

## DISCUSSION PAPER

*by the Energy Community Secretariat*

### **on Riding the Renovation wave in the Western Balkans Proposal for boosting energy efficiency in the residential building sector**

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## Table of Contents

1. INTRODUCTION .....	3
2. RENOVATION NEEDS AND DRIVES.....	4
a. The Needs.....	4
b. The Drives.....	5
3. IMPLEMENTATION OF THE RENOVATION WAVE .....	7
a. Funding: EU/donors grants, IFIs lending, public finance.....	7
b. Tailored technical assistance for buildings renovations .....	12
c. The legal and regulatory framework – focus on multi-apartment buildings .....	13
4. RECOMMENDATIONS AND CONCLUSIONS .....	15
ANNEX I .....	18

## 1. INTRODUCTION

On 10 October 2020, the European Commission adopted “An Economic and Investment Plan for the Western Balkans”, which identified flagship initiatives related to clean energy and the transition from coal. An overall budget of EUR 9 billion during 2021-2027 is proposed for the Plan’s implementation, of which a fair share is expected to finance buildings renovation and decarbonisation of heating and cooling sectors.

### Flagship 6 – The Renovation Wave<sup>1</sup>

*“The Commission proposes to expand the “EU renovation wave” to the Western Balkans. The building sector accounts for over 40% of total energy consumption in the Western Balkans. Renovating public and private buildings to meet minimal energy performance standards can make a very significant contribution to the reduction of greenhouse gas emissions, improve the living standards of citizens, as well as their health. A building renovation wave implemented with the help of the Energy Community will assist the Western Balkans in decarbonisation of public and private building stock, with a strong emphasis on digitalisation and taking into account energy poverty. The EU together with international financing institutions, will support the efforts of the Western Balkans partners to triple the current renovation rate and energy savings in existing buildings and achieving nearly-zero energy and emission standard in new buildings.”*

The Energy Community Secretariat’s support in implementing the renovation wave is envisaged under the Plan. In this respect, its role may be manifold. Given the barriers to the roll-out of the renovation wave as outlined in this Discussion Paper, the Secretariat offers its assistance to the Western Balkan Contracting Parties in improving the legal framework and removing regulatory barriers in the building sector; facilitating information sharing and exchange of best practice; and serving as a bridge between the providers of technical and financial assistance and beneficiaries.

The present Discussion Paper presents the Secretariat’s views on the Western Balkans renovation wave and proposes recommendations for its design and implementation, particularly related to multi-apartment buildings, which have the biggest potential for energy savings.

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<sup>1</sup> European Commission, An Economic and Investment Plan for the Western Balkans, 2020.  
[https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication\\_on\\_wb\\_economic\\_and\\_investment\\_plan\\_october\\_2020\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf).

## 2. RENOVATION NEEDS AND DRIVES

### a. The Needs

The residential building sector is one of the largest energy end-users in all Western Balkan (WB) countries, making up 30 to 60% of all final national energy consumption<sup>2</sup>, compared to approximately 40% in the EU. The potential energy savings in buildings sector are estimated at more than 50% of its consumption. Despite low per-capita energy consumption, average energy use per square meter varies across the countries, ranging from about 100 kWh/m<sup>2</sup> in Montenegro to above 200 kWh/m<sup>2</sup> in Bosnia and Herzegovina<sup>3</sup>.

Such high energy demand and low energy performance is caused by several factors, including ageing building stock, decades of poor maintenance, legal and regulatory barriers, a lack of clear ownership structure and responsibilities and poor management of residential buildings. This results in the need for massive investments to upgrade residential buildings and improve energy efficiency (EE). The situation is made more complex by the fact that the vast majority of tenants in multi-apartment buildings (MABs) are also the owners, and a significant share of these have low to medium incomes, making electricity and heating costs a large share of their disposable income.

Of the total residential building stock, a significant share of dwellings is represented by the MABs: Albania: 43%; Bosnia and Herzegovina 46%; Kosovo: 23% (Pristina: 60%); North Macedonia: 42%; Montenegro 39%; Serbia: 27%; the average of the Western Balkans is 39% in MABs and 61% in detached houses.

Financing EE in buildings varies considerably across different sectors. The private sector (individuals, households, and businesses) appears to have well-functioning markets, where consumers can easily borrow funds for EE and other investments. Multi-apartment buildings (MABs), however, remain an untapped market for commercial lending for EE investments despite the sector's significant share in national energy consumption. The delay in MABs EE market maturity is a complex problem with multiple variables involved.

The residential sector represents the largest component of the Total Final Energy Consumption (TFEC) of the WB6, accounting for approximately 34% of the total, in 2018. Financing energy efficiency (EE) in buildings varies considerably across different sectors. The private sector (individuals, households, and businesses) appears to have well-functioning markets, where consumers can easily borrow funds for EE and other investments. MABs, however, remain an untapped market for commercial lending for EE investments despite the sector's significant share in national energy consumption. The delay in MABs EE market maturity is a complex problem with multiple variables involved.

