



Session 10

Innovative Financing Solutions to bridge the investment gap for 2030

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Barcelona, 31 January 2020

**Smart Finance and sustainable investments to
achieve climate targets**

The EU aims to increase its ambition on climate change


2014-2019

A Resilient Energy Union with a Forward-Looking Climate Change Policy




Jean Claude Juncker, 2014


Target



- 40% cuts in greenhouse gas emissions by 2030



- 32% renewables in energy consumption




- 32,5% energy savings

Progress

Climate and energy legislation, if implemented: 45% greenhouse gas emission by 2030


2019-2024

A European Green Deal



Ursula von der Leyen, 2019

Target



- 50% cuts in greenhouse gas emissions by 2030



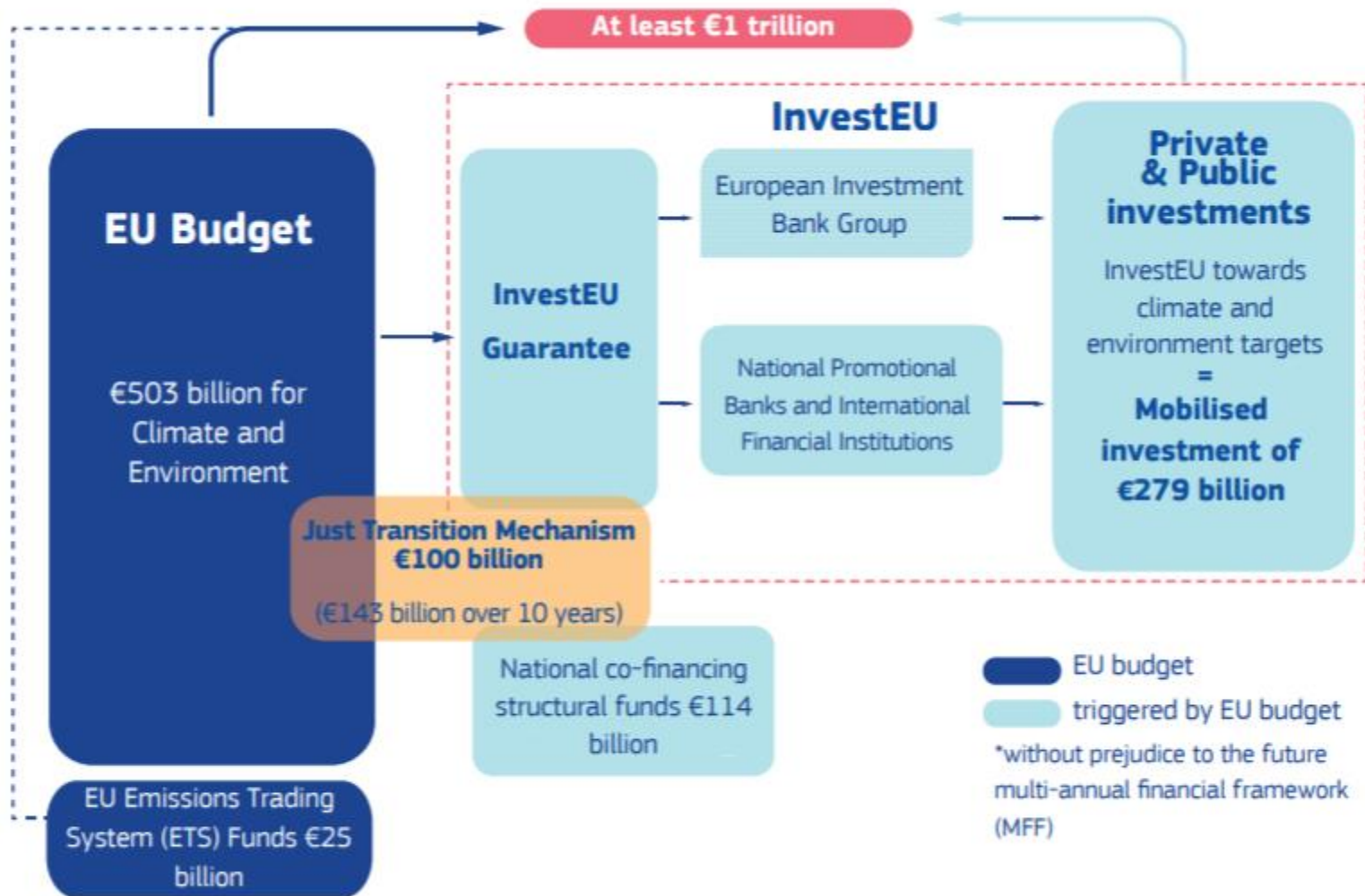
- Climate-neutral continent by 2050

Targets envisaged





European Green Deal Investment Plan



*The numbers shown here are net of any overlaps between climate, environmental and Just Transition Mechanism objectives.



