



Picture of Bruno Scramgnon from Pexels



Pilot Action 1 Summary report

P4 STRIA

SUMMARY OF THE PROPOSED FINANCIAL INSTRUMENT

Financial instruments are public policy instruments such as subsidised loans, credit guarantees and equity finance schemes designed to overcome market failures experienced by small and medium-sized enterprises to promote productive investments in a way that would not result though market interactions alone.

We have examined the available domestic and international examples and concluded that the most effective way of financing energy efficiency investments is to provide preferential credit. We found the involvement of SMEs, the selection of eligible companies for proposals and the reliability of the energy audits carried out by the companies to be significant problems. We believe that providing financial and energy auditing as a professional service (indirect support) could be the optimal solution for selecting the adequate companies.

The proposed financial instrument aims at supporting investments of SMEs for energy efficiency and advanced energy technology adaption purposes. The main goal is to reach optimal operation with the lowest energy consumption possible, and maximalise the energy efficiency of buildings and facilities.

For an efficient operation, the FI will be composed of two components. Component 'A' includes a thorough due diligence for approximately 300 businesses, ensuring nation-wide coverage by an independent expert consortium. This activity will result in a detailed Energy Innovation Roadmap at each SME, including financial background and possibilities, and the feasibility study of the energy efficiency investment. Businesses examined will have the opportunity to apply for subsidized loans to implement the developments within the framework of Component 'B'. Both components will be initially financed from the Operational Programme budget (with a possibility to attract private investment in the long run), through an Energy Fund established by the Ministry of Finance. For scheduling purposes and seamless operation, component 'B' will be constantly open until funds run out, 6 months after component 'A' is launched.

VALUE ADDED OF THE FINANCIAL INSTRUMENT

The added value can be interpreted several ways. The financial results of FI are primarily the multiplier and the leverage effect. The report compares two constructions the repayable and the fixed interest rate supported FI by an illustrative calculation of leverage and value added. The FI contains a revolving loan element which contributes to the value added by increasing the number of funded projects and the total amount of investment till and after the end of the program.

Compared to the financial, quantitative effects the qualitative dimension of value added consist of broad socio-economic consequences. The report contains a detailed qualitative analysis on the value added. The partner listed the following consequences of the FI as value creating:

- ◆ SMEs of Central Hungary have been excluded from several programs during the recent programming period but the proposed FI approaches that region as well.
- ◆ Under component 'A' the consortium of experts can approach those companies, which are invisible for the Management Authorities.
- ◆ The partner reported a significant market gap and the proposed financial product decreases the gap but is not distorting the competition
- ◆ Component 'A' lightens the administrative tasks of the Management Authorities (MA) because in component 'B' already audited projects apply for financing. This supports the workflow of MA in the followings:
 - Projects meet a standard high quality (component A)
 - Very high expected rate of submitted/ implemented project proposals
 - The loan element of FI filters project proposals, which are less likely to be financially viable in the long run. According to market experiences repayment task creates a strong incentive power to start only viable projects.
- ◆ Synergy: The expert pool will possess of a unique knowledge base for energy efficient investments which contributes to disseminating good practices and innovation among all partners.

Since the FI will be launched in the programming period 2021-2027 a real consistency assessment cannot be carried out because the other forms of interventions are not yet known, the report discusses the consistency of FI with programming period 2013-2020.

INVOLVEMENT OF STAKEHOLDERS

The report identifies the most important stakeholders and their relation to the project is also defined. There are detailed propositions provided on the sphere of actions of MA and other authorities. The short summary of roles of different stakeholders in the project is as follows.

The target group and the beneficiaries of the project are Hungarian SMEs.

Component 'A' will be operated via a consortium, selected through a call for proposal. Under component 'A' the consortium has the responsibility to provide due diligence services to at least 300 companies, ensuring nation-wide coverage and avoiding geographic concentration. Also methodology and framework of the assessment has to be developed by the consortium. Considering the widespread tasks of the consortium is based on the cooperation of different professionals in various areas from engineering to economy.

