

infinitesolutions

FINANCING ENERGY TRANSITION IN CITIES



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Foreword

The INFINITE Solutions (INnovative FINAncing for Local SusTainable Energy Solutions) is a project launched in February 2014 under the Intelligent Energy Europe (IEE) programme from the European Commission.

Local authorities involved in the INFINITE Solutions project aims to implement a soft loan scheme or a contracting (intracting) scheme to finance energy efficiency and renewable energy projects in their city or region. Those financing schemes should replace the usual use of grants.

This will require strong technical, financial, legal skills and expertise which are currently lacking and therefore hindering policy implementation. Thanks to the Infinite Solutions project, participative local authorities can share their experience and train each other. The target is to reach by January 2017 an efficient running scheme.

This local study will present the state of play of the Brussels Capital Region of what already exists and what are the current barriers and opportunities to implement a soft loan scheme. Brussels Environment takes part in the project by leading the WorkPackage 4 related to soft loan schemes.

1* State of Play

a. National / Local Context and legislations

Brussels is the city with one of the highest population density in Belgium. Its building stock counts more on less 550 000¹ dwellings whose majority was built between 1919 and 1970². The potential for energy savings from this residential building stock is important.

The Government of the Brussels Capital Region is in charge of all matters related to its territory in the widest meaning of the term. The IBGE, as the administration in charge of the environment, manages all regional energy and environmental issues.

The Brussels Capital Region through the IBGE is currently undertaking the management of the Brussels Green Loan. This loan was created in 2008 to increase the renovation rate of the Brussels building stock with the objective to decrease the energy bill of its citizens, the CO₂ emissions but to also in order to meet the objectives of the Europe2020 strategy.

Currently, the Brussels Green Loan is co-financed by the Brussels Capital Region and the financial cooperative CREDAL. Together, they offer to Brussels inhabitants a 0% loan to refurbish their dwelling with the objective to make them more energy efficient.

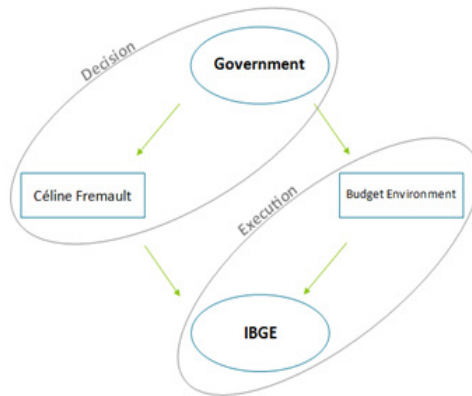
Since 2008, 537³ Green Loans have been delivered by CREDAL. 135 were delivered in 2013.

¹ Bruxelles Environnement, *Bilan énergétique de la Région de Bruxelles-Capitale 2012*, p57

² Bruxelles Environnement, *Bilan énergétique de la Région de Bruxelles-Capitale 2012*, p64

³ Figures on the 31/03/2014

Political Context:



Since the elections of May 2014, the Brussels Capital Region has a new Government. The new Governmental Agreement provides the orientation of all politics for the five upcoming years. The implementation of those politics are headed by Ministers in charge of different portfolio's. Céline Fremault holds the portfolio of the Energy and the Environment and Brussels Environment (IBGE) stands as her administration.

What decisions were taken by the Government for Brussels inhabitants concerning energy efficiency retrofits of buildings?

The last Governmental Agreement (2009-2014) stated:

“The Energy Premium Policies will be amplified and will take part of a larger increasing plan of the energy renovation of the Brussels building stock. This implies that the current dispositions must be optimised to improve a bit more the energy efficiency of every single € spent.

Concretely:

[...]

4. Concerning the works pre-financing and premiums of the building works, the Green Loan will be reinforced by:

- increasing the amount of beneficiaries by 500/year in 2010



- increasing the length related to the reimbursement of loans
- securing the coherence between the future Brussels entity of the FRCE and the future third investor.”

The current Governmental Agreement (2014 – 2019) mentions⁴ :

“... the Government has to set up a financing funds for energy efficient refurbishment, carrying the missions held by the Brussels Green Loan and the FRCE. This fund will provide 0% loans to households that undertake an energy efficient refurbishment of their house. It will also do the coordination with existing actors and tools. [...]

