

European association of local authorities
for their energy future



**Position Paper on the European Investment Bank's public
consultation on its Energy Lending Policy**

December 2012

**The future EIB energy sector lending policy should
accelerate the transition towards low energy cities with
a high quality of life for all**



The future EIB energy sector lending policy should accelerate the transition towards low energy cities with a high quality of life for all

As the future EU budget for the years 2014-2020 is, the **EIB energy sector lending policies** should also be closely linked to the five priorities of the EU 2020 strategy and especially to the **EU energy and climate policy**.

Knowing the **huge potential of local and regional authorities to contribute to the achievement of the European energy and climate objectives**¹, both of them – the EU budget and the EIB lending - should not miss any opportunity to support their efforts. Measures showing that the EU responds to citizens' expectations - such as energy-efficient retrofitting of existing buildings, high-quality local public transport, soft modes of transport (bike and pedestrian lanes), green public spaces, local energy production, etc. - must be strongly encouraged.

The EIB energy lending policy should accelerate the transition towards low energy cities with a high quality for all²!

This could be achieved via the following recommended measures:

QUESTION: 4.1 General energy and economic context

Particularly in the current economic climate, is there a trade-off between promoting a competitive and secure energy supply and one which is environmentally sustainable? Where should the balance lie and what implications does this have for energy sector investments?

How does investment in the energy sector contribute to growth and employment? Are investments in all energy sub-sectors equally valuable? And how does investment in energy sector rank relative to other investments in the economy which support growth and employment?

What impact do you consider the current economic crisis will have on the energy sector (demand, policies, supply)?

1

More than 4,500 cities signed up to the Covenant of Mayors initiative and voluntarily committed to achieve and go beyond the EU “3x20” energy and climate targets via the implementation of their Sustainable Energy Action Plans, which are a sound pipeline of future high quality sustainable energy projects.

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See Annex for more details on Energy Cities' Vision - Year 2050: a low energy city with a high quality of life for all!

QUESTION: 4.2 Renewable energy

Do you agree that there is significant scope for investment in renewable energy, heating and cooling?

QUESTION: 4.4 Security of supply

Is the traditional model for electricity transmission and distribution changing? What implications does this have for future investments in electricity networks?

ENERGY CITIES' RECOMMENDATIONS:

- **Investments in decentralised local sustainable energy projects boost local economy, create local jobs and improve the EU's energy security. The EIB should increase investments in this 'energy sub-sector' and make it its top lending objective.**

The consultation paper reads: “...*Financing energy network projects is a core part of EIB lending to the energy sector, forming about 40% of the energy lending portfolio...*”

Cities and urban areas - home to 50% of the world's population - are responsible for up to 75% of the global Greenhouse Gas (GHG) emissions. They cover less than one per cent of the Earth's surface but 75% of all energy is consumed by the urban population³. Numerous case studies prove that investments in local sustainable energy projects contribute to achieving the EU energy and climate objectives while boosting local economy, creating local jobs and improving the EU's energy security⁴. For example:

Hannover (Germany) has set up a dedicated fund financing climate protection measures⁵ that go beyond the minimum legal requirements and the usual practice. A fund of about €5 million is made available each year for private households, businesses and public institutions. In the year 2010 it triggered €33 M in private investments, out of which 93% were realised within the Hannover region / Lower Saxony and only 7% went out of the region.

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UNFCCC Environmental Integrity Group (EIG), 2009

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http://www.energy-cities.eu/cities/case_studies.php?lang=en &

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<http://www.proklima-hannover.de/>

French regions used 82.5% of the European Regional Development Fund (ERDF) available for improving energy efficiency in existing housing within just 22 months! The €20 million from the European grants generated investments of €2.2 billion, 15,000 local jobs and financial savings equal to €8 per month per household⁶.

The EIB should invest considerably more in cities and regions and support local energy retrofitting of the building stock, the creation of low-energy and 100% renewable energy neighbourhoods, sustainable urban transport, small-scale (renewable) energy production and local energy network projects (district heating/cooling, CHP installation, etc.). Local sustainable energy projects should become a core part of the EIB lending to the energy sector.

Moreover, cities and regions are the closest to private actors and citizens on their territories and they have the biggest capacity to motivate their sustainable energy investments. They are the only actors who have legitimacy and vocation to coordinate dispersed projects contributing to local sustainable energy action plans and facilitate their bundling in bigger coherent bankable packages, thus reducing various related costs.

The European Energy Efficiency Fund (EEEF) is intended to be an innovative public-private partnership dedicated to mitigating climate change through energy efficiency measures and the use of renewable energy in the Member States of the European Union. It focuses on financing energy efficiency, small-scale renewable energy, and clean urban transport projects targeting municipal, local and regional authorities and public and private entities acting on behalf of those authorities.

