**POLAND: ENERGY EFFICIENCY RENOVATIONS OF PUBLIC BUILDINGS**

**ASSESSING THE POTENTIAL USE OF FINANCIAL INSTRUMENTS FOR ENERGY EFFICIENCY RETROFITTING IN NON-HISTORICAL PUBLIC BUILDINGS UNDER EUROPEAN FUNDS FOR INFRASTRUCTURE, CLIMATE, ENVIRONMENT 2021-2027 PROGRAMME**

**TERMS OF REFERENCE**

1. **INTRODUCTION**

In 2021, the operation of buildings accounted for 30% of global final energy consumption and 27% of total energy sector emissions.[[1]](#footnote-1) In recognition of the efforts required to align the buildings sector to a Paris Agreement-aligned scenario, the Government of Poland seeks to improve the energy efficiency of the existing public buildings stock through the deployment of suitable financial instruments.

The European Bank for Reconstruction and Development (EBRD, or “the Bank”) has been appointed by the Polish Ministry of Development Funds and Regional Policy (MDFRP) to provide guidance on the use of financial instruments for the energy efficiency (EE) retrofit of non-historical public buildings owned by the Government of Poland, in the context of the European Funds for Infrastructure, Climate, Environment 2021-2027 Programme (FEnIKS).

1. **KEY OBJECTIVES OF THE ASSIGNMENT**

EBRD wishes to contract a Consultant to undertake a study (or “the assignment”) providing an analysis of available and potential new relevant financial instruments, as defined in Art. 2(29) of the EU Financial Regulation 2018/1046, for EE building renovation projects in Poland, as well as guidance on their use. Particular attention is to be given to the applicability of the EPC / ESCO model; however, it is key that the study considers the whole range of available and suitable financial instruments.

The analysis will adhere to the requirements of Article 58 of Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

The Consultant will develop a proposal of a financial instrument targeting different types of projects and beneficiaries, as well as different types and levels of energy efficiency interventions based on the EPC / ESCO formula and/or other models as appropriate (e.g. sovereign guarantees; concessional debt; etc.). To date, EUR 46 million of the FEnIKS Operational programme have been preliminary allocated to support EPC/ESCO projects in the sectors summarised in the following table, with the potential this budget to be significantly increased.

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector** | **Sub-sector** | **Project types** | **Potential final recipients** |
| **Energy** |   |   |   |
| Energy efficiency | Energy-efficient retrofitting of public buildings (incl. RES) in non-historical buildings | State budgetary units, universities, government administration, supervised or subordinate bodies and organizational units, entities that are energy service providers within the meaning of Directive 2012/27 / EU, acting for state budgetary units, universities and public authorities, hospitals and clinics managed by the central administration / organizational units, National Fund for Environmental Protection and Water Management (NFOSiGW) for the schools projects. |

The analysis will also include proposed possible actions to be taken by the institutions in charge of the implementation system in order to develop and disseminate the EPC / ESCO model in projects aimed at improving the energy efficiency of public buildings and to increase the volume of projects implemented with the participation of EPC / ESCO model.

1. **SCOPE OF THE WORK: TASKS AND ACTIVITIES**

# **Building Blocks of the Analysis on the Use of financial instruments**

In order to provide a basis to justify the use of the additional Operational Programme (OP) resources allocated to the Financial Instrument, the analysis provided under the Agreement will consist of two key building blocks, namely “Market Assessment” and “Investment Strategy”. The underlying methodology is designed to meet the specific requirements of Article 58 of Common Provisions Regulation (CPR) for an ex-ante assessment.

The Consultant shall undertake the following tasks, under Block 1 and Block 2:

**Block 1: “Market Assessment”**

In order to establish market failures and sub-optimal investment situations that would justify the use of financial instruments, an analysis of the market in terms of investment needs will be undertaken. The analysis will include estimated market size and structure, attractive areas and development perspectives, main barriers and opportunities as well as the role of the financial instruments and existing and past supporting structures. This includes the feasibility and appropriateness of using financial instruments from the point of profitability and bankability of investments in the identified sub-sector, absorption capacity and ability to meet the investment needs of final recipients.