The residential building sector is facing significant barriers in introducing large scale investments in EE and small, decentralised renewable use in buildings, including: (i) small project size and relatively high transaction costs, (ii) low energy tariffs, (iii) affordability, (iv)

<sup>2</sup> IEA statistics, 2015.

<sup>3</sup> World Bank. *Western Balkans: Directions for the Energy Sector (English)*, 2018. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/201391544823541838/Western-Balkans-Directions-for-the-Energy-Sector>.

weak homeowner associations' (HOAs') decision-making processes and regulations, (v) lack of creditworthiness of HOAs/homeowners, (vi) norm-based billing systems for heating, (vii) limited access to affordable financing, (viii) informal or illegal construction, including unregistered building additions, and (ix) short investment horizons by homeowners (i.e. desire for short payback periods).

In October 2020, USAID released a very thorough study "Gap analysis of the housing sector in the Western Balkans". The study highlighted that while housing policy reforms are being developed and focus on regulation of maintenance and management of the MABs, the lack of capacity and enforcement procedures, frequent changes and deficiency in clarity, make them not effective. Only North Macedonia has passed a law on condominiums; this, as well as all other countries' laws relevant for residential buildings allow for HOAs to be legally registered and also perform the management of the buildings for the MABs, except for that of the Federation of Bosnia and Herzegovina.

Based on the study's analysis, the current system of oversight and control of the housing policy implementation, with numerous regulatory bodies and inspectorates that bring little effectiveness, would need to be simplified. Moreover, numerous inconsistencies and loopholes were observed, between the housing laws and other laws that have impact on HOAs regulatory framework. A comprehensive assessment and streamlining of legal and regulatory interventions in this field would be needed.

## **b. The Drives**

### *i. Decarbonisation*

The Western Balkans are subject to significant pressure from various stakeholders such as civil society and environmental organisations, international commitments (the Energy Community Treaty, Paris Agreement, Sofia Declaration, etc.), international financing institutions (IFIs) and donors and investors to decarbonise both their energy supply and energy consumption. Actions such as coal phase-out in electricity generation, substituting fossil fuels with cleaner options such as renewable energy, but also increasing efficient use of energy in all sectors, with an emphasis of buildings, are at the core of decarbonisation.

### *ii. Multiple benefits of energy efficiency in buildings*

A significant improvement of building stocks, both public and private, new or existing, is not only contributing to reducing energy poverty, creating economic regeneration through new jobs in building materials and construction sector, improving air quality and indoor living standards, reducing harmful emissions, increasing the energy supply security, etc. In addition, EE is seen as a critical tool in helping to mitigate the effects of necessary and planned tariff reforms by offsetting the higher energy costs to the entire economy. This way, the impact of tariff reforms will be offset by reduced energy use (mostly for heating purposes) and hence household energy bills, while preserving or increasing the level of comfort.

Heating and cooling appliances represent a significant share of energy consumption in buildings and introducing more efficient products will bring additional benefits to the cities air quality and limit pollution from fossil fuel based systems.

### *iii. Future legal obligations*

In 2021, key elements of the Clean Energy for All Europeans Package will be adopted by the Energy Community, including ambitious 2030 targets on efficiency and renewable energy shares in both supply and demand, as well as reduction of greenhouse gasses. The legal framework will include the amended Energy Efficiency Directive (EED), the amended Energy Performance of Buildings Directive (EPBD), the recast Renewable Energy Directive (REDII) and the Governance Regulation.

All of these will have an impact on buildings and their performance as they will introduce new building standards and codes, enhanced renewable use in heating and cooling, more efficient centralised/district heating systems, etc. Given the stricter building standards, many buildings will need deep renovation investments which will require significant financing.

The amended EU EED requires (in the current form adopted in December 2018) an EE target of 32.5% in 2030; a new EED is expected to be recast and tabled by the European Commission in June 2021, with an increased overhead efficiency target of 36 or 37%. Having this in mind, the Energy Community will probably have a 2030 target in the same range, which will have a significant impact on the buildings renovation target, currently at 1% per year, in comparison with the EU target of 3%.

The amended EPBD requires the preparation of a national Long Term Renovation Strategy till 2050 and a clear Roadmap for its implementation. Moreover, it calls for financial mechanisms to be actively promoted for the mobilisation of financial institutions, such as energy efficient mortgages, promotion of EE in public buildings through public–private partnership and uptake of energy performance contracting as a tool for financing and implementing building renovations. In addition, in order to reduce the perceived risks, the set-up of one-stop shops that provide integrated energy renovation services is seen as an important measure.

The recast Renewable Energy Directive (REDII) requires mainstreaming renewable energy in heating and cooling. This brings an additional drive to renovate buildings with deep measures that would allow renewable technologies to participate in both lighting and heating/cooling in buildings.

#### *iv. The present political momentum*

An additional political impetus was *given at* the 2020 Sofia Summit, held under the framework of the Berlin Process initiative, where Western Balkan leaders adopted the Sofia Declaration on the Green Agenda for the Western Balkans. The leaders agreed to (i) “Support private and public buildings renovation schemes, secure appropriate financing and full enforcement of the Energy Performance of Building Directive (adapted under the Energy Community framework)”; and (ii) “Develop programmes for addressing energy poverty and financing schemes for household renovation and providing basic standards of living”.

