FINANCING ENERGY EFFICIENCY IN CENTRAL AND SOUTHEASTERN EUROPE

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Sofia

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As part of the "Smart Finance for Smart Buildings" initiative, the European Commission is organising a series of “Sustainable Energy Investment Forums” to enhance the capacity of and cooperation between public and private stakeholders to develop large-scale investment programmes and financing schemes. The SEI Forums will consist of more than 30 events in up to 15 Member States in 2016-2019; information on past and upcoming events can be found on the SEI Forums webpage.

BACKGROUND TO THE EVENT

The Energy Union Framework Strategy puts energy efficiency as one of its five dimensions and states it is to be treated as an energy source in its own right. The ambitious Paris climate agreement also underlines the importance of energy efficiency. Investments in energy efficiency have proven to be one of the most cost-effective ways to support the transition to a low-carbon economy. Not only does it help the EU in turning its climate ambition into climate action, it also brings a number of significant benefits for European citizens and companies in terms of environment, health, security of supply, lower energy bills, more jobs and sustainable growth.

To realise the full potential of energy efficiency, public funds will not suffice and private financing will have to be unlocked at scale. In that context, energy policy should create more favourable investment conditions, encourage demand for energy efficiency and help consumers undertake energy efficiency investments more easily.

The conference shared best practice from the CESEC area as well as further countries on how energy efficiency investments can be financed. This included the use of private funds and innovative financing instruments, notably in the building and industry sectors. Speakers focused on practical experience in developing and structuring investment programmes.

All presentations and recordings from the event can be found at: https://ec.europa.eu/info/events/sei-forum-events/financing-energy-efficiency-bulgaria-and-other-countries-central-and-south-eastern-europe-2018-jun-28_en
WELCOME SPEECHES

Zhecho Stankov, Deputy Minister, Bulgarian Ministry of Energy

The achievements under the Bulgarian Presidency of the EU on the energy portfolio (energy efficiency, renewable energy and energy union governance) have been considerable and the 32.5% non-binding EU energy efficiency target for 2030 is very welcome. The revised legislation supports Member States in being creative, and in particular the use of mechanisms under article 7 of the Energy Efficiency Directive to deliver annual energy savings. Reporting requirements have also been simplified here.

The recent launch of the European Energy Poverty Observatory is very welcome. Energy poverty is already part of Directives at European Union level. 50 million people are already affected. Support measures should assist them in getting out of energy poverty and will improve living standards.

Energy security considerations are also important – energy efficiency can free up grid capacity and improves the competitiveness of industry. It is one of the priorities of the Energy Union and there a lot to be done in the next ten years to meet the targets.

As part of this, there is a need to ensure that the right financial instruments are in place. Bulgaria is working with Norway, Iceland and Liechtenstein on an energy efficiency fund to allow municipalities and business to implement energy saving measures (with a €33 million budget).

The role of Individual families and citizens will be important in delivering energy savings measures. This includes measures to tackle air pollution in big cities.

Bulgaria should be remembered as the country that set the foundations for the next decade.

Malina Krumova, Deputy Minister, Bulgarian Ministry of Development and Public Works

More cost effective means for financing improvements in residential buildings are needed and a partnership approach to be able to deliver against EU targets is necessary, especially for residential buildings. Countries across Central and South Eastern Europe have taken very varied approaches to this issue. There is huge potential for improvements in the residential sector, including reducing energy poverty and overall environmental improvements. Delivering against these aims will reduce health related costs.

Effort is needed on privately owned buildings, meaning that effort beyond just the public sector is necessary. Building owners and the business community need to act, to find proper financing and capitalisation.

Within the Bulgarian national energy efficiency programme for residential buildings, the current level of support is not sustainable in the long-term and a new long–term vision is needed. A new national residential buildings strategy will be published and include proposals on domestic energy efficiency financing.

There is a need to exchange experience between central and south eastern European countries, good and bad lessons.
Tudor Constantinescu, Principal Adviser to the Director General for Energy, European Commission

The revised Energy Performance of Buildings Directive has been published and the Energy Efficiency Directive and Renewables Directives will follow. The Commission is grateful for cooperation with Bulgaria.

The market design Directive is still to be concluded and this will be negotiated during the Austrian EU Presidency. There are three major trends governing progress in the energy sector: Decarbonisation, technology (the move from a resource based to a technology based energy system) and systems approaches.

On decarbonisation, after the Paris Agreement, big countries and polluters are taking action including those such as Brazil and China and the rate of change will advance much faster. Consumers are thinking more and more about energy efficiency and there are significant potential savings as a result. Other sectors are also starting to engage, even the gas infrastructure sector is thinking about decarbonisation (the use of hydrogen and biogas for example).

On technology, there have been huge decreases in the cost of renewable energy technologies, especially wind and solar, as well as lower costs for storage (battery costs have come down 60-70% in the last 5 years and other storage technology costs are falling). In future, the energy system will see a mix of centralised generation plus decentralised storage. Consumers will also becoming prosumers (producer-consumers) and buildings and smartness indicators will play an increasing role. Digitalisation will rearrange the actors in the energy system and bring more control to end users.

On the system approach, there is increasing interest in looking at the efficiency of the entire energy system – the component parts have to be put together in a better way. The 32% renewable energy target in primary energy consumption will translate to at least 55% electricity. Looking at final consumption, 25% is electricity, 30% transport, 40-45% heating and cooling. The penetration of renewable energy is lower in some sectors, but there has to be sector integration as this will lead to system efficiency in the energy transition. The heating and cooling sectors are currently 75% based on fossil fuels, but around half of Europe’s operating capacity is close to the end of its operational lifetime, radical changes will have to be made. We have to avoid lock-in to high carbon solutions that would affect the long-term.

Energy efficiency is important in all sectors and flexibility in the energy system becomes more important.

A wide range of European support programmes are being brought in to support the energy transition, these include specific support for coal regions in transition, the establishment of the energy poverty observatory and the clean energy islands secretariat. The total investment needed amounts to around €177 billion per year between now and 2030. The European Commission budget has a major role to play. There will be more mainstreaming under European Structural and Investment Funds €70 billion, double what was there in the past. This needs to be leveraged, to create financial instruments and involve the public sector. Smart Finance for Smart Buildings is looking to overcome key barriers to energy efficiency investment
Better use needs to be made of available technical assistance and such activities need to be benchmarked.

