EIB consultation on financing climate action
16 March 2015

Climate Alliance

Climate Alliance – Klima-Bündnis – Alianza del Clima e.V.

Brussels Office

1, Sq. de Meeus
1000 Brussels
Belgium

Tel +32 2 504 78 60

brussels@climatealliance.org
www.climatealliance.org

Introduction

The EIB financing must support the EU climate and energy objectives, and thus be closely linked to the policy objectives under the 2030 climate and energy framework – and now also within the principles of the Energy Union.

Climate Alliance, the biggest European local authority network focussing on local climate action advocates:

1. More and better suited financing for local authorities

Local level matters. For example the EU Covenant of Mayors is a movement led by local and regional authorities with an aim to meet and exceed the European Union 20% CO_2 reduction objective by 2020. The Covenant counts more than 6,000 signatories, 4,000 Sustainable Energy Action Plans and a firm commitment to reducing close to 30% of greenhouse gas emissions by 2020.

However, local authorities are still facing many barriers in launching wide-scale energy efficiency investments. Current financing instruments available are often too complex for smaller and medium-sized cities. The application of these instruments should be tailored on the different needs and sizes of local authorities. Small and medium sized cities will also have more barriers in getting investments because of the scale economy effect. Whereas bigger cities can reach high leverage factors, and implement projects that can serve as an example. However, using financial instruments in a wider scale (roll out) will require taking into account the needs of small and medium sized cities as well.

Capacities of local authorities on European funding, alternative financing schemes and their implementation will need to be increased. At the moment good examples are isolated and very context-dependent, which gives the impression that replication is very difficult. Projects (such as the CITYnvest[1]) are crucial for building capacities on innovative / alternative financing schemes.

Local authorities are best placed to design climate and energy projects, have the most accurate knowledge on the local potentials for energy savings and job creation, and ability to reach out to citizens and stakeholder groups.

[1] CITYnvest: 'Increasing Capacities in Cities for Innovative Financing in Energy Efficiency' will bring all necessary stakeholders together to find workable financing solutions. In practice, the project will introduce innovative financing models in 3 pilot regions in Belgium (Liège), Bulgaria (Rhodope) and Spain (Murcia) and will conduct a wide-scale capacity-building programme in 10 focus countries (IT, ES, BG, BE, LT, LV, RO, HU, AT, SK).

Simultaneously, this level lacks the capacity and adequate financial means to realise these projects.

2. *Making energy efficiency a priority*

Even if energy efficiency is often stated as a policy priority, implementing energy efficiency measures and investing in energy efficiency is still a bottle neck in EU energy policy. According to a European Commission study in 2012, support to energy savings is reported at a very low level around €9 bn, less than 8% of the €113 bn total energy support in the EU28.

The market of energy efficiency is fairly recent and capacities/competences of local administrations are insufficient to deal with (technically) complex energy efficiency financing measures that require interdisciplinary and integrated planning.

Local budget constraints also create barriers to deep retrofitting investments, which ask for long pay-back periods. At the other side, the private/banking sector has not yet prioritised the energy efficiency investments. They are reluctant to finance energy efficiency investments either because they do not have sufficient understanding of the "product" or simply lack willingness to do so.

The EIB initiatives that already focus on energy efficiency, such as JESSICA or ELENA, should be reinforced and more tailored to medium-sized and small local authorities. The capacity-building needs of local authorities facing budget constraints are high.

The EIB should continuously support the streamlining, blending and optimisation the use of European Structural and Investments funds, Horizon 2020 and the new European Fund for Strategic Investments to provide adequate financing instruments for energy efficiency projects. By doing so, the EU can unlock the multiple benefits of energy efficiency investments, boost sustainable job creation at the local level[2] and tap into the reduction of CO_2 emissions in a most cost-effective manner[3].

Theme 1: *Is a volume-based lending target an appropriate climate action target for the Bank? Is the current list of eligible projects in the sectors targeted for EIB Climate Action fit for this purpose? How should the Bank's climate action lending target evolve over time to reflect global policy development?*

[2] Up to 2 million sustainable jobs can be created u the field of energy efficiency measures by 2020 and this can be doubled by 2030 if a binding andambitious EE target (of at least 30%) would be adpoted (Energy Efficiency Plan, 2011; Impact Assessment on Energy 2030, 22-02-2014).