Hereby, the experience gained so far in implementing financial instruments and repayable assistance from EU funds in Poland and other Member States will be taken into account. It has been documented that previous attempts to establish financial and other supporting structures have not had the expected impact in growing the market (i.e. the use of forfeiting mechanisms to support liquidity and market development).

A relevant market assessment and testing will be carried out through targeted surveys/ interviews with main potential stakeholders (i.e. national government, financial intermediaries such as local banks, final recipients, building owners, etc.). Additionally, desktop review of existing ex-ante assessments of the 2014-2020 period conducted at both national and regional level and other relevant published studies will be undertaken. As a result, the expected output would be to highlight lessons learned from previous similar efforts as well as the potential for using financial instruments for the sector and sub-sector , and, where justified, the use of the appropriate financial instruments will be recommended.

In parallel to the market research on the EPC / ESCO model, the Consultant will investigate opportunities for other innovative schemes which can make mobilise private funds to deliver deep energy efficiency in the public and private sector. One of these schemes is the Metered Energy Efficiency Transaction Structure (MEETS), which aims at addressing the barrieirs of the EPC / ESCO model. In addition to the market assessment, the Consultant shall carry out a gap analysis to the legal framework for implementation of the scheme and propose policy and legislative actions.

The Consultant is expected to organise targeted interviews and focus groups with key actors of the market, as necessary based on their expert opinion, to maximise the insight on the above topics. Indicatively and not exhaustively, the Consultant will interview representatives of MDFRP, EU, ESCO companies, Financial Institutions, project beneficiaries (local, regional and government authorities). In the inception report, the Consultant shall submit to the EBRD an initial programme of interviews, including target market actors and interview scenarios for approval.

* Output: Market Assessment report

**Block 2: “Investment Strategy”**

As part of this component, the analysis will, among others, outline the proposed investment strategy. Following the results of the market assessment, the analysis will comprise the potential allocation of the Programme contribution to the financial instruments, the characteristics of the financial products for the sub-sectors to be offered and final recipients to be targeted, the role of financial instruments’ managing and implementation actors and other related financial and legal implications. An assessment of the potential sources of public and private investments will be carried out in order to investigate the potential leverage of the proposed instrument and mechanisms to attract additional funding, including opportunities offered by the differentiated treatment of investors.

In line with the latest CPR Regulation and its relevant clauses covering ex-ante assessments, the potential for combination of financial instruments and grants within one operation will be assessed and integrated in the proposed financial products. An indicative timetable for financial instruments implementation will be proposed, including the extent to which technical support may be necessary to ensure the smooth development of financial instruments activities. The expected results consistent with the programme’s objectives (if applicable) will be established by means of result indicators, output indicators and performance indicators for the envisaged financial instruments. Finally, the provisions for the update and review of the ex-ante assessment will be elaborated to allow for any changes that are deemed necessary.

* Output: Investment Strategy report

The analysis carried out under Block 1 and Block 2 will inform an assessment of the appropriateness and relevance level of each identified financial instrument and combinations thereof for different energy efficiency measures and building types, as well as the barriers and opportunities for their use and related strengths and weaknesses. The assessment will be based on the following dimensions:

1. Market segment by building type (e.g.: hospitals; care homes; universities; office buildings; schools; etc.)
2. Market segment by physical works and/or services (e.g.: full energy efficiency renovation; installation of thermal insulation; replacement of lighting; installation or replacement of HVAC systems; etc.)
3. Attractiveness to stakeholders (e.g.: building owners; lenders; ESCOs; etc.)

