

Energy Cities' contribution to the Public consultation on EIB approach to supporting climate action

16th March 2015

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?*

- A volume based lending target is not an appropriate climate action target by itself, but it remains necessary to ensure appropriate levels of funding to the low-carbon economy
- The bank needs to develop a portfolio level vision that is consistent with the overarching 2050 emission reduction objective of the European Union

Energy Cities does not believe that a volume based lending target is, by itself, the most appropriate climate action target for the EIB. It is crucial that a certain volume of the Bank's lending be earmarked for climate action, in order to deliver the level of funding necessary to take the transition to a low-carbon economy. Indeed, the European Commission for instance deemed necessary to earmark at least 20% of its 2014-2020 budget to climate action, and to mainstream climate action criteria to all its sectors. The Bank cannot be less ambitious than this. Thus, a volume-based lending target can only be appropriate while coupled with a portfolio level vision of the EIB's investments in a decarbonised long term perspective. For instance the Bank should only fund projects that are consistent with the EU's long term climate objectives defined in the *2050 Roadmap*, and more generally a 2°C world. For instance assets such as motorways or airports, sources of high induced demand for fossil fuel consumption would be banned from EIB funding (or at least always be weighed against the feasibility of a low-carbon alternative such as high-speed rail).

Overall, we consider the criteria governing the list of projects eligible for climate action lending by the EIB to be rather positive overall. Yet the EIB lags behind other public investment banks in terms of funding for energy efficiency actions, which was put forward in an OECD study surveying 5 public banks¹. As energy efficiency's business model differs from that of more classic energy projects, specific instruments and criteria must be developed to address it. The EIB should be a driver of exemplarity for other institutional lenders in the matter, especially as "Energy efficiency first" is increasingly the motto of the European Commission for the Energy Union project. Instead, it seems to be that the KfW has a leading position in the field, notably thanks to its partnership with local authorities.

Still, Energy Cities welcomes the attention given by the bank to urban transports. However, we regret that nuclear energy is included in the list of eligible projects for climate actions lending by the EIB. Indeed, nuclear energy is a large scale, mature and centralised energy that has been – and is still – draining significant amounts of subsidies from the EU and from national governments. Therefore it should not benefit from lending by an institutional investor such as the European Investment Bank. Indeed, awarding EIB climate action funding to nuclear energy diverts financing away from projects benefiting from less national support and have more dire need for earmarked financing.

¹ Cochran, I. et al. (2014), "Public Financial Institutions and the Low-carbon Transition: Five Case Studies on Low-Carbon Infrastructure and Project Investment", OECD Environment Working Papers, No. 72, OECD Publishing. <http://dx.doi.org/10.1787/5jxt3rhpgn9t-en>

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?

To foster resilient low carbon growth, the European Investment Bank cannot remain focused on large infrastructure investment. It should instead concentrate on projects carried at the local level that provide returns for the communities, notably in the form of the “green jobs” sought for by the European Commission and Member States. Community level projects create economic activity within a territory by re-localising services or productions of energy. This is significant for “resilient low carbon growth” when the EU spends some EUR 1 billion/day to import fossil energy. Besides, because they are realised jointly by the member of the community, these projects yield a more democratic repartition of the effects of growth, which is the only way to create a resilient society – and jobs. The Bank should work at addressing this level of project, for instance through the development of facilities aggregating small projects and facilitate funding.

Cities and communities have a deep knowledge of the resources of their territories and a long term vision of how to develop them, and are as such a key partner for the EIB’s climate action lending: Covenant of Mayors cities have for instance developed Sustainable Energy Action Plans to 2020. Scaling up programmes of Project Development Assistance such as ELENA is a key step in unlocking the potential of these actions plans. Indeed, it gives the opportunity to actors that may lack the technical (or just financial) capacity to develop a bankable project to do so. Moreover, mechanisms such as ELENA also yield capacity building benefits and can create long term positive dynamics for climate action investment by developing local pole of expertise. Consequently, the European Investment Bank should use the EU grants it channels to leverage private investment in locally based projects for supporting investment in local authorities with budgetary constraints. The bank should also extend programmes such as ELENA in new Member States. For instance, over 34 signed ELENA contracts there are only 3 concerning local authorities in Eastern European Countries.

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?

Energy Cities believes that the EIB should focus RDI funding for emerging low carbon technologies for small scale renewables energy production and for energy storage. The bulk of financing mobilised for RDI under the RSFF/InnovFin and NER300 should not be dedicated exclusively to CSS technologies.

Moreover, funding from the EIB in the form of venture capital should also benefit to community based companies that propose innovative organisational models, not only innovative technologies. Indeed, as some renewable energy sources reach technological maturity, it becomes increasingly crucial to develop new organisational models that will allow scaling up their penetration of the energy system. As shown by Germany’s *Energiewende* (mostly carried out by local structures) the traditional actors of the energy system are not always the best for delivering investment in emerging low-carbon technologies.

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?

