020 and to this end, renovate, in the entire housing French housing stock, which means 400 000 units annually by 2013. In this spirit, the law called "Grenelle 1" sets a goal of renovating the entire social housing stock, beginning with carrying out the work on 800 000 social homes by 2020. To finance this programme several sources are made available: eco loan from the Caisse des Dépôts (loan to 1.9%), tax relief from the TFPB and other funds (ERDF, Heat Fund...) in addition to the own capital of the social housing organisations.

In Estonia KredEx provides the green investment scheme “Support for renovation of apartment buildings”, which is aimed at apartment associations, building associations and communities of apartment owners and funded from trade in assigned amount units under article 17 of Kyoto Protocol to the United Nations Framework Convention on Climate Change. The renovation project must be in accordance with the results of the energy audit and leading to at least 20% of energy savings. The limit of financing of support is a percentage of the cost of the project, depending on the level of complexity of the reconstruction of the apartment building. The rates of support for project are 15%, 25% or 35% of the cost of the project.

In Austria, the frame of the Environmental Subsidy Scheme for Austrian Enterprises, beneficiaries do not apply for SCF in the first place but for subsidies in general in order to get funding for their energy investment. After the Kommunalkredit Public Consulting (KPC; intermediate body on behalf of the Managing Authority) has verified the eligibility of a project for SCF, ERDF funding is used automatically. The Environmental Support Scheme for Austrian Enterprises offers subsidies to Austrian business units including “ordinary” companies, confessional institutions, non-profit organisations, companies owned by the public sector and energy supply companies.

Legal or political requirement:

Member States and Members of the European Parliament should agree to insert a reference to those national plans in the draft common provisions regulation of the Structural Funds (Annex on ex-ante conditionalities)

4 Recommendations regarding the development of Operational Programmes

4.1 PARTNERSHIP

Recommendation n°4:

Member States and Managing Authorities should be obliged to organise wide consultation fora with relevant actors in the field of sustainable energy (such as the energy agencies) for the preparation of the Operational Programmes even before the adoption of the legislative texts for the Structural Funds 2014-2020.

Context:

Insufficient cooperation and communication problems between different departments of the government when preparing the national strategies, lack of involvement of energy stakeholders at the regional level when preparing the operational programmes, those situations are common in many member states and regions.

However some good practices exist:

The European Programmes Partnership Forum (2014-2020) has been established to discuss the development of any future European funding programmes in Wales.

The EPPF will provide advice and guidance to Welsh Government Ministers, on options and proposals for future European programmes in Wales. Members of the EPPF are expected to consult and communicate with their constituencies to broaden discussion and share information. The Forum is expected to meet quarterly.

Legal or political requirement:

Member States and Members of the European Parliament should agree on article 5 of the draft Common Provisions Regulation about the partnership principle which requires Member States to involve relevant partners at all levels of programming. The European Commission should support the development of database for good practices and guidance to help Member States and Managing Authorities in that field.

4.2 CAPACITY BUILDING

Recommendation n°5:

European Commission and Member states should set up a Concerted Action for the implementation and management of EE/RES projects funded by SCF.

Context:

The experience has shown in many circumstances a lack of awareness and expertise to acknowledge the strategic importance of sustainable energy investments as essential and beneficial investments for regional development.

Exchange of expertise and dialogue between member states should be supported by the European Commission.

A Concerted Action is a structured and confidential dialogue between the EU Member States. Emphasis is put on topics that require common approaches and topics which will benefit form exchange of best-practice between the participating countries.

For example, to support EU countries in the implementation of the EPBD, a **Concerted Action (CA) EPBD (energy performance of buildings)** was launched by the European Commission to promote dialogue and exchange of best practice between them. The key aim was to enhance the sharing of information and experiences from national adoption and implementation of this important European legislation. An intensely active forum of national authorities from 29 countries, it focused on finding common approaches to the most effective implementation of this EU legislation.

The CA is funded under Intelligent Energy–Europe under the European Union's Competitiveness and Innovation Programme.

