

FINANCIAL INSTITUTIONS INSTRUMENTS

Lessons learnt from the
Covenant of Mayors Community



Covenant of Mayors
for Climate & Energy
EUROPE



Financial instruments are a type of financing often characterised by the combination of EU funds and public or private sector finance, above all banks, but also credit unions, savings, and loans associations or investment companies.

Such a cooperation aims to trigger investments on the ground to deliver policy objectives, such as economic, social and territorial cohesion and support environmental policy, such as climate action.

In Europe, the European Investment Bank is one of the main banks which supports cities' climate ambition, however national banks also have a strong role to play in supporting the financing of Covenant of Mayors signatories Sustainable Energy and Climate Action Plan (SECAP).

The EIB already supports public authorities with a variety of instruments:

- Financial instruments, such as investment loans, framework loans, multisector urban and regional projects through EFSI (European funds for strategic investments), guarantees for local authorities and infrastructure investments or indirect financing through commercial and public sector banks at national level.
- Advisory services such as the European Investment Advisory Hub (EIAH or the Hub) which act as a single access point to various types of advisory and technical assistance services.
- Project development assistance, such as JASPERS and ELENA which provides grants for technical assistance focused on the implementation of energy efficiency, distributed renewable energy and urban transport programmes (see the dedicated Covenant booklet on project development assistance).



COLLABORATING WITH THE EUROPEAN INVESTMENT BANK (EIB)



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WHAT IS IT?

The European Investment Bank, the EU bank, was established in 1958 to support the balanced development of the European Union and has been active in supporting municipal investments since the 1960s. Based in Luxembourg, but with representative offices in most EU capitals, the EIB is today the world's largest multilateral bank, lending each year between 60 and 80 billion euros. It launched the ELENA advisory programme at the first Covenant of Mayors ceremony in 2009.

In November 2019, the EIB approved a new strategy for climate action and environmental sustainability. The Bank aims to align all its financing with the goals of the Paris Agreement by 2021 and, by 2025, to ensure that half of its lending goes to projects having a direct link to climate action and/or environmental sustainability. These activities enter in the framework of the European Green Deal Investment Plan part of the European Green Deal, a package of measures that should enable Europe to become the world's first climate-neutral continent by 2050.



FOR WHICH SECTORS IS IT RELEVANT?

- Climate and environment: supporting the transition to a low-carbon, environmentally friendly and climate-resilient economy
- Infrastructure: including social, educational, health and transport
- Cohesion: to support territorial development in line with the EU cohesion funding priorities



HOW DOES IT WORK?

With its triple-A rating, the EIB raises funds on capital markets at favourable rates and, through its loans, passes on this financial advantage to its clients, such as local authorities. It can also provide cities advice on how to structure projects (see Advisory Services below).

Financial products include:

- Individual loans, for projects with an investment cost of at least €25 million (lower in some specific cases).
- Framework loans – either through public authorities or financial intermediaries – to finance multiple small and medium-sized projects, usually in the size range EUR 1-50 million, over a given period of normally 3-5 years.
- Structural Programme Loans – loans used to co-finance investments made under EU programmes financed with grants from European Structural and Investment Funds.

The EIB normally finances only up to 50 percent of any investment project but this can increase to 75 percent for innovative renewable energy or energy efficiency projects.



WHICH CITIES ALREADY USE IT?

Almost all major cities in Europe have benefitted from loans from the EIB, often in cooperation with their Advisory Services. It has financed urban transport systems, social housing, regeneration projects and municipal waste and water projects from Lisbon to Riga and Dublin to Dubrovnik.

Thessaloniki requested a framework loan of EUR 37, 5 million to finance municipal investments for urban development and regeneration, in particular for the refurbishment of the city market area and the improvement of their waste management service. In order to maximise the impact of the available financing, the city of Thessaloniki requested advisory support from the European Investment Advisory Hub (see below). This assistance helped the Municipality in: (i) fulfilling EIB requirements in relation to the framework loan; (ii) ensuring that quality infrastructure projects are aligned with the Municipality's Urban Development and Resilience Strategy; and (iii) supporting the Municipality's services to devise, procure and monitor the projects' implementation in accordance with EIB requirements.



THE PROJECT CYCLE

No special formalities are involved for the submission of applications to the EIB for loans or support. Cities interested in loans can approach the EIB for an initial discussion. However, sufficient information should be available on whether the project adheres to EIB lending objectives, to EIB environmental and procurement policies and has a well-developed business plan. A project financed by EIB typically goes through seven major stages: proposal, appraisal, approval, signature, disbursement, monitoring and repayment.



