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

BRIEFING FOR LOCAL STAKEHOLDERS *November 2013*

KEY RECOMMENDATIONS

Regional and local governments, communities and local action groups are able to receive financial support from the 2014 – 2020 EU budget to finance energy efficiency and renewable energy projects in their communities.

1. Local governments, communities, local action groups and other stakeholders are recommended to get involved in the planning and implementation of the next generation of European Structural and Investments Funds for 2014 – 2020.
2. Local stakeholders should develop a Sustainable Energy Action Plan as part of a broader "Local Urban Sustainable Development Strategy," in order to assess and include systematically and strategically the needs and potentials for energy efficiency and renewable energy investments.
3. In order to ensure an optimal financing mix for local energy efficiency and renewable energy projects, contact the respective Ministry (Economy/Finance/Regional Development) in charge of European Structural and Investment Funds to advocate for the inclusion of direct support and financial instruments into planning documents i.e. Partnership Agreements and Operational Programmes of European Structural and Investments Funds 2014 – 2020:
    a. direct support through a separate priority axis aimed at community-led, low-carbon investments in urban and rural areas;
    b. financial instruments such as an "Urban Sustainable Development Fund".

Low-carbon development priorities at the local level within the 2014 – 2020 EU budget

The next generation of European Structural and Investment Funds include a minimum of EUR 23 billion to catalyse the "shift to a low-carbon economy".

Investments should promote and support energy efficiency, renewable energy and smart energy management in public infrastructure, 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 to a "low-carbon strategy", in particular in urban areas.

The regulations on ESI funds i.e. the "partnership principle" and the "European Code of Conduct on Partnership" 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, including European funding, can be developed.

Financial instruments for investing in 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) 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 CLLD 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.

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.

In order to receive direct support from EU funds and to make full use of tailor-made and 'off-the-shelf' financial instruments for the shift to a low-carbon economy, local governments are recommended to contact national ministries involved in programming in order to include such measures into the Partnership Agreements and Operational Programmes.

For more information:
Markus Trilling - EU Funds Campaign Coordinator
CEE Bankwatch Network
Rue d'Edimbourg 26, 1050 Brussels, Belgium
markus.trilling@bankwatch.org, tel +32 2 893 1031

European Climate Foundation

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