But contrary to the CA EPBD, a concerted action on use of Structural Funds for sustainable energy projects should ensure the participation of managing authorities and not only the representatives of member states.

Legal or political requirement:

the European Commission should propose a call for proposals in late 2012 or beginning 2013 under the Intelligent Energy Europe programme with the view to launch a concerted action for the use of Structural Funds in the field of sustainable energy.

Recommendation n° 6:

Managing authorities should make more use of technical assistance opportunities) in order to prepare well-designed calls for projects based on shared evaluation of regional needs but also in order to help project promoters to set up good projects.

Context:

EU Structural Funds can be used for technical assistance purposes. It means in general that Funds may be used to :

foster the administrative capacity;

•provide the training of staff involved in Structural Funds implementation;

•put in place well functioning monitoring and evaluation systems; and

•foster information, communication and promotional activities related to the national strategies

(Technical assistance has therefore been mainly used by Managing authorities in the past to increase their own competence in managing the funds (compliance with EU rules). But what is now needed is to use technical assistance to

- Ensure Managing authorities can develop the necessary tools to write relevant calls for proposals in the field of sustainable energy (through needs analysis, consultation with energy practitioners)

- Ensure project promoters can access funds to help them set up a project.

At the EU level, there are at the moment opportunities of project development assistance, in particular ELENA (European Local ENergy Assistance)[7] financed through the Intelligent Energy-Europe programme. ELENA support covers a share of the cost for technical support that is necessary to prepare, implement and finance the investment programme, such as feasibility and market studies, structuring of programmes, business plans, energy audits, preparation for tendering procedures - in short, everything necessary to make cities' and regions' sustainable energy projects ready for EIB funding. Funds are currently available to support projects under the Facility. Another project development assistance opportunity has been recently developed through the yearly IEE calls for proposals on Mobilising Local Energy Investments (MLEI-PDA)[8] . An important feature of MLEI is that it has an investment threshold of only 6M€ compared with 50M€ for ELENA - EIB. The supported technical assistance for project development services is similar.

However, the funding available under these PDA facilities will not be sufficient to cover the needs and to create a pipeline of projects to be funded by ERDF grants. Technical assistance under the Structural Funds should therefore provide the same kind of services that project development assistance facilities.

Legal or political requirement:

Member states and members of the European Parliament should support the proposal of the European Commission about the widening of activities for which technical assistance possibilities are foreseen in the draft common provisions regulation (article 51)

4.3 INTEGRATED APPROACH

Recommendation n°7:

Managing authorities should use a significant part of the European Social Fund to support projects whose main or ancillary activities consists in training workforces on sustainable energy related professions (installers, certifiers, engineers, workmen able to carry out deep retrofitting of building etc.).

Context:

[7] http://www.eib.org/products/technical_assistance/elena/index.htm

[8] http://ec.europa.eu/energy/intelligent/faq/faq-energy-investments/index_en.htm#2.7

The situation is very often characterised by a fragmented approach of the question of sustainable energy: too often OPs only targets the infrastructures aspect without caring about the human skills needed to make those infrastructures function. This may lead to what has been called a "rebound effect", where efficiency improvements are offset by behaviour changes, such as increasing demands for cheaper energy. EU projects have clearly shown the potential of behavioural changes[9].

Due to the different authorities responsible for the European Social Funds and the European Regional Development Fund, using both Funds to support a programme or a project has not been during the 2007-2013 programming period.

An experience of using ERDF and ESF for sustainable energy purposes

"Today the ERDF £7.5million external wall insulation programme has begun on site. The Lakes College West Cumbria, through Impact's Greenways to Work ESF programme, is offering on-site training and accreditation to skilled plasterers and construction staff – the first EWI accreditation in the UK. Meanwhile a cohort of out of work residents from across three social housing providers in West Cumbria are receiving a full College course in external wall insulation, including basic construction skills and thermal efficiency. This cohort will be ready for employment as the ERDF programme accelerates to meet its target of insulating 35 homes a month for 18 months. We are finding that local supply chain companies are keen to get involved in the training element as they can see on the horizon the prospects and opportunities being offered by the ERDF programme. Private companies, social housing providers, residents and European funding agencies are now all involved in strengthening our supply chain, so that Cumbria is left with a legacy of skills, ambition, experience and capacity to compete locally and regionally.

