



# MARKET ORIENTED MODEL FOR FINANCING ENERGY EFFICIENCY RENOVATION IN THE RESIDENTIAL SECTOR

## Project “Seamless Services for Housing Energy Efficiency Renovation - SHEERenov” - Horizon 2020



**SHEERenov**

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## Project “Integrated services for housing renovation” - Seamless services for Housing Energy Efficiency RENOVation (SHEERenov)

- The project is financed by **Horizon 2020 programme**.
- **Project partners** are Ministry of Regional Development and Public Works (MRDPW), Sofia Municipality, Bulgarian Facility Management Association (BGFMA), Cleantech Bulgaria (Coordinator), Bulgarian Austrian Consultancy Organization JSC (BACC), foreign partners from Hungary and Estonia.
- **The project goal** is to develop and test a **sustainable model for the provision of integrated services** for housing renovation for the city of Sofia. The model will be subsequently implemented in other cities in the country.
- SHEERenov will support the process of **changing the model** from 100% public (financial and administrative) support to **a market-oriented model** by creating conditions for overcoming identified challenges:
  - The need to provide a set of **services based on professional expertise** for condominiums, throughout the whole chain of building’s renovation, the principle of "one stop shop";
  - Need for **structuring of the financial support**, for the purposes of efficient spending of the public resource, whilst providing an opportunity for financial participation of all owners, incl. those with low-income ones, from the vulnerable groups.

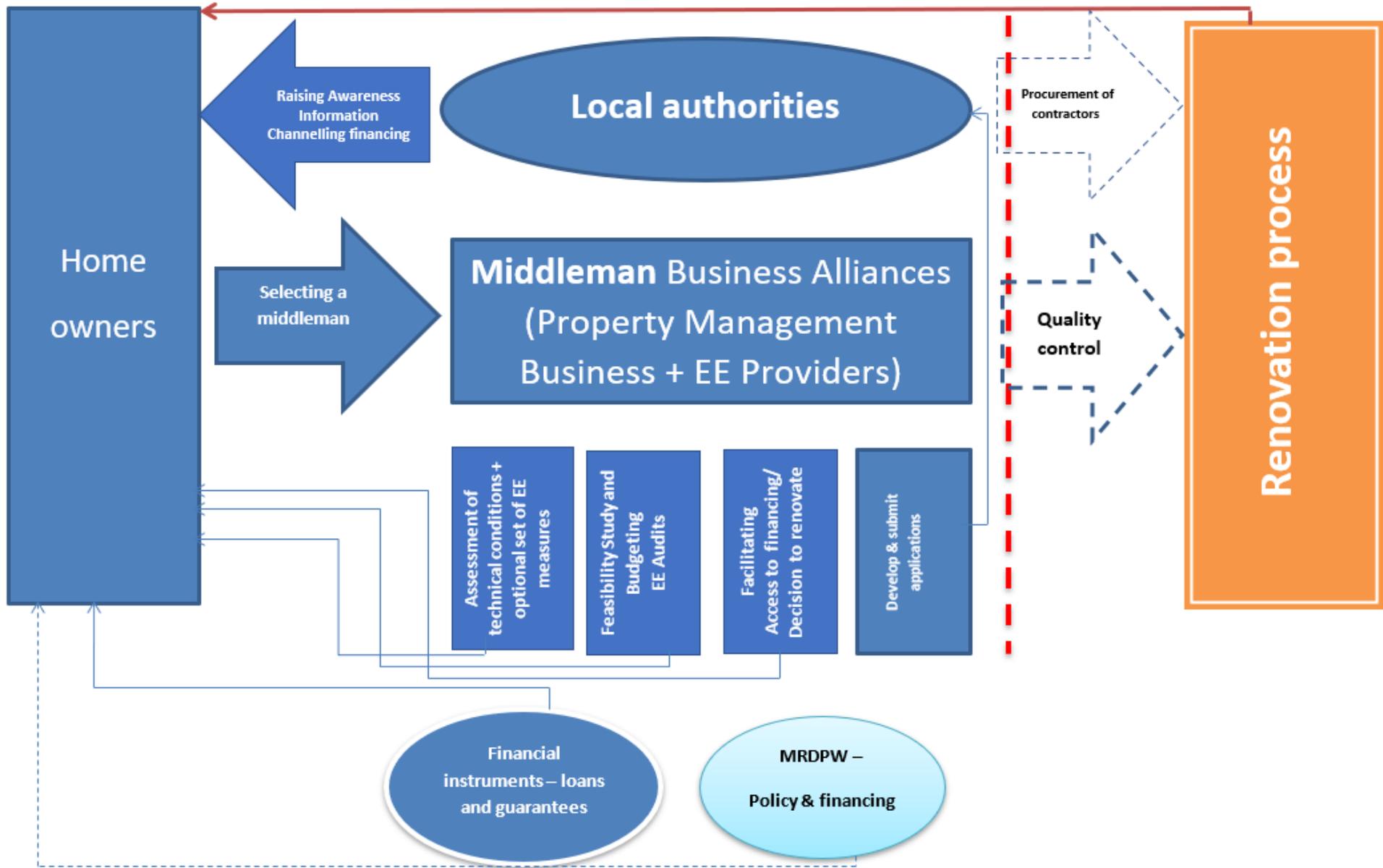
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## The SHEERenov “One-Stop-Shop” Service Concept encompasses a set of services throughout all project’s implementation processes:

