Developing a sustainable renovation market

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3rd SMAFIN National Roundtable in Romania

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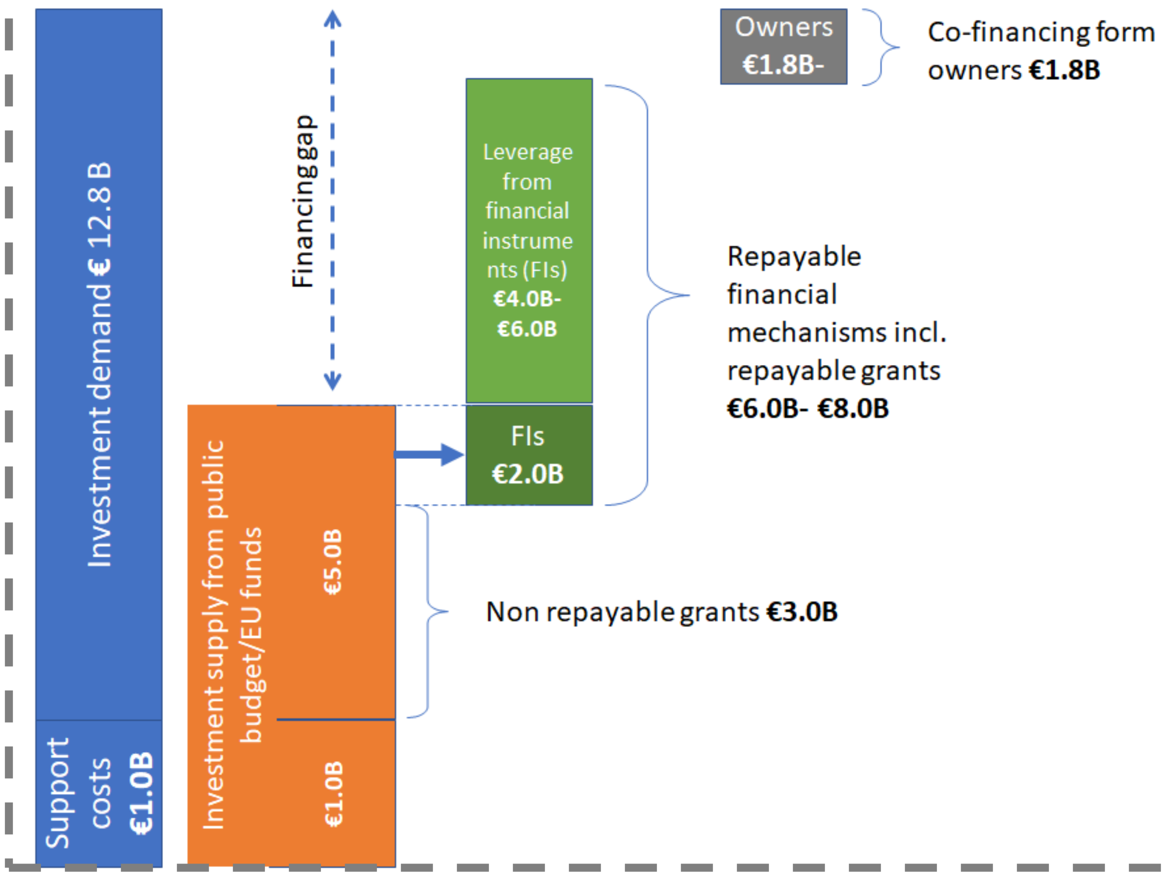
Mariano Gonzalez Serrano,
Senior Energy Specialist

Romania's Energy Efficiency and Renovation Agenda
Sustainable renovation market?

Long Term Renovation Strategy (2021-2050)



- **Annual Building Renovation Rate Recommended by LTRS: €12.8 billion investment (~€1.3 billion/y), of which €5 billion (39%) from public sources (2% of GDP, 0.2%/y); 61% - private/commercial sources.**

- Current construction cost index and inflation trends require re-assessing the investment need. Potential new estimates are within the EUR 16-18 bn range, while the deployment acceleration will require more financial instruments and substantially more TA.

Ambition is to go beyond the 3% annual renovation target enshrined in EU legislation (with a gradual increase of the annual renovation rate from 0,69% to 3,39% in 2030) and to take measures to improve the energy performance of at least 18% of the total floor area of all heated and cooled buildings.

