Practical Guide: National Recovery Plans, European Semester & DG REFORM

How Energy Renovation fulfils all criteria to disburse EU Recovery Funding fast in your MS

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Energy renovation stands at the intersection of the EU's green priorities and growth objectives and is therefore a **perfect candidate to be included in National Recovery and Resilience Plans**. Energy renovation is exactly the type of **high potential and bankable** investment priority which the EU is looking for to boost green growth and stimulate sustainable local job creation. Including energy renovation in the National Recovery and Resilience Plans falls in line with the **European Semester requirements** and has the added advantage of also being able to qualify for **DG REFORM's Structural Reform Support**.

To facilitate the approval and disbursement of EU Recovery Funding in your country, governments can:

1) Prioritise Energy Renovation in the National Recovery and Resilience Plans that must be submitted to the European Commission ***before 15th October***

2) Simultaneously apply to DG REFORM ***before 1st of November*** for Technical Support to maximise the potential of energy renovation for your economy and your citizens

Why include energy renovation in the National Recovery and Resilience Plans?

Member States will prepare National Recovery and Resilience Plans setting out the reform and investment agenda of the Member State concerned for the years 2021-23, to be submitted **before 15th October 2020**. These Plans, which aim at strengthening the growth potential, job creation and economic and social resilience of Member States in the wake of the COVID-19 crisis, must clearly outline where, how and why Member States will allocate the new EU Recovery Funding.

The Plans will be **assessed by the European Commission within two months** of the submission, then **approved by the European Council.** This will then signal the green light for the disbursement of funding and enactment of structural reforms in order to exit from the current economic slump.

Energy renovation is exactly the type of investment Member States are expected to prioritise in their National Recovery and Resilience Plans: it is a labour-intensive sector that will deliver immediate tangible results (quality local jobs) whilst yielding a long-term sustainable perspective (reducing energy demand and CO2 emissions, thereby improving citizens health). Indeed, building renovation is a kick-starter for the EU economy (more in this short study).

How will the National Recovery and Resilience Plans be assessed, and how well does energy renovation comply with the criteria?

The Commission will assess the importance and coherence of the Recovery and Resilience Plans, based on the following criteria:

- The Recovery Plans must be strongly linked to the **European Semester**'s fiscal and economic policies – this means the Plans shall be coherent with the country-specific-recommendations of each Member State. Energy renovation was already included last year in the country-specific recommendations for numerous Member States and is therefore definitely a viable investment priority in the European Commission's eyes.

- The Recovery Plans must effectively contribute to the **green transition**. To this end, they must be coherent with countries' **National Energy and Climate Plans** and must be in line with the EU's key priorities set out in the **European Green Deal**. A flagship initiative of the European Green Deal is the Renovation Wave, for which the European Commission will publish on 15th October a Strategic Communication and an Action Plan which is expected to require more action and ambition from Member States on buildings.

- Although the **funding has to be allocated and disbursed fast**, the Recovery Plan must guarantee **a long-term perspective** delivering a lasting positive impact on the Member State concerned by effectively contributing to strengthen the growth potential, job creation, and economic and social resilience of the Member State. Energy renovation is widely acknowledged to stimulate immediate job creation while improving citizens health and making our homes and offices less energy-dependent and more climate-resilient in the long-term.

- The **amount of funding** requested for reforms must be linked with strong milestones and commitments, be commensurate to the expected impact on the economy, and **yield tangible results**. Investing in energy renovation can demonstrate a clear impact: BPIE has confirmed research around the labour-intensive nature of energy renovation, and how every €1 million invested in energy renovation creates on average 18 new jobs. Identifying specific building segments (such as kindergartens, schools, hospitals, social housing) to bring to the highest energy performance level makes for a very clear investment pipeline with precise milestones to channel the EU Recovery funds into, with maximum societal benefit.

- The **means for implementation of reforms** must also be credible and coherent. Aligning the National Recovery and Resilience Plans for example with the Long-term Renovation Strategies also requested by the European Commission will be one way of improving the coherence of these Plans. Applying for DG REFORM's support to implement a coherent national renovation programme will serve as an additional guarantee that the funding allocated will be effectively disbursed to achieve agreed milestones and enact real change.

Energy renovation clearly fulfils all the above-mentioned criteria against which the National Recovery and Resilience Plans will be assessed. Prioritising energy renovation in your National Recovery and Resilience Plan is a sure way to unlock the EU Recovery Funding fast and effectively.

How else could prioritising energy renovation in the National Recovery and Resilience Plans help unlock the EU Recovery Funds in my country?

