



Brussels, 26 March 2013

Next MFF :

Incentives and safeguards for climate friendly investments

On 26th March DG CLIMA hosted two events in Brussels on the incentives and safeguards for climate friendly investments in the next EU Multi-annual Financial Framework (MFF). The first was a daytime workshop which brought together experts from across the financing community; and the second was an evening event co-hosted with MEP Jutta Haug in the European Parliament.

The speakers, panellists and attendees included: European Commission services: DGs CLIMA, DG REGIO, DG ECFIN, DG ENV; Financial institutions: EIB, EBRD, KfW, AFD, IFC, Standard & Poor's, Other intuitions; OECD, Carbon Disclosure Project, Project Bonds initiative, Ricardo-AEA, IEEP, COWI.

There were some very interesting and valuable messages on mainstreaming climate change in investment decisions for infrastructure projects, and for integrating climate policy as a cross-cutting objective in the 2014-2020 MFF financial instruments.

Current practices of financial institutions provide good examples and evidence to integrate climate change in investment decisions at various stages of the project or programme cycle

- A review of eight Multilateral Development Banks/Financial Institutions found that climate financing is now increasingly integrated and mainstreamed into their development and operational strategies.

- It should be acknowledged that significant progress has been made to develop and harmonise new tools and approaches; however further efforts are necessary to clearly describe them in the public domain
- Best practice tools and methods from the review of Multilateral Development Banks/Financial Institutions provide a strong framework for incorporating climate change considerations at various stages of the project or programme cycle.
- It is important to consider the context in which these tools are operating, and what is really driving the development and harmonisation of these tools. Institutions with development mandates will use different tools to those focused on climate change. A common language and understanding is essential to ensure everyone is moving in the same direction.
- Incorporating a climate aspect in the economic Cost Benefit Analysis (CBA) is a powerful tool to support the decision making process in the EU. Getting both the quantity (carbon footprint) and price of carbon right is crucial. The EIB includes carbon pricing in economic appraisal (CBA) of projects with a shadow price of €30 per tCO₂ emitted today to 50€ per CO₂ by 2030 under a central scenario.
- Mainstreaming climate change in investment to deploy “green” infrastructure is a positive development; but what is also needed is the shift away from “brown” investment.

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Climate Action

- A review of the proposed project cycle processes for the Connecting Europe Facility (CEF) and Neighbourhood Investment Facility (NIF) indicated that these two EU investment facilities are already quite climate friendly, but some improvements can be made to the project assessment and implementation stages.
- The Commission can influence mainstreaming of financial institutions best practices and tools through the EU blending facilities and the boards of the financial institutions. It can also assist in harmonisation of standards, especially on baseline for CO₂ emission accounting and on climate scenarios, across financial institutions.
- The Commission can use the new methodologies presented at the workshop to update guidelines governing project development, and provide capacity building for project promoters, the Commission and Member State staff working on major infrastructure projects in and outside the EU.
- The experience and convergence on mainstreaming from Multilateral Development Banks/ Financial Institutions should be used to influence private sector actors, and national development banks which are strong in-country actors for driving action in developing countries.

European Commission and Member States can improve mainstreaming of climate change considerations in EU Major Projects as part of its regional and urban policy

- Climate change needs to be considered throughout the whole lifecycle of the project. This principle needs to be reflected in each level of subsidiarity of Regional and Urban Policy implementation. The Commission can play a key role through strategic interventions at policy level; however the implementation (including project selection, design and construction) will be undertaken at the Member State level.
- The Commission will have less direct influence on major investment projects in the next MFF. Member States can choose independent experts to appraise projects; thus emphasising the need for including climate objectives and appropriate techniques in project guidance for project promoters and experts.
- Methodologies for assessing climate resilience are much less developed, but there are some good examples and case studies, e.g. from Copenhagen Municipality on flood protection.
- DG REGIO has recently introduced the CO2MPARE tool for Member States to assess emission impact of Operational Programmes.



Ensuring 20% of the EU budget is spent on climate related activities needs to be supported by innovative solutions to mainstream climate change into Financial Instruments over the next MFF

- There is the need for a stable long term regulatory framework to: increase the confidence of private investors; share and mitigate risks; and provide technical assistance for climate friendly investments.
- Market failures to address climate change can in some cases be addressed by using financial instruments supported by public budgets.
- The current proposals for financial instruments lack provisions on the scope and scale of climate action, despite the commitment to spend at least 20% of the EU budget on climate related activities.
- Rolling out new instruments is very time and resource intensive. Efforts should be made to use existing instruments and institutions as much as possible.
- Priority actions to strengthen the delivery from other policies could include:
 - Introducing climate change windows in the Risk Sharing Finance Facility (RSFF) and the Risk Sharing Initiative (RSI) under the proposed EU Horizon 2020 Framework Programme for Research and Innovation,
 - Expanding EU project bonds to renewable energy generation and grids
 - Providing dedicated loans / guarantee facility for energy efficiency and other projects that have a strong interlink between resources efficiency, natural capital protection and climate change, such as the Deep Green Platform proposed by the EIB
- Two specific financing gaps ('valleys of death') need to be addressed to facilitate eco-innovation by SMEs: notably the lack of early stage risk capital, and the transition from technical and economic feasibility to the commercial production of projects.
- The LIFE programme, as the only programme dedicated to climate, has limited resources; it can therefore be used to strengthen existing or to pilot new financial instruments.
- The 'ex ante evaluation' foreseen by the EU Budget new Financial Regulation¹ provides an opportunity to strengthen the financial instruments relevant for climate change.
- Technical assistance (alongside financial instruments) is essential to build a pipeline of clean investments and for ensuring that investments in general are climate resilient.
- The Green Papers on long-term finance for the European Economy² and 2030 Framework for Climate and Energy Policy³ envisage significant long-term investments from institutional investors in renewable energy generation. Hence, better guidance and standardisation for designing capital market instruments such as "Green securitisation" and "green bonds" could be explored. These latter suggestions could be supported by credit enhancement from public money or public / multilateral financial institutions.

¹ New Financial Regulation for EU finances and Rules of Application http://ec.europa.eu/budget/news/article_en.cfm?id=201301101607

² Green paper on the long-term financing of the European economy http://ec.europa.eu/internal_market/consultations/2013/long-term-financing/

³ A 2030 framework for climate and energy policies http://ec.europa.eu/energy/green_paper_2030_en.htm