

# More effective use of the 2021–2027 Cohesion Funds for energy security of the Visegrad



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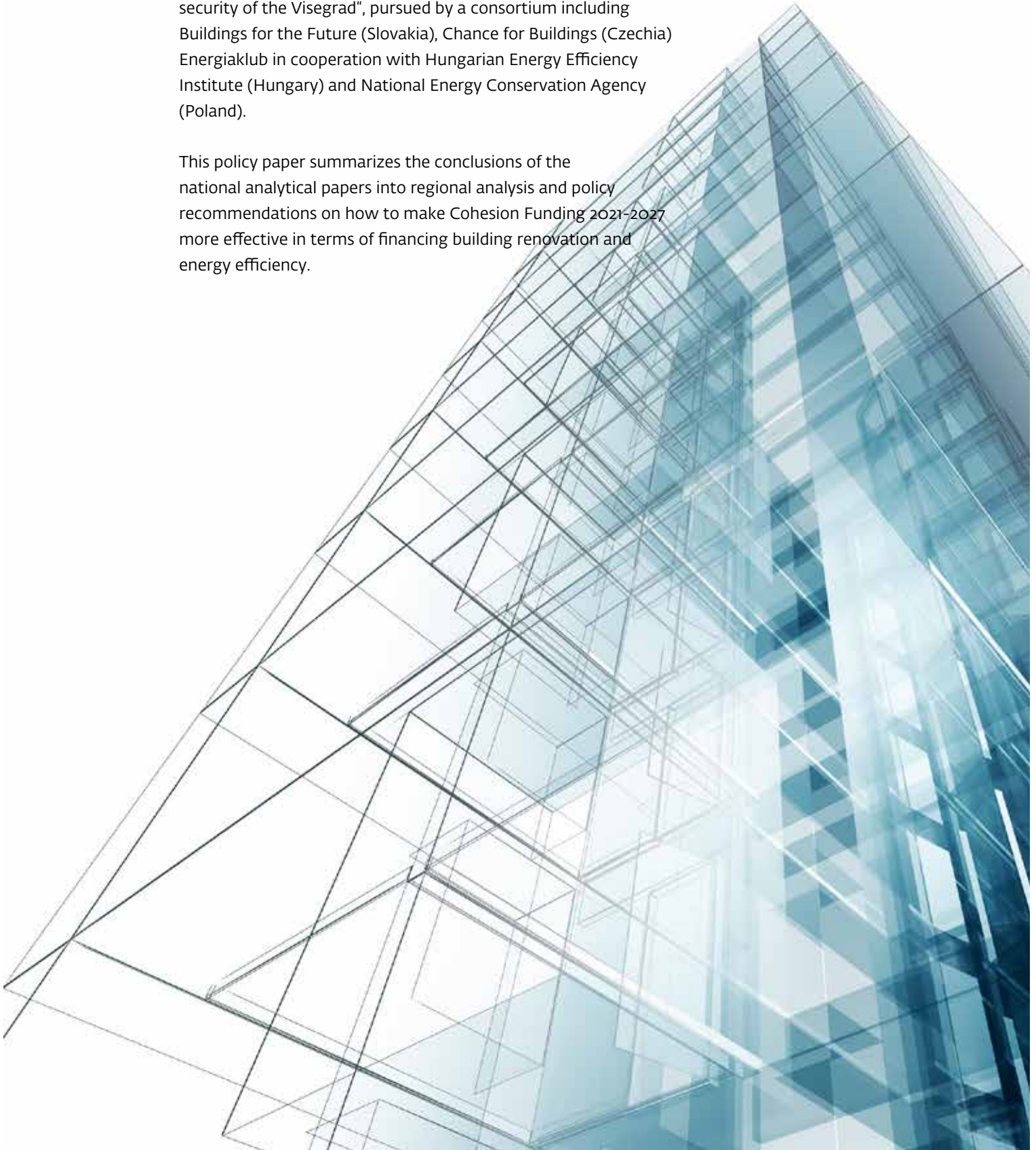
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# 1. Foreword

Compilation of this V4 Summary Analysis and Policy Recommendations has been made possible thanks to the generous support of the International Visegrad Fund in a project „More effective use of the 2021–2027 Cohesion Funds for energy security of the Visegrad“, pursued by a consortium including Buildings for the Future (Slovakia), Chance for Buildings (Czechia) Energiaklub in cooperation with Hungarian Energy Efficiency Institute (Hungary) and National Energy Conservation Agency (Poland).

This policy paper summarizes the conclusions of the national analytical papers into regional analysis and policy recommendations on how to make Cohesion Funding 2021-2027 more effective in terms of financing building renovation and energy efficiency.





## 2. Introduction

The Visegrad Four (V4) is a cultural and political alliance of four Central European states, the Czech Republic, Hungary, Poland and Slovakia for the purposes of advancing military, cultural, economic and energy cooperation. The population is more than 64 million inhabitants, which would rank 22nd largest in the world and 4th in Europe if V4 were a single country. [1]

The building stock, ownership of housing and climate conditions are very similar in V4 countries. Buildings in V4, built predominantly before 1990 in line with past regulations based on the climate conditions of 1950's, are naturally not fit for the changing climate. 75% percent of building stock is energy inefficient and almost 90% of current buildings will still stand in 2050. The energy efficiency of buildings before the renovation is very low—owing to their period of construction. Unfortunately, renovation of buildings, even with public support, is often performed at a level below potential. The 64 million people of the Visegrad 4 use more than 10 million residential (24 million housing units) and hundreds of thousands of non-residential buildings. 2/3 of Visegrad residential buildings have yet to be renovated more than 40 years since being built. According to the latest data the four Visegrad countries all rank within the first six places in the EU share of household income spent on energy related to housing. [2]

The 2021–2027 MFF is currently being negotiated within the European Union. Subsequent negotiations of Member States with the European Commission about Partnership Agreements defining the Cohesion Policy funding use under the Invest EU brand started in second quarter of 2019. The Cohesion funding (e.g. CF, ERDF, etc.) is the major source of funding for the renovation of the neglected and energy inefficient building stock in all V4 countries. Cohesion funding, as one of the key public policy aspects driving quality renovation of buildings in the V4 countries. Yet, the current level of investment is insufficient in terms of the number of renovated buildings as well as the resulting quality of the buildings. This could be fundamentally improved through more effective deployment of the funds in the next programming period. Buildings, with 40% share on final energy consumption, are key to improving Visegrad's energy security and their potential should be fully exploited. Improving the energy efficiency of buildings leads at the same time to improved health and productivity of their users, cleaner air and aids climate change adaptation of the cities.

