

FINANCING ENERGY EFFICIENCY IN RESIDENTIAL SECTOR

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Thursday, 18 November 2021

Multi-apartment buildings in the Western Balkans

- **Gap Analysis of the Housing Sector in Western Balkans: Bosnia and Hercegovina, Kosovo, North Macedonia and Serbia**
- Eur 4 bln market for thermal rehabilitation of multi-apartment buildings
- Lending to HOAs is insignificant/non-existent
- Banks perceive lending to HOAs as extremely high risk due to multiple decision-makers and lack of collateral
- Single, largest untapped investment market

For multi-apartment buildings, grant co-financing is based on assumptions that EE is not attractive without grant component.

GEFF (25-35% cash incentive available but unused)

In some countries, financing is not offered to homeowner associations, even with grants.

Interdisciplinary critical analysis

Housing Perspective HOs/HOAs

- **Legal framework & Housing policies**
- Obligations/ Functional roles of:
 - Homeowners associations (HOA)
 - Residential building managers (RBM)
- Voting rights/decision making
- Generation of maintenance/ reserve funds
- Obligation to pay fees/ enforcement provisions
- Institutional structures

Energy Efficiency Perspective in MABs

- **EU EPBD and EED transposition**
- EE targets and building renovation strategies
- EE fund establishment
- EE obligation scheme
- Building energy certification
- ESCO/EPC in MABs
- Energy auditors/certifiers

Banking Perspective to HOA lending

- **Nonlegal obstacles** (risk management)
- Provisioning requirements, monetary policy, banking regulations
- Guarantee mechanisms
- Existing commercial banking products
- Development finance availability

Banking perspective

Financing Availability

Gaps:

Access to financing HOA's is very limited: mostly supported from municipal/state sources, or Funds, banks do not offer credit products, lines targeted to HOA's

Recommended Actions

Simplified legislation to facilitate majority voting
Reducing or eliminating subsidies by public financing

Institutional Capacities of HOAs

Gaps:

Low institutional capacities for financial management of HOA's assets (financial reporting)

Recommended Actions

Establish transparent documentation procedures for revenue streams
Generate reserve funds for down-payments and collateralization

Viability of Lending

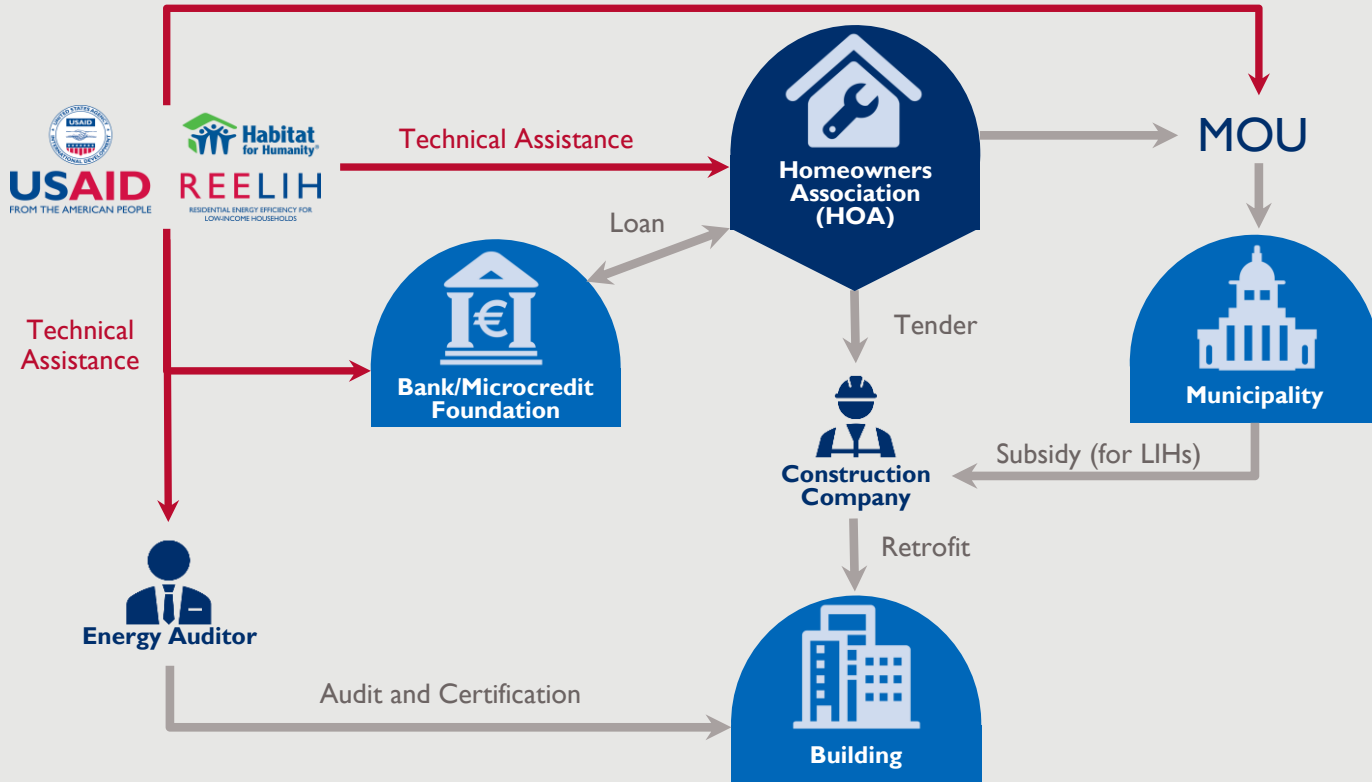
Gaps:

Limited perception of true market size
Risk and Risk Perception Gaps
Strick risk management standards (creditworthiness of HOA's)
Provisioning requirements specific to loan-finance (not project-finance)

Recommended Actions:

Develop and introduce credit lines for HOAs
Motivate banks
Provide loan subsidies
Cultivate credit guarantee mechanisms
Target well-performing MABs/HOAs

Financing: USAID approach to supporting EE investments



Key gaps in banking

Commercial Financing Eligibility and Availability

For HOAs – NON EXISTANT
In BiH, Serbia, Kosovo, and North Macedonia is almost nonexistent.

In BiH, financing of HOAs restricted by legislation, HOAs are not recognized as legal entities.

In other countries (e.g. R.S.) HOAs are legal entities, eligible for commercial lending

In practice, financing is limited or nonexistent.

Banking Regulations

HOAs do not meet strict regulations and requirements for borrowing

No specialized credit lines with tailor-made criteria for HOA lending

No guarantee mechanisms for HOAs credit risk management

No vehicles to encourage banks to create specialized credit lines for HOAs' needs.

HOA-related Risks

High HOA risk perception by banks

Lack of HOA creditworthiness due to irregular cash flow,

Lack viable collateral.

Low maintenance fees generate insufficient cash flow for creditworthiness, collateralization or loan repayment

Poor collection rate / enforcement of fees

Lack of consistent reporting or documenting its financial reliability.

HOA Governance Framework

Absence of domestic governmental initiatives for development of financing tools

No vision on investments mechanisms in building stock renovation

No public/state support to initiating financial service providers who consider/start commercial financing for HOAs

Recommended actions: improving the regulatory framework

1. **Simplify procedures** for collective decision making
2. **Ensure efficient supervision of HOA performance**
3. **Simplify the institutional framework** for enforcement of HOA performance oversight
4. **Define HOAs as a proper legal entity**, or any other legal form that enables HOAs to access financing.
5. Allow HOAs to have certain **enforcement recourse against owners failing to participate in repair and maintenance**
6. Adopt appropriate legal provisions that effectively and expediently deal with housing-cost defaulters.
7. **Clearly define the assets and revenues of HOAs**, including obligatory collection of additional maintenance fees
8. Increase the **financial discipline** of HOAs
9. Improve the **quality of financial information** and reporting provided by HOAs.
10. Develop **social housing policy** provisions offering
 - A targeted, need-based **“social fund/mechanism”** scheme
 - provide partial or full coverage of low-income households’ share in building-level investments, as well as partial co-financing to improve economic viability of non-bankable investments
11. Continue reforms in providing legal requirements for **building energy certification**, building energy codes for renovated buildings, and engagement of **ESCOs and EPC** in residential EE investments

