Position Paper
Brussels, 19 October 2015

Climate Alliance takes a stand on Juncker Investment Plan and EIB strategy

Introduction

The Juncker Investment Plan and the EIB Climate Financing strategy could be seen as a window of opportunities for supporting ambitious climate and energy actions on the ground. In a decentralised manner, the Juncker Plan and the newly revised EIB strategy can trigger new financing solutions for local authorities via e.g. the bundling of smaller-scale energy efficiency programs. Climate Alliance increased its action radius towards the operationalization of the European Fund for Strategic Investments (EFSI) and the European Investments Advisory Hub (EIAH). In both, the European Investment Bank plays a significant role and therefore we continued collaborating with the EIB to tailor both instruments to the local realities and elaborate our arguments on their Climate Strategy. We have received positive signals from both the Commission and the EIB, and we continue to advocate for workable financing solutions for local authorities.

European Fund for Strategic Investments

The European Parliament accepted the Delegated Act on the scoreboard for indicators on 21 August to select projects under EFSI and thus the current format of a scoreboard with 4 different pillars is consolidated. Climate Alliance shaped this process by sending letters with detailed argumentation to the competent Commissioners and European parliamentarians. The scoreboard includes the following suggestions from Climate Alliance:

- Projects with horizontal objectives, such as climate action, should have substantially higher weight in the rating scale.
- The Economic Rate of Return standard (ERR) is adjusted for the projects with long-term climate objectives. Such projects can have a much lover ERR (3,5 %) than in the business as usual projects (7%)
- Certain standards for sustainability both in environmental and social terms must be met.
- Under pillar one ‘Quality and Contribution to Sustainable Growth and Employment’ the energy efficiency sector is mentioned as example for ‘high labour content’ during the construction side.
- The added value of the EFSI guarantee (e.g. the higher risk profile and that the project would not be financed without the support) is added in the EFSI legislation. The required reporting on the so-called ‘additionality’ will be public and should contribute to the accountability and analysis its sustainability.

Furthermore, the collaboration with National Promotional Banks (NPBs) and the creation of Investment Platforms can have a positive impact on the decentralised access to EFSI. However, more clarity is necessary on how these platforms will operate in practice and how these could enhance bundling of smaller-scale projects.

We received replies from the cabinets of Commissioners Jyrki Katainen (Vice-President for Jobs, Growth, Investment and Competitiveness) Miguel Arias Cañete (Commissioner for Climate Action and Energy) and President Juncker to the letters. The main points of these responses were the following:

- Technical Assistance should be further increased in order to exploit better the potential of +4,800 SEAPs.
- Highlighting available financing instruments for energy efficiency (incl. ELENA, PF4EE[1], EEEF, Natural capital financing facility of the Life programme).
- Even though there is no ring-fenced budget for energy efficiency, the EIB received a clear mandate to prioritise the sector.

As also stated in our previous briefing, Climate Alliance believes that the EFSI should not serve as a capital injection to finance business as usual projects under better conditions (i.e. an EU guarantee). As the EFSI is about fast-track financing on a first come-first-served basis for the coming three years, we have to make sure that the guarantee does not only reach the usual suspects but is transparent and does sufficient effort to bundle smaller-scale investment projects. Let's not forget that around €6 billion of CEF and Horizon2020 financial resources were shifted to this guarantee fund. The National Promotional Banks will play a crucial role to bundle projects and channel the funds in a decentralised manner. Also the Managing Authorities (MAs) have a role to play, especially in blending EFSI with European Structural Funds as they have experience with the JESSICA (Joint European Support for Sustainable Investments in City Areas) and JASPERS (Joint Assistance to Support Projects in European Regions) instruments that remain important vehicles for technical assistance and co-financing of the EU funds. This is also why we are seeking to enter into a dialogue with DG Regio in order to see how we can facilitate this blending of funds.

Meanwhile, 13 projects have been selected to benefit from the EFSI guarantee fund, and this number is increasing rapidly. As mentioned, some big infrastructure *business-as-usual* projects are in the list (e.g. extension of an airport in Dubrovnik) but also two positive projects that caught our attention. We will highlight these as the way forward for the complete the EIB EFSI portfolio.

[1] The **DEEP green initiative from EIB** is established to support innovative projects and provides risk-sharing/risk-reduction mechanisms to stimulate additional low-carbon development projects. The DEEP Green initiative was launched to complementing EIB existing financing for EE investments. It aims at developing a suite of new financial products for four key groups of players in the EE market: banks, public sector, ESCOs and utilities. The Private Finance for Energy Efficiency (**PF4EE**) is one exemplary scheme, helping local financial intermediaries to support the roll-out of the NEEAPs and to increase the lending for EE projects, by providing e.g. long term low-cost loans and credit risk protection.