PLENARY SESSION 1: EUROPEAN AND NATIONAL POLICY CONTEXT

Moderator: Veneta Tzvetkova, Director, Energy Projects and International Co-operation Directorate, Ministry of Energy, Bulgaria

European policy in support of energy efficiency investments

Claudia Canevari, Deputy Head of Unit for Efficiency, Directorate-General for Energy, European Commission

The energy efficiency first principle was adopted by the EU recently. Over the past few decades we have seen a decrease in energy consumption across Europe. As energy efficiency should not be to the detriment of economic development, it is positive to see a decoupling of energy use and economic growth indicators.

Product policy has played an important part in reaching good results and further marginal improvements are still possible. There is now a need to focus on other areas of savings potential. Buildings and, as a consequence, financing have a key role to play as does the use of ICT for the energy sector.

There is provisional agreement on the amended Energy Efficiency Directive with a 32.5% efficiency target for the EU as a whole for 2030. There are proposals to extend the annual savings target beyond 2020 (Article 7) and new proposals on individual metering and billing.

As for the Energy Performance of Buildings Directive, this is now stronger on long term renovation strategies and there are interim milestones for 2030 and 2040, targeted support for e-mobility deployment and a different approach to building inspection and a stronger role for building code implementation.

The European Commission is preparing guidance documents that should be available in the coming months on various issues, including on building inspection and e-mobility.

Investment and financing are important. November 2016 saw the launch of Smart Finance for Smart Buildings initiative as part of the Clean Energy for All Europeans package. It is based on the conclusions of the Energy Efficiency Financial Institutions Group, to overcome bottlenecks to full participation of the financing sector in energy efficiency implementation. Smart Finance for Smart Buildings is based on three pillars, namely more effective use of public funds, technical assistance and aggregation, and de-risking. More broadly, there are various tools and activities in the European Union to scale up sustainable finance. For example, in March 2018 an action plan for financing sustainable growth was launched.
Energy efficiency financing: Support from the European Structural and Investment Funds (ESIF)

Tonka Matic, Programme Assistant, Directorate-General for Regional and Urban Policy, European Commission

European Structural and Investment Funds (ESIF) represent investment of €454 billion from 2014-2020 and covers five funds - European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF). Of these, Cohesion policy is composed of the ERDF, CF and ESF funds and represents € 352 billion from 2014-2020 aiming to reduce disparities between Europe’s regions, strengthen economic, social and territorial cohesion and contribute to the Europe 2020 Strategy for smart, sustainable and inclusive growth.

Within these funds, there is thematic concentration including a priority axis on the shift to a low carbon economy. For this, the proportion of overall budget going to the priority is 20 % in more developed regions, 15 % in transition regions and 12 % in less developed regions. Investment under this priority includes renewable energy, smart grids and low carbon transport as well as energy efficiency and innovation in low-carbon technologies. Funding for energy efficiency is significantly larger (roughly treble) for the 2014-2020 period than for 2007-2013.

Between 2014 and 2020, €20 billion is planned to be directed through financial instruments rather than grants. Of this, the second most prominent category (after SME competitiveness) is the low carbon economy, which should receive more than €3.5 billion of investment through such mechanisms.

For the post 2020 EU budget, the 11 current thematic objectives will be reduced down to 5 policy objectives. Energy efficiency features as part of the objective on greener, low carbon Europe. There will again be thematic concentration in the next programming period, with the minimum contribution towards the low carbon priority raised to 30% of overall spend.

The European Commission presented its proposals at the beginning of May 2018 and details are now being discussed by the Council and Parliament. Final decisions is planned to be taken by May of 2019.

Mobilising the financial sector on energy efficiency

Martin Schoenberg, Energy Efficiency Project Coordinator, United Nations Environment Finance Initiative (UNEP FI)

The Paris Agreement sets the comprehensive framework for carbon reduction and represents a major investment opportunity. Policy, data and finance need to be brought together to solve the problem. Estimates are that $400 billion are needed globally to meet Paris commitments, around $1 trillion per year needs to be invested into low carbon technologies. This is having an impact on the wider economy.
Energy efficiency investment has quite a few drivers and the highest unrealised potential savings are in the buildings sector. Energy efficiency investment levels are roughly $240 billion per year and this needs to go up by roughly factor 6 to meet the 2 Degrees Centigrade pathway.

Renewable energy projects are mainly standard project finance and banks and investors understand it. But, there is complexity across classes in energy efficiency investment, as well as typically smaller deal size. There are also often embedded transactions and additional coordination between teams may be needed from lenders.

To achieve mainstreaming of energy efficiency, concessionary finance needs to be considered at first, then a move to guarantees (de-risking not outright subsidy) and then in the final stage, shared standards.

Standardisation has many advantages and the work of EEFIG has demonstrated this. The DEEP database and underwriting toolkit for risk and valuation are useful tools in this regard.

In addition, the G20 energy efficiency toolkit, supported by $4 trillion of investor capital tracks progress towards G20 policy implementation. The main lesson from this is public bank balance sheet impacts. There is $170 billion of assets in public banks, this is not sufficient to meet the investment challenge and therefore there is a need to approach private institutions.

The third phase of EEFIG is in preparation, with three working groups on building the business case, mainstreaming and monitoring.

Kiril Velitchkov, UBB, Director, Directorate “European Projects and Financial Institutions”/KBC Group, Manager of the KBC Group European Financial Instruments Competence Centre

KBC have four different credit lines on sustainability, and one of them is environmental protection and energy efficiency. This is viewed not only as important as a business opportunity, but an important part of the mindset and culture of the organization.

Energy efficiency investment projects tend to come with a high risk level, typically require longer payback periods and often clients may not have enough securitisation. They can be effectively supported through standard loans and through European Structural Funds support. There are 30 or so financial instruments managed by KBC.