Once proved to be successful, the EIB should keep contributing to this fund and similar funds supporting local sustainable energy projects in the future. This and similar funds with a technical assistance component shall be carried on and reinforced with significantly higher EIB contribution.

- **The EIB should continue to provide its priceless expertise and increase the support for technical assistance initiatives.**

The consultation paper reads: “...*the current level of investments in energy efficiency is small in comparison to the potential and finance alone is considered insufficient to unlock this markets’ potential...*”

Increasingly dynamic and complex developments in the fields of legislation, technology, informatics (Internet), finance, communication, participative processes and the like require strong professional skills to keep up with the changes and seek innovative solutions.

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<http://ebookbrowse.com/plan-de-relance-evaluation-feder-renovation-thermique-logements-sociaux-rapports-regionaux-fr-2-pdf-d299728238>

Indeed, visioning, technical, financial, social engineering, exchange of experiences and networking are crucial for effective take up of the EIB's financing and project implementation.

The European Commission and the EIB recognised the lack of human capacities and professional skills as one of the main barriers for the wide implementation of local (sustainable energy) projects. That was one of the reasons for creating ELENA, JESSICA, JASPERS and other technical assistance initiatives which proved to be very successful.

With €21.8 million from EU grants, ELENA was able to unlock an expected €1.6 billion in private and public sustainable energy investments and a number of local staff and experts have been trained and their skills reinforced.

Increased EIB's lending for local sustainable energy projects have to go hand in hand with the technical assistance for project developers. Technical assistance initiatives such as JESSICA or ELENA should continue and be reinforced with significantly increased budget, possibly with higher EIB contribution.

In the future, the EIB might promote the success and foster multiplication of similar technical assistance schemes at national level and boost markets by initiating a "network" of local, regional and national banks (closer to cities and citizens) to support their sustainable energy projects.

- **The EIB should support projects that are aligned with local or regional sustainable energy action plans harmonised with the European energy and climate « 3 x 20% » objectives - giving priority to Covenant of Mayors signatories.**

More than 4,500 towns and cities representing nearly 175 million inhabitants have voluntarily committed to achieving and going beyond the EU energy and climate objectives by signing up to the Covenant of Mayors⁷. Via this unique and unprecedented EU initiative, cities develop and implement Sustainable Energy Action Plans (SEAPs). Huge efforts have been done by these towns and cities which put in place long-term vision, integrated approach and clear strategies leading to tangible results affecting millions of citizens. SEAPs are a guarantee that EU policies will be implemented and EIB financial sources duly spent in the future.

Especially in these times of public budget cuts, EIB funding should be provided for projects that are aligned with local sustainable energy action plans harmonised with the European energy and climate « 3 x 20% » objectives. This would maximise the number

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www.eumayors.eu

of local authorities opting for a strategic approach to local sustainable energy development. It would also be a very positive signal for those local authorities who have already prepared and implemented a sustainable energy action plan, e.g. in the framework of the Covenant of Mayors.

- **The EIB should be inventing, testing and promoting the most successful innovative financing instruments that would secure long-term financing for energy efficiency and renewable energy investments. New schemes should be developed in close cooperation with local and regional authorities thus ensuring their relevance and take up at local level.**

In the future programming period 2014-2020, the European Commission has foreseen to introduce an alternative to the traditional grant funding – innovative financial instruments. These would create a multiplier effect for the EU budget by facilitating and attracting other public and private financing for projects of EU interest. EU funds can be used in partnership with the private and banking sectors, particularly with the European Investment Bank (EIB)⁸.

Energy efficiency projects have a significant competitive advantage comparing to other investments – they generate financial savings which are a guarantee that the loans will be paid back.

Based on EIB experiences with innovative financing and technical assistance initiatives (e.g. ELENA, JESSICA), Energy Cities sees the EIB as a European leader in financial innovation and capacity building, able to boost the implementation of local sustainable energy projects at a large scale all over Europe.

In the future, the main role of the EIB should be to invent, test and promote the most successful innovative financing schemes (e.g. local or regional saving schemes, guarantee funds, revolving funds, cooperatives, etc.) which would help overcome current barriers for financing sustainable energy projects, in particular high up-front investment costs, and problems of local and regional authorities with the cash-flow and long pay-back periods of energy investments. The EIB should promote these schemes at national level and encourage local, regional and national banks to follow its example.

The new financing instruments and schemes should be developed in close cooperation with local and regional authorities and national, regional or local banks in order to make sure that all involved stakeholders and future beneficiaries will understand, use and further promote them.

Energy Cities' members are ready and willing to contribute to a possible future working group or an exchange platform that could be created for this purpose.

QUESTION: 4.3 Energy Efficiency

Do you consider the criteria used by the Bank to categorise projects as Energy Efficiency projects appropriate (see Annex 1)? What alternative would you propose?