Ideas and recommendations on the more effective use of the Cohesion funding are formulated in this study and will be promoted toward the public administration of the Visegrad countries and the European institution to inform their debate on the 2021–2027 Partnership Agreements.



### 3. EU climate and energy targets – the importance of building sector

As the European directives says „The European Union is committed to developing a sustainable, competitive, secure and decarbonised energy system by 2050. To meet that goal, Member States and investors need measures that aim to reach the long-term greenhouse gas emission goal and that decarbonise the building stock, which is responsible for approximately 36% of all CO<sub>2</sub> emissions in the Union, by 2050.” [3]

„The rate of building renovation needs to be increased, as the existing building stock represents the single biggest potential sector for energy savings. Moreover, buildings are crucial to achieving the Union objective of reducing greenhouse gas emissions by 80-95% by 2050 compared to 1990. Buildings owned by public bodies account for a considerable share of the building stock and have high visibility in public life.” [4] European cohesion funds are currently the main source (often the only source) of funding the public buildings projects in all V4 countries.

„The 2015 Paris Agreement on climate change following the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 21) boosts the Union’s efforts to decarbonise its building stock. Given that almost 50% of the Union’s final energy consumption is for heating and cooling, of which 80% is used in buildings, the Union’s achievement of its energy and climate goals is linked to its efforts to renovate building stocks by giving priority to energy efficiency, applying the ‘energy efficiency first’ principle and considering the deployment of renewables. Considering that every 1% increase in energy savings reduces gas imports by 2,6%, clear ambitions for the renovation of the existing building stock are of great importance.” [3] Thus, efforts to increase the energy performance of buildings would contribute actively to the Union’s energy independence and energy security.

The European Commission already highlighted the importance of energy efficiency and the role of the building sector for the achievement of the Union’s energy and climate goals and for the transition to clean energy, its contribution to energy security and the 2030 framework for energy and climate policy.

A highly energy efficient and sustainable building stock could be the cornerstone of a decarbonised European economy. This can only happen if a systemic upgrade of the building stock is achieved. Promoting highly energy efficient building renovation, nearly zero energy new buildings and other sustainable measures relating to building sector should be fully ingrained in the next EU funding period.

Future Cohesion Policy set-up should be therefore linked to the European 2030 climate and energy targets, which aims to reducing greenhouse gas emissions by at least 40% compared to 1990, increasing energy efficiency by at least 32,5% and increasing the share of renewable energy to at least 32% of EU energy use [5].



## 4. Evaluation of current programming period (2014–2020)

Based on V4 national analyses elaborated by consortium partners, the Cohesion Policy Funds are the major source of funding for buildings sector in V4 countries (including increasing energy efficiency of building stock, highly energy efficient new construction, measures related to adaptation to climate change, etc.).

While the Cohesion Policy Funds contribute largely to renovation of building in the V4, there are several bottlenecks and best practices that we elaborate in more detail below. These include:

- Use of non-repayable grants instead of financial instruments
- Higher project management demand compared to commercial projects
- High subsidy intensity that reduces “ownership” of the project cost
- Link between energy savings and support intensity

Total Cohesion Policy EU budget and its share allocated to the buildings sector in V4 countries in current programming period is represented in Table 1.

**TABLE 1**–Share and amount of Cohesion Policy Funds allocated to buildings in V4 (2014–2020)

|   | Slovakia         | Hungary          | Czech Republic   | Poland           |
|---|------------------|------------------|------------------|------------------|
| Total Cohesion Policy EU budget (ERDF + CF + ESF) | 13 696 141 889 € | 21 494 347 627 € | 21 629 618 591 € | 76 614 023 515 € |
| Total EU budget for buildings                     | ~ 780 000 000 €  | 1 533 478 010 €  | 1 942 461 524 €  | 1 828 057 649 €  |
| Share of support to buildings                     | 5,70%            | 7,13%            | 8,98%            | 2,39%            |

## 4.1 Non-repayable grants as a main form of finance

The Cohesion Policy Funds are primarily used for non-repayable grants across all V4 countries despite of the European Commission recommendation to use more financial instruments in current period. This is mostly because of the fact, that grants are easier to manage, and they require less administrative preparation and continuous maintenance. The lack of experience with more elaborated financial schemes also contribute to preference of the non-repayable grants. Moving from grant mechanisms towards instruments could leverage private sector resources.

## 4.2 Higher project management demand compared to commercial projects

The use of EU support causes the necessity of much longer project management than in commercial projects, because of nature of public support, therefore there is need to plan the renovation cost reserve due to the uncertainty of renovation prices on the market. Preparation of proper application for subsidy requires good energy audit, feasibility study and time plan of renovation. Smaller municipalities and rural communes lack the personnel with required skills to manage the whole process themselves.

## 4.3 Problem of the low co-financing rates

The intensity of public support for financing energy efficiency measures in buildings varies significantly among V4 countries. The support intensity for public buildings in Slovakia, Hungary and Poland is mostly almost 100% of total investments. Smaller municipalities have mostly limited opportunities to cover bigger part of investments due to no other financial instruments for improving the energy performance of their buildings. This does not promote "ownership" and often leads to ineffective spending of resources.



**TABLE 2**–Support intensity as% of total investment in projects related to energy efficiency of buildings in V4 countries (2014–2020)

|   | Slovakia | Hungary | Czech Republic | Poland  |
|---|----------|---------|----------------|---------|
| support intensity as% of total investment | 50–95%   | 90–100% | 30–55%         | 85–100% |

For public buildings in Poland owned by municipalities and other entities, the maximum EU subsidies are limited to 85% of the eligible cost while the maximum related to state-owned buildings is 100%. The support intensity for public buildings in Hungary in each programme is 100%. In Slovakia, the share of EU subsidies is 85%, 10–15% of the total contracted amount is provided for projects from the state, regional or municipal budgets. The share of EU subsidies in Czechia for public buildings reaches to 30–55%, however, in some cases it could be co-funded by national budget and subsidy for central state buildings could reach up to 95%.

