Mobilisation of public-private financing for community based sustainable energy projects

POLICY RECOMMENDATIONS for Bulgaria, the Czech Republic, Hungary, Poland, Latvia and Slovakia

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What is Community Energy?

Community Energy presents a specific type of energy projects which are initiated, owned or managed by a group of local stakeholders including private citizens, households, municipalities and local governments, entrepreneurs, and NGOs.

Community Energy encompasses rather small projects, e.g. installing new energy production facilities for own energy consumption or taking energy efficiency measures in the housing sectors, and that way it generates direct benefits in a form of income from energy sale or costs savings related to decrease in energy consumption. Community energy projects can be developed in solar, micro-hydro, wind, biomass and geothermal energy sources.

Community Energy is an opportunity for citizens and stakeholders in the regions to plan, develop and own energy infrastructure or utilise existing energy savings potential collectively. The members of the community support each other by providing information, knowledge and material resources. They produce and supply for each other through themselves being the most important consumers of the community's products. The community operates in a predictable but at the same time open market. One of the most important advantages is that those who were excluded from financial supporting schemes before or could hardly become beneficiaries of these can now join these communities.

Community Energy is a solution for all types of regions and communities including remote and sparsely populated regions, in which it is demanding to invest and provide for energy supply in a conventional, centralized way.

<u>Common characteristics of community energy projects</u>

Community energy initiatives are already widespread around Europe and the world, e.g. in the Municipality of Güssing in Austria, which is now completely energy independent and exports energy to neighboring municipalities; or in the Schoenau municipality in Germany, which in the 90s of the 20th century redeemed the grid network and rely entirely on renewable energy

All those initiatives are characterized by (one or more) of the below elements:

- inclusion of local citizens into project planning, management and later on into the production and distribution of energy;
- local resp. community ownership of the infrastructure, and the decision making;
- energy is consumed/saved by the involved community;
- direct and tangible social gains, and new local jobs
- transparent pricing of services;
- motivation to decrease greenhouse gas emissions and air pollution;
- profit is divided within the community and reinvested into another community scheme or community development.

Legal forms and beneficiaries

Community energy projects in theory can be developped by any lose group of stakeholders. Dominating legal forms however are (energy) cooperatives and limited liability companies as defined by commercial law. There are examples of issuing joint-stock companies aimed at the citizens of the concerned regions. Another possible form is a municipal enterprise provided citizens are actively involved in the decision-making processes.

Common preconditions are democratic involvement of all participants in the decision-making process on the one-member-one-vote rule and financial management with defined ways of profit distribution and further use of generated capital.

Based on the two main characteristics of community projects - joint ownership and focus on objectives beyond financial profits, a number of legal forms and potential beneficiaries are plausible:

Municipalities - a range of community energy projects, whether owned directly or by municipally established companies and organizations. For municipal projects the challenge is to involve the local community and businesses sufficiently. An appropriate form of such cooperation could be created under the EU's Community Lead Local Development (CLLD) initiative with the creation of Local Action Groups (LAG). In general, municipalities and local governments can play a crucial role in developing various projects in the area of RES for electricity and heat production, as well as energy efficiency. Most relevant for community energy type of projects would be if local governments start producing electricity that is intended primarily for their own consumption, i.e. to cover their own consumption in various municipal buildings and sell the rest to the citizens of their municipality. This could be done using a „demand-response" approach like it is done in Germany already.

However it has to be taken into consideration that willingness to act by municipalities is strongly linked to their political commitments. For instance it is more likely that a municipality will start new

initiatives in the area of community type energy projects if they have made commitments to phase out fossil fuel use and lower GHG emissions. Municipalities that have joined the Covenant of Mayors are looking for ways to reduce GHG emissions and then various local RES schemes (including community type projects) might be a good tool for meetings targets.

Energy co-operatives – a legal entity in which co-operatives' members capital is put into shares of the co-operative, building up the capital for community energy project. Co-operative members might also consumers of energy at a discounted price.

Non-profit organizations, civic associations, societies and foundations (citizens, institutes and associations under civil law) - a not-for-profit legal form that can take business activities in order to achieve its objectives. Even though there are liability requirements to shareholders, the self-determination of internal rules and objectives allows the enrolment of community energy projects.

Community Energy: a game changer in societies

Perceiving community energy initiatives in the context of local economic development, citizens rooted in the respective region take active control over energy and participate in the whole energy production and consumption process – planning, preparation, carrying out the investment itself, and finally in the management of the facility.

Therefore, Community Energy presents a specific type of enterprising to motivate and stimulate citizens who are neither economically active, nor do participate in public matters or in the opportunties related to the development of the particular region. As by nature those projects are not „outsourcable", the creation of long-term jobs in the community-lead enterprise and later in other projects initiated by the community is combined with investment of capital in the region inhabited by the community. This stimulates its economic development and increases quality of citizens' lives, and that way the basis for long-term enterprising with active involvement of citizens can be established.

The energy sector is very suitable for this type of economic activity because citizens are more and more sensitive to the issue of energy accessibility and energy costs, particularly in lower income groups. Communit energy in this regard is related to personal investments which are clearly comprehensible for each stakeholder and with tangible results and related incomes. Last but not least, energy is an important production factor for further economical development in the region and gaining control over its productions creates sufficient potential for further development, and increases competitiveness of involved entities.

The main incentives and benefits of Communit Energy initiatives

Community Energy initiavites can play a crucial role in the transition to resource efficient and renewable based economies via:

- direct involvement of citizens into decisions concerning energy and gaining control over energy infrastructure;
- satisfying own energy needs;
- increasing ownership of and indentification with energy production and consumption;
- lower energy bills and easier access to green energy while connecting generation and consumption, and that way contributing to a conservation culture;
- increasing independence of energy suppliers from "outside"and keeping more "energy euros" in the local economy;
- reducing the dependence on fossil and/or foreign fuels;
- decreasing environmental pollution, particularly air pollution;
- decreasing greenhouse gas emissions;
- overcoming scepticism and antagonism towards active solution of energy issues in the communities and regions and towards renewable sources of energy;
- easier access to financial resources;
- adding new technical skills to community skill base from financial management to renewable technology expertise, and creating new local jobs;
- helping match "generation to customer load";
- reducing power transmission losses, in grid-connected communities, when the community replaces central power with community energy;
- reducing the need for extraction industries if it avoids the use of fossil fuels;
- reducing the need for large-scale hydro projects with associated effects of flooding and erosion;
- avoiding challenging waste problems, such as nuclear or waste disposal and ash disposal from the conventional energy;
- not requiring large amounts of water for operation

Barriers to the development of community energy initiatives

There are financial and non-financial barriers[1] to a successful implementation of community projects in the energy sector. Direct, administrative or financial support should that fore aim at removing those.

1. Cultural and political barriers:

a) little knowledge of cooperative, resp. community models,

b) negative perception of cooperatives where it was connected to forced collectivisation,

c) distrust of cooperative forms of business as an economically efficient alternative,

d) low political support.

[1] "Report on financial barriers and existing solutions", REScoop 20-20-20,WP4.2, 2013

In particular in the countries of Central and Eastern Europe past experience with cooperatives and little experience with direct and active involvement of citizens in planning, management and democratic decision-making processes result in distrust and aversion of both citizens and investors.

2. Economic, management and financial barriers:

a) Before a community can benefit from their own energy production, it not only has to provide for the investments for the concrete installation, e.g. the wind turbine, or to prepare the project documentation and premission, it has to organize itself. But forming a community initiative is demanding on resources and capacity, and there is, however, hardly any possibility in this pre-investment phase to access external financial sources. It is vital to support the establishment and development of initiatives financially from public sources.

b) The installation of energy facilities requires financing. If provided by banks, the lack of guarantees (financial guarantee/collateral, guaranteed returns/feed-in tarifs) and financial mechanisms to help finance capital investments and loan related costs represent a signifcant economic barrier.

c) The current financial rules for the EU funds do not allow to overcome investment barriers.