ENERGY CITIES' RECOMMENDATION:

Energy efficiency is a trans-sectoral issue. It should be mainstreamed into all EIB-financed projects.

It is stated in the consultation paper (p.15, point 2 – Energy efficiency) that “...*energy efficiency has been ‘mainstreamed’ with all projects financed by the bank...*”

However, this seems to be only an aspiration when one reviews the probably most often used documents, such as application documents for individual loans, publicly available on the EIB website⁹. The obligation for funding beneficiaries to respect energy efficiency -related criteria is neither clear nor visible in this document.

Energy efficiency criteria should be officially integrated in all EIB's official documents, including lending policies and application documents. Improved energy efficiency should be a condition for obtaining funding – at least as important as its financial viability and respect for environmental and procurement policies.

The bank should verify that these criteria are met and no funding should be accorded to the projects that do not reduce energy consumption by at least 20% compared to the situation before their implementation. All new construction projects (e.g. construction of new buildings) should use the best existing energy-efficient technologies and materials and go beyond the EU standards.

The EIB could decide to attribute preferential interest rates to projects that achieve higher level of energy savings and to those which go beyond the EU energy efficiency requirements and standards.

ANNEX

VISION - Year 2050: a low energy city with a high quality of life for all!

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http://www.eib.org/projects/cycle/applying_loan/index.htm



IN 2050

In 2050, cities do not look that different from those of the beginning of the century. However, a lot of invisible radical and desirable changes have occurred.

Urban areas are more compact, urban sprawl is kept under control thanks to smart urban and land-use planning and sustainable mobility plans. The city features green spaces as it is not agglomerate to only one centre, but is shaped along many smaller dense centres. An illustration to this is the image of a cluster of fruits such as redcurrant or blueberries. The high local density allows for energy efficiency, while the loose urban shape makes for respiration and green spaces.

Energy supply is run by the principle of 'energy subsidiarity'. Cities are highly energy-efficient. This lower energy demand (heating, cooling and electricity) is mainly supplied by local and regional diversified renewable energy sources as well as cogeneration. Smart grids provide for decentralised solutions. The remaining needs as well as large energy intensive companies are supplied by large plants, including wind farms.

Buildings are the power plants of the city. Most new and refurbished buildings become not only energy neutral, but even capable of producing electricity. They automatically include facilities to park soft mobility vehicles like bikes or electric cars. They are also delivered with a 'user guide' that is mandatory for renting any kind of building. Older buildings are refurbished and their consumption does not exceed 50 kWh/m²/year. Fuel poverty has dramatically decreased.

Mobility needs are reduced in a more compact city, while the transportation system serves as storage for electricity produced from renewables. Citizens mostly commute by public transport (train, tramways and bus), electric private vehicles and bikes (including electric bikes) or by walking. The densest parts of cities are basically not accessible by individual cars (unless they are electric cars), except for delivery, public services, disabled and elderly persons, as well as emergency vehicles. On the other hand, developed car sharing allows an occasional use of cars. Goods are transported by train and boat on long distances, while local delivery is done by small electric trucks.

Public space is increased thanks to a limited number of cars and smarter, more integrated use. Public and commercial services, cultural places, public transportation are more accessible to all. Rest areas - meeting places, playgrounds, urban agriculture and community gardening - have all found a place in the city. Reclaiming streets for walking and cycling makes cities more liveable and pleasant. Children play safely on the streets. Elderly people socialise and interact with other generations. All spaces are naturally adapted to handicapped people.

Economy is still globalised, but its 'raison d'être' is at least partly affected. High energy costs have triggered a relocation of production. Small enterprises, services, often under the form of cooperatives, are burgeoning. Local networks and economic chains are the basis for a vivid local development. Many activities are designed within cradle to cradle model and recycling, particularly in the field of IT. Production of rare metals has declined. Local renewable energy production is a notable job (maintenance, prospection, new plants) provider. The construction sector has evolved and handicraft in insulation, refurbishment, local energy production and maintenance is demanded.

Consumption patterns have emerged. Convenience stores are spread throughout the whole urban area and malls have vanished from city outskirts. Weekly fruits and vegetables markets experience a re-boost. Specialised stores are located in city centres and much of the market for households' equipment is found online. Logistics are improved: mail delivery is mostly electronic, but goods delivery has expanded via smarter supply chains. Agricultural land is used to produce not only food, but also raw materials and energy. Meat production decreases as people gain awareness and thus vegetarian (and/or meat-reduced) lifestyles spread.