Only once these National Recovery and Resilience Plans have been approved through the Commission and Council, in line with the agreed criteria and priorities, will the funding from the EU Recovery

Facility be unlocked on a country-by-country basis. **Prioritising energy renovation** in the National Recovery Plans could help to significantly expedite the delivery of funds on at least two further accounts:

- 30% of the total expenditure from the Recovery Package and the Multiannual Financial Framework 2021-2027 must support **climate investments**. This means that the funding will have to be generally consistent with the Paris Agreement objectives, while complying with the European Union's new 2030 climate targets (which will be updated by the end of the year) and the 2050 target of creating a climate-neutral economy. Renovating the EU building stock is a prerequisite to achieving any of the EU's green targets, given that buildings consume **40% of primary energy** and emit **36% of energy-related CO_2 emissions**. The energy demand of the building stock in the EU must be reduced **by 80% by 2050** to meet the EU's **long-term goals of Climate Neutrality and fulfilment of the Paris Agreement commitments.**

- Identifying sectors of the economy where allocating EU funding would help bridge an acknowledged **investment gap** and would **quickly create jobs and kick-start the economy** is also important for the National Plans. Indeed, 70% of the grants within the Next Generation EU's Recovery and Resilience Facility shall be committed in the years 2021 and 2022. The remaining 30% shall be fully committed by the end of 2023. The Commission has already identified a €185bn investment gap in energy renovation at EU level. Undertaking such an estimation of the investment gap for building renovation at national level (both in terms of public and private investments, and per building segment) could serve as a very valuable benchmark to frame the amount requested, justify the need, and expedite the disbursement of funding for energy renovation in your country.

How does including energy renovation in the National Recovery and Resilience Plans tie up with the European Semester?

As highlighted previously, one of the criteria used to assess the National Recovery Plans is how well aligned it is to the European Semester and country-specific recommendations. The **European Semester** allows EU countries to discuss their economic and budget plans and monitor progress at specific times or "cycles" throughout the year (see the timeline here). According to the European Semester, each Member State submits to the European Commission an annual **National Reform Programme** (structural reform plans to promote growth and employment in line with the EU's **country-specific recommendations**) as well as a 3-year **Stability or Convergence Programme**. Against the socio-economic uncertainty stemming from COVID-19, some of the procedures were simplified and Ministers are now preparing their **National Recovery and Resilience Plans** against the already submitted 2020 National Reform Programmes and Stability/Convergence Programmes.

The 2020 country-specific recommendations, issued following the assessment of the 2020 National Reform Programmes and Stability/ Convergence Programmes and approved at the July Council meeting, provide some guidance for the National Recovery and Resilience Plans to be submitted in October. The main recommendation to foster the economic recovery following the COVID-19 pandemic for all countries is to **focus investment on the green and digital transition, front-loading**

mature public investment projects and promoting private investment, including through relevant reforms.

In this sense, **energy renovation is a high potential and bankable investment priority** to be included in the National Recovery and Resilience Plan, which would be **in line with the European Semester requirements. Energy efficiency and the building sector (especially housing)** have in fact been specifically encouraged as an investment priority in several country-specific recommendations. In addition to its socioeconomic impact, investing in energy renovation was also identified as a sector where **energy savings are particularly promising and necessary to put energy consumption on a downward trend**.

The Annex D of the 2020 European Semester Country Reports also provided investment guidance by the Commission for the Just Transition Fund 2021-2027. The approval of the **Territorial Just Transition Plans** that Member States have to submit (annexed to the Cohesion Policy programmes 2021-2027) to access the dedicated Just Transition financing of €10 billion is again dependent on fulfilling green growth and job-creating objectives, for which **energy renovation is an excellent candidate**. Investment in energy efficiency is indeed consistently identified as a priority in Annex D for all the regions impacted by the transition to a climate neutral economy.

What is DG REFORM's Structural Reform Support and how does it relate to Energy Renovation and the European Semester?

The Directorate-General for Structural Reform and Support (REFORM) is a new DG within the European Commission created in January 2020 with the objective of helping EU countries to design and carry out structural reforms as part of their efforts to support the job creation and sustainable growth objectives enshrined in the National Recovery and Resilience Plans as well as in the Territorial Just Transition Plans. In order to provide this type of support, the Next Generation EU allocated **nearly €1 billion to a Technical Support Instrument (previously named Structural Reform Support Programme).**

DG REFORM offers Technical Support in the 5 main sectors of the **European Semester**: 1) revenue administration and public financial management, 2) public administration and governance, **3) growth and business environment (which handles climate and energy)**, 4) labour market, education, health and social and 5) resources and aid.