Energy Efficiency in residential buildings Programme in Île de France & Picardie

- These French regions have already a positive track record in EE investments and will elaborate their third party financing scheme to provide 'one-stop-shops' to homeowners and housing associations. The two innovative financing models applied in the regions (Energies Posit'IF and SPEE Picardie) are analysed in the framework of the CITYnvest project, as they are fairly mature and aim both at deep renovations. The EFSI should in the next step be used to replicate the lessons learned in these regions in those that are not yet in an advanced stage. The challenge lies in moving from being 'innovative' to mainstreaming and multiplying these examples, which served as great evidence for the viability of such financing models.

Third Industrial Revolution in Nord-Pas de Calais

- A public-private investment company will be created to invest in the low-carbon economic developments of the region, following their zero-carbon emissions target by 2050. The investment company will use a combination of EFSI, their National Promotional Bank (CDC), structural funds and private investors.

European Investments Advisory Hub

The European Investment Advisory Hub (EIAH) is set up as a joint initiative of the European Commission and the EIB 'to help strengthen and accelerate investment'. It should provide *better-coordinated* guidance on the preparation of projects and on how these can best gain access to finance. The Hub should be seen as an 'umbrella' or 'single access point' for the technical assistance (TA) and advisory services. Until now, it doesn't mean more than a (rather empty) website and perhaps some additional staff in the EIB. During a meeting with the EIB in Brussels we were informed on the fact that the Hub is also 'demand-driven' and the contact form, which is available on the website, is already being submitted by different entities. We are concerned that the local authorities that need the advisory services the most, are the ones who are not aware of such a Hub. There is an additional technical assistance budget available of €20 million, but it will merely function as a redirection to existing financing instruments and TA facilities, such as under H2020 (call EE22 in the current draft).

Focusing on the field of energy efficiency and the need for TA, these projects are often characterized by numerous diffused smaller projects[2] and need significant up-front project development investments. Climate Alliance advocates for standardized

[2] One of the reasons therefore is the often used 'guaranteed energy savings model' (Energy Performance Contracting), which needs a certain size to mitigate the risks of not achieving the exact energy savings in building X, but compensating by additional savings in building Y. Furthermore, as these projects have long-term payback periods and high transaction costs (often due to different building types and owners), financiers want to optimise the invested effort for bigger projects to reach 'economy of scale'- advantages**.**

procedures tailored to EE projects, lowering the risk rating by re-grouping the different projects, often located in different municipalities. This 'portfolio-approach' of bundled projects should be supported by TA and first-loss guarantees in order to ease the way for other financial institutions to provide (concessional, soft) loans due to a higher trust in this new sector. The long-term nature of these projects, combined with intangible unsecured assets and often stakeholders who don't have a long track record in energy efficiency (no core business) provides the arguments why the Hub and EFSI should provide the necessary 'push' to speed up the investment rate. The Hub could play a significant role in the creation of a credible pipeline of these projects via the availability of sufficient funds, Project Development Assistance (PDA) and TA.

Climate Alliance wants to investigate whether we can play a pro-active role to bring together different actors (members, NPBs, MAs and Covenant Coordinators) to explore new ways of bundling smaller-scale projects.

Another major challenge many local authorities face is the **debt consolidation** framework, which affects their capacity to launch EE investments because they appear as debt on their balance sheet. The regulatory frameworks (European System of Accounts and "debt consolidation rules") should provide other procedures for enabling public energy efficiency investments in a more 'balance-sheet-neutral' way, such as in innovative PPPs.

Commissioner Marianne Thyssen is bringing this topic to Eurostat's table, which is in charge of defining the impact of e.g. energy performance contracts on public accounts. Eurostat provided a particular guidance note on this topic on 7 August 2015, stating clearly that **Energy Performance Contracts will always be consolidated on the public balance sheet at the national level**. However, for sub-national governments, this is less obvious and should be further investigated.

EIB Climate Strategy

Climate Alliance welcomes the recent efforts of The European Investment Bank of reviewing their complete climate financing strategy and opening the debate to the wider public. However, the results of these recent developments shows a very mixed picture with a great emphasis on the business as usual and no changes in the underlying structures such as the Emission Performance Standards and its overall Climate financing target of 25%. On the 17th of August 2015, the EIB published their draft outcome on the 'EIB Approach to support Climate Action' consultation Climate Alliance provided a detailed answer to. Climate Alliance had different constructive discussions with the Bank, to elaborate our arguments based on what's happening on the ground in our member cities and municipalities. Amongst these are the following:

- The commitment to **enhance technical and financial advisory services** mentioning both project preparation (TA) and implementation support (long-term guidance). Local authorities, such as the +6,800 Covenant of Mayors signatories have numerous projects as part of their **Sustainable Energy Action Plans**. This potential answers to the need of the EIB to finance sustainable projects that are integrated in long-term urban plans with a political commitment close to 30% of CO^2 reduction by 2020. However, many of these projects are in a rough stage and need support to become bankable. Climate Alliance strongly urges the EIB to **embrace this potential** and acknowledge SEAPs added value for receiving technical assistance.