A dedicated section of the final report shall provide a concise summary of the work, to be submitted to the Programme (FEnIKS). The summary shall include at least the following elements:

1. The proposed amount of programme contribution to a financial instrument and the estimated leverage effect, accompanied by a thorough justification
2. The proposed financial products to be offered, including the possible need for differentiated treatment of investors;
3. The proposed target group of final recipients;
4. The proposed objectives, KPIs and monitoring indicators of the products;
5. The expected contribution of the financial instruments to the achievement of the specific objectives.

**Methodology**

The assessment will be aligned with the methodology developed for the period 2014 – 2020 CPR[[2]](#footnote-2). The structure of the assessment is specified in the following table.

|  |  |
| --- | --- |
| **Ex-ante assessment Block 1** | **Market Assessment** |
| 1. **Overview of the conditions in the sector and available resources through the relevant Programme**
 | * Context analysis of the relevant sub-sector through desktop research
* Identification of business cases in the relevant sub-sector that have sufficient revenues or cost savings to allow for the use of EPC / ESCO contracts, taking into account the bankability of the final recipients through desktop research and expert interviews
* Identification of the main reasons and types of market failure and suboptimal investment situations in the target sector, including the identification of regulatory and other non-financial barriers to the implementation of EPC / ESCO through desktop research, interviews and focus groups
 |
| 1. **Market analysis**
 | * Analysis of existing and planned (if available) public intervention schemes in the form of grants and other financial instruments (EU and national) through desktop research and collection of data from implementing entities
* Analysis of supply of financing provided by public and commercial financial institutions and its ability to meet the specific needs of potential final recipients through interviews and workshops/focus groups
* Assessment of capacity of potential final recipients to mobilise own resources through interviews and workshops/focus group
* The market analysis will take into account changes to the socio-economic and regulatory environment, especially the effect of the COVID-19 pandemic, the Russian aggression against Ukraine and trends in the energy market
 |
| 1. **Lessons learned and experience**
 | * Analysis of past attempts to stimulate the ESCO / EPC market in Poland and lessons learned.
* Analysis of positive experience in other countries in Europe (i.e. Slovenia), where the EPC / ESCO market is considered sufficiently developed.
 |
| 1. **Justification of the use of financial instruments**
 | * Identification of market segments where the use of each financial instrument and/or combination thereof is justified and advisable, and providing reasons for it.
* Identification of sectors and sub-sectors where the use of each financial instrument is not recommended and providing reasons for it.
 |
| **Ex-ante assessment****Block 2** | **Investment Strategy**  |
| 1. **Financial products to be offered**
 | * Proposal of the financial instruments in the relevant sub-sector
* Assessment of the possible combination of financial instruments products with grants, such as investment grants, interest rate or guarantee fee subsidy and technical assistance
* Assessment of potential for implementation of other schemes for deep energy efficiency, like MEETS.
* Formulation of key enabling conditions for the successful implementation of the proposed financial instruments
* Elaboration on implementation barriers
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| 1. **Proposed target group of final recipients**
 | * Identification of the potential final recipients
 |
| 1. **Additional public and private resources**
 | * Computation of the leverage effect taking into account private and public national co-financing
 |
| 1. **Computation of a realistic Budget for the financial instruments**
 | * Determination of the level of funding to be transferred to the financial instruments for each of the recommended sectors and sub-sectors
 |
| 1. **The expected contribution of the financial instruments to programme indicators**
 | * Specification of the expected results and outputs of the financial instruments within the priority of the Programme (if applicable)
* Definition of reference and target values based on the specific contribution of the financial instruments to the priority of the Programme results and outputs indicators (if applicable)
 |
| 1. **Potential to provide additional public aid to financial instruments**
 | * Specification of possibilities to combine financial instruments with additional public aid. Any assessment of aid intensity depends on the final design of the financial instruments, therefore such an analysis has to be considered to be preliminary
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1. **IMPLEMENTATION ARRANGEMENTS AND DELIVERABLES**

**4.1 Implementation**

One consulting firm (or group of consultants) will be contracted for the execution of the assignment (“Consultant”). The available budget for this assignment is up to EUR 74,999.99.

