



## Potential unfulfilled: EU funds need to deliver more clean and efficient energy in central and eastern Europe

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**The EU structural and cohesion funds have the potential to catalyse the transition to a low carbon economy in Central and Eastern Europe (CEE). Yet, as this latest analysis from CEE Bankwatch Network and Friends of the Earth Europe reveals, this prospect still remains remote for now. Approaching the midpoint of the 2007-2013 programming period, the pace of absorption of EU funds for renewable energy (RE) and energy efficiency (EE) projects is slow even if the demand for financing is steadily on the rise.**

A green economy is not just an option but the only reasonable and long-term viable option for the CEE region as a way out of the economic

crisis. Investments in EE and RE are crucial for CEE countries as they can deliver multiple benefits – not only decreases in their emissions of greenhouse gases but also the reduction of energy poverty, the creation of green jobs and the strengthening of local economies and innovation.

However, a combination of the limited capacity of managing authorities, a lack of co-financing and upfront investment and the complicated application process and criteria are resulting in a dramatic implementation deficit: the already meagre €4.2bn that has been allocated for clean and efficient energy measures in the EU10 countries is getting through at a snail's pace.

## The funding gap is undermining policy commitments

The world's scientific community is ringing the alarm bells ever louder and pointing to an increasing gap between what is needed to prevent a major climate breakdown and the slow pace of what is being done in reality. Recent years have seen an unprecedented rise in EU climate and energy policies. The '20/20/20' deal from 2008 was the first step in shaping a policy framework for the implementation of EU commitments to fight climate change. Designing a policy without ensuring the necessary finances for its implementation, however, is akin to setting out naked for a polar expedition.

## European regions besieged by multiple crises

The recent, ongoing economic crisis has been taking its toll. Jobs have been lost and national economies have been put under severe strain. The traditional economic paradigms that have underpinned EU funds spending in the region have been questioned. Meanwhile, climate impacts across Europe are likely to be distributed asymmetrically and their cost will be mostly borne by regions that are already disadvantaged, thus further exacerbating the existing disparities<sup>1</sup>.

A 'smart-green' move out of the crisis emerged in the ensuing crisis management rhetoric and some steps were taken to speed up the shift towards a low carbon economy. The General EU funds Regulation 1083/2006 was modified in May 2009 in order to allow all member states to allocate up to 4% of their European Regional Development Fund (ERDF) allocations for renewable and efficient energy in housing. Far more should be done, though, to match EU spending with real needs and policy targets.

## A win-win solution as a way ahead

Investments in sustainable energy and climate mitigation will not only contribute to emission reduction but also can reap numerous ancillary benefits ("double dividend") for social cohesion and economic development such as reducing energy bills for households and providing new employment and business opportunities. The

Commission has estimated that the benefits from energy savings can amount to €1000 per household annually<sup>2</sup>, thus improving living conditions and alleviating energy poverty.

Additional spill over effects include the creation of new jobs as well as the integration of jobless or low skilled persons into the workforce, hence strengthening social cohesion<sup>3</sup>. A modelling exercise supported by the EU found that, under current climate policies, there could be a net gain of 950,000 direct and indirect full-time equivalent jobs by 2010 and 1.4 million by 2020<sup>4</sup>. Moreover, these measures can foster local knowledge and spur innovation in renewable and energy saving technologies while providing competitive advantages for local and regional economies.

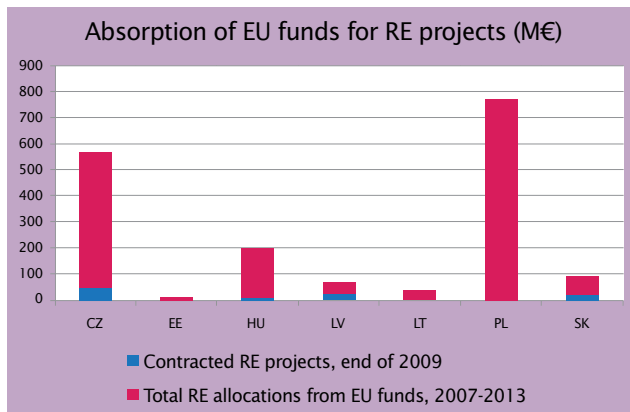
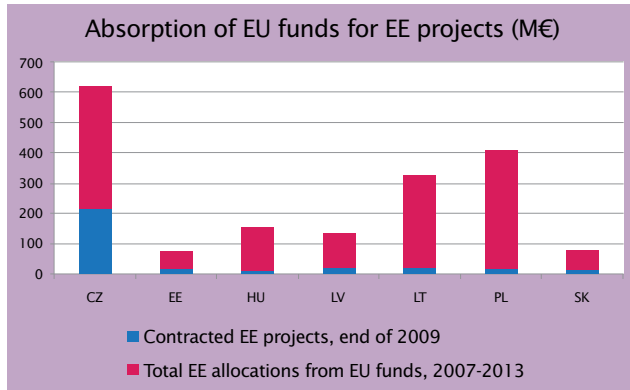
## The need for urgent, significant mitigation in CEE countries

Although the energy intensity of the new member states has been decreasing steadily in the last 15 years, it is still significantly higher than in the EU15 (for example, Bulgaria has energy intensity approximately five times higher than the overall EU average)<sup>5</sup>. The housing sector has a crucial role to play, as it generally shows poor energetic performance compared to western European countries and is responsible for 40% of all GHG emissions in the CEE countries. The potential for energy efficient refurbishment is immense: most of the region's old high-rise buildings stock requires renovation anyway.