Given that energy renovation stands at the intersection of the EU's green priorities and growth objectives post-COVID-19, national renovation programmes are a perfect candidate to be included in National Recovery and Resilience Plans and would certainly also qualify for Structural Reform Support (under **sector number 3 related to growth and business development**). In fact, DG REFORM has already been helping two Member States with the National Long-term Renovation Strategies submitted this year.

'Energy and Climate' is one of the reform areas identified under 'Growth and Business Environment', and has already been successfully supported among the 1000+ reform projects already underway since the launch of this support service (prior to DG REFORM) in 2017. Additionally, the area of reform "Financial sector and access to finance" contains a reference to green finance, which presents a great opportunity to ease excessive administrative burden and create a favourable financial environment to facilitate energy efficiency investments.

Applying for such support for National Renovation Programs would mean that DG REFORM would finance the overall planning and policy development, help develop financial best practices, look into the workforce situation, etc. Staff from DG REFORM would cover the overall support while a network of consultants and experts would be sent to provide implementation assistance on the ground.

What is the benefit of using DG REFORM's support to finance energy renovation in my country?

Having DG REFORM coordinate and provide tailor-made technical support to an EU country for implementing their institutional, administrative, and growth-enhancing reforms will **facilitate the rapid disbursement of EU funding from the Recovery and Resilience Facility**. Indeed, using DG REFORM's Structural Reform Support will provide additional assurance to the Commission about the **capacity and appropriate means to effectively put in place the planned reforms enshrined in the National Recovery and Resilience Plans**, thereby facilitating approval.

Using DG REFORM's support to finance energy renovation has two other benefits, compared to technical assistance which has been offered to Member States up till now for energy renovation. Unlike DG REGIO's Structural Funds Assistance or the EIB's technical Advisory HUB, DG REFORM's support requires **no co-financing** from Member States. The support is also not designed at project-level but rather **covers the entire reform process**, from preparation and design to implementation of the reforms.

Identifying certain **segments of the building stock (schools, hospitals, social housing)** to bring to the highest energy performance class would be exactly the type of investment priority which could include structural reforms and thereby warrant support from DG REFORM. The structural reforms could focus on the need to significantly **increase the depth and rate of renovation** by, for example, rolling out of **Minimum Energy Performance Standards** as a means of channelling the investment to the regions and segments most in need and where the energy savings are the largest. Including energy renovation in the National Recovery and Resilience Plans would therefore qualify for funding from the EU Recovery Facility but also for support from DG REFORM thereby guaranteeing impactful results and real benefits for citizens.

How can I access DG REFORM's Technical Support Instrument to support my country's energy renovation projects?

The Technical Support Instrument is demand driven, on an annual basis, meaning that the request must be lodged by the Member State by **31st October** each year. Typically finance ministries or prime ministers' offices are responsible for collecting requests and sending them on to DG REFORM. DG REFORM then selects the countries whose proposals adhere best to Commission priorities (e.g. Green Deal) and which Member States themselves appear to be strongly committed to. After successful approval, DG REFORM enters into dialogue with the Coordinating National Authorities (specific Ministries and National Agencies) to start supporting them at whatever stage of their reform cycle they are at.

Are there other funds in NextGenerationEU which could help fund energy renovation?

In addition to the Recovery and Resilience Funds, the EU has also provided additional flexibility and simplified streamlined procedures for Member States to use the **European Structural and Investment Funds** (including a 100% co-financing rate from the Union budget in the 2020-2021 accounting year) which will be instrumental in creating a green, smart and resilient Europe. Their delivery will be embedded in the European Semester, hence following the criteria mentioned above. Additional funding for energy renovation will therefore also be available through:

- **REACT-EU**: a top-up to the Cohesion policy programme with funding amounting to €47.5 billion. REACT-EU will support investment in job creation, SMEs and it will serve the European Green Deal and digital transitions objectives.

- **Just Transition Fund**: annexed to the Cohesion Policy programmes 2021-2027, this fund should amount to €10 billion and will address the socio-economic consequences of reaching climate neutrality by 2050.

Other EU funding streams that can support energy renovation are: Horizon Europe, Funding for climate action, LIFE Programme, ESIF 2021-2027

END

About the Renovate Europe Campaign:

Renovate Europe is a political communications campaign with the ambition to reduce the energy demand of the EU building stock by 80% by 2050 through legislation and ambitious renovation programmes. Accelerating the rate of renovation is a key tool in the fight against climate change, and will deliver major benefits for people, their quality of life, and the economy.

#PrioritisePeople

#AccelerateRenovation

www.renovate-europe.eu

REC Partners (as from August 2020)