If a client approaches KBC for a new project, they can help them to try to get a grant. For financial instruments, they can help them to get a low interest loan (e.g. with EIB, EBRD, the Bulgarian Development Bank etc). The key Issue for banks is not liquidity, but what to do with the liquidity that is available. The main problem to be addressed is risk. Here, a second group of financial instruments can be uses to mitigate risk e.g. through JEREMIE funding which can provide 80% coverage of risk.

The REECL and BEERECL credit lines are examples of excellent cooperation with public authorities. REECL has delivered 10,000 retail loans. Under BEERECL, loans are provided with grants.
When in 2011 the JEREMIE programme emerged, it offered up to 80% risk coverage of investments. Many people didn’t know it and wanted grants not financial instruments. It took a year to promote the programme to clients, but then people started asking not for energy efficiency grants, but for JEREMIE. The programme became associated with preferential loans for business.

KBC are keen to understand future Multi-annual Financial Framework design, to see some procedures simplified and some weaknesses of existing instruments overcome.

Overall, banks should be seen not just as financial intermediaries, but partners for everyone interested in energy efficiency.

**State of play of energy efficiency in Bulgaria**

Ivaylo Alexiev, Executive director of Sustainable Energy Development Agency, Bulgaria

Bulgaria’s [National Energy Efficiency Action Plan](#) target is seeking to deliver 18,300 KTOE of energy savings by 2020. There is an Energy Efficiency Obligation scheme in place that was launched in 2008, under which electricity utilities are the main actors. This scheme has supported a renovation programme for condominiums.

There has been 67% implementation of the national target over past few years, but with good mobilisation of efficiency measures it is believed that the 20% energy savings target can be reached.

When considering final energy consumption, there has been a 72% increase in energy efficiency in the industrial sector, however, energy use in the services sector has gone up. 92% of transport uses liquid fuels and energy intensity has gone up. For households, energy consumption has risen up by 2.5%, while at the same time energy efficiency has improved by 3.5%.

Data show that industry sector improvement measures have paid back in less than three years, there remains further large energy saving potential in this sector. For households, the payback period is typically longer, in some cases over 20 years. There has been wider adoption of some low cost renovation measures though, for example boiler replacements. There is also significant remaining untapped potential in the residential sector too.

There is a high potential to foster energy efficiency in Bulgaria. A long-term programme is needed that delivers modernisation of 11 million m² of public buildings, some €160 million of investment is needed in ESCOs by 2020 to ensure that more works are undertaken.

**Financing the future of buildings in Central, Eastern and South-East Europe**

Julian Popov, Chair of the Board of Directors at Buildings Performance Institute Europe (BPIE)

Across the central and south eastern European region, public funds are mostly used as support for energy efficiency measures (i.e. grants) and are not operating as financial instruments. Attracting private finance will be important, public funding alone will not be sufficient to deliver
on targets - €40 billion is needed to retrofit all of Bulgaria over something like the next 20 years. Bulgaria’s residential building stock needs a very deep level of renovation, there are many people living in outdated buildings that are poorly heated. Householders do not want or expect 100% grant funding. Energy efficiency savings should become a source of funding for further energy efficiency measures. Public funds should be viewed as a financial instrument and should catalyse private investment, this would unlock the needed investment.

If even 5% of the €100 million Bulgarian renovation fund was set aside for technical assistance, training, monitoring and innovation, renovation would now be taken up much more widely. With more investment in training in energy management technologies and techniques, in 20 years time Bulgaria would have the same living standards as others in Europe.
BREAKOUT SESSION 2A: IMPROVING THE ENERGY PERFORMANCE OF RESIDENTIAL BUILDINGS

Moderator: Ivan Iliev, Head of Unit in Directorate Residential policy, Ministry of Regional Development and Public Works, Bulgaria

Residential Energy Efficiency Credit Line (REECL) – financing energy efficiency in Bulgarian homes

Galena Koleva, Principal Banker, Financial Institutions, EBRD

Boris Petkov, Project Consultant, Residential Energy Efficiency Credit Line

Sustainable energy investment and projects on environmental conservation have been a priority of EBRD since its establishment. EBRD has a team dedicated to energy efficiency and a well-established Green Economy Transition umbrella programme. This programme works on policy dialogue, technical assistance and projects and investments and in this way covers the whole project lifecycle. EBRD financed programmes have results in 85 million tonnes of CO₂ savings per year (twice Sweden’s annual emissions).

There is a recognition that higher grant volumes are needed to overcome market barriers to energy efficiency investment, including insufficient awareness of end users, insufficient knowledge of energy saving technologies and products, the lack of capacity in financial institutions. But it is also recognized that over time, across the region, that reliance on grants has been decreasing. EBRD believe that grants should focus on specific measures or specific sectors of society or business.

The Residential Energy Efficiency Credit Line (REECL) model has been running from 2005 to the present day, and was the first such mechanism set up by an international bank on energy efficiency. Under this programme, EBRD grants credit lines to partner banks (6 in this case) and they grant to end users. These are residential sector stakeholders, owners associations and service providers (condominium managers and Energy Service Companies). A project team is in place to provide technical assistance to end users, supported by another project fund.

Initially, the programme offered household credit to individuals, but given weak markets for these products at the time, there was a need for banks to adapt their lending for energy efficiency. In the second and third stages of the programme, credit could be issued to associations of condominium owners. This has helped to foster a culture of perceiving associations of condominium owners as legal entities. EBRD are working with several companies on PV and heat pump installation as well as building retrofitting. In recent years, more buildings have had ventilation systems installed too. REECL is working with utility companies and a large number of condominium projects have been set up jointly with partner organisations. In total, to date 55,000 end users have saved an estimated 11,000 tonnes of oil equivalent of energy savings per year.
Renovating multifamily buildings through energy performance contracting in Latvia

Nicholas Stancioff, Chairman of the Board, Latvian Baltic Energy Efficiency Facility

The Latvian Baltic Energy Efficiency Facility (LABEEF) is a financial facility aimed at soviet era panel buildings, of which there are around 1 billion m$^2$ in Poland, and 95 million m$^2$ in Bulgaria.