The Government will examin in the viability of the 0% loan for low and medium incomes. It will study the extension of this system in collaboration with CREDAL and other professionals acting on the field.”

The newly elected government confirms its intention to keep a soft loan for energy efficiency retrofits and would like to gather relevant existing actors for this project.

b.Objectives and Priorities

One of the first objective of the Region related to energy efficiency policy is to increase its renovation rate of its building stock in order to achieve the EU goal. This could be executed via the improvement of the Brussels Green Loan.

The priority of the Region is to implement the new Governmental Agreement by extending the current systems and merge the similar financial products that already exists in the Brussels Capital Region.

The objective of the Brussels Green Loan is to help increase and improve the renovation rate of the Brussels Building stock. In the future, the Brussels Green Loan must be modified to enlarge the categories of beneficiaries. The objective could be to open the system to multi-apartments buildings, condominiums, as

⁴ Déclaration de Politique Régionale 2014, p48

well as owners that are renting their buildings and corporations.

Different formulas could co-exist such as an Energy Efficient Renovation mortgage (longer period of reimbursement) or Energy efficient consumer credit (shorter period). The Brussels Green Loan could be opened to the majority of Brussels inhabitants as well as social housing corporations.

Finally, the Region is also considering to open the Brussels Green Loan to traditional renovation works that include those which are not only focused on energy savings.

2* The financing mechanism

a. The current Concept

HISTORY

In 2004, a financial stimulus was created to increase the renovation rate of the Brussels building stock: the Renovation Premiums. This project brought up an unexpected barrier: even if citizens wished to improve the energy efficiency of their house and even if the Region provides a grant to finance those works; some citizens (often vulnerable people) were not able to pre finance the works. Their project was frozen.

In 2006, a study was launched with the objective to find the best scheme to fix this issue. Five banks collaborated; Triodos, Fortis, CBC, Dexia and CREDAL.

The conclusions of the study were clear; the future scheme has to consider:

1. to limit the work of the financial organism that will undertake the management of the loan
2. to keep as much as possible the existing structure and minimize the costs
3. to set up a guarantee fund for the social targets

In 2007, a public tender was launched to find a financial partner for the Brussels Green Loan (at the time, its name was Brussels Social Loan). Only CREDAL made a proposal and accepted to be partnered with the Region in order to implement the loan.

CURRENT SCHEME

The Brussels Green Loan can be currently used for residential buildings only.

The categories of intervention measures covered by the instrument are:

- Building envelope: roof, wall and floor insulation; super insulating glazing; controlled mechanical ventilation
- Technical building systems: gas condensing boiler, thermostatic controls

The loan covers the costs of the technologies and materials as well as the installation costs - labour costs.

The criteria's to be a beneficiary of the Brussels Green loan are:

- being a Brussels inhabitants
- being a homeowner, landowner or tenant (in agreement with the landowner)
- having a limited income (see table below)

Even people with difficult access to credits are eligible

Financial Conditions:

	Annual Brut Income
Single	30.000 €
Married or cohabiting	60.000 €

The other criteria influencing the size of the grant (€) are:

- The age
- The number of children / dependents within household

Amount of Loan:

Min 500€ - Max 20 000€

The objective of the Region is to reach a minimum of 500 loans per year.

BUDGET

The budget for the Brussels Green Loan is fed by two different sources: the Regional Budget and the Regional Energy Fund. The later exists via the contribution of Belgian Gas and Electricity providers.

Thanks to this budget, the Region is able to:

- create a Guarantee Funds that CREDAL can use if beneficiaries does not pay their loan
- support the operating costs (running costs) within the bank
- support the payment of interests (subsidised loan)

With this support, CREDAL brings a fund to support Energy Efficient retrofits and the Region only supports the risk and the cost of the credit.

Note: CREDAL is not a commercial bank. CREDAL's main objective is to be a fair financial cooperative which provides micro-credits/credits to citizens and SME's.





A NEW FRONT OFFICE

The **Maison de l'Energie Huis** is since 2013 the front office for beneficiaries. This house helps all candidates in the application for premiums and/or green loan but also gives administrative information, engineering and architectural advices, contact details for subcontracting,... The Maison de l'Energie Huis helps citizens at all steps of the renovation. This front office is a real contact point for citizens. Its actions are holistic and adapted. 6 Energy Houses are distributing throughout the Brussels territory. This proximity is one of its biggest strength of the concept: thanks to this proximity, the communication between the Region, citizens but also other actors on the field has an excellent added-value.