3. Legislative and administrative barriers:

a) unstable set-up of rules of support, e.g. (retroactively) changing feed-in tarifs or certificate schemes,

b) bad access to quality legal counselling and consultation,

c) lengthiness and complexity of permission procedures,

d) costs and administrative processes related to access to the network.

The table below summarizes the various financial needs, challenges and risks of a community energy project along the project cycle:

Project phase	**Activities**	**Type of financing**	**Challenges/level of risk**
Planning and development of the project	- feasibility study (location, energy source etc.) - financial plan - permission procedures - grid connection	- grants/Technical Assisstance (TA) - soft loan - direct investment via own financial resources (share sale, members' contributions), contributions into the joint „community" capital - seed/start-up capital, support for starting entrepreneurs	- first phase has a high level of risk; investors' dislike for financing the project - income generation - financial institutions require financial guarantees which might not be covered by the project's assets

Construction	- construction of the facility/ infrastructure - connection with the main grid	- loans - grants - risk capital	- risks connected with construction
Management and operation	- energy production - maintenance	- income from the energy production - public supporting schemes for renewables (feed-in tarifs)	- risk is connected with the income - regulatory risk in public supporting schemes - financial vitality of the operator; credibility of guarantees

Table 1 Project phases, ways of financing and related risks, source: own compilation

BLUEPRINT FOR COMMUNITY ENERGY FINANCING SCHEME FROM THE EU BUDGET 2014 -2020

The EU's long-term budget for the period 2014 -2020 clearly prioritizes "low-carbon" development at the local level. The next generation of European Structural and Investment Funds (ESI Funds) include a minimum of EUR 23 billion to catalyse the "shift to a low-carbon economy".

Investments made by the ESF Funds should promote and support energy efficiency, renewable energy and smart energy management in public infrastructure, in the building sector (both public and private) and enterprises. Moreover "smart grids" and sustainable multi-modal urban mobility are eligible for EU funding, and particular attention and financial support will be granted by the EU funds to a "low-carbon strategy", in particular in urban areas.

The regulations on ESI funds stipulate that regional and local governments, local businesses, citizens and other stakeholders should be involved in the decision-making process on investment priorities and investment plans for the 2014 – 2020 period. In particular a newly-introduced "bottom-up approach" – the so-called "Community-Led Local Development" – enables local governments together with citizens and businesses to establish their own local sustainable energy framework.

This bottom-up implementation of EU funds needs strong political commitments at the local level and should be based on a Sustainable Energy Action Plan that assesses the energy consumption and flows in a community, and the potentials for energy efficiency measures and renewable energy production. On that basis an optimal public-private financing mix for community based energy projects, including European funding, can be developed.

Investments from the European Structural and Investment Funds in the next programming period 2014 - 2020, whose preparation is underway, contribute to the objectives of Europe 2020. Smart, sustainable and inclusive growth on the continent should also contribute to reducing energy consumption and using renewable resources, to innovation in energy and enhancing of energy security. The purpose of European Cohesion Policy, driving the funds, defines the need to contribute to economic development in the regions. Community energy projects allow to link these three area, green energy, innovation and competitiveness and energy security to contribute to the policy's goals to promote economic, social and territorial cohesion, and to meet the objectives set for the new EU funds investment period 2014 -2020, to reduce greenhouse gas emissions and promote the optimal use of both conventional and renewable energy sources, diversify sources of energy and to improve energy security through the optimization of safe energy mix and the decentralization of energy systems.

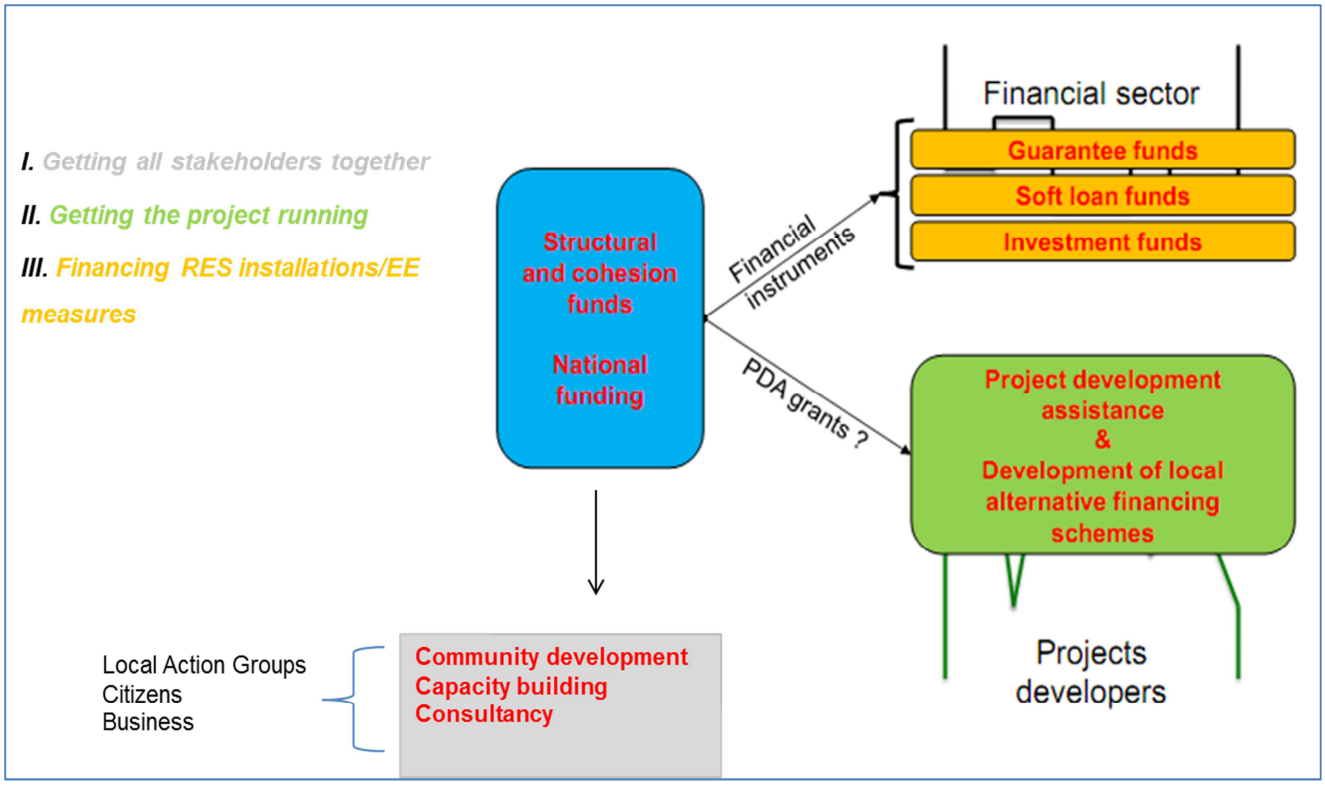
"3-PILLARS" FINANCING FOR LOCAL SUSTAINABLE ENERGY PROJECTS

In addition to grants and direct payments to beneficiaries, the European Commission encourages Member States to enhance the use of financial instruments to foster the up-take of EU funds and leverage private capital. Financial instruments include 'soft loans' (subsidised interest rates, longer

pay-back periods) and risk-sharing (loan guarantees, low collateral requirements) based on revolving funds, direct equity investments (Energy Saving Companies) or new sources of funding like citizens' financing (energy cooperatives).