- Aggregate the small projects for energy efficiency and renewable energy, and do capacity building at the local level
- Develop the elements of the product portfolio that are most adapted to climate finance such as Project Development Assistance for energy efficiency and renewable projects (ELENA)
- Focus on smaller scale projects, even if that implies carrying more risk, with high replicability potential across the European Union, for instance finding inspiration in the model of the KfW.



The most effective way to support additional private sector investment in the low-carbon, resource efficient, climate resilient technologies is to aggregate small scale projects developed at the local level. Community based projects have more difficulties to receive private funding as they tend to provide smaller short term returns for private investors and are generally riskier. Yet, they typically correspond to the long term framework of the low-carbon economy and to the needs based approach in which the energy system must engage to achieve decarbonisation. As an institutional investor, the European Investment Bank therefore has a role to play in supporting community based projects. The Energy Efficiency Financial Institutions Group for instance underlines the relevance of aggregation mechanisms for energy efficiency investment: they are smaller, and need to be standardised and bundled to reach economic scale. This recommendation should be extended to the financing of local RES projects.

Such mechanisms could take the form of local hubs for financing climate action that serve as aggregators of projects, and provide project development and technical assistance. Energy Cities suggests that local energy agency could serve this purpose, as they have the technical expertise for energy projects and would mostly need capacity building for acquiring financial expertise. They could thereafter become the local relays of the EIB's climate actions. To unlock additional private investment in low-carbon technologies for long term sustainable growth, the EIB needs to support highly replicable innovative projects, grounded in realities of the territories, even if that means carrying more risk.

To meet climate finance needs, the European Investment Bank will however need to make changes to its product portfolio. Indeed, financing the transition to a low carbon economy will suppose that the energy system will increasingly be decentralised. This supposes that the Banks shall develop financing products accessible to smaller projects. A major lead for doing so is to develop mechanisms that allow the Bank to finance such project, for instance through the creation of aggregation facilities.

An existing interesting model of public bank with good results in terms of energy efficiency and small scale renewable energy investments is the German KfW. The EIB could develop mechanisms inspired on its model of close cooperation with local banks and individual consultations. The KfW's action in terms of building local capacities and proposing individualised solutions really fits with the long term mission of public financial institutions.

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 inclusion of a shadow carbon price, although a positive step is not good enough to meet overall climate objectives.
- The Bank should develop indicators to make its whole portfolio coherent with post carbon future.

Energy Cities believes that the integration of a carbon price in the Bank's economic appraisal of a project is indeed a good solution for dealing with the issue of carbon lock-in. It is even more so that the carbon price used by the bank is significantly higher than the irrelevant price of the EU ETS. Yet, the Bank needs to go beyond this approach, and develop a coherent vision, based on EU priorities, of the low-carbon future in which the projects it funds are going to be inserted. Indeed, although the carbon price used by the bank prevents it create excessive carbon lock-in, it might not stop from funding assets locking in unsustainable amounts of carbon for the 2°C objective (especially with a carbon price hovering around EUR 30/tonne). Moreover, some projects such as airports or motorway or LNG terminals create carbon lock-in with induced demand, and should not be funded at all. If not, they are exposed to the risk of becoming stranded assets.

To prevent carbon lock-in, the European Investment Bank needs to account for climate resilience – which means consistent with a 2°C world and economy² – as a priority criterion on project selection. Besides, we

² For more details see for instance 2°Investing Initiative's November 2013 Working Paper: [Shifting private capital towards climate friendly Investments: the role of financial regulatory regimes.](#)



believe that the Bank should aim at developing new indicators that assess the consistency of its portfolio with the long term decarbonisation objectives of the European Union.

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?*

Energy Cities believe that the Bank's opening to civil society is a very good trend that should be pursued, in line for instance of the "Civil society meets EIB's board" event. It is indeed important for our organisations to have a direct contact with high level executives of the Bank. Yet, to improve its outreach the EIB should have a more open communication. It should inform members of the civil society of new project financing and new product development. It should work with the civil society to establish partnerships with local authorities and work with them to promote the results of these actions. The Bank should therefore increase its relationship with the civil society, maybe thanks to a more proactive Brussels office.

Being a network of Cities, Energy Cities would argue that the bank should open more toward local authorities. These actors should indeed be considered as strategic partners for the EIB as they are strongly involved in local infrastructure investments: they provide political support for projects – even emanating from the private sector – or drive investment themselves. As such, the EIB could increase its outreach to this key category of actors by increasing dedicated tools such as ELENA or JESSICA, and more importantly, by building a direct partnership with them.

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 EIB could improve its support to international climate finance debate and negotiations by further engaging in financing decentralized renewable energy systems in developing countries. To increase its leadership in international climate finance, the bank should truly mainstream climate lending into development finance, as it aims to do within the European Union. Thereafter, the bank should develop its partnerships with local communities to efficiently reduce the number of people not having access to electricity, and create a momentum for renewable energy in developing countries.

As the EU's main public bank, it should reassert its leader position in this field, notably by engaging in deepened cooperation with other multilateral lending institutions. The EIB could also take inspiration from other institutions such as the NEFCO operating in Eastern partnership countries or the strong climate policies of the [KfW Development Bank](http://www.kfw.de).