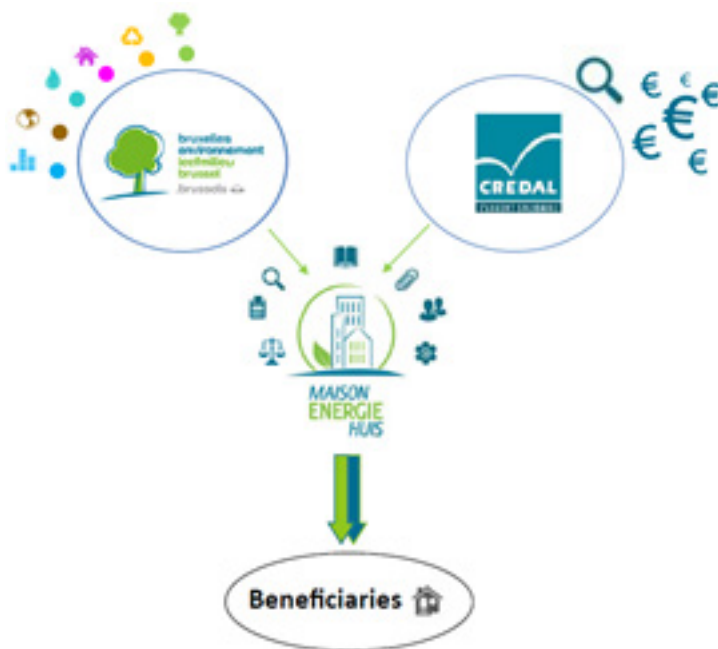


Fig.1: The Energy Houses are the front office for all beneficiaries. It provides tailored information but also a free architectural, financial, legal and environmental expertise.