For smaller-scale energy efficiency and renewable energy projects that involve local governments as well as citizens and businesses, a tailor-made financing mix should include three elements:

1. A grant should facilitate the integration of all stakeholders involved in local sustainable energy projects. For example a Community Development Fund (like in the UK) could finance the mobilisation of stakeholders, build their capacity and provide for consultancy (e.g. via an Energy Agency financed from EU funds). Such a fund and Community Lead Local Development should be included into Operational Programmes. Moreover, a transfer of good practices from one city to another, capacity-building and networking activities are crucial for the replication of successful financing instruments and projects. Such activities could also be financed at national level from EU funds, on top of European exchange programmes like Intelligent Energy Europe, Interreg or Urbact.
2. Technical and Project Development Assistance (PDA) should be granted to project developers to establish the project, finance feasibility studies or to prepare the technical documentation. This technical assistance (TA) should come directly from the European Regional Development Fund (ERDF) or other PDA mechanisms, for example public development banks or facilities like the European Investment Bank's ELENA – European Local Energy Assistance. PDA or TA should be provided from EU funds at the national level directly, as EU-wide technical assistance instruments are very useful but can help only a very limited number of local authorities. If they existed at the national level, more projects or beneficiaries could be covered.
3. Soft loans, guarantees or direct financing of energy efficiency measure or renewable energy installations should be provided by one or several Urban Development Funds which should be filled from EU budget contributions, national funds and private capital. The European Investments Bank's JESSICA scheme (Joint European Support for Sustainable Investments in City Areas) is an example for such a revolving fund. Grants could also be used to mobilise stakeholder financing, for example a municipality can provide grants to citizens in the form of subsidised interest rates – soft loans – for household refurbishments. Subsidies are also necessary for 'social or not-for-profit projects' which are not currently viable on the market and for costly energy efficiency measures with a long repayment period (e.g. insulation of the building envelop and new windows). The Commission also suggests that local authorities become managing authorities of EU funds, which is already the case at the regional level. This would mean that several Urban Development Funds could be created by several cities. These instruments should build on existing experiences with JESSICA holding or urban development funds.



"3-pillar financing"- schematic description

The Commission is proposing a set of 'off-the-shelf financial instruments – like "Renovation Loans," "equity for Small and Medium-sized Enterprises" or loans for "Urban Development" – which would allow for a combination of a variety of sources of funding and various financing mechanisms. These financial instruments should be open to a wide range of beneficiaries and address state aide issues as well as co- and pre-financing barriers.

EU FUNDING PROGRAMMES FOR COMMUNITY ENERGY PROJECTS IN PRACTICE

I. "YNNI'R FRO" IN WALES[2]

"Ynni'r Fro" is the EU funded Welsh Government programme of support to community scale renewable energy schemes. It offers communities advice, grants and loans to enable them to develop renewable energy projects. It was launched in 2010 and is jointly funded by the Welsh Government and European Structural Funds to encourage and provide support and funding for community scale renewable energy projects. The ERDF is used to support the Ynni'r Fro programme. The programme is valued at £13m over its 5 year duration.

It uses European Regional Development Fund funding to provide three types of support to community groups looking to develop a renewable energy project:

- Advice, information and hands-on support (Technical Assistance) delivered through a network of seven locally -based Technical Development Officers (TDOs);

[2] http://www.energysavingtrust.org.uk/wales/Communities/Finding-funding/Ynni-r-Fro-programme

- Preparatory stage grants of up to £30,000 to fund pre-installation activities (Project Development Assistance);
- Loans of up to £300,000 or grants of up to £250,000 towards capital costs of installation.

The Ynni'r Fro fund is available to community groups based in Wales that will generate energy from a renewable source. The projects must be capable of employing at least one part time employee within the first 2 years of completion. Hydro schemes must be expected to generate at least 240,000kWh per annum, wind schemes must expect to generate at least 800,000kWh per annum.
By July 2013 there have been 196 expressions of interest from communities throughout Wales who have applied for support through the programme. Of these, a total of 24 projects, expected to be operational by April 2015 (the ERDF project completion date), are being given significant additional ongoing support through the programme.
The Ynni'r Fro programme is being evaluated[3]. The findings from this mid term evaluation suggest Ynni'r Fro is having a significant impact in enabling community groups to progress through the initial stages of developing a renewable energy initiative. In particular, the wide - ranging advice and support delivered by its network of Technical Development Officers (TDOs) has often been crucial to this development.
However, there is an expectation that ambitious programme targets regarding energy production and job creation won't be achieved during the 5 years project cycle, as project realization would take longer than initially expected. Another problem identified was that the eligibility criteria for Ynni'r Fro support were initially too strict, with wind schemes expected to be able to earn at least £70,000 a year in gross income and hydropower schemes £30,000. The eligibility criteria have since been relaxed. Many groups said they would be likely to need between £50,000 and £120,000 for preparatory funding and suggested the £30,000 limit should be revised upwards. Some suggested that the limit for capital funding should be revised downward to compensate.

II. UK COMMUNITY GENERATION FUND[4]

In order to promote public support for Community Power and the use of viable Community Power schemes, the Community Generation Fund created in the UK could be seen as a blueprint with the view to implementing similar schemes in CEE countries:

The Community Generation Fund is a national fund created to foster the development of community-owned renewable energy infrastructure in the UK. The Fund is designed to assist communities seeking to develop renewable energy generation infrastructure which will create renewable energy, social engagement and a long term income source.

Borrowers should be distinct legal entities rather than one or more individuals. Likely legal status of borrowers will be:

- Community Interest Company (business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community)

[3] http://wales.gov.uk/docs/caecd/research/2014/140117-ynnir-fro-mid-term-evaluation-summary-en.pdf
[4] http://www.thefsegroup.com/social-impact-funding/community-generation-fund

- Industrial & Provident Society ((also known as 'society for the benefit of the community' or BenCom, cooperative structure set up to benefit its members)
- Company limited by guarantee (with social purpose)
- Incorporated Charity

Projects sizes considered from 25kWp upwards, with majority expected to be in 50kWp-1MW range.

Beneficiaries should rank within the top 50% most deprived locations in England, Wales, Scotland or Northern Ireland, as listed in latest available UK Indices of Deprivation.

The Community Generation Fund provides 2 types of funding:

1. Finance for up to 75% of pre-planning development costs, via bridge loans which will be repayable only if planning consent is achieved successfully ("Development Loans");
2. Finance for up to 75% of post-planning construction costs, via term loans with flexible repayment arrangements ("Construction Loans");

Development Loans - in this case relevant expenditure items are:

- Environmental and ecological studies (e.g. fishery studies, flood risk assessments, noise etc.)
- Technical studies (e.g. anemometer studies, detailed feasibility reports etc.)
- Detailed design and project planning (e.g. full scheme specifications, consultant reports etc.)
- Licence applications and related reports/studies (e.g. Abstraction licences, Grid connections etc.)
- Planning applications (e.g. final planning consents, based on EA reports etc.)
- Legal advice (e.g. Heads of Agreements with land-owners etc.)

Construction Loans - long-term loans for equipment, construction and commissioning costs (post planning consent) either stand-alone or alongside bank finance. In this case the fund supports expenditure such as:

- Capital equipment
- Construction, civil engineering, commissioning costs
- External contractor/project management costs
- Relevant external professional fees

This fund is managed by the the FSE group, which works in partnership with several organisations, financing including the EU through the European Regional Development Fund. The UK Community Generation Fund has been launched with the support of two initial investors, Big Society Investment Fund and Esmee Fairbairn Foundation.

Cash-flows generated (e.g. via Feed-In-Tariffs or the UK Renewable Heat Incentive, private sale agreements etc.) are sufficient to cover operating costs and loan servicing/repayment, with capacity for surplus cash-flow over time to be created for the community itself (for re-investment into other community-benefit initiatives).

With reference to the Development Loan, it is contingently repayable, i.e. if the project does not reach planning consent (subject to time-based criteria) due to insurmountable adverse findings or planning refusal, loan repayment will be deferred indefinitely. If the project reaches completion, the loan is repayable (0 interest rate with an exit premium of 25-100% which is likely to represent less than 5% of total project costs).

The Construction Loan can be repaid over a period of 5-15 years, with an Interest of typically 7-10% per annum, depending on risk assessment and extent of flexibility required.

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Opportunities for Community Energy financing in Bulgaria, the Czech Republic, Hungary, Poland, Latvia and Slovakia

BULGARIA

Bulgaria goes through serious social turbulence in the recent months. The waves of protests, including severe protests triggered by the rising energy bills, resurfaced not new problems, but rather problems accumulated for years and decades. These problems include a very centralized energy system, no liberalized energy market with very few players and no real competition. The country has the lowest energy prices in the EU, but is also the member state with the lowest income per capita. With no official data at hand, different organizations and institutions claim levels of fuel poverty in households in Bulgaria, ranging from 60% to 80% (energy poor are households that spend more than 10% of their income on energy bills), 23% of households in the country are unable to adequately heat their homes with the EU average at 12%.