Unfortunately, the low co-financing rate does not strengthen the “good manager aspect”, and not all renovations are based on rational decisions and cost analysis. The high share of European Union subsidies and therefore the low co-financing reduces the motivation of building owners to pursue quality and cost-effective projects.

However, with a smaller support intensity and without the combination of private financial instruments, the owners of public buildings might not have been able to invest in energy refurbishments. At present, there are no specific plans for innovative funds or promoting public-private partnerships through, for example, energy performance contracting in Hungary. Local governments in Hungary have basically no other financial instruments for improving the energy performance of their buildings than EU funds. Relying on the funding of the operational programmes is basically the only possibility for most of the Hungarian municipalities. Smaller municipalities and rural communes in Poland have limited opportunities to cover the lacking 15% of the renovation cost as well.

At the same time, the high intensity of finance support proves to be counterproductive in certain cases: municipalities, which could have the resources to spend on energy refurbishments, often postpone such investments, because of waiting for the next call for projects with the 100% intensity support.

There is an example in Slovakia, where the programming document of operational programme was changed, in favour to combining non-repayable funds with a guaranteed energy service to finance projects of public building renovations. This adjustment of conditions came into force in April 2019 in the specific objective 4.3.1.–reduction of energy consumption in the operation of public buildings in operational programme Quality of Environment.

The implementation of financial instruments is insufficient without allowing access by private sector entities such as guaranteed energy service providers. The Energy Performance Contract (EPC) model of financial instruments creates the potential to renovate public buildings with lower rate of direct capital investment from public sources and effectively reducing the cost of energy for public administration.

On the other hand, comprehensive renovation projects in Poland are not attractive for energy service companies (ESCOs), because the technical condition of buildings is poor not only in energy efficiency terms but in the overall technical standard.

There is also a problem with cannibalisation of the various programmes. For example, in the Czech Republic, there is a programme to support newly build public buildings in passive energy standard with about 30% support intensity, but at the same time, there exists other programme supporting a construction of a certain type of public buildings with up to 90% of subsidies without any energy performance requirements going above minimal legislative requirements. The public investor is thus by no means motivated to build a new building in passive energy standard.

## 4.4 More energy saving means more support

Providing financial support, which motivate buildings owners for more ambitious constructions and renovations is an effective way how to build and renovate buildings in higher energy standards. Despite of this, not all support for buildings in V4 countries is linked to energy efficiency.

TABLE 3 – EU funds: support intensity linked to energy efficiency by type of the buildings in V4 countries (2014–2020)

| Support intensity linked to energy efficiency | Slovakia | Hungary              | Czech Republic | Poland               |
|---|----------|----------------------|----------------|----------------------|
| Single-family houses                          | X*       | X                    | X*             | Not supported at all |
| Apartment buildings                           | ✓        | X                    | ✓              | ✓                    |
| Public buildings                              | ✓**      | X                    | ✓              | ✓                    |
| Commercial / industrial buildings             | X        | Not supported at all | ✓              | Not supported at all |

\*support provided by national programme, where support intensity is linked to energy efficiency

\*\*only in OP Quality of Environment, which represent 60% of all public building projects

There is a successful programme in Slovakia which offers soft loans for complex renovation of apartment buildings. The interest rate of the loan (0%–2%) does not depend on the energy saving intensity, but on combination and number of measures taken (insulation of thermal envelope, replacement of distribution systems or replacement of elevators, etc.). Support intensity as% of total investment differs with type of measure as well. Loans for renovation of residential buildings are provided to 100% of the eligible costs, if the renovation meets energy criteria beyond the minimum requirements. If just the minimum energy requirements are met, 75% of eligible costs are covered. Regards to public buildings, supports intensity is linked to energy savings in Operational programme Quality of Environment within the specific objective 4.3.1. reduction of energy consumption in the operation of public buildings. There is a condition of a minimum of 30% energy saving for providing funds. Positive is the binding of the subsidy amount to the energy savings achieved. The amount of

eligible project expenditure (100% to 90%) depends on planned energy savings for heating. The total amount of eligible expenditure is 100% if the planned energy saving for heating exceeds 50%. The total amount of eligible expenditure will be reduced by 5 percentage points if the planned energy saving for heating exceeds 40% but does not exceed 50% and the total amount of eligible expenditure will be reduced by 10 percentage points if the planned energy saving for heating exceeds 30% but does not exceed 40%.

Last year, the conditions were adjusted in Czech Operational Programme Environment and the support is now graded according to the achieved energy standard, thus encouraging for better renovations. The call is announced as a continuous call, so it does not create one-off pressure on applicants or administrators. The programme also supports the additional costs for construction of new public buildings in an energy passive standard.

In Poland, the financing instruments combined with subsidized loans and subsidies are applied for residential buildings. The minimum level of required improvement of energy efficiency is 25% confirmed by the energy audits ex-ante and ex-post. Depending on the level of primary energy demand reduction the last instalments of the loan can be cancelled in the amount of 25% of the loan for confirmed 25%–40% reduction indicator, 35% for 40%–60% reduction indicator and 45% for over 60% reduction factor.

From beginning of 2019, in 11 regions of Poland, the new financing instrument for deep renovation of multifamily residential buildings was introduced in co-operation with commercial banks or regional development agencies. The commercial banks offer loans with interest rates reduced by regional EU funds (even up to 0%). The minimum level of required improvement of energy efficiency is 25%. Softening of interest in some regions is proportional to the increase of energy efficiency. For example, in the Łódź region for reduction of final energy demand between 25%–40% the interest rate amounts 0,5% p.a., for 40%–60% is 0,25% p.a. and for over 60% equals to 0,15%. The owners of the buildings formed as home owners associations can also use the support for preparation of projects from the EU ELENA instrument thanks to agreements of some Polish banks and EIB concluded in 2019.