This collaboration feels simple. It is simple. It just required a few people to sit down at the inception of the programme and work out what would be needed to stimulate local employment and skills"

Phil Davies, Programme manager, Impact Housing, UK

Legal or political requirement:

The Common Strategic Framework[10] proposed by the European commission should illustrate the possibilities to combine several funds for one priority axe or one project.

4.4 SYNERGIES

Recommendation n°8:

Managing authorities should rely on public authorities and other stakeholders already involved in existing initiatives such as the Covenant of Mayors to develop integrated plans on sustainable energy (such as Sustainable Energy Action Plans)

[9] http://www.energy.eu/publications/a03.pdf

[10] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/236&format=HTML&aged=0&language=EN&guiLanguage=fr

Context:

After the adoption, in 2008, of the EU Climate and Energy Package, the European Commission launched the Covenant of Mayors. The Covenant of Mayors is the mainstream European movement involving local and regional authorities in the fight against climate change. It is based on a voluntary commitment by signatories to meet and exceed the EU 20% CO2 reduction objective through increased energy efficiency and development of renewable energy sources, to endorse and support the efforts deployed by local authorities in the implementation of sustainable energy policies. Indeed, local governments play a crucial role in mitigating the effects of climate change, all the more so when considering that 80% of energy consumption and CO2 emissions is associated with urban activity.

Signatories of the Covenant of Mayors have acquired a valuable experience in the field of sustainable energy and can be relevant intermediary bodies or final beneficiaries of the Structural Funds

Legal or political requirement:

Under article 7 of draft ERDF regulation, member states can propose a list of cities that will directly manage the funds for sustainable and integrated urban projects. Being a signatory of the Covenant of Mayors could be one criterion when establishing the list of cities that can directly manage the Funds. Furthermore cities signing up to the Covenant of Mayors could be selected as leading partner for Integrated Territorial Investments (article 99 of the draft common provisions regulation).

4.5 LEGAL CERTAINTY

Recommendation n° 9:

The European Commission should provide managing authorities with some guidance on state aid rules and urge them to use the most flexible option if different rules apply to the situation.

Context:

The experience shows a lack of guidance on state aid guidelines. The EU legal provisions on state aid are difficult and complex (in particular when 2 rules may apply such as the regional aid guidelines and the specific rules for social housing or investments in sustainable energy) and often not well understood by managing authorities (not knowing what may be supported and what may not).

In the EU-12 countries, due to the high proportion of individual home owners, it was difficult to exclude the possibility that financial support be granted to persons which develop economic activities, thus affecting competition. Nevertheless some Member States managed to find solutions in particular by integrating the funds to already existing state aid schemes focusing on deprived areas (for example in Czech Republic) and open to a wide range of beneficiaries (public housing providers, co-ownership associations, municipalities). Regarding the use of the 4% rule in the EU-15 countries, some questions have been also raised about the compatibility of the proposed projects with the rules on revenue-generating projects (article 55 of the general regulation on Structural Funds). The problem can indeed emerge when grants are allocated to promote greater use of a renewable energy (for instance solar energy through photovoltaic panels) that can be produced and sold by the users (within the framework of feed-in tariffs), thus generating revenues for the users. Although the evaluation should be done case by case, it can be argued that the current legal framework allow this type of projects, since the regulation on state aid Commission regulation (EC) No 800/2008 (also attached) states that Environmental investment aid for the promotion of energy from renewable energy sources shall be compatible with the common market within the meaning of Article 87(3) of the Treaty and shall be exempt from the notification requirement of Article 88(3) of the Treaty.

