"EIB's support on the Covenant of Mayors with the focus on energy efficiency and social housing"

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Outline

- Background
- Financing low-carbon projects in cities
- EIB support to cities tacking climate change
- Cooperation EC/EIB: Sustainable energy package
- Conclusions

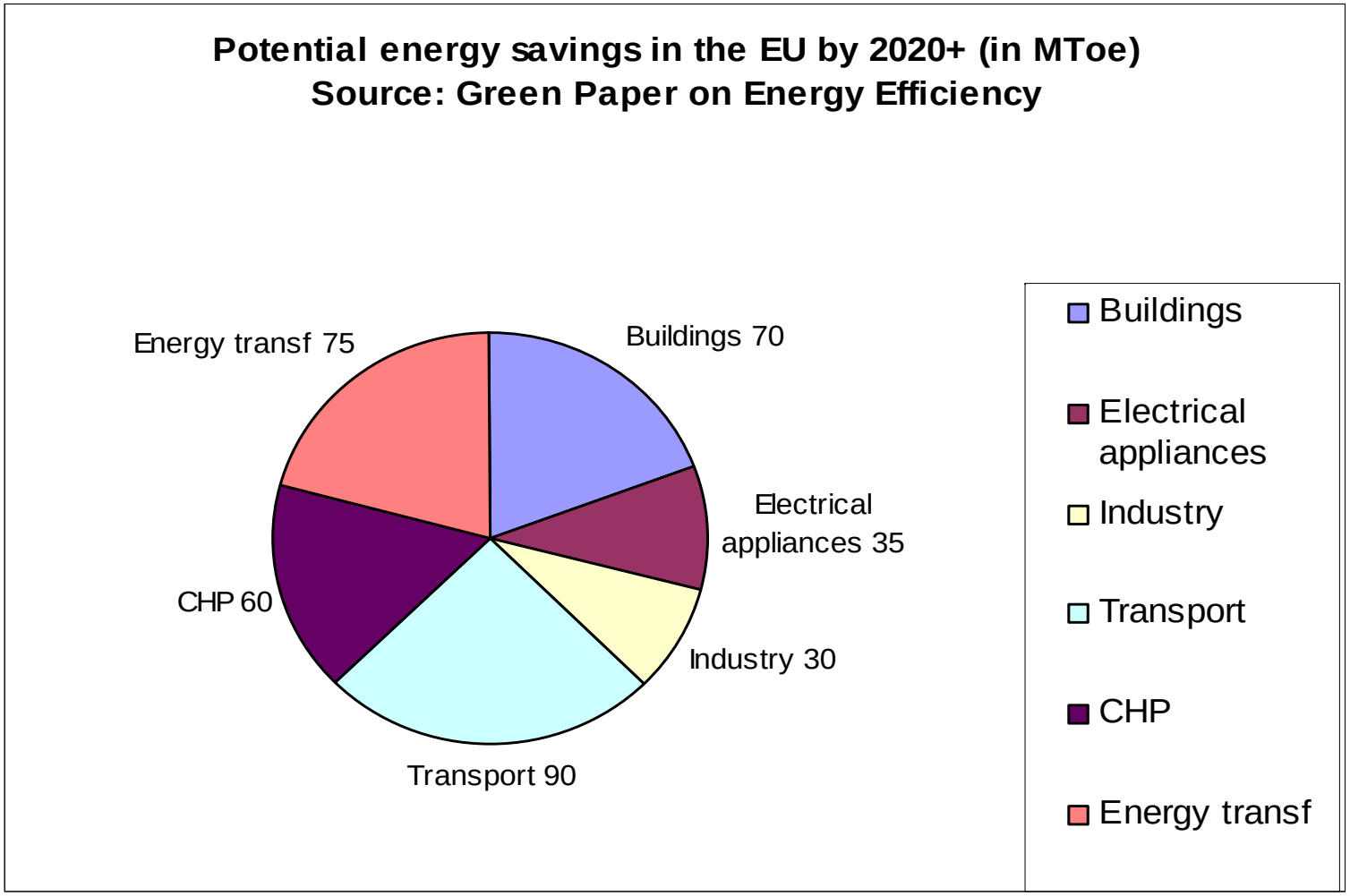
Background:
Energy consumption in cities