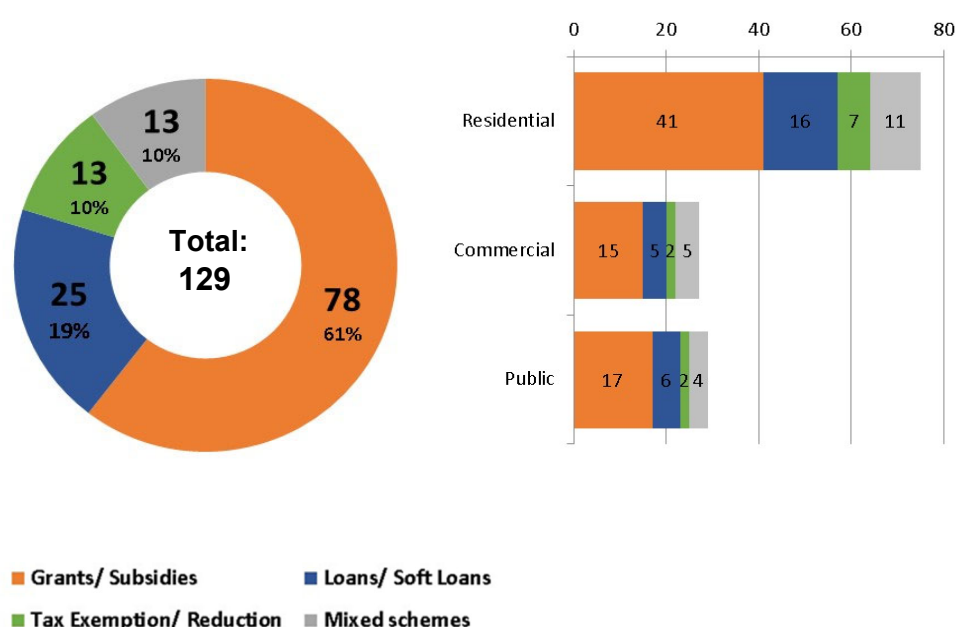
### 3. IMPLEMENTATION OF THE RENOVATION WAVE

Given its high share of energy consumption, it is clear that the success of the renovation wave rests with addressing the complex problem of residential building renovations, especially concerning MABs. Tapping this sector's potential requires a holistic approach starting with an enabling legal and regulatory framework, dedicated financing with specific financial products and last but not the least significant technical assistance for project preparation and implementation.

#### a. Funding: EU/donors grants, IFIs lending, public finance

In contrast to the Western Balkan countries, the EU has already acquired extensive experience in implementing EE financial and fiscal instruments for supporting building renovations. These instruments have different sources of finance, delivery mechanisms and approaches, and are available to more sectors, including residential, commercial, and SME. The EU experience is summarised below, based on the Study “Accelerating energy renovation investments in buildings”.<sup>4</sup>

**Figure 2 Summary of the use of financial and fiscal instruments in EU**



In the EU, only in the last four years, the Joint Research Centre identified a total of 129 ongoing public financial and fiscal schemes supporting energy renovations of which around 61% are

<sup>4</sup> Joint Research Centre, Accelerating energy renovation investments in buildings – Financial and fiscal instruments across Europe, 2019.



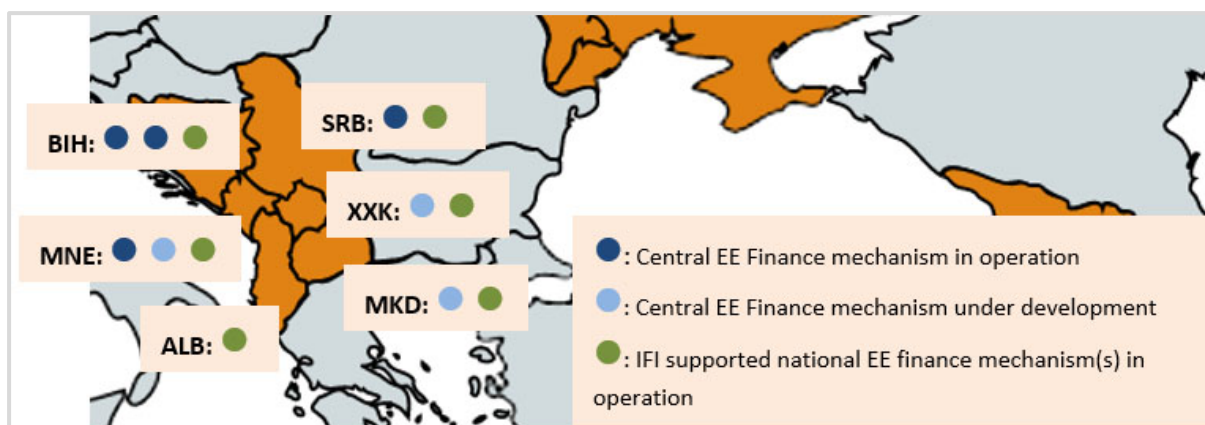
in the form of grants and subsidies, 19% are soft loans, 10% are tax incentives and the remaining 10% are a combination of the above. The same study showed that around EUR 15 billion are being spent annually across the EU for EE in public and non-public buildings. The majority of the instruments applied in the residential sector in the EU Member States (MS) are based on grants and subsidies (25 MS), traditional loans and soft loans (18 MS) and fiscal incentives (10 MS). A detailed overview of public and private instruments in the EU is presented in annex I.

