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An investment decision framework across EU infrastructure financing facilities and policy recommendations

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Project rationale and objectives

- **Review best practice of EFIs and IFIs** to include climate change considerations in their investment portfolios
- **Develop an investment decision framework** and tools that can be applied across European financial instruments to include climate considerations
- **Apply and test investment framework** on two EU financing facilities – Connecting Europe Facility (CEF) and Neighbourhood Investment Facility (NIF)
- **Provide recommendations:**
  - To improve technical evaluation of projects/portfolios, and
  - On areas for cooperation with FIs in order to maximise the climate compatibility of EU funding (both within and outside the EU)

Investment decision framework and resources

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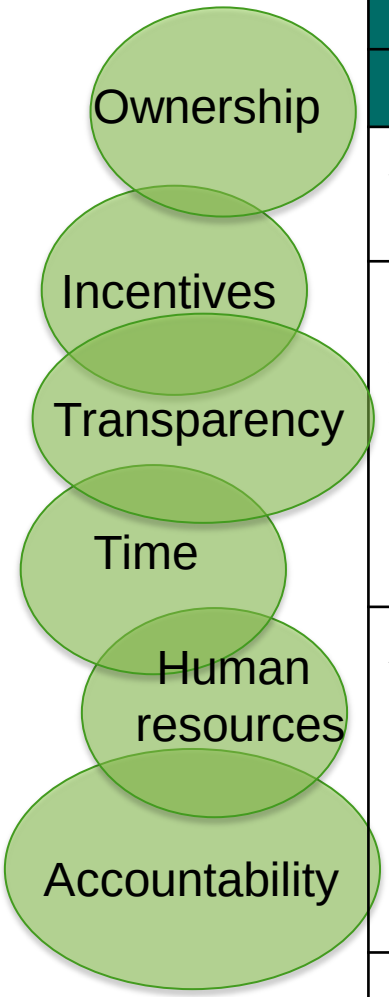

		Best practices by FIs	
Stage	**Approach**	**Mitigation**	**Adaptation**
Structuring	1. Policy	EU 20-20-20 & MDBs/EFIs	
Project origination	2. Knock-out criteria	IDB	
	3. Eligibility criteria	WB, EIB, AFD	
	4. Identification	CIFs	NAPAs
Assessment	5. Risk analysis	MDBs, EFIs	EBRD, KFW
	6. Disclosure	GEF, CTF	AF, SCCF
	7. Options evaluation	EIB, EBRD	
Implement-ation	8. Design	MDBs	ADB, EIB
	9. M&E	KFW, AFD	

Technical expertise

Guidance documents

Data

Methodologies

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CEF and NIF process are already quite climate friendly but some improvements are possible

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Stage	Approach	CEF	NIF
Structuring	Policy	Targets already quite high	
Project origination	Knock out criteria	Focus projects are environment friendly	
	Eligibility criteria		
	Project identification	More capacity building	Better investment plans
Assessment	Risk analysis	New or better tools	
	Disclosure	Better indicators	Operationalize Rio Markers
	Options assessment	• Harmonise CBA/MCA • Carbon pricing in CBA, transformational impacts	
Implementation	Design	CC considerations in procurement policies	Operational climate related guidelines
	M&E framework	Better indicators in sync with EFIs/MDBs	

Wider recommendations based on best-practice investment frameworks and the insights from the two case studies on CEF and NIF

These recommendations cover five distinct areas:

1. Recommendations on the design and operation of **financial mechanisms supported through EU budget** (e.g. EU Major projects under structural funds, TEN-T/E, NIF and other EU blending facilities)
2. Recommendations on how the EU might influence **policy, procedures and tools adopted by FIs**
3. Recommendations for revisions to **EU legislation and guidance governing project development**
4. **Capacity building and training activities** for EC and Member State staff working on major projects
5. **Further research to address knowledge gaps** identified in this report and to build the evidence base on best practice in particular in the private sector

Financial mechanisms using EU Budget

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- TEN-T & CEF, NIF, DG REGIO Major Infrastructure Projects
- EU Platform for External Cooperation and Development

Mechanism design & legislative framework	Technical implementation	Financial leverage on EFIs and recipient governments
Study contributions		
Incorporate best practice into legislation *(Structuring stage – Policy targets)*	Operational practices and decisions *(Implementation stage – design and M&E approaches)*	Conditions in return for financial support *(Structuring/Policy) (Project origination/ eligibility criteria & project identification)*

Influencing financial institution policy, procedures and tools

- European Commission can influence financial institution board (and its adoption of best practice key tools/ methodologies)

Stage	Approach	Recommendation
Assessment	Risk analysis	Develop methodologies to assess climate risk/ vulnerability Integrate climate considerations and safeguards in sector strategies.
	Disclosure	New or improvement to existing indicators
	Options assessment	• **Inclusion of climate considerations in CBA / MCA tool development in CEF and Major projects** • **Operationalize shadow price and carbon price in CBA or financial analysis (as applied by EIB)**
Implementation	Design	Develop operational guidelines and methodologies for climate proofing
	MRV framework	EC to support development of monitoring and evaluation systems for climate change indicators

- ***Harmonising the best practices and standards becomes very important as most FIs work with a wide range of partners/stakeholders.***

EU legislation and guidance on project development

- **Influence legislation and policies, by incorporating best practice into legislation and policies, e.g.**
  - Revisions to EIA Directive
  - Revision to SEA Directive
  - EU Adaptation Strategy
- **Influence key project guidance documents such as the SEA/EIA, DG REGIO Guideline for CBA of EU Major Projects *(Assessment stage - Risk analysis, disclosure & options assessment)***
  - Develop practical and sector specific CBA tools, including carbon and shadow pricing approaches
  - Ensure timely inputs to DG REGIO Guidelines for CBA
  - More efforts are required to quantify projected impacts of adaptation projects for CBA

Capacity building and additional research

- **Training and information tools for Commission staff, Member States, project promoters and local authorities can be enhanced by providing the following:**
  - Information materials and training sessions following a call for proposals for project developers
  - Information/tools for climate proofing that can be used in project identification and design process
- **Undertake further research to address knowledge gaps and build evidence base**
  - assess the relative pros and cons of each approach
  - addressing gaps in framework on best practice for resilience and climate adaptation is a key requirement
  - review of private finance sector activities

Questions?

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Key Inputs and Information – Assessment Stage

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Stage	Approach	Key inputs
Assessment	**4. Risk analysis and classification**	• Engineering expertise • Data on climate scenarios • **GHG emissions data and methodologies** • Carbon price (for societal CBA)
	5. Disclosure	• GHG emission reduction methodologies • GHG emissions data • GHG baseline data • **Costs of climate impacts** • **Adaptation costs**
	6. Options evaluation	• **Carbon price and other externalities** (for programme / project CBA) • Marginal abatement cost curves • Cost of ecosystem services • Levelised cost of electricity • Energy prices • Long-run energy supply costs

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