- **Information provision and raising the awareness of the citizens**, as a necessary condition for increasing the **"demand" for energy efficiency** - development of tools (manuals, instructions, trainings) for standardization of the overall energy renovation: in the future it will be executed by the municipality’s structures;
- **Technical support**, through condominium consultancy services provided by the private sector: creation of individualized technical proposals for achieving "deep" renovation, financial plan, investor’s control, monitoring of the savings - the role of "specialized intermediary" will be represented by business partnership between a Professional House Manager and a Company registered as an energy efficiency service provider.
- **Financing of energy efficiency renovation in residential buildings will be structured in 3 components**, as a combination of:
  - A grant, to cover part of the costs and make it possible to repay the loan, within a reasonable time, at the expense of the realized energy savings;
  - Own financing, provided by facilitated access to a credit resource, secured by guarantees, provided free of charge to final recipients;
  - Additional targeted assistance, provided to the socially vulnerable owners.

# Integrated service for home renovation of residential buildings



## SHEERenov project concept for market-oriented model for financing energy efficiency renovation in the housing sector

### The innovative (for Bulgaria) **financing model**:

- It is based on **established European practices**, studied for the purposes of the project and suitable for adaptation to the Bulgarian conditions;
- And it includes, as follow:
  - **Grant** from the state with different intensity (less than 50% and more than 50%);
  - **Facilitated access to long-term and low-interest loans** under shared risk conditions;
  - The concept for state **guarantee and/or subsidizing loans**;
  - The concept for receiving **additional targeted assistance** for the socially vulnerable owners.

And in general: creation of a **financial service package**: grant (provided by the state), credit resource (provided by commercial banks through a financial mechanism) and targeted assistance for the socially vulnerable owners (possibly provided through local authorities).

# Providing facilitated access to credit resource CREATING FINANCIAL PRODUCT

## “Collective“ loan:

- Provided to Owners' Associations;
  - Established financing model in Europe, envisaged for adaptation to the Bulgarian conditions (under the project);
  - Successfully tested in Bulgaria - Demonstration project of the Ministry of Regional Development and Public Works / UNDP (2007-2012) through Energy Efficiency and Renewable Sources Fund (EERSF)
- ❑ **Advantages:**
- **Opportunity** for owners who are creditworthy, but do not formally meet the conditions for individual lending by commercial banks to gain access;
  - **It saves the costs** of commercial banks for individual assessment of creditworthiness, which in turn provides an opportunity to pay for intermediary services for an attracted client.
- ❑ **Challenges:**
- Need for commercial banks for a **risk-sharing mechanism**;
  - Legislative framework that **does not encourage** lending to condominiums.



