

DEVELOPMENT AND OPERATIONALIZATION OF FINANCIAL INSTRUMENTS NEEDED FOR THE LONG-TERM RENOVATION STRATEGY

2nd SMAFIN National Roundtable in Romania:

Financing solutions for a sustainable increase of energy efficiency in buildings and industry



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Setting the stage: The Long-Term Renovation Strategy

Objective

- Romania has set the target of **reducing primary energy consumption by 37.5 percent** by 2030 (from 2007)
- The **building sector accounts for 42 percent of this final energy consumption**, becoming a critical sector for achieving the climate objectives of the government
- To meet the proposed target, with the support of the World Bank, Romania prepared the Long-Term Renovation Strategy (LTRS), to lay out a realistic and implementable strategy.
- The LTRS aims at **decarbonizing the whole building stock by 2050** and sets a gradual annual renovation rate to achieve the objective. The focus is on multi-family buildings (approximately 40 % of them) as it offers the highest potential for energy savings and CO2 emission reductions.
- This LTRS estimated a need for investments of EUR12.8 billion between 2020 and 2030 (see table 2) and identified as an important measure the development of an assistance scheme to ensure renovation.
- The National Recovery and Resilience Plan (NRRP) already allocates EUR2.2 billion to the Renovation Wave. However, the design of adequate financial mechanisms and schemes to channel investment at scale to this sector will be instrumental in meeting the objectives.

Setting the stage: The Long-Term Renovation Strategy

Investment needs

- The LTRS estimate a need for **investments of EUR12.8 billion between 2020 and 2030** and identified the development of assistance schemes as central to ensure the renovation pace required.

| Building type | Category | Area [m m2] | Buildings [number] | Investment [EUR million] | Energy savings [Mtoe] | CO2 reduction [M tone] | Increased share of RE [Mtoe] |
|------------------------------------|-----------------------|--------------|--------------------|--------------------------|-----------------------|------------------------|------------------------------|
| Residential Single-family houses | Rural | 10.57 | 162,475 | 1,736.87 | 0.17 | 0.04 | 68.63 |
| | Urban | 9.39 | 102,120 | 1,449.88 | 0.14 | 0.11 | 39.77 |
| Residential Multi-family buildings | <=GF + 4 floors | 21.62 | 21,124 | 2,791.47 | 0.11 | 0.47 | 24.96 |
| | >GF+ 4 floors | 44.04 | 23,471 | 4,877.24 | 0.36 | 1.41 | 50.64 |
| Education | Schools | 4.24 | 4,361 | 874.84 | 0.03 | 0.14 | 14.81 |
| Health | Hospitals | 1.61 | 161 | 318.33 | 0.01 | 0.06 | 5.28 |
| | Other | 1.07 | 14,324 | 192.52 | 0.01 | 0.02 | 3.11 |
| Administrative / offices | | 1.35 | 1,539 | 236.55 | 0.01 | 0.03 | 4.41 |
| Commercial | Hotels | 0.04 | 73 | 9.38 | 0 | 0 | 0.18 |
| | Restaurants and cafes | 0.12 | 2,394 | 27.05 | 0 | 0 | 0.5 |
| | Shops | 1.31 | 7,686 | 269.40 | 0.01 | 0.06 | 5.03 |
| Total | | 95.36 | 339,726 | 12,783.53 | 0.83 | 2.34 | 217.31 |

| 2021 to 2030 | 2031 to 2040 | 2041 to 2050 |
|--|--------------|--------------|
| Gradual increase from 0.69 % to 3.39 % | 3.79% | 4.33% |

Financial Instruments

What has changed since the LTRS?

- Energy crisis
- EU/National funding programs
 - Cohesion Funds
 - NRRP
 - Modernization Fund
- Covid-19 crisis – Impact on the construction sector and increased use of residential buildings
- Grant-schemes approved and call for proposals published

• Why financial instruments?

- Leverage resources for the renovation needs at scale
- Crowding-in private sector technical capacity
- Accelerate the renovation pace
- Address specific market failures
- Sound and continuous market development
- Sustained investment and market development over time

• Types of financial instruments

- Energy Performance Contracts (EPC) – Public building
- Collateral instruments - Financial Performance Guarantees
- Subsidized loans
- Blended grant/loan instruments
- Tariff recognition of investments

Key elements for the design of sound financial instruments

Financial instruments are not a goal, but a mean to coordinate public and private efforts to address specific market failures and channel resources at scale to accelerate the achievement of the LTRS

Key elements for the design of sound financial instruments

- **Adequate environment**
 - Enabling legal and regulatory framework
 - Long term stability
 - Technical capacity – implementing Inst. and market
 - **Fit-for-purpose**
 - Target population and users – social impact
 - Target buildings
 - Adequate for implementing channel
 - Tailored to address specific market failures
 - **Adequate distribution of risks and roles**
 - **Simplicity for the beneficiary**
 - One-stop shop
 - Standardized solutions
- **Design of financial instruments should**
 - be part of a broader scheme/mechanism
 - incorporate financial and technical considerations
 - **Coordination/No-Silos - Smart program design**
 - Programs additionality and complementarity
 - Sources of financing
 - Implementing and supervising institutions
 - Technologies – heating, passive EE, seismic
 - Stakeholders' actions
 - **Deep renovation incorporating non-EE elements**
 - **Digitalization**
 - **Communication/Outreach strategy**

Technical Assistance Facility to Support Renovation Wave under Cohesion Policy in Select EU Member States

Objective

Contribute to decarbonizing the building stock by scaling up building renovations in selected EU Member States through supporting capacity building in the design and implementation of building renovations programs.