Despite the many instruments at hand, the renovation of buildings in the EU has proved to be very difficult and quite slow, compared to the expectations. Presently only 1% of buildings undergo energy efficient renovation every year, while currently, roughly 75% of the building stock is energy inefficient (source: DG Energy). In the Energy Community, the renovation process is far from being so advanced.

In the Western Balkans, it is estimated that approximately EUR 1.06 billion were invested in EE in all building categories between 2010-2020.<sup>5</sup> The figure is significantly lower in the residential sector, which due to the many barriers identified below is considered a difficult market to serve as it is fragmented, with small scale investments, and riskier than the other building categories.

With the support of donor engagement in EE, many WB countries have established, or are in the process of establishing, centralised EE financing mechanisms. These are complemented by multi-country initiatives supported by IFIs (see figure 1).<sup>6</sup>

**Figure 1 Overview of centralised energy efficiency financing mechanisms in the Western Balkans**



The table below presents the main energy efficiency financing instruments at national or entity level. The majority of the mechanisms focuses on public sector buildings or services such as street lighting, or district heating. There are no specific national funds for residential building renovations at present.

<sup>5</sup> Energy Community Secretariat own calculations.

<sup>6</sup> EBRD and Energy Community Secretariat, Centralised Energy Efficiency Financing Mechanisms: Policy guidelines, 2020. [https://energy-community.org/dam/jcr:2d97286f-2e17-47c5-b6e1-fe85c902ed1d/EBRD\\_EnCS\\_PG\\_EEF\\_072020.pdf](https://energy-community.org/dam/jcr:2d97286f-2e17-47c5-b6e1-fe85c902ed1d/EBRD_EnCS_PG_EEF_072020.pdf).



**Table 1 Overview of centralised EE financing mechanisms in the Western Balkans<sup>7</sup>**

	Country	Name of mechanism	Type/sector	Brief description
<b>National schemes</b>	Bosnia and Herzegovina	Energy Efficiency Project	Public sector	Total planned investments over the next three years of USD 19 Million in the Federation BiH and USD 13 Million in the Republic of Srpska. Funds are awarded to local institutions in the form of grants, and the credit liability to the World Bank rests with Bosnia and Herzegovina. The funds were sourced from the World Bank and are earmarked for EE improvements in public buildings in the healthcare and education sector.
		Funds for Environmental Protection (and EE)	Public buildings (also private buildings in FBiH)	Entity level funds:  <b>Federation BiH:</b> Revolving fund with loans placed via public calls. Currently operational with dedicated budgets determined annually including for revolving fund for EE measures.  <b>Republika Srpska:</b> Grant projects for public buildings. Not available for private buildings.
	Kosovo <sup>*8</sup>	Energy Efficiency Fund	Public sector (may be extended to residential sector)	Established as a separate legal entity but yet to commence first tender (April 2020). Funded by EU, World Bank and Government of Kosovo (total EUR 16 Million). Disbursements will be made through tender rounds. Initial focus expected to be schools, hospitals and other public municipality buildings.
	Montenegro	Energy Efficiency bui	Residential sector	The Energy Efficiency Home programme is administered by the Ministry of Economy. The Ministry provides loans via its partner commercial banks who in turn transfer the approved amount to the dealer or installer. The dealers or installers also maintain the heating systems while the customer repays the loan to the bank in monthly instalments.

<sup>7</sup> EBRD and Energy Community Secretariat, Centralised Energy Efficiency Financing Mechanisms: Policy guidelines.

<sup>8</sup> Throughout this document, this designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

		Environmental Protection Fund	All sectors	Established with inter-ministerial support as a limited liability company in 2018. Funding mechanisms are expected to be a mix of direct loans, grants and subsidised loans stretching across environmental issues including EE.
		Energy Efficiency Project and Energy Efficiency Programme	Public sector	With loan finance from EBRD and KfW respectively, these programmes aim at improving EE in public buildings including schools and hospitals.
	North Macedonia	Energy Efficiency Project	Public sector	Direct loans (80%) and grants (20%) to municipalities. Funding channelled through the Ministry of Finance to which the municipalities may apply. Total funding expected to be EUR 10.5 Million. No funds have been disbursed yet.
		Energy Efficiency Fund	Public sector (possible future expansion)	Mix of direct loans, on-bill financing. Donors to be main funders at start but commercial financing expected to follow. The World Bank will provide EUR 5 Million funding; the EU/EC has expressed interest as have other donors. Nothing disbursed yet (April 2020).
	Serbia	Budget Fund for Energy Efficiency	Public sector (planned expansion to residential sector)	Since 2014, the Ministry of Mining and Energy has operated periodic public calls for tender to support the implementation of EE measures in the public sector (municipalities). The fund is allocated from the central budget of the Government of Serbia, on an annual basis, in the approximate amount of EUR 1 million. As of 2019, an EE levy has been introduced on energy bills. While revenues drawn from this levy are not directly hypothecated for supporting the Budget Fund for Energy Efficiency, the application of the levy is expected to support the growth in the size of the funds to be allocated.