Ensuring the possibility for different kinds of communities - groups of citizens, cooperatives, clusters of SMEs, condominiums etc. to build their small energy projects are an important basis of the transition to decentralized energy and a real alternative to achieve energy independence and energy security, while ensuring social justice, maintaining a healthy environment and ensuring a safe climate future.

Energy efficiency and renewable energy deserve strong institutional and financial support, given the past decades and the ongoing public financial support for conventional energy. Currently most programs in Bulgaria that provide grants for renewable energy and energy efficiency, as well as the relevant financial instruments often suggests high thresholds to fund projects and heavy administration. In many cases the access to these funds by small organizations, and associations and those with a short history is actually impossible.

Very important prerequisite for the development and support of similar projects in Bulgaria in the next programming period is to expand into the urban areas the approach for community-led local development (Community Lead Local Development, CLLD) in a way similar to the LEADER approach in the rural areas. Currently only limited pilot schemes of this kind are being considered in result of the disappointment from the application of the approach in rural areas. But we should not forget that the cities of Bulgaria concentrate the majority of the capacity and human resources and there is a better basis for the implementation of this approach.

Support for community energy projects through the EU funds in Bulgaria in the period 2014-2020

Simplified rules, easy access to financial instruments and simplified administration for the grant schemes and the relevant financial instruments for cooperatives, condominiums association of NGOs and small businesses - this is the basis required for the development of community power projects in Bulgaria. Consequently EU funds should be:

- Ensuring the possibility for different kinds of communities - groups of citizens, clusters of SMEs, cooperatives, condominiums etc. to build their small energy projects and receive financial support through public funds.
- Ensuring that small scale renewable energy applications developed by communities can pass through simplified application procedures and simplified administration of the projects.
- Ensuring that community power schemes are eligible under OP Regions in Growth, OP Innovation, OP Environment and Rural Development Programme. The relevant financial instruments serving these programmes also offer preferential conditions for such type of projects
- Granting Technical Assistance is available for the communities that have decided to develop community power projects
- Expanding community-led local development (Community Lead Local Development, CLLD) into the urban areas, because the majority of the human capital is concentrated in the cities of Bulgaria - a good basis for the implementation of this approach.

- OP "Regions in growth" - support for condominiums (extension of the current scheme), and support of community power capacity in public buildings, which are used by local communities such as schools and community centers. In the current programming period were laid the foundations of some of these possibilities, but further involvement of the citizens from the communities is needed as well as more transparency in the decision making and direct access for the citizens to the funding, and not only for municipalities. In the cases where this is not appropriate, the aim should be that the citizens participate in the decision-making process and in the implementation of projects - selection of contractors, technology, budgeting. The program should be open to various forms of cooperatives in urban environments (e.g. parent cooperatives, manufacturing cooperatives). The CLLD approach should be broadly used.
- OP "Innovation and Competitiveness" - ring-fence resources targeting SMEs clustered around small projects for own energy consumption and power sales at market prices; support for cooperatives;
- OP "Environment" – include projects in protected areas of individual or clustered organizations parks in cooperation with local stakeholders; demonstration projects;
- Rural Development Programme - Projects in rural areas - for groups of homes, public buildings such as schools and community centers, SMEs and cooperatives, NGOs

There are many unexplored possibilities for Bulgaria to provide financing to initiatives of such projects - crowdsourcing, bank loans, cooperative contributions. It is strongly recommended that the levels of grant are in line with the need for support of the chosen technology. Relevant to most programs - it is essential to provide easy access to cheap financing, even at the expense of lower grant levels. i.e. at low or zero interest rates.

In the majority of cases, the energy produced by the community power projects is for own use within communities and only the surpluses are being sold at market prices. Option to finance community power projects is also the system for green certificates. Green certificates are still not introduced in Bulgaria.

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CZECH REPUBLIC

In the Czech Republic, there is a good experience with energy efficiency community projects, in some cases complemented by small scale heat production. In the next EU funds programming period, these projects should take yet another step forward and integrate not only consumption, but also production of heat and power, especially from sustainable biomass.

According to current programming documents, support will be available for large scale combined heat and power plants and district heating networks. But public support to small scale community projects can bring more efficient use of local biomass without long distance transport and can foster the local economy.

Support for renewable electricity production has been stopped in the Czech Republic with the reference to increased consumer prices. Community projects, however, help to decrease energy bills removing the grid losses and providing self-sufficiency. Investment support for such projects from EU funds is now a key to restart the development of these technologies.

Projects for energy savings in buildings

The Czech Republic has held a number of successful programs of public support for energy savings and installation of small renewable sources, which included the promotion of community projects - including for example the Green Investment Scheme and New panel for housing associations or Operating Program environment for municipalities. According to the current state of preparation of the next programming period and the announcement of the New Green Investment Scheme, similar support for energy savings and associated installations of renewable energy sources is expected to continue. In this paper, therefore, we will focus mainly on small renewable projects.

Production of electricity from renewable energy sources on a small scale

A new law on supported energy sources stopped all financial support for new renewable sources of energy. The intent of the Act reflects the high fees for renewables, which, due to mistakes of previous governments and parliamentarians, conceded particularly large investors, often opaque companies with anonymous shares. This is to protect both consumers and the treasury from further increase in these charges. But the law abolished the support not only for opaque and expensive projects of photovoltaic panels on a green field, but also for all renewable sources (excluding heating plants that burn biomass).

Decentralized heat and power from biomass

Smaller blocks of residential buildings, public buildings, business buildings, etc. in smaller municipalities are often not connected to the district heating supply. The heat source is often outdated and burning coal. In terms of supporting the local economy, reducing energy dependency and greenhouse gas emissions, the solution here is combined heat and power from local biomass or biogas, such as automatic pellet boiler with Stirling engine. These technologies are already available on the market; they also offer regulation stabilizing the grid.

For community projects of combined heat and electricity, support for small projects is crucial. Micro-cogeneration units for a block of flats or a small community, including district heating infrastructure, should be supported. The use of renewable sources must be a condition for the support in order to ensure the synergies between air pollution measures and the transition to the low-carbon economy.

EU funds planning in the Czech Republic

The problem analysis in the design of the Partnership Agreement for the next programming period names among the major problems to deal with in the Czech Republic the growing differentiation between regions, the high energy intensity of the economy and unemployment. From the group of 11 thematic objectives for the intervention, the Czech Republic chose among others thematic objective 4, Transition to low carbon economy in all sectors. The measures in the energy infrastructure have to reduce greenhouse gas emissions and "promote the optimal use of both conventional and renewable energy sources in the Czech Republic, diversify sources of energy, optimize energy mix and rationally decentralize energy systems." In a situation with zero public support for renewable energy sources, community renewables, whose potential is not used, very well contribute to the achievement of this government document.

Awareness rising

For the realization of community energy projects the very existence of the community is crucial, whether it is group of citizens, local action group, housing cooperative etc. Knowledge of renewable energy sources is insufficient among ordinary citizens, the first key element for the development of such projects is the information on possibilities of renewable energy and use of European funds for these projects. The funding via Technical Assistance could help informing potential beneficiaries about the possibilities of drawing EU funds for their purposes

Support for creation of communities

To create a working group of people, to agree on a legal form, decision-making and investment in community energy project requires hours of work and financial cost of renting halls, travel etc. Just like the creation of local action groups is financed through the LEADER program, new mechanisms of the Community Lead Local Development should finance the formation of communities - such as cooperatives - for the realization of community energy projects. Community Lead Local Development should be included in the Operational Programme Environment (OPE) and Operational Programme Enterprise and Innovation for Competitiveness (OP EIC).