In France, the government decided to apply the 2005 Decision of the European Commission on State Aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (SGEI) when dealing with Structural Funds for energy efficiency in social housing, which is considered by the French authorities as such a SGEI. As a consequence there is no need to apply the deminis rule nor the article of the Regulation on revenue generating projects.

Legal or political requirement:

the European Commission should publish reader friendly working documents for managing authorities and project promoters explaining which rule applies in which situation. This should be easy to find on the European Commission website.

4.6 FINANCING

Recommendation n° 10:

Managing authorities should make more use of ERDF as financial engineering instruments

Context:

Limited financial capacity for co-funding planned investments makes necessary to look for leveraging public funds.

In **Estonia** there is a top lending limit fixed for municipalities, i.e. the total amount of all non-repaid loans, unpaid financial lease payments, issued debt instruments and other debt obligations together with the loan or financial lease to be taken, the debt instruments to be issued and other financial obligations shall not exceed 60 per cent of proposed budget revenue for that budgetary year, from which allocations from the state budget, intended for a specific purpose, have been deducted.

This was the reason why the European Commission introduced in 2007 a new mechanism: Joint European Support for Sustainable Investment in City Areas (JESSICA)[11]. Its main financial innovation and benefit becomes obvious at the level of projects to be funded: instead of paying out capital as a grant, capital is revolving and can therefore be reinvested in new projects (enabling the "recycling of funds"). JESSICA was therefore launched with a view to providing new opportunities to Managing Authorities responsible for the implementation of Structural Funds in line with Operational Programmes agreed for the current programming period.

More precisely, JESSICA can be used to provide:

- Below market rate loans :

ERDF matched with cash or land can be used as a below-market rate loan. The advantage of such a mechanism is that the fund becomes revolving and monies that come back can be reinvested again.. The mechanism requires a fund manager. The fund manager will add a cost to the loan (rate) to cover

[11] http://www.eib.org/attachments/documents/jessica_horizontal_evaluation_study_udf_en.pdf

its costs and make a profit, which will impact on the rate of the loan. The rate is based on the European Commission interest rate regulations so that it is state aid compatible. It will depend on the rating of the borrower and the risk of the project to the fund manager.

- Guarantee funds

JESSICA can also be used as a first loss guarantee fund to leverage additional lower cost finance. For instance it would enable project promoters to access finance without providing assets as security.

The ERDF regulations allow for JESSICA to be used as a guarantee but match-funding is still required. Match-funding is needed on a pari-passu basis, i.e. the matching finance needs to be on the same terms and conditions as ERDF, or an average between ERDF and the matched finance needs to be used.

The guarantee would also need to be managed by a fund manager who might also charge for the management of the guarantee fund, which will impact on the cost of the finance. A not-for-profit finance manager would therefore be preferable.

- Equity participation in enterprises

One of the most important financing components for all urban development projects is the allocation of capital in the form of equity investment.

A question remains however about the suitability of such financial engineering instruments in the case of large scale and long term energy investments such as the renovation of large real estate and in particular social housing developments where the profitability is limited.

Legal or political requirement:

Member states and members of the European Parliament should support the mainstreaming of financial engineering instruments as proposed by the European Commission (art. 56 of the Draft Common Provisions Regulation). Consequently part of the ERDF technical assistance funds should be dedicated to setting up those instruments in particular the revolving funds similar toJESSICA urban development funds.

Recommendation n°11:

The European Commission and Managing authorities should allow Energy Performance Contracting by Energy Services Companies (ESCO) to be widely used by final beneficiaries

Context:

The use of third party financing as the co-financing source for a project encounter some difficulties. Let's illustrate this: In **Italy**, a first call to public social housing operators in a region in the northern of Italy: Piemonte. This programme covers up to 70% of the total expenditure for works of energy refurbishment of social dwellings. The total amount of this call is 30 million (Euro). The lack of own financial sources to cover the other 30% is a big problem that some operators have. The contribution of beneficiary (30%) can't be done by an ESCO. Looking on the 2006 Council Regulation the beneficiary has to show invoices which is not possible through Third Party Financing by an ESCO

However, since the lack of adapted funding is a major barrier to the energy retrofitting of buildings in Europe the Energy Performance Contract (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, could still be a possible financial solution. But EPCs seem not adapted to all situations, as shown by recent projects[12] and it still needs to be further developed for retrofitting of social housing.