Sources: National Energy Efficiency Action Plans and Annual Reports of Contracting Parties and programme webpages

Another category is represented by multi beneficiary programmes, mostly funded by loans from IFIs with incentives and technical support provided by the European Union. However, despite the large number of regional EE credit-lines (supported by IFIs and the EU) available to help improve EE in residential buildings in the Western Balkans, their take-off has remained modest and focused on high income segments and those living in single family homes. For an overview of the key programmes in the Western Balkans, see box 2.

### **Box 2 IFI/Donor programmes in the Western Balkans<sup>9</sup>**

**Regional Energy Efficiency Programme (REEP):** a regional programme blending IFI financing from the EBRD and KfW with EU grant financing to support an integrated package of targeted policy dialogue (e.g. transposition of the EU Energy Performance of Buildings directive), technical assistance, and financing with the aim to leverage reforms in the sector whilst at the same time providing targeted finance to stimulate sustainable growth. REEP is structured in different windows aimed at stimulating sustainable energy investments; EE in buildings plays a key role in this programme and is currently supported through the following:

- **Public Finance Window**, it finances EE renovations of public buildings owned by municipalities or governments (schools, hospitals, central and local administration offices). This window comprises of: up to EUR 45 million EBRD financing with EUR 6.7 million of EU grant co-financing; up to EUR 85 million KfW financing and EUR 15.6 million of EU grants.
- **Western Balkans Green Economy Financing Facility (WBGEFF I and II):** a EUR 135 million EBRD credit line supported by technical assistance and incentives and provided through local financial institutions to promote EE renovations in the residential sector and the construction of new high performing buildings. The credit line benefits from EUR 35.1 m grants (from the EU and other donors) for incentives and technical assistance; it relies on well-tested tools such as the technology selector, an on-line list of high-performing technologies that have been assessed and pre-approved as eligible for GEFF financial support.

**Green for Growth Fund** covers public, residential and commercial sectors; it was initiated by the European Investment Bank (EIB) and KfW with funding from a variety of international public and private organisations. The fund provides credit lines to financial institutions for on-lending to private households, homeowners associations, businesses, municipalities and public sector entities to finance EE measures and renewable energy projects. In the Western Balkans, GGF invested approximately EUR 80 million in buildings renovation during 2015-2020.

Additional national investment programmes mostly focussing on public building renovations are supported by the World Bank, the European Bank for Investment, Agence Francaise de Development, etc.

<sup>9</sup> ECS Donor Coordination Platform [Energy Community Homepage \(energy-community.org\)](https://energy-community.org)

### *b. Tailored technical assistance for buildings renovations*

The EU, as well as many of its Member States, has a long tradition of providing technical assistance in the area of EE in order to facilitate the large scale uptake of European funding for buildings renovation. Various EU wide technical facilities are in place to support preparation of EE projects for IFIs or private sector financing (see box 3).

The European Commission, in the Communication on the EU renovation wave, talks about increasing capacity and technical assistance to match the financing made available for buildings renovation in the EU, under the 2021-2027 Multiannual Financial Framework and the recovery instrument NextGenerationEU. The Commission is also working on additional preparation instruments, including, among others:

- One – stop shops at national, regional or local levels for supplying tailored advice and financing solutions designed for homeowners and SMEs, for supporting the preparation and implementation of their projects;
- Technical Support Instrument of the Recovery Plan; and
- The EU City Facility.

Having in view that the risk perception of financiers and investors associated with EE in buildings is a high level barrier in the large scale uptake of the investments (even in the EU), the Commission has developed products that aim to inform financial institutions, investors and project promoters about the real benefits and risks of EE investments (see box 3).

In the Western Balkans, a dedicated and tailored technical assistance for investments in EE in buildings is in general set up as part of regional or national financing instruments and is supported by donors and/or IFIs. This is the case with the Regional Energy Efficiency Programme (REEP) for the commercial, residential and public sector, or Green for Growth Fund for both commercial and residential sectors. Bilateral donor/IFI programmes have also embedded technical support, only these mostly address the public sector, for which typically a government body is the implementing agency. The Energy Community Secretariat is a partner of all these programmes and facilitates their promotion and implementation through its work on improving the legal and regulatory framework in the region and by providing information and technical knowledge to the beneficiaries of the programmes.

Most of the technical support is dedicated to training partner financial institutions, advising borrowers, mostly public sector or individual households, on the best solutions and technologies, or monitoring and evaluating savings of CO<sub>2</sub> emissions and energy, and reporting to the IFIs and donors.

