



# European Construction Sector Observatory

Policy measure fact sheet

**Romania**

Thermal Renovation Loan Programme  
for Residential Buildings

Thematic Objectives 1 & 3

February 2018



# In a nutshell

<b>Implementing body:</b>	Ministry of Regional Development and Public Administration (Ministerul Dezvoltării Regionale și Administrației Publice – MDRAP)
<b>Key features &amp; objectives:</b>	Renovation loan programme to help residential building owners to install energy efficient solutions in their buildings. Loans are available to cover 90% of the renovation cost with the aim of reducing individual annual heating energy consumption to below 100kWh/m <sup>2</sup>
<b>Implementation date:</b>	July 2010 - ongoing
<b>Targeted beneficiaries:</b>	Homeowner associations and individual households
<b>Targeted sub-sectors:</b>	Residential
<b>Budget (EUR):</b>	182,000 (RON 847,000)

The Thermal Renovation Loan Programme (TRLP) for Residential Buildings (given effect by Emergency Ordinance no. 69/30.06.2010) was launched in 2010 and is still ongoing. It provides homeowners with access to repayable loans up to 90% of the total renovation cost<sup>3</sup>.

To address the need for energy saving renovations in the Romanian residential sector, the Ministry of Regional Development and Public Administration (Ministerul Dezvoltării Regionale și Administrației Publice – MDRAP) launched two financial support programmes to encourage homeowners to renovate their properties and install energy saving solutions:

- The Thermal Renovation Grant Programme for Residential Buildings (given effect by Emergency Ordinance no. 18/4.03.2009) was launched in 2009 and is still ongoing. It provides homeowners with non-repayable grants up to 80% of the total renovation cost. This measure is the subject of another ECSO Policy Measure Factsheet<sup>4</sup>; and
- The Thermal Renovation Loan Programme (TRLP) for Residential Buildings (given effect by Emergency Ordinance no. 69/30.06.2010) was launched in 2010 and is still ongoing. It provides homeowners with access to repayable loans up to 90% of the total renovation cost<sup>5</sup>.

There are over 5 million residential buildings in Romania and about 8.2 million residential units (houses/apartments). Approximately 81,000 residential apartment buildings and 3 million apartments are in need of thermal insulation, according to data published in 2016<sup>1</sup>. The majority of buildings in Romania were constructed in the second half of the 20<sup>th</sup> century, and 90% of residential buildings were built before 1989, at a time when there were no specific thermal insulation requirements in place. In fact, thermal insulation regulations did not exist at all in Romania prior to 1973. As a result, many residential buildings are poorly insulated.

Between 1984-1997, consideration began to be given to concerns about energy saving and the need to improve thermal insulation in buildings. However, early work to evaluate the energy efficiency of the existing building stock produced only modest results, because the evaluation work only looked at the overall structure of the building envelope and failed to consider the effect of its details – e.g. of thermal bridges (or cold bridges – i.e. an area of a building construction that has a significantly higher heat transfer than the surrounding materials)<sup>2</sup>.

The TRLP has not proved to be a success to date. Although it was launched in 2010, it did not become fully operational until 2012 due to a lack of funding. However, in the five years since 2012, homeowners have not shown much interest in the loan scheme, with only 17 loans approved. The main reason is that they view repayable loans and full payment of total costs as less preferable to the sizeable non-repayable grants that are offered by the Thermal Renovation Grant Programme for Residential Buildings, which is a parallel scheme that only requires a 20% contribution towards the total costs. For the TRLP to achieve better results, it needs to provide homeowners with a more attractive and economically viable alternative to renovation financing, which can compete with other schemes. A range of other issues will also need to be addressed, such as extending the loan repayment period to be in line with similar schemes in other EU countries.

## 1

# General description

The Thermal Renovation Loan Programme (TRLP) for Residential Buildings was launched in 2010 by the Ministry of Regional Development and Public Administration (MDRAP), following the Government Emergency Ordinance no. 69/30.06.2010 ('regarding the thermal rehabilitation of residential buildings financed by bank loans with government guarantee')<sup>6</sup>.

The TRLP provides loans with preferential interest rates that are backed by government guarantees. Thermal renovation loans are available to homeowner associations and individual households that wish to make their building more energy efficient.

Buildings must have been built/acquired by the end of the year 2000 to be eligible for loan financing. The TRLP is a public interest action that aims to reduce residential energy consumption and especially aims to lower expenditure on heat/hot water and, indirectly, to reduce the use of conventional fuel and greenhouse gas emissions.