Energy savings and renewable energy programmes need upfront capital to unlock private investments and render these measures commercially viable. Additional benefits will be reaped if these programmes are increasingly mainstreamed across other cohesion policy interventions via **explicit requirements in project application forms, project selection criteria and green public procurement**. The realisation of these potentials will require stronger political will both at national and EU levels but also targeted financial support to accommodate the needs. With shrinking public budgets and limited access to bank loans during the economic, crisis CEE countries must turn to the EU funds to unlock the potentials, leverage private capital and facilitate the transition towards a low carbon future.

## Yet EU funds absorption is slow

As we approach the midpoint of the 2007-2013 programming period, analysis of the implementation of EE/RE measures supported by EU funds in CEE countries shows that the absorption of funds has been very slow due to an overall inefficient implementation process.



- **Significant delays in the process**, such as the late opening of the calls, difficulties with procurement procedures, and the need to get a green light from the Commission on State aid, are the most frequently cited obstacles to the efficient use of EU money across all new member states. These delays are generally linked to the low capacity of the EU funds managing authorities but also, more specifically, to the fact that climate mitigation projects are not seen as a priority by many governments.

In the **Czech Republic's** "Integrated OP", under the measure "Improving conditions in vulnerable and residential areas", no project has been approved so far. Not a single RE project has been approved in **Estonia** so far. In **Bulgaria**, measures for EE/RE in SMEs under OP Competitiveness have not started yet because the Bulgarian authorities have still to resolve a question about

the administration of such projects with the Commission – first calls will be launched only in 2010. In **Lithuania**, for similar reasons, the "Multi-apartment House Modernization Program" is to start only in 2010. Disbursement of the money didn't start until October 1, 2009 in **Slovakia**, where delays were caused mainly by general delays in the implementation of OP Environment, and further delays can be expected due to difficulties in carrying out public procurement procedures.

- **The complexity of the application procedure** is another powerful disincentive, especially for individuals, associations or SMEs: applicants often lack experience of dealing with the application criteria, the required data, the technical and legal documents, and so on. Another obstacle is linked to the still relatively **limited knowledge of the issue of climate change mitigation** among potential applicants.

In **Slovakia**, the responsible authorities justify their administrative procedures by the need for transparency. However, it is difficult to assess which level of detail is necessary to ensure a transparent selection process. Such a complex procedure allows the managing authorities to shift the responsibility to the applicants, and thus to avoid unexpected problems that might occur at any stage of the project cycle. In **Latvia** and **Bulgaria**, the requirement for applicants for EE measures in multi-apartment residential buildings to cooperate and apply as associations was considered to be one of the main barriers.

In **Slovakia** and **Bulgaria**, the public sector often tends to invest in refurbishment without considering measures for improving the energy performance. Positive examples of projects are mostly submitted by municipalities, where the officer in charge is personally interested in the issue<sup>6</sup>.

In the **Czech Republic**, actions to address such barriers and to increase the absorption capacity were undertaken by providing assistance to EU funds administrators and applicants. The State Environmental Fund organises trainings for project administrators and launched a programme called "Energy Management for Municipalities", in partnership with private companies and energy consultancies. In **Latvia**, corrective actions

involved simplifying the project application forms, making administrative and reporting requirements simpler, providing consultations, avoiding the doubling of required information, and shortening the time in which the payment requests are being processed.

■ **Upfront investment needs and co-financing requirements** are too high for SMEs and particularly for households, even when the EU co-financing rate is high. In times of crisis, the financial burden becomes even more difficult to bear given that EU funds are disbursed ex-post (of particular relevance for larger RE projects).

**Slovenia** did not spend a penny on EE projects from the €79m allocated from the EU funds because it could not secure the necessary 15% national co-financing. In **Lithuania**, commercial banks consider it too risky to participate in the new housing renovation programme supported by the ERDF, although the government guarantees 80% of the amount.

Therefore, ensuring complementary funding sources to the EU funds is crucial. In **Poland**, the National Fund for Environmental Protection and Water Management offers subsidies for co-financing EU projects.

### **EE/RE allocations are failing to meet the needs**

In some countries, in spite of the slow start in EU funds absorption for EE/RE projects especially in public buildings, the interest of applicants in such measures is significantly exceeding the available funding.

