How the 2021-2027 MFF can help Member States achieve higher energy renovation ambition

Key Recommendations for the 2021-2027 Buildings-related Operational Programmes
June 2022

Multi-Annual Financial Framework (MFF) funding can significantly **help Member States achieve higher ambition on energy renovation**.

The REPowerEU[1] Plan clarified the urgency and importance of this task, and the **2022 European Semester Country-specific Recommendations[2] urged each of the 27 National Governments to boost the rate and depth of renovation** in order to reduce the EU's dependence on Russian fossil fuels.

Member States must now take into account these 2022 Country-specific Recommendations in the programming of the 2021-2027 cohesion policy funds, as the MFF can go a long way towards helping Member States achieve higher energy renovation ambition through the European Regional Development Fund (ERDF), Cohesion Funds (CF) and the European Social Fund Plus (ESF+)[3].

As Member States look to finalise their Partnership Agreements (PAs) and Operational Programmes (OPs) by the end of this year, **how can MFF investments in buildings be optimised?**

PROGRAMME DESIGN

Channelling MFF funding towards energy renovation can significantly boost renovation activity on the ground but will not be enough to bridge the large investment gap. The Operational Programmes must be designed in a way that **creates a sustainable long-term renovation market**:

1) **Ensure coherence with EU long-term climate objectives**
- **Avoid programmes funding single measures** or "low-hanging fruit" which would not be coherent with EU climate objectives and which are usually financially viable anyway without EU support.
- **Scale the aid according to quality and ambition of the renovation project** to ensure complimentarity between EU funding and regulatory goals. Rewarding deeper renovation which entails several energy improvement measures (more than 60% energy savings, or a significant jump of energy classes) is crucial in order to avoid "lock-in" and deter future energy efficiency improvements.

2) **Attract and leverage private financing**
- **Limit the use of grants** only for more complex and ambitious projects involving greater energy savings or for low-income households.
- **Favour lower support intensity**, at a rate of between 30–70%. This is typically sufficient to enable renovation and at the same time ensure more careful, efficient spending.

[1] Available here: REPowerEU (europa.eu)
[2] Available here: 2022 European Semester: Country Specific Recommendations / Commission Recommendations | European Commission (europa.eu)
[3] Countries that are eligible under the Just Transition Fund can also invest their allocations in renovation schemes, in conjunction with MFF programmes

- **Modulate the level of the aid rate to increase the leverage of private funding**. This allows for private funds to finance public good (for example through an Energy Performance Contract or other financial instrument) and offers the possibility for more actors to be involved and learn from the process. Higher private co-financing also reduces the risk of corruption and gold-plating with overinflated costs disconnected from market reality.
- **Encourage blended finance, combining Financial Instruments with grants**. In the 2021-2027 programming period, this combination is now possible in one single operation[4], with extended options for using the grants beyond technical support, interest rate subsidies or guarantee fees, and can be paid directly to the final recipient[5].
- **Establish continuous calls** (rather than numerous short stop-start procedures) is important in sustaining demand and increase the chances of upscaling to maximise the full potential. Rushed short-term renovation schemes often also lead to lower quality renovations and missed opportunities

3) Complement and/or boost national regulatory and funding initiatives already underway

- **Maximise coherence with the national ambitions on buildings set-out in National Recovery and Resilience Plans and Long-term Renovation Strategies**. MFF funding is an excellent vehicle to help Member States overcome identified bottlenecks, support regulatory reforms, and achieve agreed targets, and should be used for this purpose.
- **Facilitate MFF coordination with national funding schemes**, with the aim of maximising their potential rather than setting up any competing schemes. National state aid rules should also be set up in a way that facilitates energy renovation investments from the MFF.
- **Ensure better coherence/integration of programs for energy renovation with those on renewable energy in buildings under the MFF**, given the fact that renewable energy-based technologies and district heating will work better with buildings that have low energy demand. Better synergy/ integrated planning between energy efficiency and renewable energy schemes rolled out in the Operational Programmes, enshrining the Energy Efficiency First principle, would maximise impact of EU funding and benefits on the ground.
- **Streamline the administrative process at national level**, with the aim of simplifying the application procedures and facilitating access to the MFF, especially for smaller municipalities. The Operational Programs should stipulate that only **minimal legislative public procurement requirements** need to be met to apply for MFF funding,