LABEEF and its associated energy service company ecosystem are supported by two Horizon 2020 projects (Sunshine and Accelerate Sunshine) and are an EBRD client. Work on around 30-80 buildings is underway and is combining an understanding of financing, technology, project standardisation and an understanding of people – the project has recognised the need to align all stakeholders towards the need of the final beneficiaries.

Work on standardization has been concerned with the regulatory and legal frameworks and standard guarantees towards final beneficiaries – they care about safety, health, affordability and comfort and not necessarily about energy efficiency. Guarantees have to be enforceable and access to dispute resolution should be formalised to increase confidence in the renovation process too. There is a need for a standard taxonomy of works. Risk and reward also needs to be standardized. Eastern European utility default rates are typically less than 3% before debt recovery - If the repayment risk is low, then the cost of capital should also be lower. With sufficient scale, the programme becomes bigger than just project finance and this helps to lower costs too.

Under LABEEF programmes, execution of works is split from ongoing repayment. Initial lending is to energy service companies, to meet enforceable targets. Local commercial banks are then being brought in to take on ongoing repayments and the associated risk.

In Latvia, it took one and a half years to contract with the first building, one year for the next, and three buildings undertook renovations in the subsequent year – momentum is building.

There are clear benefits to the approach being taken – there is a focus on quality, execution and payment risk are separated, there is separate short-term and long-term funding, the approach enable scaling, aggregation and de-risking.

Green Homes and Mortgages: quality, health and financial returns for all

Theodor Harasim, Project Specialist, Green Homes Lead, Romania Green Building Council

There is a best time to invest in a building correctly, at the beginning of a project and a need to turn long-term benefits into immediate benefits for householders. Thinking should move beyond just consideration of mortgage repayment rates and account the mortgage plus energy costs, plus health impact costs, plus repair costs. Mortgage default is also linked to poor health

There are 32% lower mortgage defaults and 8% high asset values through green mortgages. The Romania Green Building Council is working to make sure that energy performance
certificates are as accurate as possible and that green criteria are met for homes. Some partner banks have already developed products. Raiffeisen bank is offering a green mortgage product with beneficial rates for both fixed and variable rate mortgages.

So far, 22 projects, comprising 7,553 homes in total are underway through the Romania green mortgage programme. A green homes solution provider label has been developed and this includes access to a list of pre-approved technical solutions automatically certified for builders.
BREAKOUT 2B. ENERGY RENOVATION OF PUBLIC BUILDINGS AND THE ROLE OF ESCOS

Moderator: Hristo Valev, Organizational Secretary, Alliance for Energy Efficiency in Bulgaria

Practitioner's guide related to the Eurostat guidance on the accounting of energy performance contracts on public assets

Robert Pernetta, Financial Instrument Advisor at European Investment Bank

The potential offered by energy efficient solutions, such as Energy Performance Contracts (EPCs), has been pointed out on several occasions and growing awareness about this has been demonstrated by the new rules for the accounting treatment of EPCs indicated by Eurostat in its latest guidance note of September 2017. In the new note, Eurostat has changed its approach towards the accounting of EPCs in the public sector by considerably widening the number of cases where an off-balance sheet treatment can apply to such contracts. In this way, one of the main barriers to their further development can be overcome.

The full potential of the EPC market is not exploited due to several factors: Lack of information and awareness; lack of trust and track record; project development capacity of project promoters; procurement processes; statistical treatment of EPCs, access to finance for EPC providers; competition with investment grants (especially ESIF).

In order to facilitate the implementation of the new rules at national level, and improve the impact of public investment, publication of the practitioners’ guide has been developed jointly by EIB and Eurostat. A previous ruling on statistical treatment of EPCs was considered to have a negative impact on the EPC market in the public sector.

The overview of the market is that grants are still too present and are competing against market-based solutions such EPCs. This hampers the development of a sound EPC market, which would offer a lot investment opportunities and job creation. It is based on these findings, and under the pressure of the member states that Eurostat decided to review and adapt the statistical treatment rules.

The Eurostat Guidance note from 2017 opened the way for ‘off-balance sheet’ EPC. It is focused on the concept of ‘economic ownership’, which looks at who takes the majority of risks and awards.

The September 2017 Eurostat note was intended for statisticians and accountants, and hence the 2018 Practitioner’s Guide, which translates general rules into concrete provisions. The Guide covers typical contract provisions and structures and as official Eurostat guidance, is the reference point for Eurostat advice and decisions on EPCs. The guide covers 16 themes in all and considers Energy Performance Contracting financed by private EPC providers, with a minimum contract length of 8 years. It looks at energy efficiency related assets, including renewable energy.

It should be noted that Eurostat rules relate to statistical treatment in government accounts and not with accounting rules/practices and budgeting.
EIB also support EPC implementation and have active programmes, such as Private Finance for Energy Efficiency (PF4EE), which is active for example in Croatia. EIB also supports the implementation of EPC projects through national and EU wide awareness raising events; advisory and technical assistance services for project preparation, and the design of dedicated financial instruments and investment platforms.

The Bulgarian ESCO market perspective

Kiril Raychev, Chairman, Alliance for Energy Efficiency in Bulgaria

Since 2006, 95% of EPC contracts in Bulgaria have been concluded by the Alliance for Energy Efficiency. From this experience, two kinds of obstacles have been observed: minor and major.

These obstacles concern the project structuring (by the contracting authorities), which often lack resources to run feasibility studies and multi-solution analyses and are therefore struggling to develop viable proposals. Tendering procedures may also be considered an obstacle due to strict definitions of requirements, complex sets of regulations and laws and complex methods for estimation. For example, by law, ESCOs are forbidden to conduct feasibility studies, and should focus only on energy savings. Contracts are also still not standardized, which increases operational costs and can hamper smooth cost/benefit estimation.

To make the most of the increasing energy efficiency market in Bulgaria expected by 2030 and to take it to its full potential, public grants alone will not be sufficient. Private investment needs to be unlocked. Public money should be used only for its multiplicative effects. A special ESCo facility is needed, as well a higher number of well-structured and viable projects, greater aggregation, and a super-ESCO to tackle the larger market and project sizes.