- The EU-policy driven bank should fully endorse the '**Energy Efficiency First' principle**, by increasingly addressing its high investment demand: EU's building stock will require between €600 and €900 billion investments[3]. This is clearly a 'no-regrets' solution: being a key enabler of reaching EU's 2050 decarbonization goals, being cost-effective, creating a big amount of domestic jobs, having social inclusion benefits and improving our continent's overall energy security. This principle offers a win-win situation for the EIB: by increasing investments in EE, the EIB also reaches its **other strategic priorities** such as supporting SMEs, regional development, innovation and research and competitiveness. On top, it also partly reduces the centralized (trans-European) energy infrastructures costs in an effective way. There should be a general priority for the long-term energy demand reduction and greater flexibility and decentralisation through support for increased energy efficiency, electricity storage and greater local/regional grid interconnections. To realise 'best value for money' in the EIB lending portfolio, the bank should drastically improve its long-term assessments for eligibility criteria accordingly.
- Furthermore on energy actions, the EIB's **Emissions Performance Standard should be increased to 350 g CO2/kWh** (in stead of 550), allowing only the best available technologies to be supported because A) there is no rationale for further procrastinating, B) it is a step in the direction of completely phasing out fossil fuels support and C) it shows a clear signal to both industry and investors.
- "A **typology of high-impact projects per sector** will be developed. This can be assessed in different ways, for example by looking at available sectoral decarbonisation roadmaps or carbon intensities", is a step in the right direction. Climate Alliance asks the EIB to provide **a clear timeframe** for this to turn this draft into a more concrete strategy.

[3] Other estimations argument amounts between €60 and €100 billion/annually according to Energy Efficiency Financing, JRC (2014).

The EIB included also Climate Alliance arguments and added following response in their analysis:

"The Bank agrees that the local level is crucial to achieve climate objectives and seeks to **develop new collaboration opportunities with local authorities**. Although much has been achieved by the examples mentioned by stakeholders, more remains to be done, particularly in **local capacity building**. In fact, one of the main strategic action areas identified in the EIB Climate Strategy goes in this direction of increasing impact of our climate action by reaching smaller and local projects and complementing finance with advisory services. One of the main current barriers in some countries is **fiscal discipline** and **budgetary constraints** that significantly reduce the capability of local authorities to borrow from the EIB. The Bank is actively **promoting private-public partnerships** (PPPs) or other instruments with local authorities to attract private sector finance."

We furthermore welcome the clear recognition of prioritising also **climate adaptation** financing, as this is one of the three main pillars ('Building resilience to Climate Change'). Experience within the Mayors Adapt initiative has shown that local leaders are willing to take a long-term commitment for adaptation, but accessing financing remains difficult and new financing instruments such as the **NCFF are still in their piloting phase**. Once adequate financing for adaptation is available, it should also be channelled effectively to those who implement the measures, which are often the local authorities. New ways to give a specific status under the idea of "**fast track financing**", as a recognition of long-term and integrated long-term commitments, should be mutually investigated for the main EU initiatives: Mayors Adapt and Covenant of Mayors.

Finally, we advocate towards **raising the overall Climate Action target**, which is still stuck at 25% since 2011. As public bank, this target shows a clear signal to the financial sector in general and should show higher ambition. Acknowledging already the steps in the right direction of the one-quarter and the integrated carbon price, it does not safeguard that the other three quarters can still undermine its progress towards climate resilience. According to DIW Berlin[4], the EU 2030 targets (40% GHG emissions, 27% RES and EE) will require €2,5 trillion of investments in the EU (by 2030). Considering the need to increase the investment rate and given that the EU CO^2 target has doubled for 2030, **we expect from the EU policy bank to follow a similar trend and increase its target**.

Finally, as a general remark, we urge the EIB to develop further the Climate Strategy in to a **concrete action plan, with measurable and verifiable indicators, more ambitious objectives, and a clear timeline.** The current version has an insecure vagueness that could lead to non-action. In our opinion, **the COP21 in Paris** should be

4 http://www.diw.de/documents/publikationen/73/diw_01.c.469255.de/diw_econ_bull_2014-07.pdf

seen as a milestone and window of opportunity to pull the EIB concrete strategy to its adequate level.

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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 more than 1,700 members from 26 European countries in attainment of their voluntary commitments to reduce CO2 emissions by ten percent every five years and to halve per capita emissions by 2030 at the latest (base year 1990)