SUPPORT TO CLEAN ENERGY – MFF PROGRAMMES



I SINGLE MARKET, INNOVATION & DIGITAL

1 Research & Innovation

- Horizon Europe
- International Thermonuclear Experimental Reactor (ITER)
- Euratom Research & Training Programme

2 European Strategic Investments

- InvestEU Fund
- Connecting Europe Facility

25% climate mainstreaming across the EU Budget



III NATURAL RESOURCES & ENVIRONMENT

9 Environment & Climate Action

- Programme for Environment & Climate Action (LIFE)



II COHESION & VALUES

5 Regional Development & Cohesion

- European Regional Development Fund
- Cohesion Fund



V SECURITY & DEFENCE

12 Security

- Nuclear Decommissioning (Lithuania)
- Nuclear Safety and Decommissioning (incl. for Bulgaria and Slovakia)



VI NEIGHBOURHOOD & THE WORLD

15 External Action

- Neighbourhood, Development and International Cooperation Instrument (incl. external aspects of migration)
- **16 Pre-Accession Assistance**
- Pre-Accession Assistance

Programmes outside the MFF:

- Innovation Fund
- Modernisation Fund
- RES financing mechanism



SUPPORT TO CLEAN ENERGY – THE FIGURES

Energy in the MFF (<i>current prices, EUR million</i>)	2021-2027 (EC proposal)	2014-2020 (EU27+EDF)
<i>Main energy-relevant programmes</i>		
Connecting Europe Facility - Energy	8.650	4.163
ITER	6.070	2.910
Nuclear Decommissioning (Lithuania)	552	451
Nuclear safety and decommissioning (incl Bulgaria and Slovakia)	626	883
LIFE Programme	5.450	3170
of which Clean Energy sub-programme	1.000	-
InvestEU	14.725	
Horizon Europe	97.600	66.034
ERDF	226.308	193.398
Cohesion Fund	46.692	74.589
<i>Other programmes that might benefit energy</i>		
Euratom Research and Training Programme	2.400	2.085
Neighbourhood, Development and International Cooperation Instrument	89.500	70.428
Instrument for pre-accession Assistance	14.500	12.799
<i>non-MFF programmes*</i>		
Innovation Fund	10.000	
Modernisation Fund	6.000	
TOTAL MFF	1.279.408	1.063.101



CONNECTING EUROPE FACILITY - ENERGY

- Proposed budget 2021-2027: EUR 8.65 billion
- Climate mainstreaming: **60%**
- Continued support to trans-European network infrastructure (TEN-E)
- New window for cross-border cooperation in the field of renewables (15% of CEF-E)
- Technical and administrative assistance: 1% of the total CEF budget



ERDF AND COHESION FUND

- Proposed budget 2021-2027: EUR 273 billion
- A strengthened link with the European Semester and NECPs
- A simplified framework and less red tape for the beneficiaries of the funds
- Policy Objective 2: “*a greener, low-carbon Europe*”
- Reinforced, streamlined enabling conditions linking policy implementation and funding

- Climate mainstreaming:
ERDF – 30%; CF – 37%

- Energy efficiency
- Renewable energy
- Smart energy systems, grids and storage



LIFE PROGRAMME

- Proposed budget for 2021-2027: EUR 5.45 billion
- Sub-programmes:
 - Nature & biodiversity
 - Circular economy and quality of life
 - Climate change mitigation and adaptation
 - **Clean energy transition – EUR 1 billion**
 - *Enabling framework for energy efficient and renewable energy policy implementation through capacity building*
- Climate mainstreaming: 61%