[3] If we take the example of the EU building stock, we see it is responsible for 40% of EU final energy use, has an extremely low renovation rate (1,2% annually) and is accountable for 36% of our GHG emissions.

There will be an increasing demand for financing to reach the EU 2030 targets and EU 2050 roadmap. Looking at energy efficiency, an in-depth renovation of the EU's building stock will require between €600 and €900 billion investments. Other estimations argument amounts between €60 and €100 billion/annually[4]. By showing a high public target for climate action lending, the EIB confirms a clear signal to other financial intermediaries and investors about the seriousness of these long-term goals and motivate other financial actors to act likewise.

It remains wishful thinking that the private market alone will reach these amounts of investments. In the field of energy unsustainable energy such as fossil fuel prices are artificially kept low due to the status quo of their public subsidies. This market distortion prohibits EIB loans (and others with triple A ratings and even favourable conditions), to kick-off the necessary scale of investments in e.g. energy efficiency.

The local level is crucial in order to reach the EU 2030 targets for energy efficiency, renewable energy and emission reductions. Local authorities are responsible for implementing measures in this direction and simultaneously, creating mutual benefits in boosting the local economy, attracting new investments and creating sustainable jobs[5].

Theme 2: *Based on its existing business model and taking current market constraints into account, how can the Bank further improve the solutions it is providing to foster more climate resilient low carbon growth, both within and outside the EU?* ***What role should technical assistance and increased channelling of EU grants through the EIB play?***

Technical assistance (TA) is a very useful tool to facilitate preparation of bankable projects. It has proven effective to build capacities of the public sector and at the same time enabling to work with private sector (public-private partnerships, using ESCOs) in a more efficient way. Technical assistance has allowed local / regional authorities to increase their capacities on energy performance contracting, for example development of model contracts and therefore scaling up contracting quickly.

However, some local authorities are reluctant to enter into energy performance contracting due to complex energy saving calculations. Therefore support for example from provincial and regional level can be very useful. They can

[4] Energy Efficiency Financing, JRC (2014).

[5] Evidence on this can be found in a portfolio, which Climate Alliance produced in the framework of the 20-20-20 targets. Find out more here: http://portfolio.climatealliance.org/.

accompany the smaller local authorities throughout the whole investment process.

TA provided to local authorities should not stop after market feasibility studies and the bankability rating. It should be accompanied with project development and implementation assistance/coaching during the whole term. Furthermore, it should focus on the capacity-building aspects where the learning process should entail long-term consequences also for other local authorities.

Most of the financing from the ELENA facility is being used by the Covenant of Mayors signatories or coordinators. This can be almost considered as dedicated financing for Covenant of Mayors and implementation of the Sustainable Energy Action Plans (SEAPs). However, the magnitude of financing (above 30 million euros) is still out of reach from small and medium sized local authorities. Therefore smaller project should be considered and new ways of bundling projects developed and promoted. Whereas TA has proven to be an important catalyser for regional authorities and bigger cities, it is even more crucial for small and medium-sized authorities.

The TA provided should incrementally lead to a more common approved set of model contracts and standards for e.g. energy performance contracting, revolving loan funds or third party financing and thus support European wide up-take of new and innovative financing instruments.

With the current development of the European Fund for Structural Investments (EFSI), we call upon the EIB to earmark sufficient financing to up-scale the ELENA facility for sustainable energy projects.

Theme 3: *Based on its experience with support for venture capital funds, RSFF/InnovFin and NER300, how can the Bank increase its support for European RDI and emerging low carbon technologies? How can energy-intensive industries that invest in innovation addressing lower carbon industrial processes be best supported?*

Financing innovation should not only be linked to technology – and in particular risky technology. Social innovation is a key to ensure that many of the innovative technologies that are already available are rolled out to the market and taken into use at a wider scale.

Carbon capture and storage CCS is often argumented of being a necessary step in the low carbon path. However, even in this context it has been acknowledged as being an intermediary solution. If the use of financing is considered from the view of 'best value for money', it would be better to use these funds to boost energy efficiency and developing energy storage technology instead.