Recommended actions: policy reform

1. The development of policies and strategies to improve the management and renovation of housing
2. Create specialized loan products/credit lines for investment in EE-integrated maintenance, retrofitting and structural upgrades
3. Develop policy tools and support schemes for low-income households
 - Income-related subsidies for refurbishments,
 - Social assistance for low-income households to be connected to existing housing allowances, etc..
4. Invite participation of all stakeholders, primarily HOs and HOAs, in designing and implementing reforms.
5. Create a solid fact-based policy roadmap for the building renovation
6. Update the National EE Action Plans (NEEAPs) and tracking implementation progress
7. Develop building renovation strategies, including: building stock inventory; policies and measures; solutions for renovation; RES and nearly zero energy buildings (NZEB); objectives and targets summary of financial decisions; roadmap for long-term strategies
8. Integrate the buildings sector into the broader low-carbon development agenda, including:
 - Development and adoption of NECPs
 - Development and
 - Adoption of National NZEB Strategy and Roadmap

Recommended Actions: Technical assistance, institutional support, and capacity building

1. Plan regulatory reform provisions as clear implementation milestones
2. Establish EE funds, housing agencies, or other institutional arrangements
3. Establish/recruit institutions for supporting HOAs and banks through community groups, municipalities, NGOs, energy auditing / consulting groups
4. Develop cadre of energy auditors and EE building design professionals
5. Improve coordination among government, donors, and IFIs.



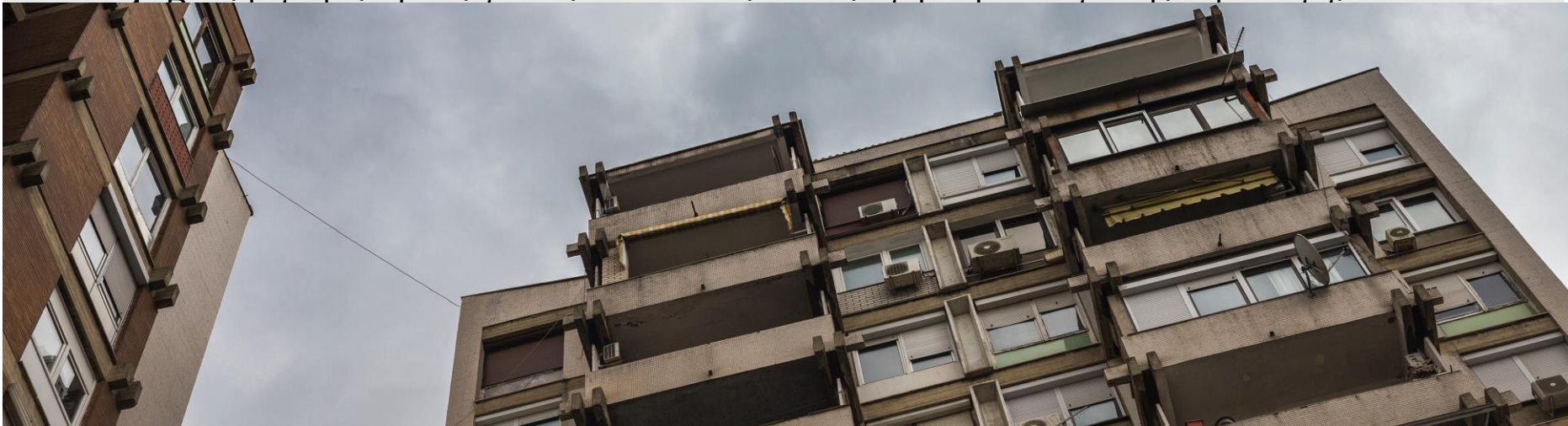
Recommended actions: raising awareness and promoting the concept of commercial financing for HOAs

1. Raise HO awareness about taking full ownership for the maintenance and renovation of common parts of HOA buildings
2. Raise awareness in the banking sector about the market potential for financing HOAs
3. Establish a dialogue/platform between banks and HOAs to close the gaps in understanding on both sides
4. Disseminate and promote information among key decision makers about best practices for financing.



Recommended actions: introduce mechanisms for commercial financing support

1. Establish a guarantee scheme and mechanisms for guaranteeing loans to HOAs
2. Develop and introduce HOA credit lines offered by international development and local institutions specifically designed to support on-lending to HOAs
3. Partially secure bank loans to HOAs by government grants to cover economically vulnerable groups



Thanks!

- Please check:
- <https://getwarmhomes.org/resources/>
- <https://comact-project.eu/>
- [Gap Analysis of Western Balkans](#)

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