Creating energy strategies

Community energy projects can occur either separately or as a part of development strategies prepared by the local action groups. In both cases, it is appropriate to cooperate with experts on energy, which will help map the energy needs of the community, the available potential savings and renewable sources and propose an optimal strategy. Good energy strategy will help long-term economic sustainability of the projects and their appropriate settings. Here again, Technical Assistance or community-led local development should be eligible under the OPE and OP EIC

Preparation of energy project

Energy project needs to be well prepared - from calculating energy savings or realistically attainable production from renewable sources, through financial returns to technical feasibility. Financing through simple, single-purpose grants for the preparation of community energy projects will enable communities to prepare well for the drawing and the actual implementation of the project and pass it challenging procedures permitting and licensing procedures, a case for Technical Assistance in the OPE or OP EIC

Implementation of community energy projects

The European Commission puts the emphasis on shifting of funding from grants to revolving mechanisms. For economically viable community energy projects, where use of self-produced energy leads to lower consumer prices than ordinary distributors offer, innovative financial instruments can be an appropriate form of support. As Czech banks have no experience with community energy projects yet, an appropriate form of support should include a loan guarantee provision of capital or soft loans. Due to the variety of forms and technologies of community energy projects as well as the issue of RES support in the form of feed-in tariffs or support of production of heat it is necessary to carefully prepare the financial instruments of European funds to meet the economic possibilities of the use of resources and the status of applicants. Detailed specification of using financial instruments is not necessary at this stage of preparation of European funds, it is only necessary to note that in the field of energy saving and renewables the Czech Republic intends to use these tools.

For small community energy projects that will in areas covered by community led local development and meet its criteria, this tool must be open, too. Financial instruments in the form of grants, subsidized microcredit, soft loans and risk guarantees should be anchored in OPE and OP EIC.

Support for community energy projects through the EU funds in the Czech Republic in the period 2014-2020

Partnership Agreement

Community energy sources meet well the goals of the transition to a low carbon economy, improved energy efficiency and rational decentralization. They aptly complement the support for renewable energy production on a commercial scale. Thanks to the involvement of the public in their ownership structures and planning they limit the impact of rising energy prices and allow good use of local potentials of renewable energy sources and energy savings. Partnership agreement must create a space for their use in a general way.

Proposed changes:

- enable the use of community led local development outside and rural regions and beyond RDP with the method LEADER

- the objectives for community-led local development should include reducing energy dependence of regions and use their energy savings and RES potentials
- technical assistance must be focused not only on public administration but also on capacity building and local self-government and community partners to prepare and implement community-based energy projects
- create a specific analysis of the possibilities of energy savings and renewable energy sources in the regions
- ensure the possibility of using innovative financial instruments in small community energy projects

Operational Programme Enterprise and Innovation for Competitiveness

The operational program is the only one that will directly support the creation of renewable energy sources. Despite of this the support is so far confined exclusively to companies - including large ones. Potential beneficiaries of the community projects - municipalities, NGOs, cooperatives - are completely out of possible support for the development of renewable energy sources, which will lead to the neglect of the development potential of these resources.

The Programme is planned to promote energy production primarily for distribution. Failure to address own energy consumption directly goes against the stated objectives of the Partnership Agreement: improving energy efficiency, energy security and ensure rational decentralization. The support is limited by the types of sources, without any justification - OP EIC is limited to small hydro, biomass and production and use of biomethane.

Proposed changes:

- extend support to all types of renewable sources of potential development in the Czech Republic
- extend support to community projects of power generation from renewable energy sources for their own consumption
- include municipalities, NGOs, cooperatives to the list of beneficiaries
- declare an interest to use innovative financial instruments in promoting renewable sources, their specific settings will be specified later
- include Technical Assistance for information campaigns and capacity building on community energy projects
- embed the use of Community Led Local Development in OP EIC
- include Community Led Local Development as one of the ways to distribute funds under Priority axis 3 – Efficient use of energy, development of energy infrastructure and RES and support for new technologies in RES and secondary sources

Operational Programme Environment

This Operational Programme already supports energy savings in residential and public buildings; beneficiaries include entities that could implement community-based projects.

Community energy projects, such as those of housing associations or municipalities in the area of energy savings in the Czech Republic have been operating successfully for many years. In the new programming period, the emphasis is on the integration and synergy effects of financing. From this perspective, it is necessary to support projects which will combine energy savings, new sources of heating and biomass supply, such as projects of insulations and boiler replacements in a village together with the construction of biomass processing, i.e. pelleting.

Proposed changes:

- declare an interest to use innovative financial instruments in promotion of energy efficiency, specified later during the programming period
- include information campaigns on community energy projects and capacity building for community energy projects via Technical Assistance
- embed the use of community led local development in the OPE
- include Community Led Local Development as one of the ways to distribute funds under Priority axis 5 – Energy savings
- prepare a mechanism of financial bonus for projects that achieve a higher level of energy savings and use of renewable energy source
- open the possibility of integration between energy efficiency and renewable energy sources, especially biomass projects and production and processing of biomass from the Rural Development Programme

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HUNGARY

Alternative Energy Concepts– a challenging environment in Hungary

Hungary has a very high external dependency on fossil fuels (over 70%), and this dependency is one-sided. The domestic demand for appliances using alternative energy is low. Since demand increases through financial support, it's only the rich and the aware who spend on alternative energy. The low demand hinders the development of domestic RES capacities. As for solar panel production, there are foreign investors whose main profile is (was) export whereas in the global market there is excess supply. The solar plant industry is dominated by Asian products. Not only is the domestic production capacity low, but also the relevant service providing capacities. Even these low capacities are not exploited because of the low demand.

The market provides only partial energy saving solutions, such as the energy saving replacement of doors and windows, home insulations, heating and the lighting equipment. Alternative, passive and autonomous houses are not widespread in the already shrunk building industry. However, it is obvious that the government makes an effort to provide work for the building industry by subsidizing real estate renovations optimizing energy consumption, whereas this subsidy is very low. If the grant is opened for energy saving projects of individual households, it is usually used up within days.

The development of alternative energy resources is hindered by the inflexibility of grids, which limits the possibility to establish alternative capacities, while smart grids are often discussed, but not much improvement has been made regarding this technique. In addition there is no opportunity to store energy. Local circumstances are unsuitable for applying the known techniques (e.g. pumped storage).

The producers/suppliers and the consumers are too far from each other. There is only an invisible connection between producers/service providers and consumers in the market, that is to say, there is no direct connection between them which could provide information, technical and financial support.

Investments in production are scarcely subsidized because of competitive neutrality, although, those parts of investments producing positive externalities for the society are worthy of financing. Especially the small-scale actors who need smaller amount of subsidy have no access to it since there is no structure that brings these participants together and mentors them. The small-scale actors cannot cope with complicated administrative and subsidizing conditions on their own (e.g. public procurement, calculating and monitoring indicators), they do not have the adequate technical capacity and neither can afford to buy it in the market.

The already existing forms of subsidies only provide a partial support for the participants, whether they are the producers, service providers or consumers. The partial subsidy scheme prevents participants who are not able to contribute (mostly people in financial need) from receiving aid from community resources. For instance, the 30% support ratio, which is the most common one, is

not accessible for people who are unable to financially contribute. Third party financing is not a solution either because of loan repayment instruments as the target group who needs these investments most is already in serious debts and based on previous experiences they do not risk to ask for another loan. So even if there is a limited opportunity for such a privileged loan, it would not reach the expected impact at the target group in practice, would not increase such investments en masse.

Financing by banks or by third parties is often inaccessible for poorer people (and they are the most numerous group) due to long maturity and payback periods which from the consumer's point of view means less savings. Furthermore, savings are reduced by the significant operating costs. For example the efficiency of solar panels, heat-pumps and led lamps decrease over time, thus delaying the payback time. Repair costs are frequent as well. At the current technological level, the real profit is the environmental impact reduction.

Inflation makes repayment from returns even harder unless the increase rate of real wages is higher than inflation rate. But even if it occurs, this phenomenon does not apply to everyone in the society evenly. A further weakness is the small amount of subsidy (compared to needs) provided by the existing financial instruments e.g. the Environment and Energy Operational Programme (KEOP).