Thermal renovation loans are provided to beneficiaries by financial lenders (e.g. banks). The loan conditions that must be met are outlined in Table 1. Loans are available for up to 90% of the total renovation cost. Beneficiaries are expected to contribute the remaining 10% of the total cost themselves. The loan amount that a beneficiary may claim depends on the type of property being renovated. There is one level of funding for homeowner associations (owners of residential apartment buildings) which is calculated on a 'per room' basis (EUR 1,850). There is another level of funding for single-family houses (EUR 7,400). Loans are repayable within a 5-year period, they are 100% back by a government guarantee, and interest is charged to the lender at a preferential rate.

The renovation activities that are eligible for funding under the TRLP include<sup>6</sup>:

- Thermal insulation of the building envelope and related facilities (e.g. thermal insulation of exterior walls, roof insulation);
- Building repairs, if necessary, replacement/ acquisition and mounting of the block/entrance central heating, the corre-

The application process is not uniform and there is not set length to the process, as it is dependent on the internal processes of each lender. Applicants can choose which lender (e.g. bank) they want to apply through and must then adhere to the process stipulated by their chosen lender.

Table 1: Thermal renovation loan conditions

Loan repayment period:	60 months
Maximum loan amount:	90% of the total renovation cost, including VAT, to the RON equivalent of: <ul style="list-style-type: none"> <li>• Per room (for homeowner associations): <ul style="list-style-type: none"> <li>• EUR 1,850 (RON 8,600)</li> </ul> </li> <li>• For owners of single-family houses: <ul style="list-style-type: none"> <li>• EUR 7,400 (RON 34,500)</li> </ul> </li> </ul>
Loan currency:	RON
Minimum own contribution (by loan beneficiaries):	10% of the total renovation cost, including VAT.
Loan interest charged:	ROBOR 3 months + 1.9%
Loan guarantee:	100% guaranteed by the National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM), in the name and on behalf of the State.

Source: MDRAP<sup>7</sup>

sponding central heating of a single-family residence and its related facilities;

- Installation, if appropriate, of alternative systems for partial or complete provision of energy for heating water, lighting and/or heating.

Homeowners associations that wish to take out a renovation loan to finance energy saving upgrades to an apartment building are required to demonstrate the approval (with a vote) of at least 90% of the members of the association. All homeowners in the apartment building must be informed about the decision at the general meeting of the association. The involvement of technical building experts, energy audits, renovation documentation and approval, technical project implementation, management and final verification, are the responsibility of the beneficiaries.

Once a loan is approved and paid to the beneficiary, there is then no mechanism within the TRLP for assessing the work carried out.

## 2

## Achieved or expected results

The Thermal Renovation Loan Programme (TRLP) for Residential Buildings was allocated a total budget of EUR 182,000 (RON 847,000) for the period between 2010 and 2016. In practice however, the TRLP did not become fully operational until 2012 due to a lack of funding.

Table 2 presents the results of the TRLP by the end of 2016, based on the data published by the Ministry of Regional Development and Public Administration (MDRAP). The TRLP has not lived up to the Government's expectations, having only approved a total of 17 loans over a six-year period, which is a low figure by any standards. Having said that, the 17 loans that are recorded have accounted for nearly half (43%) of the total allocated budget.

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As a rough estimate, the average value of each loan was EUR 4,620 (RON 21,514). The actual amounts of each loan are not published. At least 13 of those 17 loans were provided to support renovation work to apartment buildings, which suggests that the TRLP was not deemed financially viable by single-family homeowners.

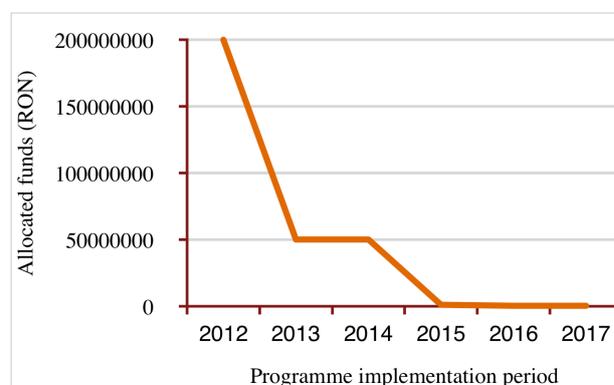
Figure 1 shows the timeline for the allocation of funding to the TRLP. The majority of the available funding was allocated in the first year of actual implementation (2012). Due to very low demand for renovation loan financing, the allocation of funding to the TRLP subsequently dropped off in 2013 and 2014. Although the MDRAP has announced a budget of EUR 54,000 (RON 250,000) for 2016 and 2017, in practice, there has been no additional funding allocated to the TRLP in 2015-2017, because there have been no further requests for renovation loans.

Table 2: Thermal renovation loan results 2010-2016

Number of loans awarded:		17
Total financing awarded:	EUR RON	79,000 365,730
Average value of loans awarded:	EUR RON	4,620 21,514
Total approved budget:	EUR RON	182,000 847,000
Total unused budget:	EUR RON	103,000 481,270

Source: MDRAP<sup>9</sup>

Table 2: Thermal renovation loan results 2010-2016



Source: MDRAP<sup>10</sup>

Although the TRLP remains open to the public, it has unfortunately failed to attract sufficient applications. The main reason for the low demand is that there is another ongoing parallel programme that has proved to be more attractive to applicants.