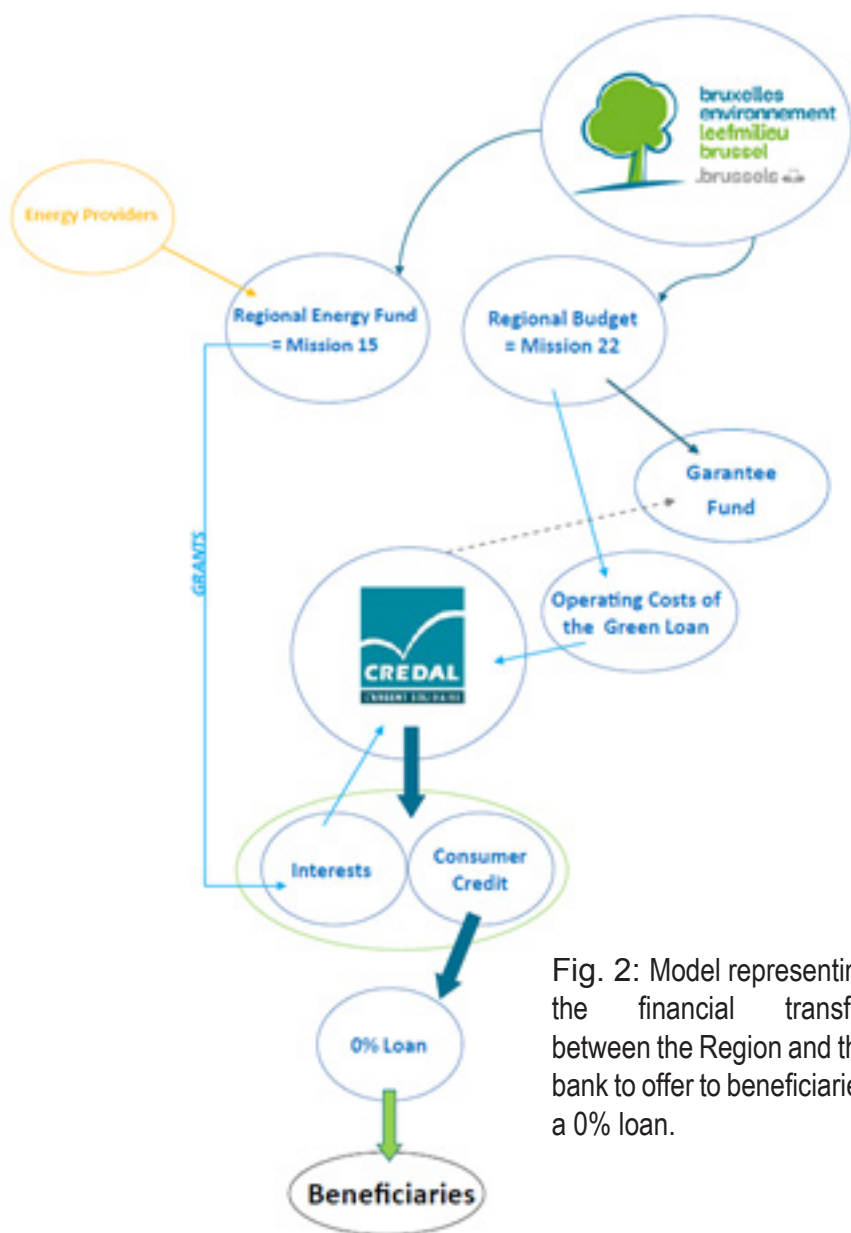


Fig. 2: Model representing the financial transfer between the Region and the bank to offer to beneficiaries a 0% loan.

b. Barriers of the System

The current Brussels Green Loan has existed for since 6 years but the results are under the expectations.

The reasons of the underspending of the *Green Loan Fund* are various :

- In 2008, the project was launched as a test. It took several years to develop the process and a good expertise.
- The bank partner is not well known from the Brussels inhabitants.
- The communication around the project was executed by the IBGE which is not specialised in financial products – lack of communication around it. Most of potential beneficiaries⁵ thought they were not eligible for the loan (false! Initially called Brussels Social Loan, it was modified to Brussels Green Loan to avoid misunderstanding with the concept of ‘Social’).

c. Identified alternatives

Even if CREDAL offers a good business model and is a good partner, the IBGE identified other potential partners to set up a more attractive Brussels Green Loan. Due to the fact that the Regional Government doesn't mention any additional budget for the project in its governmental agreement, this study will therefore present other potential lenders and other funding resources in order to feed the reflexion around this project and study the possibility to increase its use.

1. Potential Lenders

The question of the lending partner is strategic. Depending on whether the administration will work with a public or a private financial institution, the Regional budget is committed and has an impact on the Regional dept.

⁵ S. Gussé and T. Verfaillie, *De Sociale Groene Lening: Motivatoren & Barrières*, GfK, 12/07/2012

- CREDAL

The *Brussels Green Loan* is currently undertaken by CREDAL. One of the barrier is that CREDAL is not well known by citizens. The formula counts only one product: a consumer credit limited in the amount (500€ - 20K€) and time (max 7 years). This formula does not always fit the beneficiarie's needs.

- The Fond du Logement (FDL)

Le *Fond du Logement* is a cooperative, that is financed and controlled by the Brussels Capital Region. Its mission is to ensure the fundamental right to every citizen of getting an accommodation. Modest households can be helped by the Fond du Logement to get an easier access to mortgage credits, renovation credits as well as rental guarantees. Since 2011, it offers the 'Energy Performance Credit'; a variable rated loan that works as a mortgage. In 2013, 472 loans have been delivered by this fund. An option could be to imagine a merge of the Brussels Green Loan with the Energy Performance Credit.

Even if the FDL delivers more loans, the beneficiaries are limited to their audience. In fact, this Energy Performance Credit is suggested to fresh building owners. The Fond du Logement would grant the mortgage to buy the house and offer the Energy Performance Credit at the same time. The eligible population for this loan would have medium/low incomes and would therefore be limited.

Nevertheless, this possibility will be examined in detail.

- Triodos

At the starting point of the project in 2006-2007, Triodos was one of the contacted partner to finance the Brussels Green Loan. Today, Triodos has decided to finance strict categories of buildings. This includes passive houses and nearly zero energy buildings (nZEB), ecologic renovations (with focus on the material used) but also co-housing and 'kangourou' housing (multi-generational housing). Those categories are too limited for the Brussels Green Loan.



II. Target Audiences

In order to enlarge the eligible audience and increase the use of the Brussels Green Loan, the IBGE has identified other categories of beneficiaries.

- Condominiums: A federal law forces Condominiums to take decisions on refurbishments by voting with a $\frac{3}{4}$ majority. This obligation weights on the agreement procedure within condominiums. Internal discussions can be much longer compared to the discussions with single families. The solution would be to limit the power of decision to an absolute majority (50%+1).