## 4.5 Does EU funds support residential buildings?

Cohesion Policy Funds in V4 countries are more used to support the public buildings than residential. More than 70% of the investments are directed towards the public buildings in Hungary and Slovakia. However, the residential buildings still represent the sector with great potential of energy savings and can significantly contribute to reduction of air pollution. The lack of EU support for single family houses does not have to be a problem if separately financed programme exists at the national level. This is the case of the Czech Republic where successful programme called “The New Green Savings” exists, as well as of Slovakia with its own single-family home programme. The same applies for apartment buildings.

**TABLE 4**–Type of support for energy efficiency measures in residential buildings (ESIF 2014–2020)

|                      | Slovakia  | Hungary    | Czech Republic  | Poland               |
|----------------------|---|------------|---|----------------------|
| Single family houses | Subsidy only for solid fuel heat source replacement and RES | Soft loans | Subsidy + loans only for solid fuel heat source replacement | Not supported at all |
| Apartment buildings  | Soft loans  | Soft loans | Subsidy   | Soft loans + subsidy |

Since 1 December 2015, Slovak households may apply for contributions to install renewable energy installations within the nation project called “Green to Households”. The aim of the project is to increase the share of renewable energy sources utilization in households and related reduction of greenhouse gas emissions. Photovoltaic panels and heat generating installations, such as solar collectors, biomass boilers and heat pumps are supported. Slovakia announced in 2019 a preparation of new national project which focus on solid fuel heat source. The reason is air quality problems. Thus, the replacement of old solid fuel boilers with natural gas boilers will be subsidized.

In Hungary, within the 2014–2020 funding period the main targets were public buildings; governmental and municipal buildings received more than two thirds of the funds allocated for buildings. Less than 20% of total budget allocated for buildings is aimed at supporting the refurbishment of residential buildings. Funding for the residential sector (single family houses + apartment buildings) is only available in the form of a subsidized loan product with a 0% interest rate, which, after three amendments of the conditions, is beginning to become successful. Loan products for the residential sector is provided for projects where activities either aim to improve energy efficiency in buildings or to increase the use of renewable energy. The artificially low energy prices in Hungary for end-users do not motivate people to save energy. The return on investment periods for sustainable energy projects are expanded to such an extent, that without a complex funding system (non-refundable funding combined with a loan product) the upscale of energy retrofits within the Hungarian residential building stock will not be achievable.

The only support from EU funds for single-family house owners in this programming period in Czech Republic is a subsidy programme known as “Stove Subsidies” under the Operational Programme Environment. House owners can apply for a financial contribution to replace old, non-ecologic solid fuel boilers. The main aim of the programme is not to increase the energy efficiency but to reduce emissions of pollutants into the air from local heating units by replacing at least 85,000 old boilers by 2020 (2022). The renovation (and new energy efficient construction) in Czechia is being supported from national EU-ETS revenues under the programme The New Green Savings (Nová zelená úsporám). The level of subsidy depends on the depth of the renovation and measures taken, plus it could be combined with the “Stove Subsidies.”

The energy efficient modernization of single-family houses in Poland was totally neglected during this financial perspective. It is also important to mention, that new constructions, in overall, are not subject of support in this programming period in Poland. The financing instruments combined of subsidized loans and subsidies are applied for apartment buildings. In the call of central programme for this type of buildings, eligible is cost of green roofs or facades.



## 5. New Cohesion Policy Framework beyond 2020

The upcoming Cohesion Policy Framework beyond 2020 is a unique opportunity for the EU to improve Cohesion Policy setup and remove the bottlenecks from current programming period.

For the next long-term EU budget 2021-2027, the Commission proposes to modernise Cohesion Policy. The allocation method for the funds is still largely based on GDP per capita however some new criteria are added to better reflect the reality on the ground. The new criteria are youth unemployment, low education level, climate change, and the reception and integration of migrants. [6]

Box 2: Five main objectives, which will drive EU investments in 2021–2027 [7]

Eleven thematic objectives used in 2014-2020 have been simplified to five clear policy objectives in 2021–2027 period:

- **Policy Objective 1–A Smarter Europe**–Innovative and smart industrial transformation
- **Policy Objective 2–A low carbon and greener Europe**–Clean and fair energy transition, green and blue investment, circular economy, climate adaptation and risk prevention
- **Policy Objective 3–A more connected Europe**–Mobility and regional Information and Communications Technology connectivity
- **Policy Objective 4–A more social Europe**–Implementing the European Pillar of Social Rights
- **Policy Objective 5–A Europe closer to citizens** by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives

European Regional Development Fund (ERDF) and Cohesion Fund are the main financial instrument in the EU budget aimed at contributing to the climate objectives. Regional development investments will strongly focus on objectives 1 and 2. 65% to 85% of ERDF and Cohesion Fund resources will be allocated to these priorities. [8]

The ERDF will support all 5 policy objectives. In the context of budget reduction, however, the majority of ERDF resources will be concentrated on PO1 and PO2 (i.e. smart and green economy). This is in line with the findings from evaluation evidence and the impact assessment, which suggested the highest added value and the greatest contribution to EU priorities of EU Funds in these areas. [8]