The other programme is the Thermal Renovation Grant Programme for Residential Buildings<sup>11</sup> (created by emergency ordinance no. 18/4.03.2009) and has been popular with benefi-

ciaries because it is better adapted to their needs and financial situation. It provides non-repayable grant funding to cover up to 80% of total renovation costs, which requires beneficiaries to self-finance the remaining 20%. This is in contrast with the TRLP, which provides repayable loans of up to 90% of total renovation costs and requires beneficiaries to contribute the remaining 10%. The TRLP ultimately requires beneficiaries to pay for 100% of the total renovation cost, compared to just 20% under the parallel programme.

Other factors that have had a negative impact on the TRLP include funding problems in the early stage of implementation, the short loan repayment period stipulated by the scheme, and more general issues with accessing finance through lenders (e.g. banks) in the recent economic climate. Funding was not

in place until 2012<sup>12</sup>, some two years after the launch of the TRLP, which was not a good start. The short repayment period (5 years) was a particular problem for applicants, because it is much shorter than the repayment period on comparable schemes in other EU countries, such as Germany and the Czech Republic, where the repayment period for similar types of loans is between 10 and 15 years. These issues have created a major problem for both local banks and homeowners. The short repayment period required by the TRLP implies the imposition of monthly payment rates that are too high for homeowners and are unrealistic for the Romanian market. The problem has been further accentuated by the general reluctance of Romanian homeowners to access loans, and the tendency of commercial lenders (e.g. banks) to apply strict conditions to loan financing, especially since the economic crisis<sup>13</sup>.

## 3

## Perspectives and lessons learned

From the **perspective of beneficiaries**, there are quite a lot of issues that have limited the appeal of the TRLP.

The general belief is that the programme was launched with an electoral objective in mind and without a proper public consultation. Potential beneficiaries have also been largely unaware of the programme, which indicates a lack of communication and information to raise public awareness.

The main issue with the TRLP that beneficiaries highlight is that the type of financial support it offers is not sufficiently attractive to encourage people to apply. Firstly, the lack of any level of grant funding is unappealing, as beneficiaries are required to pay 100% of the cost of any renovation work, albeit with the support of a loan. Secondly, any loan financing must be repaid within 5 years, which would place a significant financial burden on an applicant, especially when compared to their income. Under these conditions, and with option to access grant funding through a parallel programme, the TRLP is not a viable support instrument.

Homeowner associations (HOAs) also argue that the TRLP places too much of a burden on them. As well as the unfavourable financing terms, HOAs says that the process and responsibilities are not well defined or communicated, and HOAs are also required to prepare a lot of documentation for the application process, which they find difficult to manage<sup>14</sup>. Another issue is that homeowners typically need to contract specialised companies to provide certain services, such as an energy efficiency audit; however, these types of costs are outside of the scope of the TRLP, which means that the cost has to be covered by the homeowner.

An additional weakness highlighted is that homeowners often lack the technical skills to properly monitor and evaluate the implementation of renovation work, in terms of quality, durability and real cost<sup>15</sup>. For instance, although local authorities claim that the thermal insulation of buildings in Bucharest was carried out using fire-resistant polystyrene, some homeowner associations have complained about the poor fitting of the material, resulting in poor fire resistance. Indeed, according to the League of Homeowner Associations (Liga Asociațiilor de Proprietari Habitat), they had had little or no say in the selection

of contractors and technical solutions and were unable to follow the progress of the works, because the technical specifications of the project had not been made available to them<sup>16</sup>.

Homeowner associations would benefit from state support to guide them through the documentation procedures, and to provide technical advice and support from the signing of the contract through to the completion of the renovation work.

From a **government perspective**, the budgets allocated to the programme have been reduced significantly since 2016 because of the low demand from potential beneficiaries.

The government takes the view that the programme received a low number of applications because of the existence of the Thermal Renovation Grant Programme for Residential Buildings, which is a parallel programme that provides non-repayable government grant funding for thermal renovation, rather than loans that must be repaid. The stringent conditions of the loan programme and a lack of interest from the banking sector are other factors that have impacted the programme's uptake.

Beneficiaries of the loan programme are also faced with complicated procedures before the project application (energy audit, planning and documentation). Another barrier is related to the bureaucratic procedures for all type of authorization in construction that usually take a long period of time. Also, there are some practical aspects that do not support the development of the programme, such as the lack of quality assurance clauses in the tender regulations (e.g. guarantees for executed works) to help to ensure that work is carried out according to quality standards. Indeed, the Inspectorate for Emergency Situations (Inspectoratul pentru Situatii de Urgenta – ISU) is not required to approve the works carried out on residential buildings (except those over 28 metres of height), and they are therefore not controlled after completion of the interventions<sup>17</sup>.