Theme 4**: How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies? What sort of financing structures should be supported to best catalyse private sector finance?* ***Is the current EIB product portfolio appropriate to meet climate finance needs? How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects?

Currently we see the biggest market potential for investments in the energy efficiency field. It is a fundamental priority to reach a transition to energy security and the successful realisation of a sustainable Energy Union. The recent EEFIG report showed that energy efficiency investment levels are 15% below 2007 levels and this curve should be reversed due to the cost-effectiveness and wide-scale potential of this investment priority.

When public money is scarce the Public-Private cooperation is an efficient way to invest in public administration. Using a quantitative leverage is useful, but the capital injections should not only focus on quantitative leverage in general but also on quality investments with qualitative leverage (education, training, energy efficiency, CO_2 emissions etc.) For example technical assistance based on economical leverage is very useful to make European projects more efficient, but sometimes "forces" one to forget about low investment/high energy saving projects.

The EIB as an institution can actively promote the improvement of the PPPs, by for instance reviewing the public and private accounting treatment for energy performance contracts and ESCO facilities.

The above mentioned financing programmes should be deployed in the most effective way, which is currently done by moving from a 'grant-mentality' to a financial instrument approach. Even for public investments, it is true that the profitability can often (but not always) be ensured without grant-elements and by using innovative financing mechanisms. But by doing so, the TA as addressed under theme 2, is crucial to overcome barriers and bundle smaller-scale projects.

We call upon the EIB to boost the attractiveness and deployment of the market potential for e.g. following innovative financing instruments: green bonds, the cooperative models (citizen-based financing), the public use of revolving loan funds, mixtures of loans and guarantee funds and on-bill or on-tax financing mechanisms.

The EIB should support replication and multiplication of following local examples of successful innovative financing mechanisms. Networks such as Climate Alliance (with the current CITYnvest project) and initiatives such as the Covenant of

Mayors are in this process and are willing to advise the EIB on further capacity-building needs of LAs to deploy similar financing models:

On-bill financing:	UK Green Deal
TA, bundling of projects:	MLEI, Accelerate project
Third party financing (ESCO):	Climate Fund (Province of Limburg)
Revolving loan funds:	Fred & Ed funds of the Hague, PPT
Citizen-based financing:	GreenCrowding
	BetterVest (DE)
Green Municipal bonds:	Gothenburg (SE) green bonds

Both European initiatives, the Covenant of Mayors (climate mitigation) and Mayors Adapt (climate adaptation) are showing the potential of ambitious local action. Both initiatives are built upon voluntary commitments from local authorities. The EIB should actively increase the financial instruments that address these two initiatives, which are still lacking adequate financing. This should be done in a coherent way, instead of providing scattered financing instruments. Further financing should be targeted to support local authorities to develop and implement their Sustainable Energy Action plans (SEAPs) or Adaptation Strategies. Better targeted financing would also serve as an incentive to join the Covenant of Mayors or the Mayors Adapt initiatives and thus support the EU energy and climate policy objectives.

Climate Alliance welcomes the current pilot financial instruments, linked to the Life Programme (2014-2017), the Natural Capital Financing Facility (NCFF) and the Private Finance for Energy Efficiency (PF4EE), and especially their indirect loans and equity investments that take smaller projects of public authorities into account. Such instruments will hopefully become building blocks of a structural and improved set of financing instruments, which are accessible and feasible for local authorities to use.

The EIB should actively work towards the realisation of a better financial regulatory framework at the EU level to support capital market innovation for climate financing, ensuring standardized risk assessments and innovative financing mechanisms to reach capital requirements that kick-start long-term investments.

Theme 5: *How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process? Does the current approach of the Bank, to integrate a price of carbon into the economic appraisal of a project, adequately reflect issues such as carbon lock-in? How can the Bank further improve the EE and climate resilience of the projects it supports?*

The EIB's decision to integrate a price of carbon that reflect social and environmental (not current market) cost was a very significant step forward in

beginning to screen projects with carbon lock-in impact. Besides a further prioritisation of lending targets for energy efficiency, renewable energy, heating/cooling networks etc, the Emission Performance Standard should guarantee, in other sectors as well, a long-term contribution to a low-carbon society and therefore decreasing the carbon lock-in. However, the carbon emission threshold (550gCO2/kWh) level should be tightened in the 2030 framework. Also a more restrictive policy is needed to avoid financing projects that might undermine the EU 2050 roadmap and IPCC reports to keep global warming below 2°C.