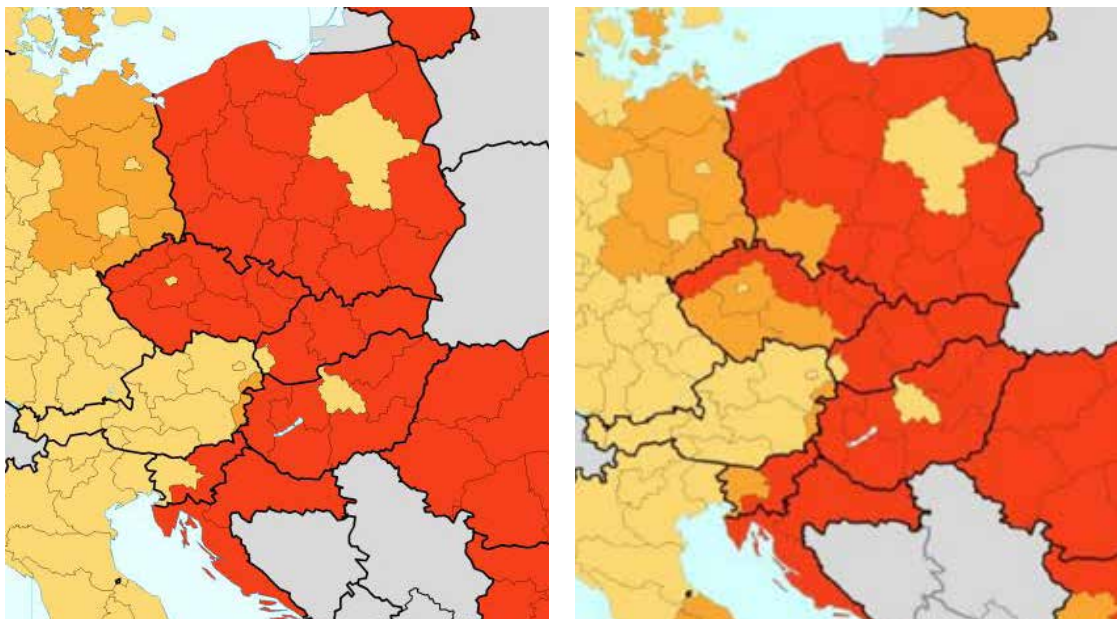
The Cohesion Fund will support two specific objectives: a greener, low-carbon and circular economy (Policy Objective (PO) 2); and a more connected Europe (PO3). The post-2020 Cohesion Fund will finance projects in the same 15 Member States as in the 2014-2020 programming period (including all V4 countries). [9]

Based on the European Commission proposal [9], the high EU co-financing rates are no longer necessary and lower rates promote "ownership". The co-financing rate for the Investment for jobs and growth goal at the level of each priority in next programming period shall not be higher than:

- a. 70% for the less developed regions;
- b. 55% for the transition regions;
- c. 40% for the more developed regions.

Regards to V4 countries, division of regions for the next period will remain in the case of Slovakia and Hungary. Three of Czech regions and one Polish region are now going to be categorized as transition regions; therefore, their financing rate will decrease even more.

**PICTURE 1:** Structural Funds eligibility maps of V4 region: 2014–2020 (left) [8] and 2021–2027 (right) [9]



Index, EU-27 = 100

- < 75% (less developed regions)
- 75%–100% (transition regions)
- > = 100% (more developed regions)

## 5.1 Allocation for climate action

The next MFF period will be the first one after the adoption of climate and energy strategic political agreements, such as the Paris Climate Agreement, the inclusion of "efficiency-first" principle within the Energy Union and the Clean Energy Package for All Europeans. Integrating these strategic decisions in the way the Cohesion Policies are going to be set up and how their budget is shared and allocated is therefore necessary in the term of low carbon transition of European Union.

The Commission proposal for the 2021–2027 Multiannual Financial Framework set a more ambitious goal for climate mainstreaming across all EU programmes. Reflecting the importance of tackling climate change in line with the Union’s commitments to implement the Paris Agreement and the United Nations Sustainable Development Goals, the Funds should contribute to mainstream climate actions and to the achievement of an overall target of **25% of the EU budget** expenditure supporting climate objectives. [7] Operations under the ERDF are expected to contribute **30% of the overall financial envelope of the ERDF** to climate objectives. Operations under the Cohesion Fund are expected to contribute **37% of the overall financial envelope of the Cohesion Fund** to climate objectives. [8]

**TABLE 5** – Proposed budget allocation for climate action in new programming period by EC for V4 countries (for overall allocations see table 8 in chapter Charts and figures)

|                                     | Slovakia        | Hungary         | Czech Republic  | Poland           |
|-------------------------------------|-----------------|-----------------|-----------------|------------------|
| <b>EU budget allocation (25%)</b>   | 3 326 141 346 € | 5 061 892 732 € | 5 028 911 563 € | 18 181 032 731 € |
| <b>ERDF allocation (30%)</b>        | 2 503 500 000 € | 3 487 200 000 € | 3 157 200 000 € | 13 590 000 000 € |
| <b>CF allocation (37%)</b>          | 804 010 000 €   | 1 271 690 000 € | 2 384 280 000 € | 4 493 280 000 €  |
| <b>ERDF + CF climate allocation</b> | 3 307 510 000 € | 4 758 890 000 € | 5 541 480 000 € | 18 083 280 000 € |

(Based on own calculations and overall allocations from [7]; all sums are in current prices)

It is also important to mention the European Parliament position at first reading from the end of the March 2019. European Parliament suggested to increase the overall target of the EU budget to 30%, ERDF target to 35% and CF target to 40%. [10]

These budget allocations should mainly cover the policy objective 2 “A low carbon and greener Europe”. The list of specific areas of support in PO 2 follows the needs of modernizing the building stock to energy-efficient, environmentally friendly and quality indoor environments.

**Box 2:** Specific objectives supported in PO 2 [8]

- (i) promoting energy efficiency measures;
- (ii) promoting renewable energy;
- (iii) developing smart energy systems, grids and storage at local level;
- (iv) promoting climate change adaptation, risk prevention and disaster resilience;
- (v) promoting sustainable water management;
- (vi) promoting the transition to a circular economy;
- (vii) enhancing biodiversity, green infrastructure in the urban environment, and reducing pollution;

Existing building stock represents the single biggest potential sector for energy savings and can also significantly help with adaptation on climate change. Improving the energy efficiency of buildings, if done properly, goes hand-in-hand with adapting buildings to climate change and cutting their emissions. Therefore, high priority investments within PO 2 should focus on mitigation and adaptation measures in the building sector.