InvestEU PROGRAMME

- **The Union's new investment instrument:** single budgetary guarantee
- Guarantee: EUR 38 billion (40% provisioning rate) to mobilize over EUR 650 billion (2021-2027)
 - implementing partners: EIB Group (75%) and other eligible IPs
- 4 policy windows:
 - **Sustainable Infrastructure Window**
 - Research & Innovation Window
 - SME Window
 - Social Window
- InvestEU Advisory Hub (central TA facility)
- InvestEU Portal
- Climate mainstreaming: 40%
 - SIW: 55% to climate and environment
- MS compartment
- Blending: improved access to finance, enhanced financial viability



MODERNISATION FUND (outside the MFF)

- **Objective:** support for modernization of the power sector/energy systems, boosting energy efficiency, and facilitating a just transition
- Legal base: ETS Directive
- Implementing act (S1 2020): rules on the operation of MF
- Additional allowances can be transferred to the MF (Art. 10c, Art. 10(2)(b), ETS Directive)
- Auctioning of allowances: on common platform, equal shares per year (2021-2030)

	Priority investments	Non-priority investments
Scope	<ul style="list-style-type: none"> • Generation and use of renewable electricity • Energy efficiency improvements • Energy storage • Modernisation of energy networks • Just transition in carbon-dependent regions 	<ul style="list-style-type: none"> • Any other area not listed as priority area in the ETS Directive • Solid fossil fuels not eligible (except efficient district heating in BG and RO)
Maximum funding	<ul style="list-style-type: none"> • Up to 100% of relevant costs 	<ul style="list-style-type: none"> • Up to 70% of relevant costs • Remaining costs by private legal entities
Fund allocation	<ul style="list-style-type: none"> • At least 70% of the Fund 	<ul style="list-style-type: none"> • At most 30% of the Fund
Path to funding	<ul style="list-style-type: none"> • EIB confirmation • Disbursement decision 	<ul style="list-style-type: none"> • EIB assessment • Consensus or positive vote in investment committee • Disbursement decision


Shares of the Fund as initially proposed

BG	CZ	EE	HR	LV	LT	HU	PL	RO	SK
5,84%	15,59%	2,78%	3,14%	1,44%	2,57%	7,12%	43,41%	11,98%	6,16%

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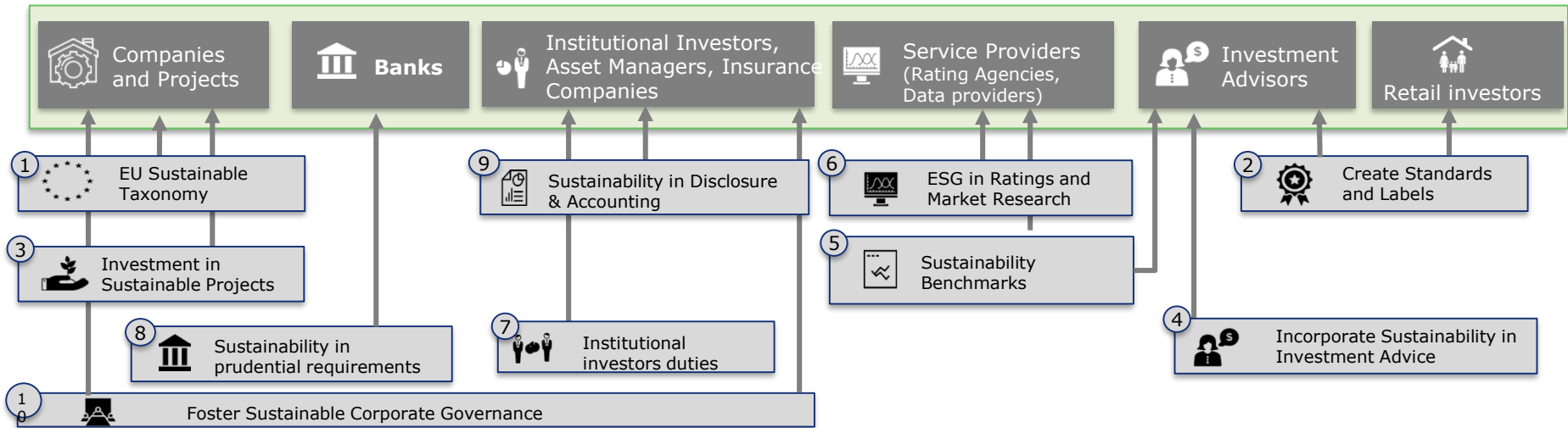
Targets envisaged






Action Plan on “Financing Sustainable Growth”

Mapping and links of the 10 actions along the investment chain



1  **Reorienting capital flows towards sustainable investment**

2  **Mainstreaming Sustainability into risk Management**

3  **Fostering transparency and Long-termism**

Source: [European Commission: Action Plan on Financing Sustainable Growth \(2018\)](#).