The question of the responsibility in case of non-payment is also a point to clarify. The full legal framework must be though, tested and implemented at Federal level.

-Social Corporations: The Brussels Green Loan could be open to Social Real Estate (AIS or SISP). The renovation rate would be multiplied and a bigger number of citizens could be touched by this politic. The Region will analyse the needs and procedures to open the discussions with AIS and SISP in order to adapt the loan.

-Owners renting their building to tenants: Owners that intent to invest in building refurbishments also contribute to the decrease of energy bills, CO₂ emissions and urban regeneration. They must therefore be encouraged and should have the opportunity to benefit from the Brussels Green Loan. Rules must be clear and protect every tenants.

III. Potential Funding Resources

The extension of the Green Loan will have an impact on the Regional budget. The Governmental Agreement does not mention **additional budget** or funding to reach this goal, which means that the remodeling of the project must merge existing budgetary lines to increase its amount. This is already a barrier in itself. The Region will consider every opportunity to clarify the situation and sustain the most cost-effective, easy-to-understand and easy-to-access loan.

The studies⁶ that have been made on the expansion of the scheme showed that the budget needed to achieve 2000 renovations loans every year could go up to 1 million⁷ per year to cover the running costs (interests included) and 20 million € per year for the funding.

This study presents some options of EU financing solutions :

- EEEF – Deutsche Bank

The European Energy Efficiency Fund (EEEF) in collaboration with the Deutsche Bank offers to Local Authorities and SMEs the opportunity to get direct funds but also **investments to financial institutions** for Energy Efficient projects. This second option can be another funding opportunity for the Brussels Green Loan.

The EEEF finances projects in the range of 5M€ to 25M€. The weak use of the Brussels Green Loan shows that the project would not be eligible for the EEEF but thanks to an improved communication strategy and an enlargement of beneficiaries, the Brussels Green Loan could fit the criteria.

Another barrier is the fact that the EEEF does not finance 'private households': *"[...] eeef is targeting municipal, local and regional authorities and public and private entities acting on behalf of those authorities. At a direct investment level, only social housing projects that generally have a private character are eligible for funding."* In this context, further questions must be developed in order to know if the involvement of the EEEF within the IBGE and CREDAL or another partner is considered as a direct funding or not.

Deutsche Bank



⁶ Deloitte, *Structuration de l'activité de Crédit de la Maison de l'Energie, Phase II*, Mars 2013

⁷ The rate of the loan has a big impact on the budget

- European Investment Bank (EIB) - BELFIUS

The 'Smart Cities programme' established by Belfius Bank and the EIB can provide to local authorities low rate loans for Energy Efficiency, Urban Regeneration or Mobility projects.

The projects financed through this mechanism are supported at 50% by the EIB and 50% by Belfius. The total budget is 200M€ for each partners which means a total of 400M€ available.

Belfius manages the relations between the EIB and the local authorities. The Brussels Green Loan could be eligible but, on the other hand the IBGE must first see if this option can be considered.

All projects must be approved by the EIB and Belfius before the start of any funding. The fact that the Brussels Green Loan is a financial product to finance building renovations cannot be considered as the final project.

Even if this fund offers the opportunity to increase the energy efficient renovation rate, the possibility to implement a Soft Loan with those partners seems to be compromised because they do not provide any financial products; they directly finance the retrofit works through attractive loans. However, this option can be considered to refurbish Public Buildings as well as Social Housings.

- ERDF:

The ERDF program should launch a call for financing scheme by the end of 2014. It could be the opportunity to increase the budget to extend the scheme

- A private bank

If the scheme is not eligible or ambitious enough to meet the EU financing solutions requirements , another possibility would be to get a more "classic" financing solution with a private bank.

3* Conclusion

The Brussels Capital Region has a real need to clarify the offer of loans related to energy efficient refurbishments, and needs to boost and optimise the already existing products.

To reach this goal, the Brussels Capital Region is studying three options:

1. The possibility to create a single financial product (easy and attractive), implemented by a well-known organism
2. Extend the categories of beneficiaries to include: tenants renting their building, Corporations, AIS (Agence Immobilière Sociale = Social Real Estate), SISP (Société Immobilière de Service Public = Civil Real Estate),... supported by a focused - efficient - adapted Communication Strategy
3. Make this fund revolving in order to secure its viability

The Infinite Solutions project shows the wish to increase and boost the Brussels Green Loan and recast its formula to fit the needs of a larger audience.

