

# **NEW FINANCING OPPORTUNITIES FOR CITIES TACKLING CLIMATE CHANGE**

**Juan Alario  
Associate Director  
Head of Division, Energy Efficiency and Renewables  
European Investment Bank (EIB)**

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1. Background
2. Financing low-carbon projects in cities
3. EIB support to cities tackling climate change
4. Cooperation EC/EIB: Sustainable energy package
5. Conclusions

# 1.1. 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 at 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

## 1.2. Background: EU energy and climate change policy

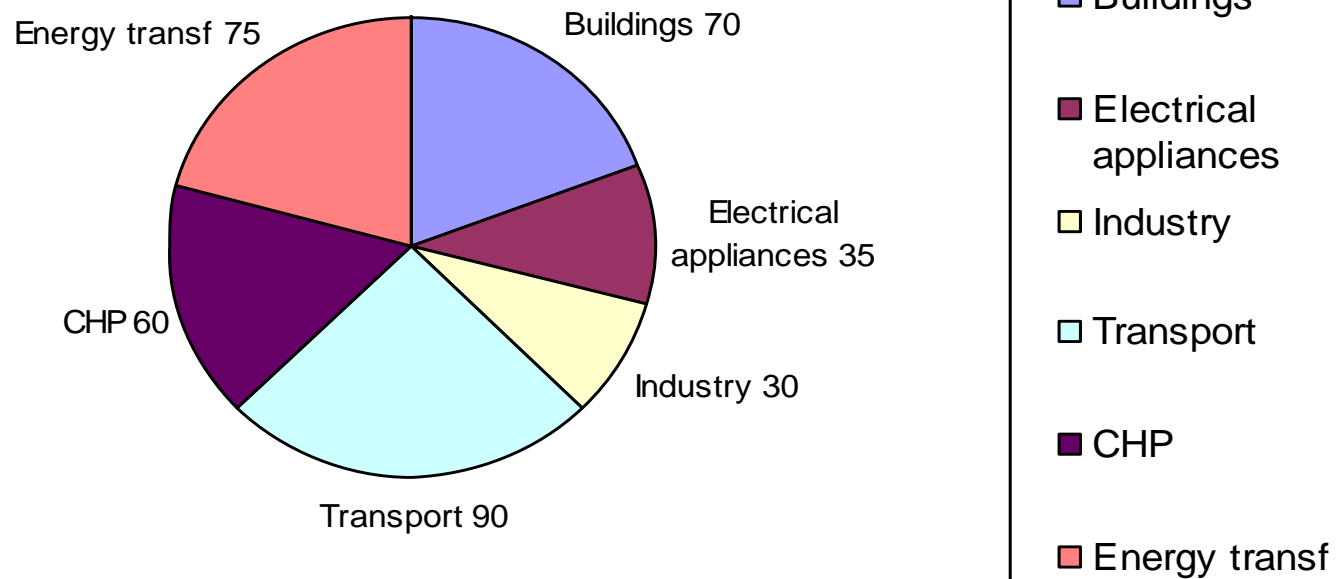
- The main ways to achieve EU energy and CC objectives is by developing the Energy Efficiency (EE) and Renewable Energy (RES) potential
- A substantial part of this potential is in cities, notably buildings and urban transport
- Substantial investments to achieve the EU objectives:
  - 600-700 bn EUR 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

## Potential energy savings in the EU by 2020+ (in MToe)

Source: Green Paper on Energy Efficiency



## 2.1. 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 play 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

## 2.2. Financing low-carbon projects in cities: Renewable energy

- A clear and stable policy support that limits regulatory uncertainty is key
- Streamlined and predictable administrative procedures
- Financing often based on project finance techniques:  
Understanding and measuring risks
- Raw material risks for biomass projects
- RES projects in cities are generally small, e.g. solar: need to regroup them in packages
- Capacity of the electricity networks to integrate RES