Source: EIB website



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LESSONS LEARNT AND RECOMMENDATIONS

- EIB offers finance at attractive interest rates with a catalytic effect (can help attract other private or public sector investors)
- Proposed investments will be subject to robust technical and economic due diligence before loans are approved (see project cycle above)
- Make use of Advisory Services – free for public authorities



MORE INFO

- **EIB support for urban and regional development**
<https://www.eib.org/en/products/mooc-urban-regional-development.htm>
- **Structural programme loans**
https://www.eib.org/attachments/documents/mooc_factsheet_eib_loans_en.pdf
- **EIB project cycle**
<https://www.eib.org/en/projects/cycle/index.htm>

THE INVESTMENT PLAN FOR EUROPE: THE EUROPEAN FUND FOR STRATEGIC INVESTMENT (EFSI)



WHAT IS IT?

EFSI is an initiative launched jointly by the EIB Group and the European Commission to help overcome the investment gap in the EU. EFSI is one of the three pillars of the Investment Plan for Europe. EFSI is not a “fund” in the traditional sense, but a guarantee instrument allowing the EIB to increase its risk bearing capacity to lend to higher risk projects, for example those related to smart cities where research and innovation are a major component.

Urban and regional development projects are two important components of EIB financing activities particularly under EFSI. By reducing the risk, EFSI provides the opportunities to explore new markets, previously considered too risky, or develop new types of financial products. Local authorities, public sector companies or other government-related entities can benefit from project loans, technical assistance for projects development.



FOR WHICH SECTORS IS EFSI RELEVANT?

- Strategic infrastructure including digital, transport and energy
- Education, research, development and innovation
- Renewable energy and resource efficiency
- Support for small and mid-sized businesses



WHICH CITIES ALREADY USE IT?

In 2016, Portugal’s capital Lisbon became the first EU municipality to benefit directly from EU support under the Investment Plan for Europe. It is due to benefit from a €250 million EIB framework loan, supported by EFSI, to contribute to the urban regeneration of the city and to support its long-term growth and competitiveness. The project has a strong focus on social inclusion and it will also help Lisbon tackle climate change.

Since 2016 EIB has been part-financing a number of medium to large-scale investment schemes in the Polish city of Poznan related to urban transport, roads, education, social infrastructure and municipal services. The city’s tramway system has been modernised and more than 1,000 social housing units have been financed.



MORE INFO

- **EFSI website**
<https://www.eib.org/en/efsi/index.htm>

ADVISORY HUB AND OTHER EIB ADVISORY SERVICES



WHAT IS IT?

The EIB offers a large range of advisory services that cover all stages of the investment project cycle.

One of these is the European Investment Advisory Hub, a partnership between the EIB and the European Commission. The Advisory Hub acts as a single point of entry to a wide range of advisory and technical assistance services. It supports project promoters from the public and private sectors in the identification, development and preparation of investment projects across the EU. For the public sector, the services of the Hub are available free of charge.

URBIS is an urban investment advisory initiative developed within the framework of EIAH, which aims to facilitate, accelerate and unlock urban investment projects, programmes and platforms. It provides urban authorities with place-based support and an integrated advisory offer including technical and financial advice as well as awareness raising. The initiative was launched jointly by the EC and the EIB and actively supports the Urban Agenda for the EU.



FOR WHICH SECTORS IS IT RELEVANT?

For all sectors of interest to cities and their investments plans: from energy and environment to transport and digital technologies development. [More information](#) on the sectors.



WHICH CITIES ALREADY USE IT?

Cities from all over Europe have benefited from the advisory services of the Hub through URBIS.

- In Slovakia, Hungary and in Croatia the Hub in collaboration with the national promotional banks and institutions (SZRB Asset Management in Slovakia; MFB in Hungary and HBOR in Croatia), supported the development of smart cities investment platforms, which will provide support to the development and financing of smart cities projects. The platform solution is particularly relevant for smaller or riskier projects, which on their own may have difficulties attracting financing (a similar assignment is currently ongoing in Czech Republic).
- The technical assistance provided by the Hub supported the Municipality of Florence in mainstreaming climate change adaptation, through the implementation of more resilient projects, adapted to the existing climate risks and vulnerabilities.