Legal or political requirement: Third party financing should be considered as authorized co-financing although it is not an expense paid by the beneficiaries (article 59 of the draft Common provisions regulation)

Recommendation n°12:

Managing authorities should modulate the co-financing rate according to the level of energy savings achieved in selected projects

Context:

A lack of incentive to propose highly ambitious projects in the field of sustainable energy could be one of the obstacles to a greater take up of Structural Funds in this field. Modulation of co-financing rates according to the level of ambition in terms of energy efficiency or renewable energy

An example of modulation of co-financing rate

In France, some regions have decided that the EU co-financing depends on categories of dwellings, both before renovation work and after work (for instance D, E, F, G to C: 20% / to B: 25% / to A: 30%/ categ C to B or A: 25%).

Legal and political requirement:

Member states and Members of the Parliament should agree to add a high level of energy efficiency or share of renewable energy in the list of circumstances for which the co-financing rate from the Funds may be modulated (article 111 of the draft Common provisions regulation)

[12] http://www.fresh-project.eu/

5 Recommendations regarding the implementation of the Operational Programmes

5.1 QUALITY OF PROJECTS

Recommendation n°13:

Managing authorities should improve the visibility of the Operational programmes and their opportunities for sustainable energy projects among the potential project promoters

Context:

There is often a lack of targeted promotion about the priority axes of the Operational Programme: potential beneficiaries of the targeted focus are not reached, not incentivized to submit proposals.

Legal or political requirement:

Member States and Managing authorities should create a national website/national platform/database (including technical information, guide for applicants, checklists for applicants and procedures, help desk, best practice examples, forums of discussion, links to regional managing authorities or supporting agencies etc.) for potential beneficiaries and other stakeholders.

Managing Authorities should organize workshops / events or use e.g. trade fairs to inform the target groups providing supporting material like check lists and documented good practice examples.

The European Commission and managing authorities should make existing web resources such as the Build Up website[13] or the SF Energy Invest Manual[14] more visible / accessible to the project promoters and Managing authorities.

Managing authorities should use traditional media to reach potential project promoters.

Some examples of awareness raising activities towards potential project promoters

The Energy Investment Days in the project SF Energy Invest are the key campaigning events in each of the selected countries. They promote the use of SCF funding for projects involving renewable energy sources and energy efficient. SF Energy Invest has organised a series of 9 EID, in 9 countries with three main targets:

[13] http://www.buildup.eu/

[14] http://sf-energyinvest.eu/uploads/media/Manual_English_01.pdf

- Increase awareness in the campaigning regions on use of SCF for RES and EE projects.
- matchmaking between potential consortium partners, banks, potential applicants, experts and officials
- increase knowledge and international cooperation, promote best practices

All events will be tailored to the needs and specific situation of each campaigning region

Other examples:

Standard promotion material such as folders, brochures and websites to disseminate information on SCF is used by many countries. In the Netherlands, the Managing Authority also use targeted channels of communication such as Chamber of Commerce magazines, local magazines and TV-programmes. In the Czech Republic, a communication plan including short films, a website (www.opzp.cz), leaflets, documentaries, advertisement, etc. has been launched. A communication department counting 7 people working in an internal, external and information support unit was established. In Poland also radio spots and outdoor advertisement are used. The key message is “good information...for a good start” and aims at attracting potential beneficiaries. In Austria, MAs also inform potential beneficiaries via telephone and they organise workshops and seminars in their regions in order to promote the provincial OP. Detailed information on the necessary application documents is usually available on the websites of the managing authorities (either on the website of the federal governments or on the programme website itself) from which the relevant documents can be downloaded. Specific information on the eligibility criteria is also available online. Personal guidance on how to fill in the application documents is also provided when necessary. Finally, bilateral meetings and info days complement the promotional tools for Structural funds. In Estonia all success stories are published in the web-site dedicated to Structural Funds to encourage potential project developers. Annual journal available also electronically (http://www.struktuurifondid.ee/public/trukised/eestiareng_EST.pdf) offers comprehensive overview of funded projects. Detailed instructions, advices and supporting documents are available at http://www.struktuurifondid.ee/kuidas-saada-toetust/. Each call for proposals is supported by information days.