Regional one-stop-shop centre for the renovation of public buildings – experiences from the CITYnvest project and replication in Rhodope region (Bulgaria)

Erika Honnay, Project Director, GRE Liege

GRE-Liege are concerned with job creation and are not a specialist energy agency, but had been thinking about project bundling and looking at energy saving potential in buildings. A one stop shop was created and eleven public organisations/buildings entered into a joint project along with one hospital. It was decided to apply for EU technical assistance funding to bundle municipalities together. The project worked using €2 million of European Energy Efficiency Fund Technical Assistance, with an expected multiplier to final investment of a factor of 29. Larger local authorities typically have a team who can deal with these issues, but smaller ones do not.

In the end, Energy Performance Contracts for around €60 million were established, with €36 million of capital expenditure. The programme worked on job creation within the region and had a focus on training delivered within the project. Local authorities who want to join have to accept to join the tendering agency, to work under Energy Performance Contracts and to group the buildings into pools.

The project, RenoWatt, decided to finance the energy performance contracts through debt, on the balance sheet of the municipality. At the time, Eurostat guidance led this way and it is
usually cheaper to finance something that way. Contracting is best considered by the municipality or energy agency, a trusted mutual body is needed, rather than relying on perceived vested interests from within the ESCo sector. RenoWatt is neutral and public, they sit in between the ESCo and the public sector. Communication is important, to overcome any potential lack of trust from local authorities.

Ivanka Pandelieva-Dimova, Project Manager at the Sofia Energy Centre, Bulgaria

Rhodoshop had its source in the CITYnvest project. This Horizon 2020 project aimed at promoting innovative financing to boost investment in energy efficiency projects and provided tailor-made solutions for the three participating pilot regions – the Belgian Province of Liege, the Bulgarian Rhodope Region and the Spanish Region of Murcia.

In the frame of the CITYnvest project, many activities took place in Rhodope, including investigation of the current status of energy efficiency projects, elaboration of an action plan based on RenoWatt model replication and consultation with local authorities on applying the RenoWatt model. These discussions and decisions were designed to seek views from municipal councils on the creation of a Rhodope one-stop-shop for energy efficiency projects, adapting the RenoWatt model to local conditions.

The Rhodoshop is a joint undertaking of six pioneering municipalities in collaboration with other key actors such as the Association of Rhodope Municipalities (ARM) – the Rhodoshop host organization, Sofia Energy Centre (who provide management and coordination support to Rhodoshop) and GRE-Liege (subcontractor for capacity building of Rhodoshop staff and ongoing support during Rhodoshop operation phase).

The Rhodoshop received funding from Horizon 2020 Energy Efficiency Call for "Project Development Assistance (PDA)" in 2016. Its main sectors of activity are public buildings and street lighting. 3 full time employees and 1 part time were hired; all were extensively trained in legal, economic and technical aspects of projects.

The one-stop-shop helps Rhodope municipalities in securing funding while taking into account organizational, administrative, legal and financial aspects. It also assists the local authorities in the region in building technical, economic, legal and administrative expertise for a wider implementation of energy efficiency in small sized rural municipalities. It also bridges the gap between project owners and financiers, by providing bankable investment projects ready to be financed and overcomes barriers of small project size through bundling.
BREAKOUT 2C. ORGANISING POLICY DIALOGUE ON ENERGY EFFICIENCY FINANCE

Moderator: Dimitar Doukov, Executive Director at Bulgarian Energy Efficiency and Renewable Energy Fund

Experience of the Energy Efficiency Financial Institutions Group (EEFIG)

Rod Janssen, Chairman of Energy Efficiency in Industrial Processes and member of EEFIG

The Energy Efficiency Financial Institutions Group (EEFIG) was established in 2013 by the European Commission Directorate-General for Energy (DG Energy) and United Nations Environment Programmes Finance Initiative (UNEP FI). It created an open dialogue and work platform for public and private financial institutions, industry representatives and sector experts to identify the barriers to the long-term financing for energy efficiency and to propose policy and market solutions to them. It has engaged 120 active participants from 100 organisations.

In February 2015, EEFIG presented its report "Energy Efficiency – the first fuel for the EU Economy: How to drive new finance for energy efficiency investments" which provided a significant advance in the understanding and knowledge about the issues of energy efficiency financing. Its recommendations for both the buildings and industry sectors are still being addressed by EEFIG, the European Commission, the G20 and many others. The report made a number of recommendations on areas including underwriting for debt and equity investments, risk assessment and related capital requirements for long-term energy efficiency investments, addressing barriers to expanding the green mortgage market and examining the use of factoring funds for Energy Performance Contracts.

EEFIG's second phase was largely based on two main deliverables. Firstly in November 2016, EEFIG's De-risking Energy Efficiency Platform (DEEP) was launched with over 7,800 projects in an open-source, pan-EU database to improve the sharing and transparent analysis of existing energy efficiency projects in Buildings and Industry. Secondly, in June 2017, the EEIFG Underwriting Toolkit was launched. The toolkit is aimed specifically at financial institutions that are looking at ways to design better financial products for energy efficiency investment projects.

It is essential to reach out to the financial community to be active in addressing our low-carbon energy transition. This is particularly important for energy efficiency, where financial institutions have traditionally had less exposure and capacity to analyse the creditworthiness of energy efficiency measures. The energy efficiency challenge also requires significant investment. Thus, it is essential that the financial community be fully committed and fully ready. EEFIG is only one, but an important, way of getting the financial institutions fully involved.

A follow up initiative "EEFIG 3.0" will be rolled out later in 2018. There is a need for sectoral stakeholders to continue discussing issues with the financial community, the Commission and UNEP-FI. There cannot be a reliance on legislation alone. It is fundamental that non-legislative initiatives such as EEFIG bring stakeholders together.
Linking policy makers and investors through National Financing Platforms - the Austrian Experience (SEFIPA)

Clemens Plöchl, Managing Partner at Energy Changes

SEFIPA, the Sustainable Energy Financing Platform in Austria, intends to deliver a number of work packages designed to overcome challenges to the financing of energy efficiency. This includes a series of Finance Labs, which are facilitated dialogue forums, including engagement of institutional investors, addressing investment in solar PV in multi-family apartment buildings and increasing the attractiveness of energy performance contracting. The work has shown the need for detailed face to face meetings and the need to keep material relevant to national circumstances and evolving policy frameworks.