The expected duration of the assignment is up to 19 weeks. The assignment is to be finalised by the end of August 2023.

The Consultant will be responsible for all logistical and travel arrangements necessary to undertake the Assignment.

The Consultant will report to the Bank and liaise with the EBRD Operation Leader on all aspects of the Assignment. The EBRD Operation Leader is Mr Kostas Dimopoulos, Climate Strategy and Delivery Associate; contact details: DIMOPOUK@ebrd.com

**4.2 Timeline and deliverables**

The indicative timeline for meetings and submission of the deliverables is indicated below.

**A. Kick off meeting**

|  |  |
| --- | --- |
| **Milestone** | **Target date** |
| Kick off meeting | 1 week after the signing of the contract |

**B.** **Reports**

|  |  |
| --- | --- |
| **Milestone** | **Target date** |
| Inception report and timeline | 3 weeks after signing the contract |
| Draft Market Assessment report  | 12 weeks after signing the contract |
| Draft Investment Strategy report | 17 weeks after signing the contract |
| Final version of the reports and presentation. | 19 weeks after signing the contract |

Deliverables will be produced in English and will be reviewed on that basis. The final version of the deliverables will be translated in Polish and submitted in English and in Polish.

Unless otherwise agreed or specified, the Bank will provide comments on deliverables within 2 weeks from submission, and the Consultant will address comments and submit a revised version within 2 weeks from reception of the comments.

Following completion of the final deliverables, the Consultant shall organise and deliver a presentation of the work and key outcomes to the EBRD and the Ministry of Development Funds and Regional Policy, in Poland.

Regular project management protocols between the Consultant and EBRD and the representatives of the MDFRP will be discussed and agreed at the kick-off meeting.

1. **CONSULTANT PROFILE**

The Consultant shall have demonstrated extensive experience in energy efficiency in buildings in Poland, as well as in financial instruments for buildings projects. Experience working with the Government of Poland, EBRD and/or other IFIs is desirable.

The Consultant’s team should cover all areas of expertise required in the Terms of Reference, and it is envisaged that the following expertise will be needed:

* Key Expert 1: Team Leader with degree in engineering, finance, economics or equivalent sectors and min. 10 years relevant experience in similar assignments in the energy efficiency sector (particularly in buildings). Experience working with the Government of Poland, EBRD and/or other IFIs is desirable.
* Key Expert 2: financial expert/economist with degree in finance, economics, engineering or equivalent sectors and min. 5 years relevant experience, with specific expertise on the EPC / ESCO model, energy efficiency contracts and relevant financial instruments.
* Key Expert 3: Energy efficiency expert in the buildings sector in Poland, with min. 5 years of relevant experience in particular in public sector energy efficiency projects.
* Key Expert 4: legal expert with degree in law, engineering, finance or equivalent sectors, with deep knowledge and min. 5 years experience in public finance and procurement legislation in Poland.

All members of the Consultant’s team shall be fully proficient in English speaking, writing and reading. At least one Key Expert (preferably the Team Leader) shall be also proficient in Polish speaking, writing and reading. Two or more of the above Key Expert professional skills profiles can be covered by one person, subject to provision of satisfactory evidence of experience.