The Taxonomy proposal

What is the Taxonomy?

A list of economic activities that are considered environmentally sustainable for investment purposes.

What is set out in the Proposal?

The framework to develop the taxonomy. For an economic activity to be on the list, it has to comply with four conditions:

(a) **Substantially contribute** to at least one of the six environmental objectives as defined in the proposed Regulation*



(b) **Do no significant harm** to any of the other five environmental objectives as defined in the proposed Regulation*



(c) Comply with **minimum social safeguards**



(d) Comply with quantitative or qualitative **Technical Screening Criteria**

*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

Source: [European Commission: Proposal on the establishment of a framework to facilitate sustainable investment \(2018\)](#).



'Taxonomy'

- Proposal for a regulation - Political agreement with Council and European Parliament on 16 December 2019; Formal vote by EP expected in Q2 2020
- Final Report of the Technical Experts Group (TEG) February 2020
- Commission Delegated Acts determining the technical screening criteria for the six environmental objectives
 1. *Climate change mitigation*
 2. *Climate change adaptation*
 3. *Protection of water and marine resources*
 4. *Circular economy, waste prevention*
 5. *Pollution prevention & control*
 6. *Protection of healthy ecosystems*



Brussels, 24.5.2018
COM(2018) 353 final

2018/0178 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the establishment of a framework to facilitate sustainable investment

(Text with EEA relevance)

{SEC(2018) 257 final} - {SWD(2018) 264 final} - {SWD(2018) 265 final}



Who will use the Taxonomy and how?

The proposed regulation has three mandatory users:

1. **EU and Member States: Reference point** when creating, for instance, standards or labels for green financial products
2. **Financial market participants** (as defined in the Disclosure Regulation): **Obligation to disclose for their financial products** in how far investments supported comply with EU taxonomy criteria; 3 different “shades of green” at product level (“dark green”/ “light green”/ “mainstream”)
3. **Companies** falling under the scope of the **Non-Financial Reporting Directive: Obligation to disclose** in how far their economic activities comply with EU taxonomy criteria (KPIs: turnover; expenditure; investments); for financial undertakings different requirements (KPIs), to be defined at later stage

The EU Taxonomy can also be used on a voluntary basis by others, for instance public authorities.

The "Smart Finance for Smart Buildings" Initiative

More effective use of public funds

Use more **financial instruments** and develop flexible financing platforms for energy efficiency and renewable



Assistance and aggregation

Support the **development of a strong project pipeline** at EU and local level



De-risking

Understand better the risks and benefits of energy efficiency investments





Collaboration with EEFIG



the Energy Efficiency Financial Institutions Group (EEFIG) was established in 2013 by the European Commission and UNEP FI

It was a reliable partner and supported the development of policy in the field of energy efficiency (e.g. EEFIG report in 2015; the de-risking project – De-Risking Energy Efficiency Platform, the Underwriting toolkit)

Since 2018 EEFIG work is based on working groups.

Existing working group/projects: WG on taxonomy and green tagging; DEEP

Planned working groups (launch: Q1 2020)

- WG on risk assessment for EE financing
- WG on monitoring and evaluating EE financial practices
- WG on multiple benefits of energy efficiency

- Later on:
- WG on industry
 - WG on dissemination / stakeholders activation
 - WG on post 2020 EE financing
 - ...possibly a WG on stimulating demand for EE measures



Exploring innovative energy efficiency financing & sharing best practice:

- ✓ Energy performance contracting
- ✓ Soft loans for home renovation
- ✓ Guarantee facilities
- ✓ Earmarking environmental or energy taxes
- ✓ Renewable energy communities and local energy cooperatives
- ✓ Energy efficient mortgages
- ✓ Green bonds
- ✓ On-tax financing
- ✓ Third-party financing
- ✓ On-bill financing
- ✓ Crowdfunding