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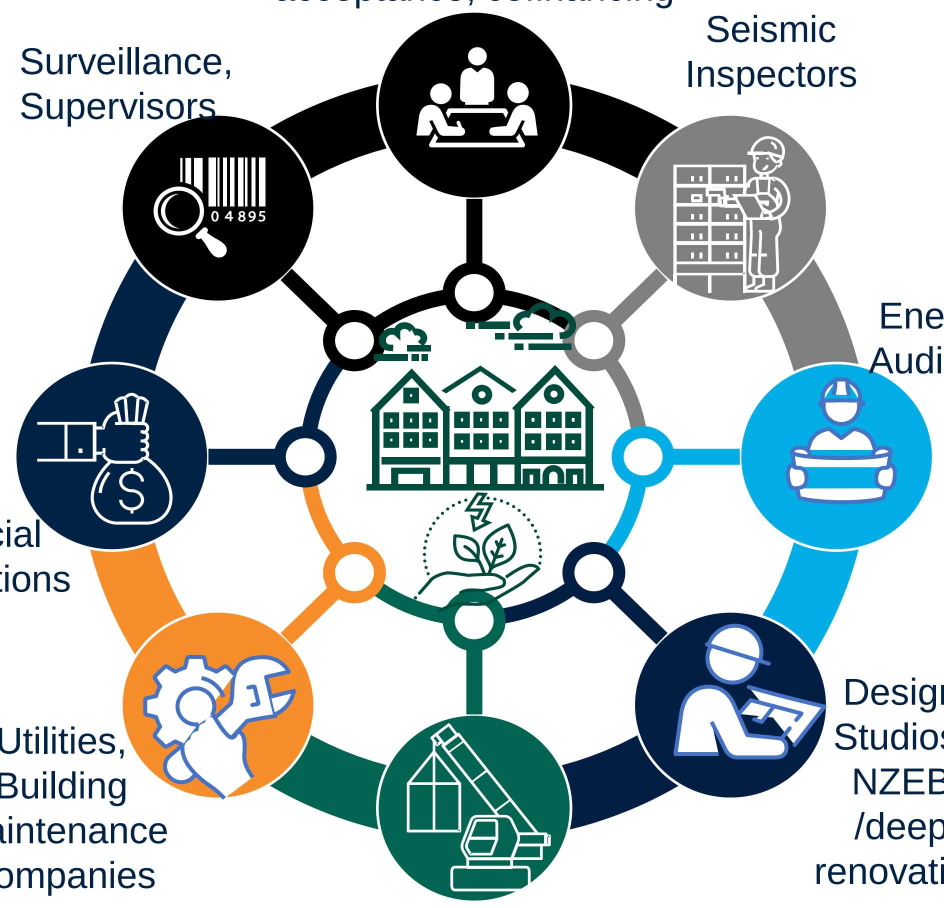

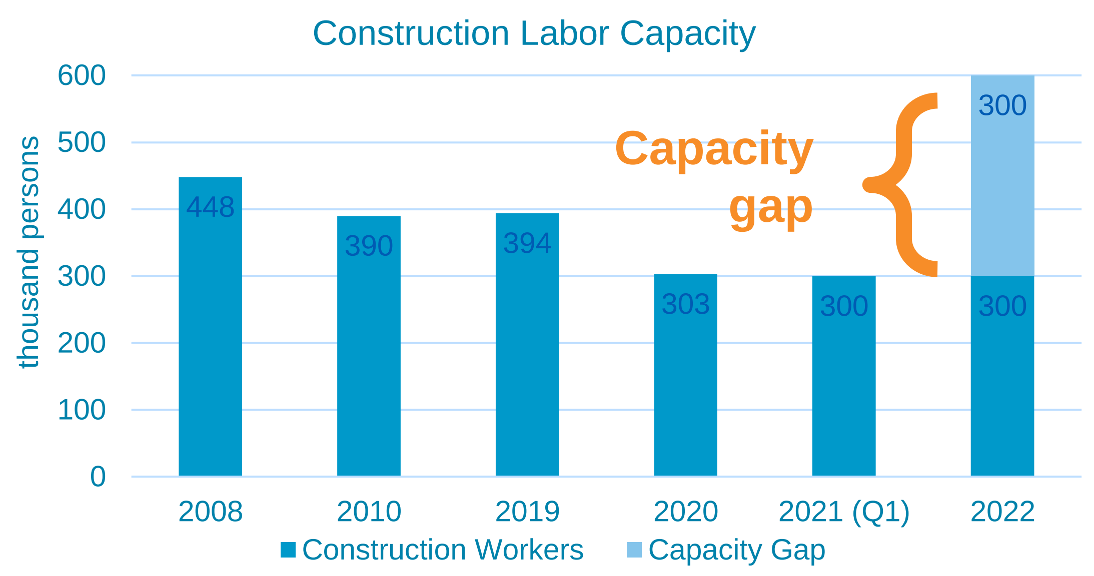

- **Change in perception that FI may delay EU Funding absorption → Set the right targets**
- **Lack of program continuity leads to interruptions in market demand, hindering sustainable growth of the market and continued supply chain development.**
- **Need to reduce inflationary pressure → Better distribute support over time**
- **Required higher coordination and preliminary work → Added complexity**

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Key barriers to scale-up building renovation

Policy & Regulatory

- No stated long-term implementation plan for building renovation programs
- **High grant financing has led to limited interest in non-grant financing instruments**
- Regulated energy prices do not account for full cost recovery and provide a disincentive to energy efficiency
- Lack of definition of energy poverty

Institutional

- Limited capacity for project implementation in municipalities and central government agencies
- Overlapping and limited coordination and communication between building renovation programs and environmental and social programs
- Insufficient information and communication regarding the many benefits of energy efficiency improvement
- **Lack of plans for future business planning, recapitalization, staffing, etc.**
- High transaction costs can be lowered through streamlining of processes, standard documents and templates, websites with prequalified contractors, case studies, etc.