## Hungary's experience in lending to condominium owners' associations - 1

- The well working **combination of a grant**, up to 30% of the total costs **and a loan on preferential terms** (provided by commercial banks through loan guarantees), works.
- **The loan is granted to the condominium owner's association**, responsible for its timely repayment. Owners with irregular contributions are subject to measures that would be applied in case of non-payment of any other obligation to the owner's association. A specialized consultant helps to solve the problem, with or without the help of social institutions;
- Commercial banks provide a loan to the owner's association on favorable terms and without a state subsidy, if the owner's association has managed its finances well for at least 2 years, has no outstanding accounts and maintains a savings account in the bank, with cash covering 20% of renovation costs.

## Hungary's experience in lending to condominium owners' associations - 2

- The lending scheme for condominium owners association was launched by **Raiffeisen Bank, ERSTE Bank, OTP Bank and MKB Bank**, with the World Bank Group, the International Finance Corporation (IFC) and the Global Environment Facility providing guarantees for the **recovery of a first loss of up to 50%** of the amount granted to one borrower - condominium owner.
- At a later stage, when it has been proven that the real risk in financing energy efficiency projects is much lower than expected, **the guarantee coverage is reduced to 12.2%**.
- Raiffeisen Bank and ERSTE Bank actively use the guarantee product provided by IFC. OTP and MKB use their data about cash flows to the owner's association as a kind of guarantee to provide equally affordable loans.

## Good practices from the Baltic republics (Estonia, Lithuania)

- Energy efficiency in multifamily residential buildings is financed through **financial instruments in combination with grants**;
- **Long-term low-interest loans are provided to final recipients without the need for collateral**;
- The guarantee instrument provides a **portfolio guarantee for the first loss**, covering 80% of the losses incurred by the participating commercial banks in respect of each loan required and up to a maximum of 25% of the cumulative losses in the portfolio.
- **The grant** covers costs for TA for investment plan and project proposal, energy audits before and after renovation, technical design, administration of the project for renovation of the building;
- **Interest subsidies** are provided by the state to help reduce the cost of loans to final recipients;
- **Capital discounts** of 30% of the project costs (grant) are intended to allow early repayment of part of the loan in cases where minimum standards for energy performance have been achieved;
- An additional 10% discount on the capital of the project costs (grant) when additional energy efficiency measures are achieved.
- Local authorities provide **additional financial support** to low-income. households.

## CONTEXT - 1

- The SHEERenov project is especially relevant in the context of the **Long-term strategy for renovation of the building stock and the National Recovery and Resilience Plan (NRRP)**.
- It is envisaged to establish a **National Decarbonisation Fund (NDF)**, including a Sub-Fund for Residential Buildings
- Providing reform – **service based on the principle "One-stop-shop"**;
- **The model created under the SHEERenov project has the potential to be incorporated and subsequently upgraded for the purposes of energy efficiency renovation of residential buildings.**

## CONTEXT - 2

- The **NRRP** also envisages the establishment of a **National Decarbonisation Fund**, including the Residential Buildings Sub-Fund:

The establishment of the National Decarbonisation Fund aims to support investments in low-carbon development through sustainable and targeted financing of a wide group of beneficiaries - end users of energy - in order to maximize the goals of decarbonisation of the Bulgarian economy. The structuring of the fund will be supported by **an ongoing implementation of a technical assistance project by DG Reforms in the EC with expected completion in early 2022**. The fund will be used to offer grants, financial and technical assistance, combined with financial instruments including credit lines and guarantees and / or a combination thereof. (NRRP, p. 64)

# THANK YOU!

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