## 2.3. Covenant of Mayors initiative: Issues for the financial sector

Action 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



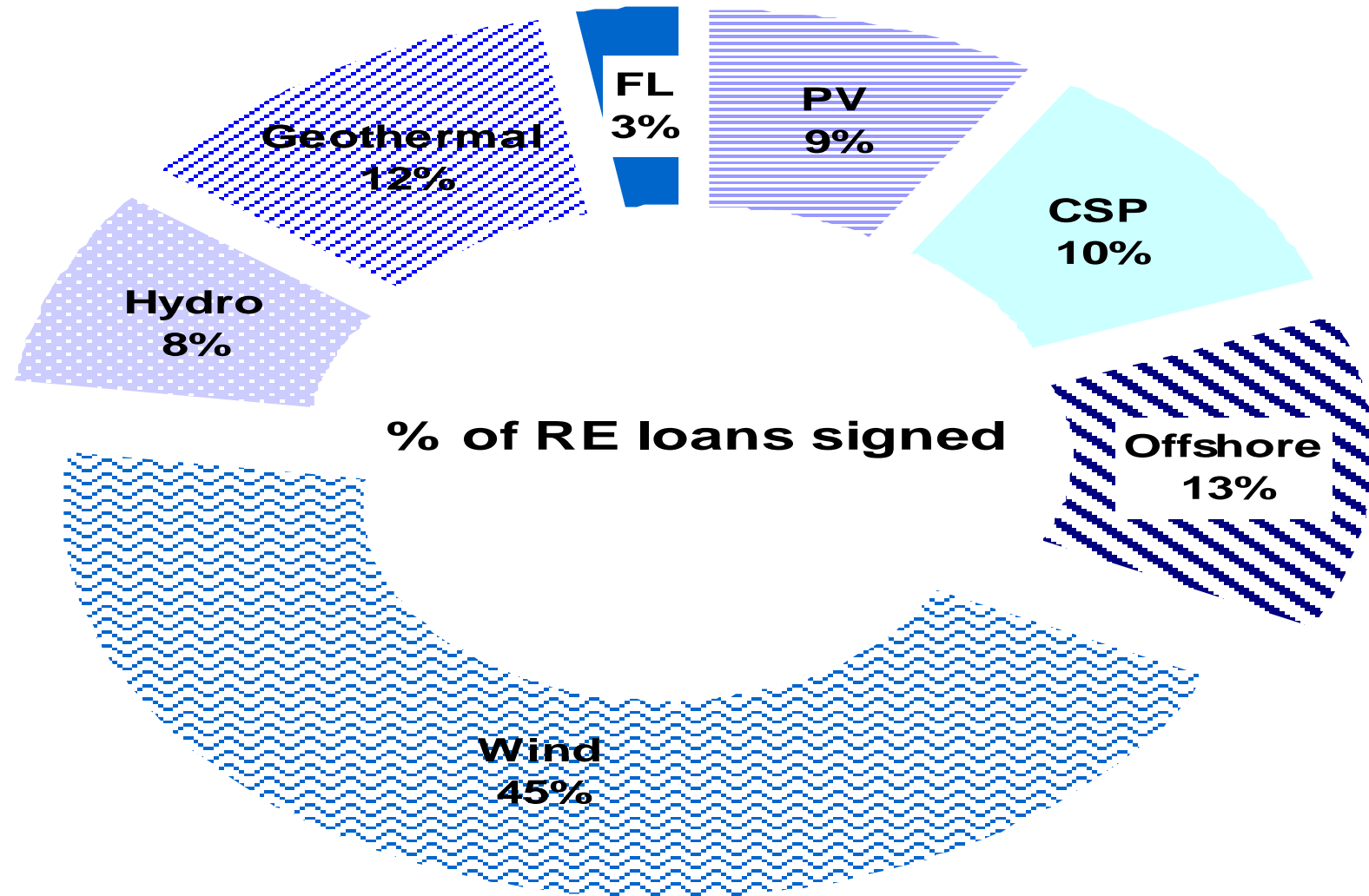
# New ways of 'harvesting' energy efficiency projects



## 3.1. EIB energy strategy

- Energy became a new priority objective in the Corporate Plan by end 2006. Reinforced contribution in 2007, notably on RES and EE
- Energy lending in 2007:
  - Energy lending: EUR 6.8 bn (5.4 in the EU and 1.4 outside)
  - Lending to RES: EUR 2 bn (1.5 in the EU and 0.5 outside)

# Portfolio of RES signatures by the EIB in 2002-2007



## 3.2. 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

## 4.1. Sustainable energy package: cooperation EIB/EC

- Sectors not covered by the EU ETS, mainly buildings, SME and public transport. Support to the cities that have joined the Covenant of Mayors
- Accelerate development of EE and RES:
  - Help to identify and prepare bankable projects (depending on the availability of grants from the EC)
  - 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 using cleaner technologies « clean bus finance facility »

## 4.2. Examples of new financial instruments to support cities tackling CC

- EIB provides adapted financing taking into account project issues
- Provision of expertise to roll out EE/RES programme combined with 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

Subsidies can come from EU regional funds, EU Commission budget or national programmes

## 5. 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 equity and credit markets is usually an important barrier
- ✓ EIB supports cities' initiatives with adapted financial instruments
- ✓ The EU Commission and the EIB has proposed new initiatives to support cities tackling climate change, notably in support of the Covenant of Mayors.