Recommendation n°14:

Managing authorities should simplify the application procedures to the Funds and propose tools to project promoters in order to help them apply for funding

Context:

The administrative and financial procedures linked to the structural funds discourage the organisations of SMEs and especially micro enterprises‟ organisations from applying for structural funds. According to several sources, only 1 or 2% of the available structural funds are used in some regions by small enterprises. Despite remarkable results obtained in dynamic regions the tendency is to disengage from actions in the framework of structural funds and instead to choose the regions‟ own programmes.

In particular, the administrative and financial procedures, the form papers, the conditions and time limits for the payments of grants, the eligible costs vary according to the programme ESF or ERDF.

Legal or political requirements:

Managing authorities should offer qualified advice to the applicants concerning the application procedure.

Examples of qualified advice In the region of **Brandenburg**, Germany, there is a good example of qualified advice. The public Agency Zukunftsagentur Brandenburg (ZAB) supports public bodies and enterprises in the application for funding of energy related projects: http://www.zab-energie.de/de/110.aspx. The same counts for **Berlin**: http://www.uep2-berlin.de/projektablauf.html. In **Estonia** a network of professional consultants has been created covering the whole country (http://www.eas.ee/index.php?Itemid=1490), where consultancy and assistance is offered during all stages of the project.

Managing authorities should simplify and clarify the application procedure similar application procedures for the different funding sources and a single point of information for all funds (one stop shop).

Good and bad practices of application procedures In **Austria**, the most important steps when submitting a project in the framework of the Environmental Subsidy Scheme for Austrian Enterprises are: (1) Application: The applicant has to submit his request for funding before the project is actually implemented. As soon as the request for funding is submitted, the applicant can start with the implementation of the project. However, he/she has to bear in mind that his/her request for funding can be rejected. (2) Processing: Experts check whether the project is technically and economically eligible for funding. In case any documents are missing, the application has to hand in the missing documents. It usually takes between three to six months to process a request for funding (depending on the quality and complexity of the proposal). (3) Recommendation of funding: The experts inform the applicant about the amount of funding he/she might receive. The applicant is entitled to comment on the recommendation of funding. (4) Final check by the Commission, approval by the Minister of Environmental Affairs: The Commission has to approve the proposal before the Minister of Environmental Affairs grants funding for the proposed action. (5) Contract issuance and contract acceptance: The funding authority sends the contract to the applicant who has to sign the contract and return it to the funding authority. (6) Project finalisation: No longer than 12 months after completion of the project, the applicant has to issue a final settlement (including invoices, receipts of payments, etc.) and present it to the funding authority. (7) Final settlement: The funding authority checks the final settlement. In case any documents are missing, the application has to hand in the missing documents. (8) Payment: The funding authority informs the applicant about the results of the final settlement and authorises the payment of the subsidy to the applicant. (9) Monitoring:In order to make sure that the project has a positive environmental effect, it is subject to random inspections. It has to be noted that the implementation of the project should take no longer than two years (exceptions possible). In **France**, the administrative and regulatory charges involved in appraisal, control and particularly State aid control procedures prevent some degree of involvement on the part of investment project

initiators. Indeed, many operators have stopped initiating investment projects as a result of the administrative red-tape involved in the procedures and the associated legal risks. The simplification of such procedures and controls must be a major focus of the reform of the cohesion policy in order to fully release the growth potential of the ERDF. The notion of a single subsidy request dossier (ERDF and national contributions) and a unification of energy performance criteria must be incorporated into the future Regulation.

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