Nevertheless, this type of assistance is by far not sufficiently tailored for MABs owners, in which case the borrowing is a collective apartment owners' decision and the implementation should be done by a professional technical body.

In most WB countries, the public sector's preferred "financing model" consists of national governments or municipalities engaging in sovereign or sub-sovereign loans from IFIs, which are later invested in educational, medical and other public buildings, while the loans are repaid from the state budget.

In short, the various market segments within the “building sector” have very different levels of experience and patterns of financing EE investments. MABs, however, remain an untapped market for commercial lending for EE investments despite the sector’s significant share in national energy consumption.

### *c. The legal and regulatory framework – focus on multi-apartment buildings*

The single largest obstacle in the successful implementation of the renovation wave in the Western Balkans is the lack of a legal and regulatory framework that would facilitate energy efficiency investments in MABs.

As shown above, multiple energy efficiency programmes are currently implemented in the EU with significant grant support. The success factor in the large uptake of these is, in the Secretariat’s view, the extensive institutional capacity involved in their implementation, be it at the government level (ministries and agencies) or municipal level.

In the Western Balkans, this is the key missing link between money and beneficiaries. Money (public and IFIs/donors, investors) may be available, but the implementation infrastructure (regulatory, institutional, business) is still in infancy, which limits the impact of financing programmes.

MABs face additional barriers when it comes to large scale renovation programmes. Most of the barriers were identified by a recent study funded by USAID “Gap analysis of the housing sector in Western Balkans countries” – October 2020, including:

- Legal and regulatory barriers for securing investments in MABs, such as:
  - The legal registration and liabilities related to common property (staircases, basement, roofs, etc.)
  - There is either a low level of buildings maintenance fees, or the collection rate is low, hence, the “repair and maintenance fund” of the building is not able to support significant renovation investments
  - Financial liabilities acquired by homeowner’s associations (HOAs) cannot be legally secured
  - Complicated collective decision making – sometimes requiring 100% of owners’ approval.
- Poor institutional capacities of HOAs for managing and maintaining, designing, implementing complex investment projects and adequately procuring professional services;
- Limited cash flow generated by HOAs due to poor collections and persisting social vulnerability in the population;
- High upfront cost for renovations and diverse income of homeowners in MABs which may hinder affordability and decision-making;
- Split incentive between tenants and homeowners related to the benefit of EE renovations
- Bankers’ and investors’ perception of high risks in the HOA sector;

- Legal limitations in banks' lending rules related to unsecured lending, as long as most HOAs do not possess any assets subject for collateralization;
- Long payback periods of investments in aging MABs with a multitude of outstanding repair- and maintenance-related issues, in addition to EE, such as structural, aesthetic, or functionality improvements;
- Low awareness of potential financial and comfort gains from EE investments among building occupants; and
- A lack of technical knowledge required to assess and define the technical scope for cost effective EE renovations

Due to the barriers identified above, even successful mechanisms like the Western Balkans Green Energy Efficiency Facility (WBGEFF) where EBRD lending is blended with EU grant incentives and supported by EU funded technical assistance have very few projects in MABs (the only reported one is in Sarajevo – BiH in 2020).

## 4. RECOMMENDATIONS AND CONCLUSIONS

The present Discussion Paper intended to draw a parallel between the funding policies and implementation of large scale building renovation programmes in the EU and the Western Balkans, with a focus on the residential sector and in particular MABs.

The authors of the BPIE report believe that the low level of renovations in the residential sector may also be explained by the fact that the demand-side infrastructure (such as buildings in general and residential buildings, in particular) was not a strategic priority for policy makers in the past. This needs to be changed if large scale renovations are expected to contribute significantly to the 2030 energy and climate targets.

In order to “solve” the problem of lack of project proposals for EE investments in demand-side infrastructure, it was strongly recommended in the BPIE report to increase technical assistance, by setting up national project development groups to assist and assess the development of projects and create a capacity building initiative in the Western Balkans, focussing on effective financing instruments and project development skills.

In order to be able to attract public and private financing in large scale programmes for MABs renovations, the above mentioned barriers need to be alleviated or even better, completely removed.

Some of the needed actions, include<sup>10</sup>:

### Box 3 Technical assistance in the EU

Currently the best known technical assistance facility for energy efficiency is the [European Local Energy Assistance \(ELENA\)](#) facility managed by the European Investment Bank (EIB); under the EU Renovation wave, ELENA facility will benefit from EUR 97 million of new funding from the European Commission for its envelope dedicated to residential buildings. This budget will support project development services for energy-efficiency investments in privately and publicly owned housing. The EIB will provide assistance and expertise and act as the point of contact.

The [Private Financing for Energy Efficiency \(PF4EE\)](#) is a joint initiative between the EIB and the European Commission. Through the LIFE Programme, the European Commission has committed EUR 80 million to fund the instrument’s credit risk protection and expert support services. The EIB leverages this amount, making a minimum of EUR 480 million available in long-term financing.