Some examples of potential beneficiaries' intentions in running community energy projects

As a local example it is worth mentioning the Bük Mak Leader initiative, which integrated several larger and smaller local authorities with the aim of alleviating their energy burdens (mainly from a financial aspect) by using alternative energy resources. Their governing principle is local renewable energy production, where energy would be stored in the form of hydrogen, thus balancing out the fluctuation which characterizes the production of energy from renewable sources (wind and solar power). The project does not have the adequate technical background yet and is challenged also by the unpredictability of subsidies. This situation demonstrates perfectly that initially the main focus should be on R&D, energy saving and efficiency rather than on alternative energy production.

Support for community energy projects through the EU funds in Hungary in the period 2014-2020

Each activity that creates positive benefits for society must be financed from community resources. Selection of beneficiaries should be based on whether their planned activities/consumption reduce environmental impacts on society and on the future. Cooperation between participants should be promoted through the conditions of creating clusters and cooperatives.

Energy communities are subsidized via a revolving fund. The EU funds and the additional local resources will feed the revolving fund. The fund provides a variety of financial supports depending on the given activities.

Financial support must cover the entire cost of the initiatives, but the amount must be repaid at the rate of returns/recovery (revolving fund). Exceptions may be activities/parts of activities with positive externalities (in absolute terms). These may be financed without repayment.

Principally, community energy projects should be put into regional operational programmes , integrated urban development programmes, rural development programmes and environmental and energy operational programmes are suitable as well.

A guarantee fund should be established to cover the losses caused by not successful initiatives unable to pay back the subsidy. This guarantee fund could be used also to help energy cooperations getting larger loans on the market if their initiative is above the suitable limits of the revolving fund. The guarantee fund would make the involvement of other financial institutions besides EU or other public funds (e.g. banks, cooperative banks, etc.) easier, and that could increase the capacities of the programme.

There should be set-up sustainability criteria, requirement for a feasibility plan and monitored indicators for applicants wishing to be beneficiaries of the fund. The management work is done by a revolving fund management organization.

Financial sources and activities of the revolving fund

The EU funds and the additional local resources will feed the revolving fund. The fund provides a variety of financial supports depending on the given activities:

Those programmes which decrease the negative externalities of a former activity/product/service are financed with zero interest rates. The fund then acts as a bank (or a credit institution) providing loan, but the loan has to be reimbursed at the rate of recovery.

For financing the internal non-profit services of the energy communities, the non-refundable subsidy may amount to the maximum of 7% of the annual expenditure of the community.

Certain parts of activities which costs are not recoverable on a market basis, but they produce positive externalities for the community and the society (incremental cost) should be supported by non-refundable subsidies.

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LATVIA

If existing forms of functional community energy type of projects are looked at in other European countries, such as Belgium, Denmark or United Kingdom, where this concept is well developed, then we have to realize that there are no such projects implemented yet in Latvia or would be started.

From a legal perspective community energy-type of projects in Latvia could be implemented by local governments, "societies" or "foundations" (both are legal form of NGOs) and cooperatives as legal entities.

A particular case is currently in Latvia the legal form "cooperative" with related tax benefits, it is permitted in areas of agriculture and forestry; however it might be possible that the scope of cooperatives would expand. Forestry cooperatives as a legal form were introduced in 2013, thus there is a potential also for development of energy cooperatives if there is driving force (demand) at the bottom-up for that. It is possible that existing agriculture and forestry cooperatives might expand into areas of energy production such as supplying locally produced biomass to local district heating installation, but some amendments to the law should be necessary. Thus it is rather medium term perspective for legal form of energy cooperatives to develop if we look for entities alike in Belgium and Denmark.

Besides there is another existing form of cooperatives – for instance there is already functional "credit union" that basically is a cooperative where members can put in money, lend to their members and receive interest. It is possible for these types of entities to expand to area of energy production if members who borrow money use it for small scale energy projects.

A condition sine-qua non is a proper regulatory framework, recognized as one of most essential preconditions for facilitation of community type of energy projects. It applies both to regulation of electricity market and to creating enabling environment for cooperatives as legal entities. In terms of regulatory framework of the electricity market, primarily it is provided by the Electricity market law, in particular when it comes to electricity production and net metering. Another crucial aspect is a need for stability and clarity about long term energy policy in Latvia, among others predictable support mechanisms for small-scale producers. It is not the case at the moment as Cabinet regulations on support for RES use have been changed frequently.

There are several **drivers** that can help push towards support and development community energy type of projects in Latvia:

- Political targets to increase the share of renewable energy (RES should reach 40% by 2020);
- Electricity market liberalisation where also households will have to buy their electricity in free market (this requirement will come in force from April 2014);
- Latest amendments to the Law on Electricity market (effective from January 1, 2014) would allow so called net metering for households i.e. allowing selling produced electricity from micro installations to the grid. However this regulation is not too favourable in terms of

providing incentives for households to sell electricity to the grid thus it is not expected to promote willingness of households to start producing their own energy from RES;

- Increasing the capacity of distribution network to uptake electricity that is generated by small scale producers (in National Energy Strategy 2030 this is indicated as a direction where efforts needs to be continued);
- Municipalities from Latvia are joining Covenant of Mayors initiative and thus they are setting their GHG emission reduction targets and each of them has to develop Sustainable energy action plan. This can push municipalities to look for new ways of increasing their RES share as well and community type of energy projects can be helpful;

However there are also some serious **challenges** that can hinder the process**.** Experiences from other European countries shows that *feed-in* tariffs have proved to be nearly the strongest driver for development of these types of energy projects, however in Latvia there is strong political opposition to continuing support through *feed-in* tariffs to renewable energy producers. As a matter of act several support schemes for RES have been suspended in 2012 and 2013. Besides there are other changes made that lead to changes of conditions for support for already existing RES producers such as introduction a new tax from 2014 that will be applied on received payments from *feed-in* tariffs. High dynamics in RES legislation leads to low investor confidence and lack of access to funding i.e. banks would not provide loans for such projects. Thus access of finance is a serious hurdle for various RES projects, and community type of energy projects might be particularly vulnerable in this aspect.

All in all present situation for developing new RES projects in Latvia is not favourable at all. Thus politically most feasible and accepted option might be to focus primarily on energy production for self-consumption, in particular in remote areas where current voltage is not sufficient to meet demand. In this context and defining the role for EU funds in promoting various community schemes, grants for covering part of initial capital investment costs may play important role, in particularly in poor areas and remote places.

Support for community energy projects through the EU funds in Latvia in the period 2014-2020

Support for promoting community type energy projects in Latvia considering existing needs and given political conditions shall be primarily directed towards:

- **Ensuring access to financing**

The support shall be directed towards covering part of initial investment costs. It can be done either through grants to specific projects (covering 20-30% of investment costs) or revolving fund type of schemes where longer payback periods are possible and interest rates are subsidized. This type of support is essential as usually banks would not be willing to finance projects whose pay-back period exceeds 8 years. Moreover given the changing regulatory framework in Latvia banks would not finance any RES projects at all at the moment. Furthermore communities or cooperatives as legal entities may be seen as banks as too risky for financing as they lack guarantees or credit history. Therefore this type of support from EU funds would enable community type of energy projects.

- **Awareness raising among stakeholders about benefits of community type of energy projects and their potential**

This activity should be directed to specific target groups such as local governments, local action groups and other non-governmental organizations, household associations, ESCOs and small businesses and existing cooperatives (agricultural, forestry and lending cooperatives). The aim would be to increase their understanding of what benefits these types of projects would bring, what opportunities there are and what support is available. It is similar with CLLD type of schemes as there should be awareness raising and explanatory work done before implementation and then assistance can be provided to develop some projects.

- **Specific trainings**

Those stakeholders identified above should be given more specific training on how to set up a community type of energy project in their given environment. In addition trainings could be also provided to unemployed persons to train them on energy efficiency issues and ways to provide services in this area and for business start-ups in the area of energy efficiency services and small scale RES projects. Similarly trainings could be directed to housing associations to assist them in installing small scale RES devices in addition to energy efficiency activities. Some good examples already do exist in Latvia in this area and best practices could be spread through these trainings.