Market

- Limited number of energy auditors providing good quality audits. Lack of training materials and certification programs.
- **Stop-and-start nature of renovation programs and lack of predictability contributes to market distortions**
- Projects not economically attractive to ESCOs due to long payback periods resulting from lower-than-market energy prices
- Renovation projects are managed by municipalities, often lacking the necessary technical and management capacity

Financing

- **Almost all the financing for building renovation has taken the form of grant funding, leading to unrealistic expectations and a reluctance to engage in financing instruments.**
- The heavy reliance on grant financing has limited the development of financial instruments by banks
- There are no programs that allow the beneficiaries to repay the renovation costs from the energy cost savings achieved
- **There is a significant risk of limited continuation of building renovation programs once concessional finance runs out**

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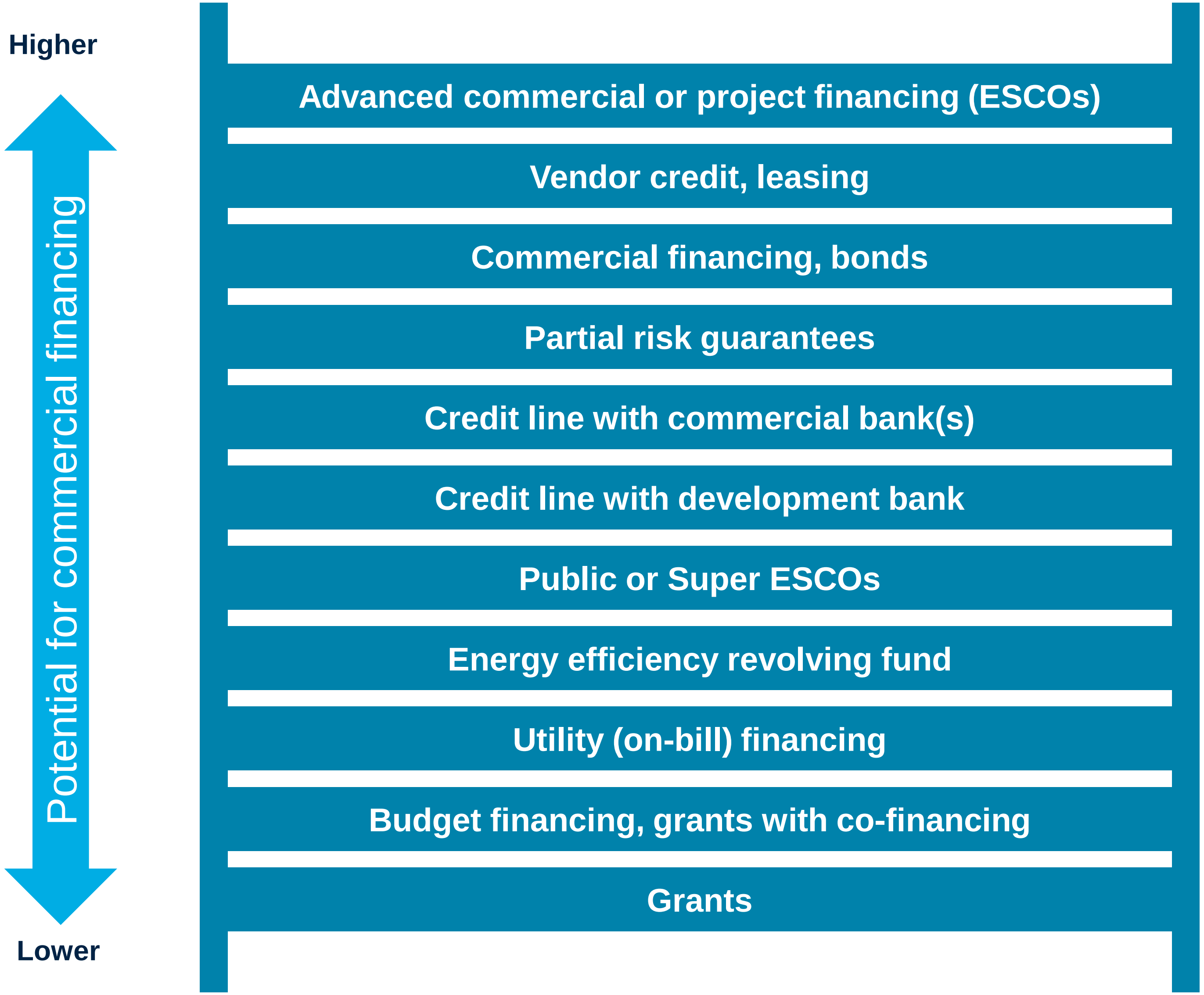
Mechanisms to finance EE



Key principles

- Financing mechanisms should be selected based on stage of market development and financing gaps
- Public financing should be used judiciously to develop markets and crowd-in commercial financing
- Over time, programs should seek to climb the ladder to more sustainable and commercial models

Thank you

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