Through EU Horizon 2020, the Commission has set up a series of facilities funding [Project Development Assistance \(PDA\)](#) to support public authorities - regions, cities, municipalities and public bodies in developing bankable sustainable energy projects.

The Commission, in collaboration with the Energy Efficiency Financial Institutions Group (EEFIG), has developed products that aim to inform financial institutions, investors and project promoters about the real benefits and risks of energy efficiency investments.

The [De-risking Energy Efficiency Platform \(DEEP\)](#)<sup>10</sup> is a pan-EU open-source database containing detailed information and analysis of over 10,000 industrial and buildings-related EE projects. It builds performance track records and helps project developers, financiers, and investors better assess the risks and benefits of energy efficiency investments.



### *Laws and regulatory practices*

- Streamline and simplify the housing laws and oversight procedures of HOAs management;
- Make decision making processes of homeowners simpler and more effective (50% +1 vote);
- Stricter collection of maintenance fees (rules and court enforcement);
- Introduce a safety net for low income homeowners
- Introduce minimum energy performance standards for building renovation, reconstruction and use (to accelerate the pace of decarbonisation)
- Have a mandatory Reserve Fund for maintenance and repairs that can serve as loan collaterals; and
- Stricter enforcement of EPBD and buildings certification.

### *Better governance*

- Assign proper and skilled, multi-disciplinary human resources in ministries responsible for constructions and housing agencies;
- Mandate specific government agencies to monitor, review and verify EPBD compliance, including the accuracy of Energy Performance Certificates (EPCs); Provide professional management and control over the preparation and implementation of the programme by municipalities;
- Introduce simple, easily accessible online tenders and application procedures; and
- Create a central information site on the availability of the financing schemes for residential building renovations.

### *Increased technical assistance*

- *Develop and implement a technical assistance service nation-wide to support scoping EE renovations and increase the capacity of:*
  - *Homeowners associations/condominiums*
  - *Municipal Energy Managers and experts*
  - *Energy auditors and designers*
  - *Contractors/construction companies*
  - *Specialists in the municipal advisory offices*
- Implement proper monitoring and verification (M&V) protocols, to ensure effectiveness of the investment programmes.

The Commission also supports many projects on building renovation, as well as research and innovation in the area, through the Horizon programmes, such as:

- the [BUILD UP initiative](#), which provides a web portal that focus on collective intelligence on energy reduction in buildings for all relevant audiences;
- the [BUILD UP Skills initiative](#) working to increase the number of qualified building professionals to deliver building renovations, which offer high-energy performance, as well as new, nearly zero-energy buildings; and
- the [4RinEU](#) project, which aims to provide new tools and strategies to encourage large scale renovation of existing buildings and foster the use of renewable energies (see article about the project "[Home improvements for the planet](#)").

<sup>10</sup> Energy Community Secretariat's summary of various sources cited in this document.

### *Develop effective financing instruments*

Partner banks, IFIs and donors should also analyse barriers related to MABs lending and tailor their financial products to this market.

When doing this, the different approaches may be considered: (i) an increased renovation rate (3% /year), and (ii) deeper renovation in a smaller number of buildings. Also considering the issue of under heating in Western Balkans when estimated the savings as this impacts the baseline statistics, and the potential for actual energy and GHG savings, is a very important element.

In the coming period, there are expectations that more and more countries of the Western Balkans will introduce a carbon tax in order to phase out coal (e.g. Montenegro). The proceeds from this tax may be used for contributions to MABs renovations, especially for vulnerable energy consumers.

### *Increase public awareness*

To ensure the success of the renovation wave, targeted campaigns for policy makers and building owners should be developed and implemented in order to explain the multiple benefits of energy renovations.

In order to make the renovation wave successful in the Western Balkans, the Secretariat's view is that only a coordinated intervention on multiple levels, including intensive work on housing policies and an accompanying regulatory framework, dedicated financial products, extensive capacity building at central and municipal level, bringing together the construction industry, project developers, energy auditors and monitoring and verification experts and, last but not least, homeowners associations as true partners, will have a chance to deliver the expected results.

The Secretariat offers its assistance to the Western Balkan Contracting Parties in improving the legal framework, also beyond EED and EPBD transposition and implementation, in assistance in removing regulatory barriers in the building sector, particularly in MABs. Moreover, the Secretariat is ready to also assist the countries with the organization of platforms to facilitate information sharing and exchange of best practice, including EU examples, as well as public information and promotional campaigns.

Given its role in facilitating donors and IFIs interventions in EE in all Western Balkans countries, the Secretariat is a valuable partner both for the beneficiaries as well as for the providers of technical and financial assistance.