1. **ANNEXES**

**Annex 1: Background**

Support under the Operational Programme will cover activities aimed at increasing the energy efficiency of public buildings, including, inter alia: building insulation and air tightness measures (e.g. replacement of existing windows with energy efficient ones), use of heat recovery technology, connection to the heating network, installation of new low-emission and/or renewable heat and electricity sources for own needs, including energy storage and heat pumps, replacement of lighting with more energy-efficient technologies (e.g. LED), metering devices enabling individual billing, equipped with remote smart reading functions and the use of energy management systems (BEMS), as well as modernization of ventilation and air conditioning systems. The replacement of an individual heat source based on the combustion of fossil fuels will be possible on the basis of the hierarchy of heat sources: 1) System heat, 2) Renewable Energy Sources (e.g. heat pumps, solar PV, solar thermal collectors) and 3) Sources that use gas fuel. Only the justification for the lack of technical or economic possibilities can be the basis for selecting a heat source with a lower hierarchy. In the case of system heat sources, the replacement of the coal-based source with gas will be possible only when the use of RES is not technically or economically feasible. Where possible, solutions to deploy eligible hydrogen technologies pursuant to Art. 7 of Regulation 2021/1058 ERDF / CF in energy and heating should be assessed.

In terms of improving the energy efficiency of buildings, the minimum threshold of required primary energy savings, taking into account the scope of the project, is 30% (except for monuments). The scope of activities in relation to buildings, technical devices or technological installations and processes must result from energy audits and shall ensure a longer building lifetime (e.g. waterproofing). In the case of comprehensive projects, legitimate elements not resulting from energy audits may also be supported, if they implement the broader objectives of the European Green Deal, including the strategy for the Renovation Wave, such as solutions contributing to the increase of green areas (e.g. green roofs and walls), development of electromobility, solutions for a circular economy, infrastructure related to accessibility, installation of energy storage, installation of water-saving systems, and building digitization devices. Support for elements beyond the energy audit will be possible for up to 15% of eligible project costs. The selection criteria for projects will take into account the promotion of cost-effectiveness in relation to the expenditure of EU funds, promotion of comprehensive energy modernization, promotion of greenhouse gas reduction, promotion of renewable energy in the modernization of buildings, complementarity with heating projects of the OPI&E / FEnIKS Programme, quality of implementation (e.g. ex-post audit), raising awareness of energy-saving behaviour of building users. In the case of thermomodernized buildings, an ornithological / chiropterological expertise is necessary. The beneficiaries of FEnIKS interventions in the field of energy efficiency of public buildings are government administration units (not local government).

The goal is to improve the energy efficiency of public buildings and achieve wider implementation of the EPC / ESCO model while respecting the European Structural and Investment Funds (ESIF) funding allocation for Poland under this heading.

Notwithstanding the potential of the EPC / ESCO model, it is important to note that its applicability to energy efficiency building renovation projects might be restricted to specific cases and measures. Additionally, challenges to the use of the EPC/ESCO model include legal barriers to the development of the EPC / ESCO market and the capabilities of potential beneficiaries.

There is a limited number of companies providing services in the EPC / ESCO formula, due to the construction risk as well as the risk of obtaining the guaranteed level of average annual energy savings by the provider of services related to energy consumption which has important economic and fiscal ramifications for the level of the public debt and deficit levels. Regulations concerning budget planning of public entities on an annual basis and the inability to incur long-term liabilities by state budgetary units are also important factors to consider. Wider use of EPC / ESCOs in public utility buildings owned by the State Treasury will also result in greater involvement of the state budget, especially at a time when the war in Ukraine is leading to rising costs in the region, including in Poland.

The results of the pilot EPC / ESCO model implemented by the National Fund for Environmental Protection and Water Management are not optimistic in the areas of deep thermal modernization, also due to specific drawbacks such as the identification of securities, which would not prohibit a disbursement of receivables. Therefore, the use of the EPC / ESCO model should be assessed in conjunction with other financial instruments to ensure the entire range of energy efficiency renovation measures are covered – from single energy efficiency interventions up to comprehensive building renovations.

1. <https://www.iea.org/reports/buildings> [↑](#footnote-ref-1)
2. Manual (Ex-ante assessment guidance, Vol I –V; <https://www.fi-compass.eu/publication/manuals/manual-ex-ante-assessment-guidance-vol-i-general-methodology> [↑](#footnote-ref-2)