- **Supporting pilot projects and pilot schemes**

Experts have indicated that a good way to convince stakeholders about benefits of community type of energy projects is to see some pilot projects implemented, especially taking into account that these types of projects do not exist yet in Latvia. Therefore EU funds should support limited number of pilot projects in several regions as well as supporting creation of pilot support scheme for the support of community type of energy projects

- **Supporting sustainable energy planning at local level**

This support should be directed towards local municipalities and existing forms of cooperation such as energy agencies that function either at municipal level or regional level i.e. Zemgale region energy agency. It has been recognized that local governments should play bigger role in local energy planning and taking on responsibilities for reduction of GHG emissions. EU funds could support elaboration of such plans, for example, Sustainable energy action plans for municipalities that have joined Covenant of Mayors where community energy type of projects can be identified as are where local government wants to move forward with specific initiatives.

Specific measures for community energy initiatives in the Operation Programme "Growth and Employment"

Analysis on possible support from EU funds is based on several drafts of OP „Growth and Employment" (drafts dating from July and November, 2013), considering recommendations made by Environment Advisory Council (environmental NGO coalition) as well as reviewing draft Annex to

the OP. The latest draft Partnership Agreement that was approved by the Cabinet of Ministers on December 17, 2013 (4th draft) was also considered.

As a result of review of draft programming documents for EU funds use for 2014-2020 period, there were **seven options** identified, where community power type of projects could be supported from – either directly or through trainings and technical assistance for planning measures. All these options need to be further discussed with relevant experts and tailored according to specific demand once implementation conditions for specific measures will be elaborated.

- **Support for citizen's driven projects**

Most relevant in the Operational programme is the Priority No. 4 "Shift towards a Low-carbon Economy in All Sectors" with **4.2. Investment priority:** to support energy efficiency, smart energy metering and use of renewable energy resources in public infrastructure, among others in public buildings and in residential buildings. Its **specific objective (No. 4.2.1.) is** to facilitate increase of energy efficiency and in public and residential buildings. The previous draft (from July 2013) of the specific objective also included reference to promote the use of renewable energy resources – that reference unfortunately have been removed in the latest draft(3rd draft as from November, 2013).

Latest draft version states that **following indicative activities intended to be supported:** renovation of state, municipality, and residential buildings to improve energy efficiency, int. al. supporting execution of energy audits, energy certification of buildings, and construction works aimed at improvement of energy efficiency (heat insulation of the building envelopes, reconstruction of utilities, recuperation, installation of energy control and management), as well as use of renewable energy resources if particularly high energy efficiency indications are achieved and negative impacts on district heating system is avoided. The key criterion of support is the effectiveness of investment, respectively measures shall be justified with a report drawn up by a certified energy auditor. **Indicative recipients of funding:** state, owners of apartment buildings, inhabitants. The reference to municipalities and state and municipality enterprises as recipients has been removed in the latest draft of the OP.

RECOMMENDATION:

In principle it is possible to support small scale RES projects under this specific objective if the activity is combined with energy efficiency measures and the project proves to be efficient. It is recommended to include "society", "municipalities" and "cooperatives" as eligible entities to receive support to enable them to implement community type of energy projects. In the present form only owners of apartment buildings are considered as eligible, however it should be more clearly spelled out that also „society" is eligible (legal form for housing associations) and other NGOs with their legal status „societies" should be eligible that work for the benefit of community, including Local action groups.

- **Support for small scale renewable energy projects mostly aimed for self-consumption of produced electricity**

According to the latest draft OP the **investment priority No. 4.1. envisages** the facilitation of energy efficiency and use of renewable energy resources in enterprises. Its **specific objective is** to facilitate an efficient use of energy resources and reduction of energy consumption in manufacturing sector. Expected r**esult of the specific objective** is improved energy efficiency in the manufacturing sector, ensuring sustainable use of energy resources.

The latest draft version of the OP states that **following indicative activities intended to be supported:** energy efficiency measures in manufacturing sector, int. al. supporting execution of energy audits, energy certification of buildings, and construction works aimed at improvement of energy efficiency (heat insulation of the building envelopes, reconstruction of utilities, recuperation, installation of energy control and management), as well purchase and installation of new equipment for the use renewable energy resources for heat production.

RECOMMENDATION:

While the specific objective allows using RES, the scope of eligible activities should be expanded specifying that also combined heat and power generation or small scale RES installations for electricity generation for self-consumption should be included as eligible.

- **Support of renewable energy use and distribution**

The investment priority 4.3. is to facilitate production and distribution of renewable energy sources. Its **specific objective of support:** improve energy efficiency of heat sources and promote the use of local renewable energy resources in centralised heat supply. As a **result of the specific objective** it is expected that heat losses would be reduced and renewable energy use in district heating will be increased. As **indicative recipients** of support heat energy consumers, municipalities and energy companies are mentioned.

RECOMMENDATION:

This specific objective of support is very much in line with measures that have been supported in the 2007-2013 programming period. In its overall set-up this measure enables also support for community type of energy projects. It might be feasible to expand support allowing use of local RES solutions to supply heat in remotely located multi-apartment buildings. It is recommended to specifically mention that EE solutions should be combined with RES measures.

- **Support for trainings in energy efficiency and small scale renewable energy use**

Investment priority 8.1. envisages investments in education, improvements of skills and life-long learning by developing necessary infrastructure for learning and trainings. While **investment priority 8.4.** envisages improvements in access to life-long learning, improvement of skills and competences and increase of the role of labour market in educational and training systems. It also envisages equal access to life-long learning programmes for people of all ages and to provide flexible ways of trainings.

RECOMMENDATION:

It is recommended to include in these trainings awareness raising activities on community type of energy projects as well as targeted trainings on energy efficiency and small scale renewable use for households and small businesses depending on the stakeholder group.

- **Support through activity to support integrated development of cities**

The draft OP envisages that integrated development of cities will be promoted as one of cross-cutting priorities. Energy efficiency measures are mentioned as eligible activities that cities can choose to implement.

RECOMMENDATION:

It is recommended to ensure that certain funding should be earmarked for energy efficiency measures under this specific objective. Moreover pilot projects and energy efficiency schemes with community involvement should be allocated a special support.

- **Support through Community led local development approach**

According to the draft OP, there is no support planned under the CLLD approach. It could be however considered under Rural development programme where earmarking of certain percentage of financing for these type of initiatives is mandatory.

RECOMMENDATION:

Projects initiated by "local communities" could be supported through a CLLD support scheme that aims to coordinate, create synergies and find innovative solutions through various activities in order to improve the quality of life in rural areas – it includes activities in areas of economic, social and environment. All Local Action Groups need to develop their Local Development Strategies where they define their priorities and areas of action, thus one important precondition is that small scale energy generation or energy efficiency should be included as one of priority areas in local development strategy, thus there should be active local players that would like to promote "community energy".

In a draft version of Rural Development Programme, there is a general description on how LDS should be developed and how LAGs should function. Environmental NGOs could help with developing some pilot schemes and facilitate inclusion of energy aspects into local development strategies once they are developed (end 2014 or beginning of 2015).

- **Technical assistance for sustainable energy planning and developing pilot schemes**

There has been no planning done yet on how technical assistance should be used. It is expected that Managing authority will start consultations on this with other line ministries in the beginning of 2014.

RECOMMENDATION:

Is recommended that technical assistance is used to assist municipalities in sustainable energy planning where community type of energy projects can be included to help municipalities to

increase their share of RES and reduce GHG emissions. Also support for development of various pilot projects and schemes for support should be considered.

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POLAND

The following recommendations regard community energy projects which can bring multiple benefits to the local community, i.e. citizens, small enterprises and local authorities. A basic assumption for such projects is the **combination of investments** in energy efficiency (EE) and renewable energy sources (RES) with the aim of **achieving energy independence**. The necessary measures to achieve this aim include not only reduction of energy use and production of energy from local renewable sources, but also provision of information and advisory services.

Unlike other energy projects, community energy projects entail:

- engagement of citizens in the initiation and management of the project
- tangible, material benefits for the local community
- formation of informal, self-organized social structures.