## 5.2 Country Reports 2019 and Country-Specific Recommendations

The European Commission published the country reports under the European Semester 2019 at the end of February 2019, analysing the social and economic situation in each EU member state. For the very first time, the 2019 country reports include an additional annex on 'Investment Guidance on Cohesion Policy Funding 2021-2027' known as Annex D. Country reports provide the analytical basis for successful programming of Cohesion Policy Funds in 2021–2027. Recommendations in Annex D identified key priorities for support by the Cohesion Policy Funds for the new EU funds period. [11]

The Specific recommendation in Policy Objective 2 "A low carbon and greener Europe" in part focusing on energy efficiency and renewable energy sources are mostly the same for all V4 countries. **The European Commission identified high priority in improving the energy efficiency in public and residential buildings and small and medium sized enterprises for all Visegrad Four countries.** High priority investments must be directed into decreasing the greenhouse gas emissions and air pollution by replacing fossil-fuelled boilers with low carbon intensive installations accompanied by energy efficiency renovation of buildings as well. For detailed Investment guidance for V4 countries in PO2 see Annex 1. [11]

**Slovakia** faces numerous challenges in its transition to resource-efficient, low carbon economy with significantly reduced air pollution, being one of the highest energy intense economies in the EU. High priority investment needs are identified to promote energy efficiency measures and renewable energy, as well as to develop smart energy systems, grids and storage at the local level. As **Hungary's** economy is relatively energy intensive, energy efficiency gains are as vital as an increase of the share of renewables. High priority investment needs are identified to increase energy efficiency and use of renewable energy. A very high energy intensity and poor air quality in **Czech Republic** require high priority investment to promote low carbon and cleaner energy production, higher energy efficiency and more renewable energy sources. The **Polish** economy is among the least carbon-efficient. Poor insulation of public and private buildings contributes to higher energy consumption and energy poverty. Poland also hosts the most air-polluted cities in the EU, especially in the southern and central regions. Clean energy transition needs additional support, as pointed out within the Coal Regions for Transition Initiative. High priority investment needs have been identified to increase the share of low carbon intensive and cleaner energy production and to decrease energy consumption. [11]

Written in Country-Specific Recommendations published by EC in June 2019, "the programming of EU funds for the period 2021–2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the country report. This would allow V4 countries to make the best use of those funds in respect of the identified sectors, taking into account regional disparities. Especially for Slovakia and Czech Republic, strengthening the country's administrative capacity for the management of the EU funds is an important factor for the success of this investment." [12]



## 5.3 Recommendations for 2021–2027 programming period

### 5.3.1 RECOMMENDATIONS FOR THE NATIONAL AUTHORITIES

The national authorities are now in the preparation process for the Partnership Agreements and the new Operational Programmes for the 2021–2027 period. Thus, it is key to follow certain principles to make the new programmes well-designed and thus well-accepted. The project partners brought together their expertise and real-market experience and offer these recommendations:

#### BUDGET ALLOCATION RECOMMENDATIONS

**Sufficient allocation.** Public authorities should focus on securing ESIF funds allocation for renovation and construction of buildings that—in combination with other public policies and incentive programmes—can effectively generate sufficient investment, i.e. investment to renovate 3% of all buildings annually. Achieving the climate and energy targets of the European Union by 2030 requires significant efforts in the buildings sector and this needs to be reflected in drawing up the budget allocation. For the new multiannual framework it is necessary to ensure not only that the funds can finance energy-saving projects, but ideally that the funding of all relevant projects is linked to the European and national 2030 climate and energy targets and the building renovation strategies. Operations under European Structural and Investment Funds should deliver on measures and objectives laid out in the Integrated National Energy and Climate Plans (INECPs) of Member States. Residential buildings should not be forgotten, as they represent a sector with great potential of energy savings and can significantly contribute to reduction of air pollution.

**Better reflect the diversity of more developed regions and their needs in individual investment priorities.** Bratislava Region (SK), Mazowieckie (PL) and Közép-Magyarország (HU) are classified as a more developed region. This causes three issues. Firstly, the higher performance of these regions is mainly due to the presence of the capital city. However, unlike the other metropolitan regions of the EU (e.g. Prague, Berlin, Vienna), these regions do not consist only of the capital but also include smaller municipalities, which in themselves do not qualify as developed regions. This leads to a disadvantage of these smaller municipalities. Secondly, administrators of public buildings (e.g. schools) in the developed regions, including the capital city, represent another group of recipients disadvantaged by the allocation method. They have the same budget revenue as administrators in less developed regions and thus the same limited opportunities to invest in energy efficiency of their buildings. Lastly, building owners, both public and private, need to be motivated to perform renovation and to perform it with higher ambition / quality, regardless of how developed their region is. To address these issues, Cohesion Fund should be used in the respective Operational Programmes, as these resources can also be deployed in the developed regions.

#### DESIGN RECOMMENDATIONS

**Support intensity.** With exemption of central government buildings, intensity of support provided from the ESIF should be well below the levels of 90–100% of investment / eligible cost. 30–70% support intensity, scaled according to quality and ambition of the renovation projects, is typically sufficient to enable renovation and at the same time motivate for a good manager approach and

effective spending and allows for private funds to finance public good in form of e.g. EPC service or financial instrument.

**Promote comprehensive and quality approach.** In addition to increasing energy efficiency of buildings, it is important to enhance their overall quality. The eligible costs of the project should hence also include measures for improving the quality of the indoor environment or building adaptation to climate change. Increasing the energy efficiency of buildings should be complemented by additional building qualities like ensuring the sufficient supply of fresh air, appropriate lighting and good acoustic comfort. The list of support areas<sup>1</sup> in thematic objective „A greener, low-carbon Europe“ in EC draft regulation basically copies these additional measures.

**Provide financial support that will motivate for more ambitious constructions and renovations.** Setting the conditions of the programmes and the calls themselves should motivate building owners to increase energy efficiency, use of climate adaptation measures, use of sustainable materials in construction and to ensure the quality of the indoor environment. The financing rate of non-repayable support should reflect whether these measures are implemented or not.

**Prefer long-term continuous calls with stable conditions.** The “start-stop system” of calls reduces the quality of individual projects. For all financing products, a pro-client approach must be chosen, taking into account that this is not a single large project, but—in case of e.g. single-family home renovation programmes—tens of thousands smaller projects per year. The long-term stability of the support conditions helps build the confidence of the building owners and gives them the opportunity to plan according to their own options and needs (financial, time, construction, etc.). The rushed preparation of the project, typically stipulated by a start-stop system of calls, usually leads to lower quality renovation. The applicants and building owners should make their own decisions based on when their buildings really need renovation or when they save enough resources and not according to a state-defined call schedule. For example, in Czechia (OP EIC), the call for support of new buildings in the passive standard was announced for only four months, which is a shorter time than a normal preparatory phase of construction.