- **Sustainable Energy Investments Forums**
- **ManagEnergy**

Legal provisions to facilitate financing

- *RED (Art.4, Art.15 (6), Art. 23 (4) in Directive 2018/2001/EU)*
 - **support schemes for energy from renewable sources;**
 - **financial instruments and incentives for renewable heating and cooling;**
 - **aim to ensure the accessibility of measures to all consumers;**
- *EED (Art.20 in Directive 2012/27/EU with amendments in Directive 2018/2002/EU)*
 - **financing facilities for energy efficiency improvement measures;**
 - **make optimal use of the smart finance for smart buildings initiative;**
- *EPBD (Art.10 in Directive 2010/31/EU and 2a(3) in Directive 2018/844/EU)*
 - **mechanisms to support mobilisation of investments in renovation;**
 - **financial incentives and measures to tackle market barriers.**

**Upcoming deadline: LTRS
by 10 March 2020, with a
solid finance component**



LONG-TERM RENOVATION STRATEGIES [EPBD new Art 2a]

- A highly efficient and decarbonised building stock by 2050
- Cost-effective transformation of existing buildings into nearly zero-energy buildings

MOBILISING INVESTMENT [EPBD Art 2a(3)]

To support the mobilisation of investments into the renovation needed, Member States are to facilitate access to mechanisms for:

- a) Aggregation of projects
- b) Reduction of perceived risk of EE operations
- c) Public funding
- d) Guiding investments into EE public building stock (in line with Eurostat guidance)
- e) Advisory tools (one-stop shops, energy advisory services)

FINANCIAL MEASURES LINKED TO SAVINGS [EPBD Art 10(6)]

Member States are to link their financial measures for energy efficiency improvements to targeted or achieved energy savings

Commission Recommendation on building renovation

<https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1557992239852&uri=CELEX:32019H0786>

Non-exhaustive list of examples of the type of investment mechanisms

(a) aggregation of projects

- *procurement by a municipality of an energy-service contract for retrofitting multi-family buildings (financed through energy savings);*
- *capacity-building and stakeholder dialogue to improve relevant entities' ability to offer aggregation services;*
- *procurement by a group of municipalities of an energy-service contract for some of their public buildings;*
- *offering integrated renovation services — an entity (e.g. energy agency, local or regional authority, energy service company ('ESCO'), financial institution) could create a one-stop shop offering renovation services and financing, in quite a standardised way, making it possible to refinance the aggregated projects.*

(b) reduction of the perceived risk

- *standardisation (e.g. through protocols, certification, standards) to reduce performance risks ex post;*
- *mortgages/loans that take account of the positive impact of the energy efficiency component of a project on the value of the asset and on default risk;*
- *refinancing (funds, bonds, factoring) to provide ESCOs and financial investors with long-term financing;*
- *on-tax financing — i.e. the money lent for investment in building improvements is repaid through property tax;*
- *on-bill financing — i.e. the loan is repaid through the utility bill, with the energy savings covering the investment costs;*
- *support for collecting evidence of the real technical and financial performance of energy efficiency investments, e.g. contributing to the European de-risking energy efficiency platform (DEEP) database (see below), or creating similar national databases;*
- *encouraging the development and use of guidance on how to assess the risk for energy efficiency investments; guarantees for beneficiaries and guarantee facilities for financial intermediaries.*

(c) use of public funding

- *loan schemes co-financed by public funds;*
- *risk-sharing instruments (e.g. loans, guarantee facilities and technical assistance);*
- *grants targeting vulnerable consumers;*
- *grants for technical assistance and to cover the costs of energy performance certificates (EPCs) and energy audits, and (where these are not mandatory) to encourage their use and raise awareness of investment opportunities;*
- *energy efficiency funds.*

(d) *guiding investments into an energy efficient public building stock*

- *assistance for the use of energy performance contracts (market facilitators, framework contracts, practical guides, etc.);*
- *a legislative framework conducive to the development of ESCOs and the energy services market in general;*
- *capacity-building through project development assistance, training, peer-to-peer assistance, etc.;*
- *facilitating the aggregation of small projects in public buildings (e.g. similar projects from different municipalities or public owners).*

(e) *accessible and transparent advisory tools and energy advisory services*

- *one-stop shop or integrated service for financing and renovation;*
- *advisory services;*
- *technical guidance on financing and renovation;*
- *financial education to improve the understanding of different financial instruments*

See also Section 7 of the 2016 Good practice document on energy efficiency published together with the Clean Energy Package in November 2016 (SWD(2016) 404)



European
Commission

THANK YOU!



Energy