From a **construction industry perspective**, the main issue with the TRLP is that it is not incentivising homeowners to undertake building renovations, because it is not well aligned with the needs of homeowners.

As a result, it is not having any significant impact on the thermal renovation of residential buildings in Romania, compared to other programmes. It is also therefore not generating work and revenue for the construction sector and its constituent companies. The TRLP has been implemented without any meaningful consultation with relevant stakeholders and did not even have funding in place in the first two years of the implementation phase.

According to the General Manager of Fabryo Corporation<sup>18</sup>, which is one of Romania's largest building materials manufacturers, cost pressures are affecting the delivery of thermal renovation projects by Romanian construction companies and tradesmen. The need to cut costs is leading many companies to either ignore or not adopt European standards, in favour of cheaper solutions, such as sub-standard processes and materials. The concern is that any thermal renovation work that is not done to sufficient quality, will not achieve the desired energy saving goals and will probably need to be replaced or redone in a relatively short period of time<sup>19</sup>.

# Endnotes

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- 3 Ministry of Regional Development and Public Administration, Energy performance of buildings: <http://www.mdrap.ro/en/constructii/metodologia-de-calcul-al-performantei-energetice-a-cladirilor>
- 4 European Construction Sector Observatory (ECSO): [https://ec.europa.eu/growth/sectors/construction/observatory\\_en](https://ec.europa.eu/growth/sectors/construction/observatory_en)  
Romanian Policy Measure Factsheet: <https://ec.europa.eu/docsroom/documents/23751/attachments/2/translations/en/renditions/pdf>
- 5 Ministry of Regional Development and Public Administration, Energy performance of buildings: <http://www.mdrap.ro/en/constructii/metodologia-de-calcul-al-performantei-energetice-a-cladirilor>
- 6 OUG 69/2010 regarding thermal rehabilitation of residential buildings financed by bank loans with government guarantee, 2010, OUG nr. 18/2009 on increasing the energy performance of housing blocks, 2009: [http://www.dreptonline.ro/legislatie/oug\\_69\\_2010\\_reabilitarea\\_termica\\_cladirilor\\_locuit\\_finantare\\_credite\\_bancare\\_garantie\\_guvernamentala.php](http://www.dreptonline.ro/legislatie/oug_69_2010_reabilitarea_termica_cladirilor_locuit_finantare_credite_bancare_garantie_guvernamentala.php)
- 7 Ministry of Regional Development and Public Administration, Thermal renovation programme for housing with finance through bank loans with government guarantee: <http://www.mdrap.ro/prezentarea-programului-de-reabilitare-termica-a-cladirilor-de-locuit-cu-finantare-prin-credite-bancare-cu-garantie-guvernamentala>
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- 9 Ministry of Regional Development and Public Administration, Thermal renovation programme for housing with finance through bank loans with government guarantee: <http://www.mdrap.ro/prezentarea-programului-de-reabilitare-termica-a-cladirilor-de-locuit-cu-finantare-prin-credite-bancare-cu-garantie-guvernamentala>
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- 11 Ministry of Regional Development and Public Administration, Thermal renovation programme for apartment buildings: <http://www.mdrap.ro/programul-national-privind-cresterea-performantei-energetice-la-blocurile-de-locuinte>
- 12 D. Tenea, General Director of the General Department for Regional Development and Infrastructure, Min. of Regional Development and Public Administration: <http://www.capital.ro/sapte-ani-de-reabilitare-termica-pentru-3-din-blocurile-comuniste.html>
- 13 Opportunities for increasing the energetic efficiency of housing buildings in Romania: <http://bpie.eu/wp-content/uploads/2015/10/Chairmans-Conclusions-PDF-Romanian.pdf>
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- 16 HotNews, ANALIZA Cate blocuri au fost reabilitate termic in Bucuresti, cati bani s-au cheltuit si cat de sigure sunt cladirile anvelopate in caz de incendiu. December 2015: [http://www.hotnews.ro/stiri-administratie\\_locala-20650690-analiza-cate-blocuri-fost-reabilitate-termic-bucures-ti-cati-bani-cheltuit-cat-sigure-sunt-cladirile-anvelopate-caz-incendiu.htm](http://www.hotnews.ro/stiri-administratie_locala-20650690-analiza-cate-blocuri-fost-reabilitate-termic-bucures-ti-cati-bani-cheltuit-cat-sigure-sunt-cladirile-anvelopate-caz-incendiu.htm)
- 17 Ibid
- 18 Fabryo Corporation, Building Materials Manufacturer: <http://www.fabryo.com>
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