**Allow other financial instruments to be easily combined with subsidies.** It is of public interest to use the ESIF to deliver financial instruments along with subsidies. Financial instruments channel private funds into public goods, thus making the spending of public resources, in this case ESIF, very efficient. This efficiency, or leverage, is crucial, as public budgets, including ESIF, are typically not big enough to ensure building renovation at the optimum rate only through non-repayable grants. To successfully integrate financial instruments, the design of Operational Programmes needs to allow the same set of eligible costs for financial instruments as for a subsidies and harmonize application process for both the instrument and the subsidy. The uptake of financial instruments should be reflected in the design, too. This may include, as e.g. in the case of Energy Performance Contracts, establishing the necessary legal framework, provision of model documentation and technical assistance and ensuring the availability of low-cost, long-term financing by providing credit lines or guarantees.

**Ensure that the various programmes do not compete with each other.** There should be either one programme on building renovation/new construction or it should be supported equally in all programmes with same requirements on energy efficiency (and other building qualities). The new ESIF set-up should avoid the situation from the Czechia, where one programme provides a 30% subsidy for new public buildings, provided they achieve passive energy standard, while another programme offers

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<sup>1</sup> Chapter I, Article 2 of Proposal for a Regulation COM/2018/372 final–2018/0197 (COD), available: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018PC0372>

90% subsidy for the same public buildings even if they only meet the minimum legal requirements, making the former useless and dysfunctional. Similarly, in Slovakia, ESIF on one hand provides funds for a financial instrument to support renovation of multi-apartment buildings and on the other hand, with the ambition to secure spending of the ESIF, funds are provided to the well-established State Housing Development Fund that directly competes with the mentioned instrument.

## **TECHNICAL ASSISTENCE RECOMMENDATIONS**

**Ensure that technical assistance is provided and supported.** It is necessary to establish a network of counselling centres, such as one-stop-shops (preferably at the regional level) that can assist in the preparation of the renovation or construction of buildings and would assist building owners from project preparation to application for financial support in combination with promoting of energy efficient buildings and the support programme. These centres should serve not only for administrators of public buildings, but also for owners of residential buildings, and the agenda of centres should also include the preparation of public procurement, if this is necessary in a project. These centres may also apply to EIB ELENA instrument or other EU programmes for co-financing of preparation of energy efficiency projects in buildings. For example, in Poland, some commercial banks which provide soft loans for deep modernisation of buildings are already equipped with EU ELENA budget, which is spent for professional technical and economic assistance for homeowners associations. However, the budget to establish and operate technical assistance centres should be integral to ESIF budget allocation.

**Increase financial support for systematic preparation of projects.** Preparation of proper application for financial support requires a good energy audit, functional audit, feasibility study, time plan of renovation, etc. Deep modernization projects are multidisciplinary projects requiring wide range of skills from construction companies, much wider than typical renovation projects. The cost of preparation of such projects is comparatively higher than the allocated budget as it should cover the cost of integrator of services from different renovation specializations. Sufficient resources need to be earmarked for local authorities lacking the capacity to prepare quality projects. It is also important to support innovative organisational forms for preparation and implementation of energy efficiency projects, like public-private-partnership, municipal modernisation funds, municipal energy clusters or at least to use the available EU sources for project development assistance, like ELENA.

## **OTHER RECOMMENDATIONS**

**Simplify public procurement requirements.** The public procurement requirements for supported projects should not exceed minimal legislative requirements as set up in the respective directive and should allow for evaluation based on life-cycle rather than only investment costs.

**Increase awareness of the benefits of energy savings, sustainability and quality of indoor environment.** The funding needs to be complemented by an information campaign that will highlight the specific opportunities and benefits for building owners. It is also important to involve local communities in the creation and implementation of plans, which serves to increase public awareness of climate change mitigation and adaptation.

### 5.3.1 RECOMMENDATIONS FOR THE EU INSTITUTIONS

In 2019 and 2020, the new ESIF programming rules are being negotiated and fixed at the EU level. The main documents include the Common Provisions Regulation and the Regulation for the European Regional Development and Cohesion Funds. Also, state-aid rules are being renegotiated now (the Commission ran a consultation on the modification to GBER, General Block Exemption Regulation). Thus, the project partners put together also recommendations for the EU institutions:

**Modify the evaluation of programme success rate.** Pay attention to the final effects of projects, not on the implementation progress of the allocated budget. There can be a lot of pressure for the absorption of EU funds in the period before 2023 (because of the N + 2 rule,) and therefore, resources may not be spent efficiently. Lower financing intensity means less money spent but higher effects of the total investment.

**Make state-aid rules more feasible for energy efficiency projects.** The GBER revision should substantially simplify the block exemptions that apply to energy efficiency projects. The state-aid-free intensity limit should be increased to 50% of eligible costs for all sizes of enterprises, thus harmonizing it with the public procurement requirements. Energy efficiency projects are often not a priority for companies and the investment barriers are the same for small, medium or large enterprises. Also, single-family home owners and condominiums and their members should be by default cleared of state aid rules in energy efficiency projects. From an internal residential market perspective, owners of individual apartments—physical persons or families—that together co-own a building are very different from individual owner of a building that rents apartments to families. The latter competes with other owners of buildings for the same renters; hence, the building is his main asset. The former, on the other hand, even if running a business, are unlikely to gain competitive advantage because of the difference in renovation or operation cost of their apartment or house.

**Guide Member States to reduce excessive administrative burden on the applicants and recipients.** Member States often require unnecessary steps from the applicants / recipients of the EU funds in order to satisfy general rules of the EU funds. Where appropriate, state specifically in the ESIF regulation that no additional requirements on top of the EU and national legal framework should be asked for. For example, when the ERDF / CF regulation states that the most economic approach must be taken, state that no open public procurement requirement for support levels under 50% should be passed onto the recipients.