Long-term strategy for municipalities to mobilize investment in the energy efficient renovation of the building stock

Dragomir Tzanev, Executive Director at EnEffect, Center for Energy Efficiency

EnEffect's principal objectives are to contribute to the development of energy efficiency policy at all management levels in Bulgaria to achieve economic and environmental benefits for the country. EnEffect is assisting in the process of institutional development and capacity building in Bulgaria as a prerequisite for the initiation, development and implementation of energy efficiency projects and programs and assisting with technology transfer and exchange of experience and information.

EnEffect has developed and/or assisted in the development of more than 60 municipal energy programmes, using a variety of innovative financial schemes and mechanisms. A series of energy audits have been developed using specialized modeling software and technical measurement equipment and outcomes have been linked to financing. Capacity building through training in project identification, development, business planning and local energy planning has been undertaken.

This experience was all brought together in the renovation of public buildings in Gorna Malina municipality, where a variety of financing sources were combined and different comfort/energy saving scenarios modelled in order to deliver a significant energy saving programme with wide user acceptance. A number of success factors were identified, including the need to build trust, to consider non-standard forms of financing and to carefully consider step by step implementation planning.
BREAKOUT 3A. MAKING ENERGY EFFICIENCY INVESTIBLE

Moderator: Marko Markov, Senior Energy Efficiency and Renewable Energy Finance expert, ECONOLER

The Energy Efficiency Financial Institutions Group (EEFIG): the Underwriting Toolkit and the De-Risking Energy Efficiency Platform (DEEP)

Ivo Georgiev, Project Manager, Green Finance Energy and Sustainability, COWI

The Energy Efficiency Financial Institutions Group (EEFIG) provides a work platform for around 120 participants from more than 100 institutions, mostly finance sector and energy sector representatives.

In its first phase, a major study on market barriers to making energy efficiency investible was undertaken. Key factors identified included the lack of available evidence and the lack of common project assessment procedures and standards.

These two barriers were subsequently addressed by the creation of two tools, the De-risking Energy Efficiency Platform and the energy efficiency underwriting toolkit. DEEP is Europe’s largest energy efficiency performance benchmarking database and the ambition is to reach over 20,000 projects’ data in the next 4 years. It uses implemented energy efficiency measure data. The Bulgarian energy efficiency and renewable energy sources fund is a contributor of data to the database. At overall aggregated level DEEP shows that energy efficiency projects implemented in buildings have a median payback of 5 years, and a median savings cost of 2.5 euro cent per kwh. For project in the industry sector, the median payback is 2 years and median savings cost is 1.2 euro cent per kwh.

The Underwriting toolkit aims to allow investors to better assess risk and value of energy efficiency investments. One section of the website is intended to be a living document containing good practice examples.

Structuring Investor Ready Energy Efficiency Projects (Investor Confidence Project)

Peter Seizov, Senior Consultant, Denkstatt

Energy Efficiency projects do not yet meet the requirements of capital markets – no two contracts or projects are alike and no two risk assessments are the same. This lack of standardisation on the technical side makes it hard for financial institutions to develop professional capacity.

In order to address this lack of standardisation, the Investor Confidence Project (ICP) was set up. It is designed to mitigate risk for building owners and cut due diligence costs. The project offers free tools and resources, including the Investor confidence protocols, which describe the project drafting process. ICP offers certification for energy efficiency projects through Investor Ready Energy Efficiency (IREE) certification, which covers the whole project lifecycle and is delivered prior to an investment decision.
To date, 30+ projects have been supported across Europe and the idea is to make the approach applicable in all countries. ICP also has an investor network, now with 18 financial institution members. More than 30 project developer organisations have also been certified.

Buildings, industry, streetlighting and district energy projects can all use ICP. The protocols developed describe standards, types of data to be collected, investor qualifications, industry best practice and other relevant factors.

There are benefits to all market players from the use of ICP and IREE. For investors, they reduce due diligence costs and speed up underwriting, for project developers, they increase the rate of project proposal approval and can be a market differentiator.

**The Bulgarian Energy Efficiency Fund and the role of energy service companies (ESCOs)**

**Asen Charliyski, Deputy Executive Director at Bulgarian Energy Efficiency and Renewable Energy Fund**

The Bulgarian Energy Efficiency and Renewable Energy Fund (BEERSF) was set up as part of the Bulgarian Energy Efficiency Act. Its prime purpose is to fund energy efficiency projects and it remains the only agency in Bulgaria dedicated to funding energy efficiency projects. Initial capitalization came from multiple donors including the World Bank.

The fund finances thermal upgrades, streetlighting upgrades, Combined Heat and Power and renewables (for own use, not commercial purposes and is active in public buildings, hospitals, schools and other industrial processes.

The lending process starts with an energy audit, which can take up to a month to be completed. This is followed by a process of project approval that can take 6-9 months and possibly longer for municipalities where public procurement processes need to be undertaken.

The fund operates through loans not grants and can purchase receivables (taking future payments from projects as collateral), used to finance ESCo and EPC models. The Fund can also provide co-financing alongside other lenders. Loans must be between €30k and €3 million, over up to 7 year terms. Interest rates typically start at 4%, but can go lower. The interest rate is fixed throughout the loan term, which allows project developers to better budget. A standard fee of 0.8% is also charged.

This approach may be preferable to standard bank financing – The Fund can provide technical expertise and a flexible procedure, the loans are at a fixed rate with no hidden fees or commission and a management board meet every month and are quick at making decisions.

52% of clients are municipalities while 36% are corporate (including ESCOs), 12% are hospitals and universities.
BREAKOUT 3B. ENERGY EFFICIENCY IN THE INDUSTRY AND SME SECTORS

Moderator: Irena Mladenova, Managing director, Resalta Bulgaria

The Sustainable Energy Asset Evaluation and Optimisation Framework (SEAF)

Benedetta Friso Bellemo, Director of Sales at Joule Assets Europe

SEAF was until February 2018 an Horizon 2020 supported project. The idea behind the project was to build an IT tool to help overcome barriers to energy efficiency finance and to go down the route of becoming commercially viable. Joule Assets recognized that there is a big disconnect between projects that are seeking funding and the funds that are in place. Also that a lot of that has to do with packaging. Banks are used to investment in infrastructure. This led to the overarching question – “What if all viable projects could really access money?”.