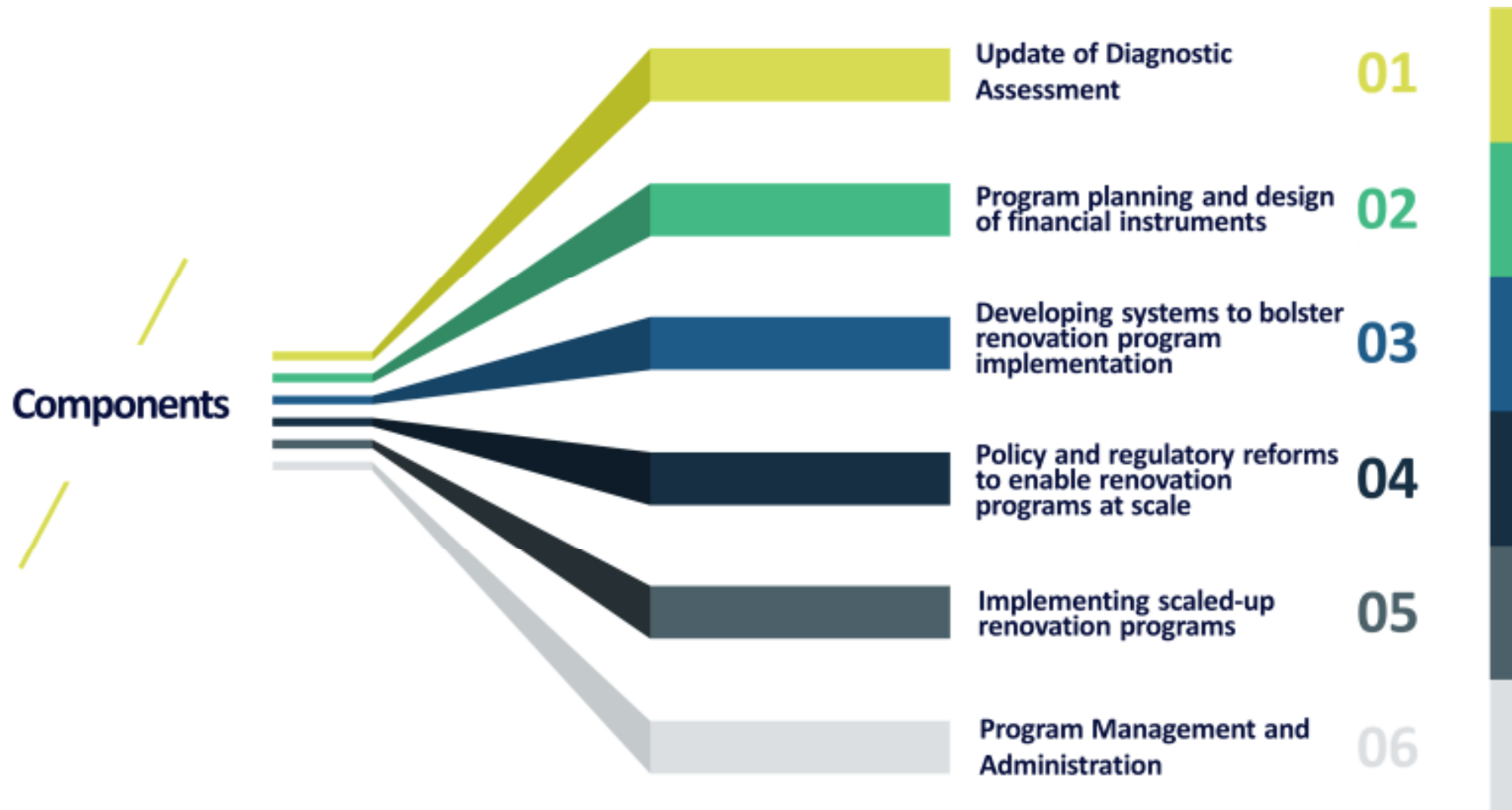
Specific contribution:

- Enhance capacities to support the execution of EU Cohesion Funds
- Development of program plans and suitable financing mechanisms
- Design of training and capacity building activities to support the market and
- Leverage private financing.

Implementation period

February 2022- December 2023

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Thank you for your attention!