## 6. Charts and Figures

**TABLE 6**—Allocation of Cohesion Policy funding to Member States for 2014–2020 by fund (based on PAs) [13]

|   | Slovakia                | Hungary                 | Czech Republic          | Poland                  |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| European Regional Development Fund (ERDF) | 7 360 295 382 €         | 10 756 780 690 €        | 11 940 689 631 €        | 40 213 870 235 €        |
| European Social fund (ESF)                | 2 167 595 080 €         | 4 712 139 925 €         | 3 430 003 238 €         | 13 192 164 238 €        |
| Cohesion Fund (CF)                        | 4 168 251 427 €         | 6 025 427 012 €         | 6 258 925 722 €         | 23 207 989 042 €        |
| <b>ERDF + ESF + CF</b>                    | <b>13 696 141 889 €</b> | <b>21 494 347 627 €</b> | <b>21 629 618 591 €</b> | <b>76 614 023 515 €</b> |

**TABLE 7**—Allocation of Cohesion Policy funding to Member States for 2021–2027 (proposal by EC) [7]

|                       | Slovakia                | Hungary                 | Czech Republic          | Poland                  |
|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2018 prices           | 11 779 580 537 €        | 17 933 628 471 €        | 17 848 116 938 €        | 64 396 905 118 €        |
| <b>Current prices</b> | <b>13 304 565 383 €</b> | <b>20 247 570 927 €</b> | <b>20 115 646 252 €</b> | <b>72 724 130 923 €</b> |

**TABLE 8**—Allocation of Cohesion Policy Funding to Member States for 2021–2027 in current prices by funds proposed by EC (the table has rounding differences) [14]

|   | Slovakia                | Hungary                 | Czech Republic          | Poland                  |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| European Regional Development Fund (ERDF) | 8 345 000 000 €         | 11 624 000 000 €        | 10 524 000 000 €        | 45 300 000 000 €        |
| European Social Fund+ (ESF+)              | 2 481 000 000 €         | 4 806 000 000 €         | 2 737 000 000 €         | 14 297 000 000 €        |
| Cohesion Fund (CF)                        | 2 173 000 000 €         | 3 437 000 000 €         | 6 444 000 000 €         | 12 144 000 000 €        |
| ETC (Interreg)                            | 235 000 000 €           | 272 000 000 €           | 314 000 000 €           | 595 000 000 €           |
| <b>Cohesion Policy allocation</b>         | <b>13 234 000 000 €</b> | <b>20 139 000 000 €</b> | <b>20 019 000 000 €</b> | <b>72 336 000 000 €</b> |
| *Transfers                                | 71 000 000 €            | 109 000 000 €           | 100 000 000 €           | 392 000 000 €           |
| <b>Total</b>                              | <b>13 305 000 000 €</b> | <b>20 248 000 000 €</b> | <b>20 119 000 000 €</b> | <b>72 728 000 000 €</b> |

\* Transfers are: Technical assistance (0.35% of the ERDF/ESF+/CF/ETC allocation), Transnational cooperation (under ESF+) and the European Urban Initiative (under ERDF). They represent funding managed by the Commission, not directly available to Member States. Indicative allocations of transfers per Member State are shown, to reconcile with the Commission's CPR proposal.



## 7. Resources

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- [12] European Commission, 2019 European Semester: Country Specific Recommendations / Commission Recommendations, Available: [https://ec.europa.eu/info/publications/2019-european-semester-country-specific-recommendations-council-recommendations\\_en](https://ec.europa.eu/info/publications/2019-european-semester-country-specific-recommendations-council-recommendations_en)
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- [14] European Court of Auditors, „Allocation of Cohesion policy funds to Member States for 2021-2027“, Available: [https://www.eca.europa.eu/lists/ecadocuments/rcr\\_cohesion/rcr\\_cohesion\\_en.pdf](https://www.eca.europa.eu/lists/ecadocuments/rcr_cohesion/rcr_cohesion_en.pdf)

## ANNEX 1

Summary of investment guidance on Cohesion Policy Funding 2021-2027 for V4 countries in PO2 (part EE & RES) by European Commission [11]

Policy Objective 2: A low carbon and greener Europe—Clean and fair energy transition, green and blue investment, circular economy, climate adaptation and risk prevention (recommendations for high priority investments in energy efficiency measures and renewable energy)

| Slovakia   | Hungary   | Czech Republic   | Poland  |
|--|---|--|---|
| <p>Improve energy efficiency in public and residential buildings and small and medium sized enterprises</p>  | <p>Reduce energy consumption levels in residential buildings such as renovation of multi-apartment buildings and improving energy efficiency in small and medium-sized enterprises</p>  | <p>Provide support for capacity-building at regional and local level for managing the clean energy transition and shift towards resource efficient economy</p>   | <p>Deep energy efficiency renovation of public and private buildings</p>  |
| <p>Support deployment of decentralised small-scale renewable electricity capacities and support transition to renewables in heating and cooling, in line with sustainability criteria;</p>   | <p>Improve energy efficiency in public buildings and district heating networks</p>  | <p>Increase energy efficiency and the use of on-site renewable resources in public and residential buildings, and in small and medium-sized enterprises, including in their premises, installations and processes</p>                            | <p>Replacement of fossil fuel boilers with low carbon intensive installations (including investments in related infrastructure or in district heating), accompanied by energy efficiency renovation of buildings (also by taking into consideration the ongoing work within the catching-up regions initiative)</p> |
| <p>Decrease greenhouse gas emissions and air pollution by replacing fossil-fuelled boilers with low carbon intensive installations accompanied by energy efficiency renovation of buildings, particularly in structurally affected regions and for low-income households with appropriate measures</p> | <p>Decrease greenhouse gas emissions and air pollution by replacing fossil-fuelled boilers with installations based on renewable or on low carbon-intensive energy sources accompanied by energy efficiency renovation of buildings</p> | <p>Decrease greenhouse gas emissions and air pollution by replacing fossil-fuelled boilers with low carbon intensive installations accompanied by energy efficiency renovation of buildings</p>  | <p>Increase of renewable energy production at small scale with related infrastructure.</p>  |
| <p>Deploy solutions for smart electricity distribution grids and storage—linked to demand and supply planning on local level.</p>  | <p>Support transition to renewables in heating and cooling, including through joint initiatives under the eu strategy for the danube region, such as geothermal and biomass.</p>  | <p>Increase the share of renewable energy in heating and cooling, and deploy and integrate small-scale electricity generation facilities based on renewable energy into the grid, including if appropriate storage and conversion facilities</p> |   |