Component 'B' is operated by the management authority. As due diligence and the Energy Road Map already insures consistency, financial and technological viability of the projects, all audited SMEs after component 'A' can apply for component 'B'. Therefore MA has not to evaluate the applicants; all the candidates will be financed under component 'B'. Only elements listed in the energy audit may get financing. Thus it will be the responsibility of the Management Authority to select the eligible applications by taking account of the economic and technological aspects of the project ideas monitoring and reporting requirements should be defined by the Managing Authority and by the manager of the fund. MA should also report to Commission how the requirements of the state aid regulation are met. MA and fund manager are subordinated to Ministry of Finance

The partner insured a high level of involvement for stakeholders in the preliminary stage of the project. The FI was then adjusted according to the result of two stakeholder meetings, and a meeting with the relevant department of the Ministry of Finance. In order to understand the needs and limits of target group, a workshop for stakeholders from the beneficiary side and a workshop for stakeholders from the supporter side have been organised.

EXPECTED RESULTS OF THE FINANCIAL INSTRUMENT

The designed FI will be part of interventions in the next, 2021-2027 programming period. The time frame of the projects is divided in two phases. Component 'A' consist of the audit phase and component 'B' focuses on the investment of energy efficiency projects. These two components need at least two years. Thus the first project would not be initiated before 2022. After the finalization of the investment the results and equipment should be maintained for at least three years.

Since result indicators are measuring how the funded projects contributed to the aims of FIRECE project an appropriate design and selection of clear and measurable result indicators is crucial. On the one hand the result indicators must be clearly interpretable, statistically validated. But on the other hand the designed FI should be an appropriate tool to improve the value of the selected result indicator.

First group of expected results are the financial results of the project. Partially these results have been already covered under criterion „Proposed investment strategy“. In partner's report Table 13 contains the following financial results of proposed FI:

- ◆ Number of granted companies
- ◆ Number of granted companies receiving other than non-repayable grants

The target value of both indicators is estimated to reach 250 of companies.

Thus FIRECE has a focus on energy efficiency; the other group of indicators are measuring the improvement of energy related issues. Table 13 and 14 of partner's report propose the followings:

- ◆ Decrease in greenhouse gases per year measured in tonne of CO2 equivalent
- ◆ Decrease in primer energy consumption in the buildings of companies measured in kWh/year
- ◆ Decrease in primer energy consumption after energy-efficiency interventions measured in PJ/year
- ◆ Amount of energy gained from renewable energy sources measured in PJ/year

Target values for energy related indicators are not set by the partner; they should be estimated in future feasibility studies.

TRANSFERABILITY

As 99% of all companies belong to SME sector and most of them are either micro- or small-sized businesses, an extraordinarily fragmented market structure appeared in Hungary. To successfully assess businesses they were divided into two categories: SMEs were labelled as climate-friendly technology providers and general SMEs. According to the report (see page 15) quantitative methods and case studies helped to better understand both of the groups of SMEs.

The report overviewed also some related foreign good practices. It focused on existing instruments already in effect, with the same objective as defined in FIRECE. The Italian and Czech model elaborated within FIRECE have been analysed to identify good practices, margins of error and inefficient approaches, both regarding the project implementation and the operational background.

If the applied methodology theoretically allows generalization of results, a second question is whether the construction is appropriate to other regions or other member states in EU. As the proposed FI covers the whole Hungarian market, the transfer among regions is indirectly assured. The know-how and the construction itself can be transferable to other countries. The knowledge base which is created under component 'A' during the consultancy services provided by the consortium of professionals to potential beneficiaries is an important result of FIRECE project. It not only allows to better understand the needs and limits of Hungarian SMEs and to develop the most suitable interventions in the future to them but also offers a well defined basis for FI and product design in foreign countries which are at the same level of economic development.