- **Urban areas account for about 70% of the total primary energy demand of the EU**
- **Under the IEA reference scenario, urban energy consumption projected to increase twice the rate of the EU as a whole**
- **Cities consume a higher share of gas, electricity and heat than the EU average and a lower share of coal, oil and biomass**

Background: EU energy and climate change policy

- **The main ways to achieve EU energy and CC objectives is by developing the Energy Efficiency (EE) and Renewable Energy (RES) potential**
- **A substantial part of this potential is in cities, notably buildings and urban transport**
- **Substantial investments to achieve the EU objectives:**
  - 600-700 bn EUR in 2005-2020 in RES
  - Investments in EE probably higher than in RES
- **How to finance these investments, notably during the crisis?**

Energy efficiency potential in the EU



Financing low-carbon projects in cities: Energy efficiency

- Often very small projects, thus high transaction costs: need to regroup projects in packages
- Difficulties related to the measurement of the energy efficiency “revenues”: Energy performance contracts
- Generation of a flow of bankable projects, notably related to buildings and SMEs: public support for project generation
- Municipalities often have limited possibilities to invest: private sector involvement
- Often subsidies plays a role in developing the EE potential: efficient use of subsidies as most projects are profitable
- Energy Service Companies (ESCOs) can play a substantial role to implement EE projects

Covenant of Mayors initiative: Issues for the financial sector

- **Actions Plans should make:**
  - Realistic assessment of the investment requirements
  - Identify potential financial aggregation or intermediation structures
  - Assess needs and possibilities to obtain subsidies
- **To achieve the ambitious CC objective it is necessary to develop new ways of developing EE/RES projects in cities:**
  - creation of large investment packages of EE/ RES, standard contracts and involvement of private sector as appropriate

EIB energy strategy

- Four priority areas:
  - Renewable energy
  - Energy efficiency
  - Diversification and security of internal supply (including TEN-E)
  - External energy security and economic development

- Individual loans of EUR 8.6bn in 2008:
  - EUR 1.7bn for renewable energy projects (1)
  - EUR 2.7bn for TEN-E projects

- Total loans of EUR 23.7bn 2004-2008
  - EUR 4.7bn for renewable energy projects (1)
  - EUR 6.6bn for TEN-E projects

  - (1)Figures based on the business sector

EIB instruments to support climate change initiatives by cities

- **Individual loans to finance large projects**
- **Instruments to finance small investments: Global loans or framework loans**
- **Broad mix of products: from senior loans to quasi-equity finance**
- **Jaspers (in the NMS) and Jessica can support the development of specific initiatives using Structural and Cohesion funds**

Sustainable energy package: cooperation EIB/EC

- **Sectors not covered by the EU ETS, mainly buildings, SME and public transport.**
- **Accelerate development of EE and RES:**
  - Help to identify and prepare bankable projects (project development facility under preparation)
  - Improve access to equity and credit markets
  - Reducing transaction costs by bundling small investments in packages
- **Initial focus on:**
  - Public buildings, including social housing, and municipal infrastructures, to support increased energy performance
  - Dedicated ESCO-finance facility
  - Renovation of bus fleets with using cleaner technologies « clean bus finance facility »

Examples of new financial instruments to support cities tacking CC

- **Provision of expertise to roll-out EE/RES programs combined with a Framework loans with a Financial Intermediary (FI)**
- **Credit line, combining grants with loans: grants for direct subsidies, energy audits and transaction costs for FIs.**
- **Risk-sharing finance facility to support ESCOs activities**
- **Creation of a public-private ESCO**
- **Public-private Equity funds**

Conclusions

- **There are substantial investment opportunities in the urban environment to tackle climate change.**
- **To develop this potential it is necessary to face substantial barriers (such as limited information) and reduce transaction costs) thus the importance of stimulating the generation of bankable projects**
- **Access to adapted equity and credit markets is usually an important barrier**
- **EIB supports cities initiatives with adapted financial instruments**
- **The EU Commission and the EIB have developed new initiatives to support cities tackling climate change, notably in support of the Covenant of Mayors.**