In the **Czech Republic**, despite a late start, the OP Environment is now being rapidly implemented. It is expected that all the available allocations for energy savings in this OP will be exhausted by 2010. In **Slovakia**, according to the Ministry of Environment, the number of applications exceeds the available amount of financial means for the operational goal “Protection of environment and mitigation of climate changes”. For a call aimed at making public lighting more efficient, the number of project applications far outreached the expected amount (400 applications instead of the expected 200). EU funding for RES/EE in Slovakia is very

important as the state’s support for such measures is very low.

In **Poland**, the requested EU funding in the first round under the measure “Energy Efficient refurbishment of public buildings” exceeded the available allocation more than ten times. The low available allocation remains the biggest barrier to achieving the substantial climate proofing of Poland’s economy via the use of EU funds.

### **Demand for EU funding for energy savings is rising as a reaction to the crisis**

The countries most hit by the economic crisis in the CEE region first realised the possible win-win effects of energy saving measures for economic recovery and social benefits. They have placed EE/RE projects at the core of national stimulus packages, in which EU funds appear as a central fiscal instrument.

In **Latvia**, EU funding for improving heat insulation in multi-apartment residential buildings will triple to €63m and will not require additional public co-financing. The government has also increased the support for the development of cogeneration power plants utilising renewable energy sources by €10m, making the available funding for this measure approximately €35m. The **Lithuanian** government will shift €320m of EU funds for energy savings in public buildings, and establish an ambitious programme for the renovation of multi-apartment blocks which should benefit from €290m of EU funds. In **Bulgaria**, €91m from the OP Regional Development was reallocated to EE/RE measures in public schools, universities and social institutions owned by municipalities in urban areas.

It should be noted that while some countries have chosen “smart-green” stimulus measures, other countries have failed to seize this opportunity and may miss the train to a low carbon future. Seeking to ensure the necessary financing only for the next programming period after 2013 will be too late. For example, **Poland** does not foresee any increase in its EE/RE allocations in the medium-term although the demand is high. Other countries like **Slovakia** are waiting for firmer instructions from Brussels.



## More EU funding but only for deep emissions reductions

In order to speed up absorption of the funds, national authorities have been simplifying the administrative process for selecting and monitoring EU funded projects, in particular by loosening the application criteria for funding. This concerns such things as avoiding EE projects where the savings in GHG emissions are too low in relation to investment costs, or projects in RE with significant negative impacts on the environment.

Some lessons can be drawn from the Green Investment Schemes (GIS), a new mechanism under the Kyoto Protocol where countries, after selling emission permits to other countries, can then invest their profits into emissions reduction programmes until 2012. Under the GIS in the **Czech Republic**, in order to absorb the funding faster within the time limit, the government relaxed the criteria and now although applications are expected to start pouring in, the expected total emissions reductions will be lower than initially planned.

In **Latvia**, the GIS sets a better example for designing the project selection process so that projects which would achieve the highest GHG emissions reductions in the most cost efficient way score the highest in the ranking of projects. Another important feature is that there will also be ex-post monitoring of the actually achieved energy savings over the subsequent five years. In cases where the required minimum level of savings is not reached, the applicant will have to repay the money or invest own resources to achieve the necessary minimum level of energy savings.

## Recommendations

- Member states should ensure that absorption barriers are overcome in order **to accelerate the implementation of EU funds for EE/RE**. As the barriers vary from country to country, an individual approach must be applied in each case. However, solutions to the most common problems can be worked out with the active involvement of the European Commission.
- **Member states should increase their allocations of EU funds for EE/RE already within the current programming period.** Mid-

term evaluations and shifts in allocations should reflect the rapidly increasing priority given by the EU to climate change mitigation and adaptation, as well as the high interest of applicants in such projects. The European Commission should more actively encourage immediate shifts.

- Member states should ensure that **projects in the field of EE/RE are selected according to adequate quality criteria**. Further **mainstreaming of EE/RES measures in other cohesion projects** should be made imperative through modifying project selection criteria and green procurement. The European Commission and its representatives in monitoring committees should actively promote good practices and benchmarks.
- The European Commission should put forward a proposal for an **ambitious reform of the post 2013 cohesion policy**, revisiting the allocation criteria for EU funds in order to guarantee significant earmarking and mainstreaming of EE/RES measures. The European Parliament should play an active role to ensure that future EU public spending delivers real climate-proofed regional development.

## Footnotes

- 1 Fabrizio Barca, 2009. An Agenda for a reformed Cohesion Policy.
- 2 COM (2008) 772. Energy efficiency: delivering the 20% target.
- 3 European Trade Union Confederation (ETUC), Instituto Sindical de Trabajo, Ambiente y Salud (ISTAS), Social Development Agency (SDA), Syndex and Wuppertal Institute. 2005. "Climate Change and Employment- Impact on Employment in the European Union 25 of climate change and CO2 reduction measures by 2030.
- 4 European Commission, "Meeting the Targets & Putting Renewables to Work. Overview Report," MITRE—Monitoring & Modelling Initiative on the Targets for Renewable Energy
- 5 DG TREN statistics 2009
- 6 Interview, Energy Centre Bratislava ([www.ecb.sk](http://www.ecb.sk))



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