To support municipalities, businesses, and other urban actors in creating circular cities, the Advisory Hub, through URBIS developed the Circular City Funding Guide. The Guide describes the potential and benefits of the circular economy in an urban context. The aim of the Guide is to share knowledge, best practices, and information on circular solutions, and on ways to finance the preparation and implementation of such solutions. The Guide was developed as an action resulting from the Urban Agenda Partnership on Circular Economy.



LESSONS LEARNT AND RECOMMENDATIONS

- EIAH provides various types of technical assistance in a wide range of sectors. The Hub has successfully supported the identification, development, and implementation of projects of different scales across the EU.
- The EIAH provides support, especially for the development of complex projects, such as the smart cities one, where there is still a high level of investment risk.



MORE INFO

- EIAH webpage <https://eiah.eib.org/about/the-hub.htm>
- Circularity city guide <https://www.circularcityfundingguide.eu/>
- URBIS <https://eiah.eib.org/about/initiative-urbis.htm>

EUROPEAN INVESTMENT BANK NATURAL CAPITAL FINANCING FACILITY



HOW DOES THE SCHEME WORK?

The Natural Capital Financing Facility (NCF) funds projects for the management and enhancement of natural capital for biodiversity and adaptation benefits. The facility can provide between EUR 2 and 15 million. In combination, a technical assistance facility can provide each project with a grant of up to EUR 1 million for preparation, implementation and the monitoring of the outcomes. The NCF combines EIB financing and funding under the LIFE Programme, the EU's funding instrument for the environment and climate action.



FOR WHICH SECTORS IS EFSI RELEVANT?

Green and blue infrastructure, nature-based solutions for adaptation to climate change



WHICH CITIES ALREADY USE IT?

City of Athens (Greece)

Athens is the first local authority to receive an NCF loan for nature-based urban renewal and regeneration. This 5 million EUR loan for using green-blue components in the restoration of public spaces includes soil and biodiversity stabilisation in Lycabettus hill, an urban forest that has been a notable part of Athens' landscape for centuries. The loan is complemented by a grant worth half-a-million in technical assistance (TA).

This NCF TA is linked to another TA package that supports Athens to integrate climate mitigation and earthquake resilience in public and listed buildings, provided by URBIS, an urban initiative of the European Investment Advisory Hub.

The NCF loan is attached to an existing 50 million EUR EIB loan. All these loans and assistance grants support Athens' Resilience Strategy for 2030.

The NCF operation contributes to reducing urban heat islands, increasing natural water infiltration, and improving biodiversity and overall attractiveness, making Athens a more resilient city, and combating climate change.



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LESSONS LEARNT AND RECOMMENDATIONS

- **Each city's adaptation solution is unique, but it should be part of an integrated plan:** Small interventions can add value, but a city has to have sound strategies and plans, including adequate public consultation processes, to achieve real impact. This is important to the EIB in assessing urban NCF proposals.
- **Combining NCF with a larger urban investment programme:** Natural capital investments can be integrated into an EIB-funded urban framework loan or a social or affordable housing programme. This lowers the administrative burden and transaction costs and amplifies the impact of natural capital components.
- **Technical assistance provides added value:** Technical assistance can make the difference between "business as usual" and a cutting-edge project that transforms a city into a model for nature-based adaptation to climate change. NCF provides (grant-based) technical assistance facilities for building capacity, project preparation, product design, implementing and monitoring of impacts.



MORE INFO

- **Guide**
[Investing in nature: financing conservation and nature-based solutions](#)
- **Webinar**
[Covenant of Mayors webinar on financing climate change adaptation actions](#)
- **NCFF webpage**
<https://www.eib.org/en/products/blending/ncff/index.htm>

THE ROLE OF NATIONAL PROMOTIONAL BANKS



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WHAT IS IT?

Across Europe, national promotional banks support commercial banks' lending to low-carbon projects. National promotional banks act as financial intermediaries for EIB group investments directed to small-scale projects. They channel EIB loans to businesses and local authorities in their home countries.

National promotional banks use financial instruments that mix public and private funding and have a number of benefits compared to grant-based funding. These instruments use public money to leverage investments from the public sector by derisking investments and offering long-term orientations, whilst the revolving nature of the instruments ensures that funds, plus interests, return to the instrument for reinvestment.



FOR WHICH SECTORS IS IT RELEVANT?

For all sectors of interest to cities and their investments plans, from urban development and housing to transport, energy and adaptation to climate change.