Tools produced as part of SEAF help overcome some of the investment barriers, by creating an investment grade pro forma and generating information on Internal Rates of Return and giving advice on the types of finance that may be most appropriate. Members of the SEAF team also engage with SMEs to review their contracts. The team work with the Investor Confidence Project and can use their standards, which can results in discounts on project performance guarantee insurance. SEAF currently has €33 million in projects that are looking for finance and are trying to help the supply and demand sides meet.

Typically, ESCo project sizes are below usually investable ceilings. SEAF is looking to create umbrella contracts and Special Purpose Vehicle (SPV) contracts to allow aggregation. They have six funds that are looking to create SPVs and these will each bundle a similar set or group of projects.

Investments in energy-efficiency and reduction of CO₂ footprint in Solvay Sodi

Teodora Borissova, Government and Public Affairs Manager in Solvay Bulgaria, Representative of the Bulgarian Federation of Industrial Energy Consumers

The Bulgarian federation of the industrial energy consumers (BFIEC) is a non-profit organization, founded in 2006. It represents the interest of its members, mostly large industrial consumers of electricity and natural gas in Bulgaria. BFIEC has 32 members from industries that consume over 70% of industrial electricity consumption and over 92% of industrial natural gas consumption in Bulgaria.

Energy efficiency is considered as a source of energy in itself. The big challenge is reducing greenhouse gas emissions, by promoting the deployment of renewable energy and achieving significant results in energy savings, while preserving the industrial competitiveness of industry. According to the European Commission, in 2012, industry accounted for a quarter of EU’s final energy consumption.

Solvay Sodi is the largest site in Europe for the production of synthetic soda ash. In 2017, new boilers were installed on the site (a circulating fluidized bed boiler), this was followed by vacuum distillation equipment. The various technologies are expected to significantly reduce air pollutant emissions and to cut greenhouse gas emissions by 15%.
BREAKOUT 3C. SECURE AND AFFORDABLE ENERGY SERVICES FOR CENTRAL AND SOUTH-EASTERN EUROPE

Moderator: Anette Jahn, Head of Sector, European Commission, EASME

Local leaders with vision: creating plans for low-carbon transition in South-East Europe communities

Andreas Karner, Senior Consultant and the Team Leader of the Energy and Environment Team at ConPlusUltra

Hector C. Pagan, Head of Project Writing Team at University of Tartu

The PANEL 2050 Horizon 2020 funded project has developed an energy roadmapping process, that seeks to capture the multiple benefits of energy efficiency and integrate local, regional and national considerations. The energy roadmapping process seeks to develop action plans containing concrete improvement measures and incorporates baseline assessment, stakeholder mapping and engagement. The coal region of Borsod-Abauj-Zemplen and Heves in Hungary was assisted by PANEL 2050 to build new partnerships for energy transition. Typical roadmaps include multiple action plans with actions targeting different sectors, including buildings, transport, citizen engagement, energy production and public procurement.

A cooperation platform, the Central Eastern European Sustainable Energy Network (CEESEN) was developed, to allow stakeholders across the region to connect, present project ideas and find cooperation opportunities with 420+ members. CEESEN is identifying forerunners and provides them with the required capacity to plan, finance and implement sustainable energy actions. The stakeholder mapping and partnership led approach has led to numerous success stories, including work in Latvia and Estonia.

EuroPACE: Integrated building improvement platform for Europe

Karolina Zubel, Climate & Energy Economist, Centre for Social and Economic Research (CASE)

EuroPACE is a financing platform, inspired by the Property Assessed Clean Energy financing model from the USA, pioneered in California. Cities can use their power of taxation to collect PACE payments, with property taxes and other local charges, often called on-tax financing. The EuroPACE approach offers a number of benefits, in that it is recorded as separate charge on a regular property tax bill and is collected in the same manner as property taxes and charges, the EuroPACE payments are segregated from municipal budgets thus, EuroPACE financing is not a liability for the local authorities and importantly, financing stays with the property, not the property owner. EuroPACE is delivering a one stop shop that brings together financing, contractors and technical assistance and provides support throughout the renovation project lifecycle.

Market reviews will be undertaken across all EU Member States to determine the readiness, viability and attractiveness of EuroPACE financing. The market assessment methodology looks at three main criteria; Legal framework suitability, municipalities’ capacities and legal guarantee
Financing energy efficiency in Central and South-Eastern Europe

mechanisms. Readiness assessments have been undertaken in Central and South-Eastern Europe and show the highest level of suitability in Hungary.

Alongside these assessments, there will be pilot deployment of EuroPACE in Spain followed by activities to scaling across Europe, with the aim of facilitating and supporting 4 Leader Cities willing to set up EuroPACE programs.

Affordable energy services – hands-on experience in identifying and addressing energy poverty

Slavica Robić, Executive Director at DOOR, Croatia
The Reduce Energy Use and Change Habits (REACH) project is the recipient of Horizon 2020 funding, and is coordinated by DOOR, an NGO established in Croatia in 2003 to assist with sustainable energy projects. REACH has the ambition to empower energy poor households to take actions to save energy and change their habits and to establish energy poverty as an issue that demands tailor made structural solutions at local, national and EU level.

There are specific circumstances that help to explain the prevalence of fuel poverty in central and Eastern Europe. These include the nature of the building stock, cultural and social practices and norms and the distinct path of energy sector restructuring being undertaken across the region, with issues such as price regulation.

The project has provided an overview of energy poverty for 5 local situations and 4 countries, extensive training of local advisers and home visits for individual households. During the lifetime of installed devices, the visited households (over 1,500) will save an average of 1.9 MWh of electric energy, 5.9 MWh of heat energy, 113 m$^3$ of water, and over 2.4 tonnnes of CO$_2$ emissions.