## ANNEX I

**Table 2 Public schemes in EU Member States<sup>11</sup>**

Type of instruments	Applicable sectors	Explanations
<b>Grants and subsidies</b>	Residential 25/28 Commercial 15/28 Public 14/28	<ul style="list-style-type: none"> <li>Direct investment subsidies which may partially or fully cover renovation costs including acquisition of material/equipment, advice, certification and installation.</li> </ul>
<b>Loans</b>		
Traditional loan and soft loan schemes <ul style="list-style-type: none"> <li>Loans linked to energy performance contracts and energy service companies</li> <li>Loans with on-utility bill repayment model</li> <li>Loan guarantees and risk sharing arrangements</li> </ul>	Residential 18/28 Commercial 7/28 Public 7/28	<ul style="list-style-type: none"> <li>Offered by various IFIs and EU governments.</li> <li>Offer attractive terms to customers for EE projects.</li> <li>Preferential or soft government supported loans offered at below market interest rates.</li> <li>Under an energy performance contract (EPC), the beneficiary partially or fully uses the stream of income from the cost savings to repay the costs of the project.</li> <li>It allows customers to pay back part or all costs of energy efficiency investments over time. The funds can originate from utilities, the state or third parties.</li> <li>A security provided by a government or public institution (guarantor) with a reputable credit to ensure loan repayments in case of borrower defaults.</li> </ul>
<b>Energy Efficiency Revolving Funds</b>	Residential (not available) Commercial (NA) Public (NA)	<ul style="list-style-type: none"> <li>A portion of the savings generated by supported investments is used to replenish in part the fund (i.e. revolved) allowing for reinvestment in future projects of similar value.</li> <li>Energy Efficiency Revolving Funds may often be used to support investments in the public sector.</li> </ul>
<b>Fiscal incentives</b>		
Income tax credits/deductions <ul style="list-style-type: none"> <li>Accelerated depreciation</li> <li>Tax or custom duties exemptions</li> <li>Property taxation</li> <li>Value Added Tax (VAT) reduction</li> </ul>	Residential 10/28 Commercial 8/28 Public 5/28	<ul style="list-style-type: none"> <li>Often designed with a specific technology focus, designed to stimulate investments in specific technologies/measures rather than set overall energy performance criteria.</li> </ul>
<b>Other instruments and mechanisms</b>		
Energy Efficiency Obligation Schemes		<ul style="list-style-type: none"> <li>Market-based instrument enacted by governments in order to stimulate energy efficiency investments through obligations placed on energy companies.</li> </ul>
Energy Efficiency Feed-In Tariffs		<ul style="list-style-type: none"> <li>Represents an innovative instrument inspired from the concept of Feed in Tariffs for small-scale renewable and low-carbon electricity generation technologies.</li> <li>In EE, consumers are encouraged to reduce their energy use through a reward-based system.</li> </ul>
One-Stop Shops (OSSs)		<ul style="list-style-type: none"> <li>Introduced by the revised EPBD 2018/844 (Art.2a).</li> </ul>

<sup>11</sup> Accelerating energy renovation investments in buildings – Financial and fiscal instruments across Europe, Joint Research Centre, 2019.

		<ul style="list-style-type: none"> <li>▪ OSSs are advisory tools that facilitate access to financial mechanisms, assist consumers in relation to technical and financial issues and guide them through a number of key stages in the renovation process.</li> <li>▪ OSSs overcome market fragmentation on the demand side and the supply side by offering a holistic, whole-value-chain renovation solution.</li> </ul>
<b>Technical assistance</b>		<ul style="list-style-type: none"> <li>▪ The European Commission has set up a series of facilities funding Project Development Assistance (PDA) to support public authorities and bodies in developing bankable sustainable energy projects.</li> <li>▪ The European Local Energy Assistance (ELENA) facility, a joint initiative by the EIB and the European Commission under the Horizon 2020 programme, provides grants for technical assistance on the implementation of EE, distributed renewable energy and urban transport programmes.</li> </ul>

**Table 3 Private schemes in EU Member States** <sup>12</sup>

Type of instruments	Applicable sectors	Explanations
Commercial loans on EE	Residential: 4 national EU MS 1 multinational EBRD GEFF	<ul style="list-style-type: none"> <li>▪ EE credit lines, made available to local financing institutions usually at a low interest rate by a donor (multilateral development bank) or by a government.</li> </ul>
EE mortgages	Residential: 3 national EU MS 1 multinational Raiffeisen Bank	<ul style="list-style-type: none"> <li>▪ Offered to efficient properties purchase or to finance an energy-efficient upgrade.</li> </ul>
Crowdfunding and energy cooperatives	Residential: 3 EU MS 1 multinational EU	<ul style="list-style-type: none"> <li>▪ A large number of individuals pooling funds together and support investments in EE and renewable energy via a an on-line web platform.</li> </ul>
Specialised funds with third party providers	Residential: 2 EU MS Commercial, public infrastructure: 1 multinational	<ul style="list-style-type: none"> <li>▪ E.g Mayor's London EE Fund</li> <li>▪ Latvian Baltic energy efficiency facility</li> <li>▪ SUSI Energy Efficiency Fund (EU)</li> </ul>
EE insurance	ESCOs: 2 EU MS SMEs: EU wide	<ul style="list-style-type: none"> <li>▪ A product that protects and installer or owner of an EE project to underperform (achieve less savings than projected).</li> </ul>

<sup>12</sup> Joint Research Centre, Accelerating energy renovation investments in buildings – Financial and fiscal instruments across Europe, 2019.