EIB has developed different mechanisms for considering climate and related economic impacts in its practices. The Covenant of Mayors signatories could be given a specific status and allowed to receive preferential financing (fast track financing) due to their long-term and integrated commitment. This commitment includes submitting a Sustainable Energy Action plan and accepting to report on its progress every 2 years. The compatibility between the SEAP (SEAP template and monitoring template) and the EIB requirements should be analysed and the conditions for such preferential treatment assessed.

Even though the lending practices of current distribution infrastructure, refineries, highways or airports take into account the integrated carbon pricing, it does not reflect the EU's no-regrets approach and ability to meet these afore mentioned long-term objectives. When for instance energy efficiency improvements at coal or gas plants are categorised as pro climate action with these GHG assessments, they essentially prolong the lifespan of such plants leading to higher emissions.

Climate Alliance calls upon the EIB to consider the effective price of carbon in a consistent, coherent and systematic manner for the decision-making process for its whole portfolio. Acknowledging the step in the right direction that the EIB spends already one quarter of its portfolio for climate action and has an integrated carbon price, it does not safeguard that the other three quarters can still undermine its progress towards climate resilience.

Theme 6: *Building on its strong institutional position, how can the Bank improve its outreach on climate action issues to civil society, think-tanks, academia and the business community?*

Outreach should be more directly targeting local and regional authorities. An important focus should be on building capacities to bridge with project promoters, investors and public managing authorities to facilitate key investment projects, bundling smaller projects and ensuring that the right projects access appropriate sources of funding.

Other commercial banks or private investors often lack expertise or interest to invest in climate and energy projects, but are nonetheless aware of values at risk

and exposure due to climate change consequences. The EIB could consider closing this knowledge gap and actively support PPPs. The EIB should work on a strong connection between itself, local authorities and the other financial intermediaries or private sector. Local authorities represent the missing link – not often consulted but with large portfolio of investments to be implemented.

The EIB as the EU 'house bank' will increase its institutional role with the central management of the EFSI. The EIB should embrace this as an opportunity to improve its collaboration with local authorities and other stakeholders. The local authorities should have an important role in the one stop shop investment advisory "Hub". This should guarantee European priority-setting keeping in mind the overall policy objective (2030, Energy Union).

Since 2012 Climate Alliance manages an active 'Working Group on Financing'. The working group brings together local authority representatives to collect evidence of financial challenges of implementing climate and energy projects, and looks at innovative instruments to overcome these. The Working Group provides an interesting platform to exchange further on this topic with the EIB and to provide more concrete recommendations.

***Theme 7**:*
How could the Bank continue to develop its leadership and collaboration with other multilateral development banks and international financial institutions to better support the international climate finance debate and negotiations? What partnerships should the Bank develop in mobilising the UN-pledged USD 100bn annually by 2020 to support technical assistance and funding for mitigation and adaptation projects in low and middle-income countries?

The European initiatives, Covenant of Mayors and the Mayors Adapt, could also serve as an example of multi-level governance beyond EU borders. They could be used as a means to do decentralized cooperation towards low and middle-income countries outside the EU. Financing instruments such as SE4all and the Green Climate Fund could use the European experience as a model to support city to city exchange between the European and non-European countries and thus build local capacities on energy management and planning.

CONTACT DETAILS:

Pirita Lindholm – Director Climate Alliance Brussels
p.lindholm@climatealliance.org

Elise Steyaert – Policy Officer
e.steyaert@climatealliance.org

Climate Alliance

ABOUT Climate Alliance

"Climate Alliance of European Cities with the Indigenous Rainforest Peoples" is the largest city network committed to climate protection and preservation of the tropical rainforests. Since 1990, Climate Alliance has supported a total of now almost 1,700 members from 24 European countries in attainment of their voluntary commitments to reduce CO_2 emissions by ten percent every five years and to halve per capita emissions by 2030 at the latest (base year 1990).