PROGRAMME IMPLEMENTATION

Implementation of MFF programmes must ensure that the project fits into a longer term perspective to **sustain a renovation market beyond project completion**:

- **Ensure sufficient allocation for Technical Assistance** to facilitate access for smaller municipalities, support roll-out of renovation schemes, and maximise potential in terms of replication or upscaling. Strong Technical Assistance in MFF-funded schemes will also allow for the establishment of more one-stop shops etc at regional/local level, having gained experience and seen the tangible benefits from the MFF program

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[4] See the EIB Model for a Financial instrument with a grant component to support energy efficiency here: [New model paves the way to more energy efficient investments | fi-compass]

[5] More information about the changes in the 2021-2027 compared to the 2014-2020 period here: [Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period | fi-compass]

- **Ensure MFF-supported training programmes are fully in line with evolving needs in the sector.** Re-skilling or upskilling training programmes must be forward-looking, with an emphasis on digitalisation skills, interaction between new materials, and ability to coordinate the roll-out of simultaneous energy improvement measures to achieve higher energy savings. For example, the market will need project managers who can manage different trades on behalf of customers, or installers who are competent in heat pump installation and fabric improvements, and these evolving needs should be reflected in the MFF-funded training programmes.
- **Complement the funding with an information campaign highlighting the opportunities and multiple benefits** of energy renovation (for building occupants but also for society at large in terms of job creation, tackling fuel poverty, reduced air pollution, urban rehabilitation etc) will help to replicate/ expand the program beyond its initial remit as well as gaining wider support and boosting impact.
- **Better tracking and data collection** from each buildings-related program (about C02 emissions saved, but also about number of buildings renovated, amount of energy saved, and increase in energy rating) is a crucial stepping stone for creating a renovation market with more private sector investment and involvement. An Energy Performance Certificate and Renovation Passport tracking progress made and outlining the next steps should be automatically delivered for each MFF-funded program.
- **Encourage digitalisation in order to improve productivity, reliability and collaboration.** Construction remains one of the least digitalised sectors in the economy and offers ample opportunities to take advantage of digital technologies including Building Information Modelling (BIM), to support digitalisation of permit systems, policies and databases, and to encourage centers of excellence. For renovation, there are significant opportunities to roll out digital building logbooks and smart readiness indicators, and to scale existing R&D projects (e.g., applying BMI tools to deep renovation, improving measurement performance gap, SME digital tools and standards).

MFF funding represents a real opportunity to help Member States achieve higher ambition on buildings. The Operational Programmes must be designed and implemented in a way that creates and sustains a renovation market for the longer-term.

END

Note: The following documents were consulted for this work and provide further details if needed.

- *More effective use of the 2021-2027 cohesion funds for energy security of the Visegrad: More effective use of the 2021-2027 Cohesion Funds for Energy Security of the Visegrad | MEHI*
- *Lessons learned for international climate policy from the programming, implementation and monitoring of the European Structural and Investment Funds in EU Member States: cs-ndc_tracking_eu_aug_2020.pdf (climatestrategies.org)*
- *Agora Energiewende: Matching Money with Green ideas: AEW_215_Matching-money-with-green-ideas-EU_WEB.pdf (agora-energiewende.de)*
- *Court of Auditors Special Report on Energy Efficiency in Buildings: Energy efficiency in buildings: greater focus on cost-effectiveness still needed together with the Commission's replies (europa.eu)*
- *EIB Model for a Financial instrument with a grant component to support energy efficiency here: New model paves the way to more energy efficient investments | fi-compass*
- *Changes for Financial Instruments in the 2021-2027 programming period compared to the 2014-2020 period: Combination of financial instruments and grants under shared management funds in the 2021-2027 programming period | fi-compass*
- *Technical Guidance: Financing the energy renovation of buildings with cohesion policy funding:* Financing the energy renovation of buildings with Cohesion Policy funding - Regional Policy - European Commission (europa.eu)
- *European Construction Sector Observator: Digitalisation in the construction sector: ECSO - Analytical Report - Digitalisation in the construction sector - April 2021*

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. www.renovate-europe.eu

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REC Partners (June 2022)

There are currently 49 partner companies and associations actively engaged in the work of the REC, of which 18 National Partners active in the Member States.