- a. Other parts of the framework related to the implementation of the scheme

As decided in the last Governmental Agreement, the Region will undertake the rationalisation of existing services. The possibility of creating a single front office that will manage and coordinate the loans and premium but will also help and provide information to citizens.



b. Challenges and next steps

The upcoming challenges are:

- Getting the final political orientation agreed within the new Regional Government concerning the Energy House and the current Brussels Green Loan on the topic of: eligibility, beneficiaries, loan formula, financial partners,...
- Opening the discussions with hypothetic partners: Fond du Logement – CREDAL - Others?
- Comparing all options and decide with who to carry on
- To streamline the budget, the updated version of the Green Loan must become 'a revolving fund'
- Setting up rules of eligibility and legal frameworks
- Negotiate – Setup the new Brussels Green Loan
- Develop a communication strategy related to financial products and a targeted audience
- Launch the use of the new Brussels Green Loan
- Reporting and corrections if needed

Action Plan

HOW TO OVERCOME THE BARRIERS AND OBSTACLES TO THE IMPLEMENTATION OF THE BRUSSELS GREEN LOAN FOR NEW TARGET AUDIENCE?

Different solutions exist to overcome the different barriers related to the extension of beneficiaries of the Brussels Green Loan. Let's present all categories one by one.

In order to adapt the Brussels Green Loan to a larger audience, the Region could implement a scheme with different types of loan depending on the beneficiaries and their socio-economic situation. The Brussels Green Loan should not be a fixed financial product but should be flexible in its interest rate (while staying low), time of reimbursement (from 6 months to 10 years or more) as well as type of loan system.

- Condominiums:

The current rate needed to take a decision related to refurbishments is 75% for approval. If this rate was decreased to 50%+1, it could help condominiums to take their decisions more easily but also quickly.

Moreover, in order to avoid the lack of action due to fear of non-payment from other co-owners and being obliged to support the debt in common, a solution should be thought to support the non-payment cases.

Studies⁸ driven in 2011 highlighted the fact that condominiums were ready to pay for tailored advices and follow up on their project. The idea of a **Maison de l'Energie Huis** that undertake action and moderate the full renovation process is desired. The demand was focused on administrative assistance, mediation services and quality control with subcontractors.

- Social Corporations:

The Brussels Capital Region could open its financial products to social corporations like the SISP, AIS,... The Region will study the relevance and the need of such a product.

- Owners renting their building to tenants:

This category is a bit more difficult to activate. This is explained by the fact that they don't directly get a return on their investment.

HOW TO OVERCOME THE BARRIERS AND OBSTACLES TO THE IMPLEMENTATION OF THE BRUSSELS GREEN LOAN FOR A LARGER SCOPE OF WORKS AND SECURE ITS VIABILITY?

- An adapted rate for weakened public but also for Brussels Inhabitants

The access of the Brussels Green Loan must be open to all Brussels Inhabitants. The rate should be adapted to the situation of the applicant from a 0% to e.g. 2.5% or 3% for the others.

⁸ Consumer interest in services MEE/HEE', GfK, December 2011- January 2012

- A revolving scheme to secure the viability/independency of the project

In order to start, the project needs a financial input. The idea of a revolving fund is fundamental to avoid political and budgetary fluctuations that would destabilise the project. The Brussels Green Loan could outstrip the political and societal issues and become an independent financial product. This would secure its viability.

WHAT ARE THE NEXT STEPS IN THE IMPLEMENTATION OF THE UPDATED BRUSSELS GREEN LOAN?

- Communication:

The communication around financial products is specific. In this context, the communication around the Brussels Green Loan should be undertaken by a relevant and experienced Communication Agency.



Conclusions

This study has presented the different opportunities and barriers related to the current [Brussels Green Loan](#) but also solutions to overcome those barriers. The major barrier remains that the [Brussels Green Loan](#) is currently underspend.

The current frame of the Brussels Green Loan is an excellent start to develop and extend the concept to a new audience. The Infinite Solutions project stands as a real opportunity to learn from other countries and cities, taking example from existing schemes but also avoiding barriers and difficulties arising from the implementation of such a concept.

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