In order to overcome energy poverty, the project recommendations include the establishment of one stop shops to provide appropriate advice and support, no or low interest loans for deep renovation, energy literacy campaigns for vulnerable groups and support for filling out finance applications etc, and replacement schemes for old household appliances (“old for new”).
CLOSING PLENARY SESSION

Moderator: Andrew Deacon, Policy Coordinator, Climate Alliance

Short reports from parallel sessions by Moderators

Session 2A - Improving the energy performance of residential buildings
During this session, a lot of attention was paid to non-financial benefits of energy efficiency improvements (comfort, social implications, health). The different approaches discussed were all a valuable input to improve the energy efficiency measures and expand more holistic programmes for Bulgaria.

Session 2B - Energy renovation of public buildings and the role of ESCOs
The participants in this session felt strongly that financing energy efficiency is possible, with market-based schemes and with fewer grants. Grant free options are possible and could ease the public sector finance burden. The market overview presented showed a declining ESCo market over the past ten years.

It was expected that the new EIB and Eurostat guidance document would have an important impact in the development of the Energy Performance Contracting market.

If 1Mwh coming from grants requires twice that in investment from the ESCO market, then investing in ESCOs is important to be able to fill this financing gap.

Session 2C. Organising policy dialogue on energy efficiency finance
Political dialogue is very important, since it can help to overcome bottlenecks.

EEFIG has developed effective tools to attract private financing and to improve de-risking and these should be widely adopted.

The SEFIPA project has also held extensive dialogue in Austria and has used this to overcome bottlenecks to the deployment of solar panels, including addressing the mismatch of interest between landlords and the tenants.

The work of EnEffect had shown that a protocol should be developed for smaller municipalities to assist them in reducing expenditure on energy in public buildings. A dialogue should be launched with the financial institutions to develop a new framework adapted to these situations.

Session 3A - Making energy efficiency investible

We need to use a common language in communication between project developers and financiers.

In order to lower administration costs, standardization is key. This would also give confidence to the banking sector. The Investor Confidence Project is a groundbreaking project in this context. Individual and specialised funds (as distinct from banks) can be a great new actor. Even though the banks may have a greater understanding of energy efficiency issues, these funds can be leaders.

Session 3B - Energy efficiency in the industry and SME sectors
It should be borne in mind that energy efficiency should not be only be about environmental improvements. It also improves comfort, health, and can contribute to employment etc. These additional benefits have to be taken into consideration.

There should be greater support for energy efficiency projects and their standardization (and labelling). While access to funding may not be the main issue in this sector, it is far more important to build trust, and decrease the perceived risk. Organisations such as Joule Assets
are working actively on these points – standard contracts and tender documentation etc. Energy efficiency in SMEs and related projects requires more assistance and pooling projects is a must.

**Session 3C - Secure and affordable energy services for Central and SouthEastern Europe**

The session considered long term planning, robustness and target setting across the region. It considered several new ways of looking at home renovation.

The energy transition is local, and regional cooperation across borders makes a lot of sense. The energy transition needs marketing, which should go along with advocacy and awareness raising to create demand at the local level.

On-tax financing could be a game-changer. It could be linked to one-stop-shop solutions. The result of the regional readiness study are very positive.

Energy poverty should be recognised on the political agenda. A lot is being done through the Clean Energy for all Europeans policy package, but more is needed. Taking action in this field will help to raise living standards.

**Reaction from the panel**

**Iliyana Tsanova, Deputy Managing Director at European Investment Bank**

On the balance between grants and financial instruments, several issues need to be recognised. The use of public funding through grants is appropriate in certain circumstances in particular to address energy poverty and to make complex projects more affordable.

There is a lack of capacity, or the right agency, to prepare integrated (grants and loans) strategies than can attract private funds. We need also to recognise that grants are not enough to fill the investment gap and that financial instruments need to be developed accordingly. They are the most suitable source of funding. Energy Efficiency investments are a very good area for financial instruments because you can easily identify the financial benefits. We need to find the right combination of funding sources. The energy efficiency market in the region is still very fragmented. Standardization is hard to achieve, because each market is different and tailor-made solutions are needed for each Member State. Investment platforms are key, because they can combine different type of projects and different sources of financing. One size will never fit all. A lot of de-risking can be done by banks, but first we need to create a proper market.

**Janez Kopac, Director at Energy Community**

Legal and policy frameworks are an important element for de-risking, including through European Directives. Legal instruments are key in raising the interest of the banking sector and in framing the market. Many areas are still ignored though. Energy Efficiency is not an element of property tax in many countries. Decision-making in multi-family apartment buildings is also a barrier in many cases. Overcoming these barriers is not easy.

Energy efficiency should become business as usual, but politicians do not allow this to happen – for example, energy pricing policy can be used to stimulate energy efficiency investment, but this is often politically unpalatable.
Oleg Dzioubinski, Economic Affairs Officer, UNECE

UNEC undertook research with the Copenhagen Centre on Energy Efficiency to map the roles of stakeholders such as governments, financial institutions, businesses and project developers in promoting and implementing energy efficiency investments and to look at how barriers to investment could be overcome. The work found that low awareness about the multiple benefits of energy efficiency projects is viewed as the main barrier to increasing investment and financing flows to energy efficiency projects.

Martin Danovski, Chairman of Management Board, Fund of Funds

The role of financial institutions at the local level is to address local needs with tailor-made solutions in order to better protect investments. The actors in the market are very well aware of the need to align policy, financial instruments and legislation. Policy is a major deficit at the moment, what is needed is more courage. For private sector investments, Public Private Partnerships will need more effort and support in order to reach their full potential.

Closing remarks

Tudor Constantinescu, Principal Adviser to the Director General for Energy, European Commission

All of the presentations and discussions from the event will help advance energy efficiency across the region. In order to meet the new targets being agreed through the Clean Energy for All Europeans package, it is now time to start working with all the tools we have at our disposal to make the future happen.

Veneta Tzvetkova, Director, Energy Projects and International Co-operation Directorate, Ministry of Energy, Bulgaria

Bulgaria was the EU Member State with the highest energy intensity, but that situation has improved. It can improve still further. The Ministry are considering working with the European Commission to organise a national roundatable to build on the outcomes of this event.