Multi-level governance and territorial cohesion. Governance is more decentralised and multi-level governance practices are common place. A more participative local governance pattern has emerged, giving room to a continuous territorial dialogue among social and economic stakeholders including citizens. This dialogue fuels the decisions of participating players and gives legitimacy to the decision making process of local authorities. A new city-countryside relationship has emerged, especially through the development of energy crops production to supply the city. The management of peri-urban territories is accordingly reconsidered to limit waste of space. The EU and Member States still have strategic roles, but economic development, energy and urban issues are decentralised and are dealt with at regional level. The European Union is assigned a social, economic and territorial cohesion role throughout Member States, regions and cities of Europe. New solidarity mechanisms based on environment (eco-conditionality) as well as economic criteria ensure development aid throughout European regions.

Local and regional authorities formulate cross-sectoral policies to prevent energy vulnerability and ensure higher energy security for their citizens and local stakeholders. By having a long-term vision and acting responsibly in their fields of competence (construction, renovation, mobility, urban and mobility planning, culture, economy, education, social welfare, health, youth, sports, waste, water, etc.) they adopt harmonised policies and incentives that ensure profitability of investments in energy efficiency and renewable energies in the long term.

Quality of Life is consequently increasing in cities, powered by a growing social demand for better health, reduced obesity, softer modes of transport, more natural areas in cities, shorter circuits for food supply and reduced distances between working, living and leisure areas. Economic vulnerability is reduced thanks to local sustainable jobs and activities centred on the local area. In short, a demand is growing for improved territorial cohesion in a globalised economy. Such an 'ideal' city means a healthier population

(more human powered mobility), more conviviality (public spaces), more solidarity and cohesion, but also a better dialogue and more potential local conflicts, which are addressed quietly.

Energy Security prevails thanks to the dramatic shift occurred in 2012 in the EU and leading to a more sustainable energy use. Peak oil and shale gas are far behind us. Fossil fuel and uranium are rare and are only exported by a few regions. The shift of energy paradigm has prevented the soaring of energy prices, alongside geopolitical tensions and even military interventions that could have caused social problems at local level.

TODAY

These changes are already underway in an increasing number of cities, especially some which are committed to the **Covenant of Mayors**¹⁰. They are “weak signals” that pave the way for our vision to come true...

The EIB Energy Sector Lending Policy must accelerate the transition towards such desirable cities!



www.energy-cities.eu

The European Association of local authorities inventing their energy future.

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The Covenant of Mayors (www.eumayors.eu) is the mainstream European movement involving local and regional authorities, voluntarily committing to increase energy efficiency and use of renewable energy sources on their territories. By their commitment, Covenant signatories aim to meet and exceed the European Union 20% CO₂ reduction objective by 2020. The Covenant is the mainstream European movement involving local and regional authorities, voluntarily committing to increase energy efficiency and use of renewable energy sources on their territories. The number of signatories is growing every day – 2 602 cities on 17 May 2011.

The Association created in 1990 represents more than 1,000 towns and cities in 30 countries.

Energy Cities leads the Covenant of Mayors' Office (www.eumayors.eu).

Other related Energy Cities' position paper and documents:

- *Energy Cities' press release "Intelligent Energy-Europe Programme must be maintained", 22 July 2011*
http://www.energy-cities.eu/IMG/pdf/2011-07-22_IEE_must_be_maintained_en.pdf
- *Energy Cities' position paper on Smart Cities & Communities Public Consultation, 18 May 2011*
http://www.energy-cities.eu/IMG/pdf/Position_Paper_Smart_Cities_Public_Consultation_2011_en.pdf
- *Energy Cities' position paper on the Energy Efficiency Plan, 7 April 2011*
http://www.energy-cities.eu/IMG/pdf/EnergyEfficiencyPlan_2011_en.pdf
- *Energy Cities' position paper on the Energy Roadmap 2050, 22 March 2011*
http://www.energy-cities.eu/IMG/pdf/Position-Paper_Response_to_the_Energy-Roadmap-2050_Public-Consultation_en.pdf
- *Energy Cities' position paper on the Conclusions of the 5th Report on Economic and Social Cohesion, 31 January 2011*
http://www.energy-cities.eu/IMG/pdf/5h_Report_on_Economic_and_Social_Cohesion_consultation_ENC_final_31January2011.pdf
- *Energy Cities' position paper on the Energy Strategy for Europe 2020, 2 July 2010*
http://www.energy-cities.eu/IMG/pdf/Energy_EU_2020_Energy_Cities_position_paper.pdf
- *Low-energy cities with a high quality of life for all*
<http://fr.calameo.com/books/0001260423b56a6f28003>
- *Vision and Governance – Visions of cities towards a low-energy future*
<http://fr.calameo.com/books/000126042d8a5732235d9>
- *IMAGINE Initiative memorandum*
http://www.energy-cities.eu/IMG/pdf/IMAGINE_Memorandum_en-2.pdf

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