EXAMPLES OF SUCCESSFUL SCHEMES BETWEEN THE EIB AND NATIONAL PROMOTIONAL BANKS

The EIB and Spain's national promotional bank ICO are working together to provide €80 million in financing to build 562 new social rental homes in Seville. Each party will provide €40 million to Empresa Municipal de la Vivienda, Suelo y Equipamiento de Sevilla (EMVISESA) for the construction of 562 affordable social rental homes. The investment will also drive urban regeneration in some parts of the city.

■ **Private Finance for Energy Efficiency (PF4EE):** This agreement between the EIB and the European Commission addresses market barriers by investing in energy efficiency projects that would not be funded otherwise because they are considered as too high risk. In addition to long-term financing and credit risk protection, it provides expert support for financial intermediaries. A minimum of EUR 480 million is available.

An example PF4EE agreement is one signed between the EIB and Banco Santander in Spain for EUR 50 million. The EIB loan will finance energy efficiency investments by small municipalities or other public bodies, as well as hotels and tourist accommodation, to be repaid through the energy savings.

■ <https://www.eib.org/en/products/blending/pf4ee/index.htm>

In November 2019 the EIB's Board of Directors approved a project to establish a €200 million Investment Platform for the renewal of zero-emission bus fleets promoted and co-financed by the French National Promotional Institution (NPBI) Caisse des Dépôts et Consignations (CDC). The Platform's main goal is to support French public authorities and accelerate their transition to zero emission or ultra-low emissions buses, starting with those in urban areas. The Platform will provide loans to French public authorities with a remuneration system based upon the energy savings derived from the use of electric buses. The project is part of a second wave of operations included in the Cleaner Transport Facility (CTF), a joint initiative by the European Commission and the EIB launched in December 2016. The CTF aims at accelerating the deployment of the Alternative Fuels Directive to step up the pace towards low emissions mobility.

- **Partnership between Belfius and the EIB:** This programme to fund smart and sustainable Belgian cities has allocated 1 billion euros to 121 cities so far. In 2018, a new agreement was signed providing an additional 400 million euros for cities to develop projects related to smart cities, circular economy and climate actions.

- <https://www.belfius.be/publicsocial/FR/Themes/Smart-Cities/index.aspx?first-WA=no>

- **Marguerite II – a pan-European infrastructure fund:** The 2020 European Fund for Energy, Climate Change and Infrastructure, known as Marguerite II, can invest over EUR 700 million in energy, renewables, transport and digital infrastructure across the EU and pre-accession countries. The EIB will provide EUR 200 million, alongside EUR 100 million each from five national promotional banks, the Polish bank Gospodarstwa Krajowego (BGK), the French Caisse des Dépôts Group (CDC), the Italian Cassa di Risparmio di Roma (CR) (CDP), the German Kreditanstalt für Wiederaufbau (KfW) and the Spanish Instituto de Crédito Oficial (ICO).

- <https://www.marguerite.com/>



EXAMPLES OF SUCCESSFUL SCHEMES WITH NATIONAL PROMOTIONAL BANKS

- The **'KredEx Revolving Fund'**, an energy efficiency fund founded in 2009, is part of the KredEx Foundation, a government owned non-profit provider of financial services established in 2001 by the Estonian Ministry of Economic Affairs and Communications. This fund provides revolving project finance, under the Apartment Building Renovation Loan Programme to Estonian multi-family apartment building owners and housing associations to improve energy performance and living conditions. It also administers grants in the energy efficiency and housing sector on behalf of Estonian national and local authorities.

- <https://kredex.ee/en>

- **Financial support of New Green Buildings in Romania** – the Romania Green Building Council (RoGBC) developed the Green Mortgage Programme together with Raiffeisen Bank based on an innovative green homes' certification. The certification recognises top-performing sustainable residential construction projects. A green mortgage is a loan given out at discounted interest rates for a RoGBC certified "Green Home." The programme creates successful cooperation between a bank, the investor/developer of the building, the home buyer and the RoGBC.

- <http://www.rogbc.org/en/projects/green-mortgage>

- The **National Fund for Environmental Protection and Water Management** is the largest Polish financial institution supporting environment and climate. The fund manages several financing programmes and acts as a representative of national and international initiatives, including the coordinating role in the emissions trading scheme.

- <https://www.nfosigw.gov.pl/en/>





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This book is part of a series of four, aimed to support Covenant signatories to finance their SECAP.

You can find the other booklets at

<https://www.eumayors.eu/support/funding.html>

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