In addition, as result of independent energy production and cutting off dependence from external suppliers, the community:

- avoids costs related to the purchase of energy
- avoids reliance on changing prices of resources used in conventional energy production
- achieves environmental goals by reducing CO_2 emissions.

EU FUNDS IN THE 2014-2020 BUDGET PERIOD

In the next EU budget period, Poland will be using a significant portion of the available funds, amounting to 8 billion euro, for supporting the transformation towards a low-carbon economy. The main areas of intervention will concern energy efficiency, renewable energy and low-carbon strategies in urban areas (including sustainable mobility and public transport).

In line with the partnership principle which is applicable to the programming and spending of EU funds, local authorities, as well as SMEs, citizens and all other stakeholders should be actively involved in decision-making regarding the priorities and investment plans for the 2014-2020 budget period. One opportunity to ensure meaningful participation of social partners in the process is Community-led Local Development (CLLD) – an instrument embedded in EU legislation. Through CLLD, local communities can independently draw up and implement local sustainable development strategies, where the potentials for energy savings and production of energy from renewable sources can be exploited.

FINANCING ENERGY COMMUNITY

Energy community projects are complex investments, which apart from proper organizational and legal frameworks require financial support. From the operational point of view, there are three investment stages which require separate streams of financing:

- initiation (bringing the community together and beginning the initiative)

- concept (technical analysis, design, preparation for the physical investment)
- project implementation (construction works).

The first stage could be financed in the form of a grant, e.g. from the CLLD instrument mentioned before or under other capacity building measures in the future Operational Programmes.

Stages two and three fall under the measures planned by Poland under thematic objective 4 concerning the transformation to a low-carbon economy, including the following investment priorities:

- production and distribution of energy from renewable sources
- promotion of energy efficiency and RES in public buildings and housing.

Therefore, **potential beneficiaries of energy community projects (co-operatives, associations, enterprises which implement regional social objectives) should be allowed to access funding** from the abovementioned sources.

RECOMMENDATIONS FOR REGIONAL OPERATIONAL PROGRAMMES 2014-2020

- allocating funding for the CLLD instrument in the programs
- introducing the possibility to apply for funding for EE/RES project both at the concept and at the investment stage
- introducing the possibility to finance energy community projects – inclusion of the full list of potential beneficiaries

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SLOVAKIA

EU funds in Slovakia should cover the following areas:

A. Awareness raising and education in the sphere of community energy and local economy development.

B. Access to financial resources – securing the ability to fund the whole production cycle by creating a mix of financial resources.

C. Establishment and efficient functioning of community initiatives – support of innovative decision-making and management structures based on citizens' participation.

D. Technical support during the creation of projects and in the pre-investment phase.

E. Simple administrative environment for the managers of funds and financial resources on the ocal level and for final recipients.

Integrated regional operational programme should be able to create funds within the framework of Sustainable Urban Development (SUD), managed by a local municipality, which will finance not only demand-based projects on the territory of towns and its regions, but also include community projects by:

- Creating the institute of the SUD fund (by defining it within the IROP strategy) and by allocating at least 10% of IROP to fill the mentioned funds. According to the ERDF regulation, allocation for SUD amounts to at least 5% of national allocation from these funds. Based on the working version of the programme supplement, this makes 387.35 million Euro. This equals 24.67% of the allocation for IROP. Therefore, we consider the 10% of the IROP allocation allocated to financial instruments (SUD funds) an appropriate and feasible requirement.
- Defining conditions for eligibility of towns (methodology to create a list of towns in accordance with the requirement of the regulation for ERDF, point 7) for the role of the SUD fund managing authority.
- Defining funds' parameters and management principles in cooperation with the Ministry of Finance and independent experts.
- Defining a community initiative in the strategy of the programme.
- Introducing eligibility for the community final recipients (cooperatives, NGO).
- Providing technical support for local municipalities for the creation and management of funds within OP Technical assistance within the IROP.
- Providing technical support for networking, creation of structures for the decision-making processes, capacity buildin.
- Including a number of community initiatives able to realize the investment phase of the project into the output indicators of the OP.
- Incorporating the evaluation whether public and local actors were included into the planning of local projects implementation into the criteria for the evaluation and selection of projects

Support for community energy projects through the EU funds in Slovakia in the period 2014-2020

EU funds should make use of a mixture of three instruments:

a. Financial subsidies in form of a grant to integrate all stakeholders involved in the development of local sustainable energy. List of possible supported activities: networking, facilitation of public discussions, raising awareness about energy management model, educational and training courses, financial, legal, and technical counselling.

b. Technical support to help create projects should be aimed at project promotes for the development of project plans into feasible projects including the support to help make feasibility studies and technical documentation.

c. Soft loans, guarantees and direct financing of investments (construction of power stations, heating plants, energy building renovation, purchase of equipment).

We recommend making use of:

1. Structural funds – through CLLD, global grants, or special measures aimed at the support of civic society development, structural funds would provide non-returnable financial subsidy for networking, community organizing and development of management structures and capacities

ELENA instrument– in a form of grants would finance technical assistance for technical and economic aspects of projects including analyses and feasibility studies

JESSICA instrument – to finance the investment/construction itself in a form of a loan with cut interest rate and softer liability requirements.

2. The Operational programme Quality of Environment (OPQE) within the third priority axis "Energy efficient and low carbon economy" and priority axis "Technical assistance" would make the financing of community energy initiatives possible by:

- Defining general eligibility conditions enabling the financing of associated processes necessary for a successful execution of investments, particularly in the following area:
    - Development of initiatives by including facilitation of public discussions and invovlement of interested people, capacity building, preparation of project plans from analyses through to feasibility studies into eligible activities
    - Counselling by enabling the support of entities, which provide counselling services, by including capacity building, education and technical support at the formation of initiatives and at the creation of management and decision-making structures and their access to financial resources
- Including community energy into the awareness raising and educational programmes within the third priority axis
- Introducing global grants within the priority axis Technical assistance, particularly for counselling in the stage of developing project plans and working on feasibility studies

- Applying a financial instrument for the investment of development and realization of investments by community energy initiatives and by allocating 20% on the third priority axis for the application of this financial instrument in a form of combined financial instrument, which would be able to cover the whole life cycle of a community energy project.
- A conditional loan for the development and preparation of projects, financing the pre-investment phase of the initiative from the development of project proposal, analysing the potential and applicability of technologies to the execution of technical and financial feasibility studies and project documentation necessary to start the investment and access other financial sources .
- Special loans to finance the construction of installation of devices/facilities, to connect to the main grid, and to put it into operation.

The financial instruments provided for an interest-free loan with a conditional maturity in the pre-investment stage. If the project turns out not to be viable for realization, the community initiative is not obliged to repay the loan, which pratcially means a transformation into a grant. In case of a positive feasibility study, financial instrument gives the initiative a special loan for the investment stage and the initiative repays also the sources provided in the pre-investment stage. The Community Generation Fund (Great Britain) is an example of this type of financing, http://www.thefsegroup.com/social-impact-funding/community-generation-fund

3. The Operational Programme Research and Innovation within the second priority axis

"Innovative business environment" has introduced the support of innovative decision-making and management systems in enterprises with a focus on networking, mobilization and participation of local actors as a contribution to job creation in the regions of Slovak Republic. It should support innovation both on the management and on decision-making level, not just innovations related to the products and processes.

The most suitable form to support the emerging community initiatives is to establish special centre counselling and supporting the initiatives in technical and financial areas. Support by the centre should be directed in the following ways:

- Technical support to help establish and develop initiatives – identifying local leaders, networking, mobilization stakeholders, communication with the local public and municipality, facilitation of public discussions, capacity building;
- Counselling – analyses, studies (including feasibility studies) and surveys, financial planning and access to financial resources, technical and technological area and management;
- Access to the capital in the investment stage – construction, realization of measures including energy efficiency, human resources;
- Centres may use various types of financial instruments and implementation mechanisms including:
    - Non-returnable financial subsidies (grants)
    - Global grants

- Special loans, subsidized interest rates, or interest-free loans and guarantees

It is advisable to coordinate the measures with the support and instruments applied within the OPQE.

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