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Briefing for the EIB Board of Directors for the seminar with civil society on 1st February 2016

European Fund for Strategic Investments (EFSI)
How to ensure sustainability, good governance and added-value
of EFSI operations

The European Fund for Strategic Investments (EFSI) aims to leverage through the European Investment Bank (EIB) financing for a total of EUR 315 billion in new projects by 2018. The guarantee fund should target projects with a higher risk profile than normal EIB investments and should as well increase lending for investments with so-called “European added-value” – projects which significantly contribute to achieving European common policy objectives.

At the beginning of 2016 the EFSI is fully operational, its legislative framework is in place, its governing bodies (Steering Board and Investment Committee) are on the job, and a list of at least 42 projects “warehoused” by the EIB is awaiting its approval by the Investment Committee. As organisations monitoring closely the setting-up of the Investment Plan for Europe, we take this opportunity to provide the EIB directors with key recommendations in order for the EFSI to contribute at best to a sustainable future for European citizens.

We consider that the implementation of the EFSI has to bring considerable improvements in 3 key areas:

- **Sustainability**
- **Transparency and Governance**
- **Additionality and added-value**

Sustainability: what to improve for more Renewable Energy and Energy Efficiency projects?

The contribution of the EFSI to EU’s sustainable development, in line with the EU 2050 climate objectives, largely depends on the EIB’s policies and internal capacity to attract projects in sectors like environment, energy efficiency and renewable energy.

The new Climate Strategy of the bank foresees the development of action plans which are highly needed while the EFSI rapidly develops. Whether the EFSI is to become a catalyst of sustainable investments and climate action for the EIB depends on how fast and efficiently the bank overcomes systemic obstacles like low energy efficiency financing, the poor integration of the Energy Efficiency First Principle in its policies and practices, high regional concentration of its climate program (especially in the renewable energy sector) and the tendency to focus on high cost, single investment projects side-lining small scale energy efficiency and renewable projects.

Although energy efficiency has become more prominent in EIB's mitigation portfolio over time, the Bank's evaluation suggests that EIB's contribution was limited in this area[1]. As a cross-sectoral issue, energy efficiency measures constituted only 2.8 per cent of the EIB's total lending in 2014. According to the evaluation, 70 per cent of the bank's EUR 75 billion in climate finance between 2010 and 2014 was limited to just five countries: Germany, France, UK, Italy and Spain[2]. The 13 EU Member States in central and eastern Europe (CEE) collectively received less than one per cent (EUR 42 million) of the EUR 4.5 billion the EIB lent for renewable energy within the EU in 2014.

The EFSI, created to address private investors' lack of willingness to taking on more risk and thus opening financing opportunities for projects which would otherwise struggle to get its financing together, should then be the ideal tool to reverse these negative trends. However, the pilot phase of the EFSI seems to confirm the trends: it concentrates renewables and energy efficiency investments in just limited number of countries where the EIB has already solid track record through its regular lending. Energy efficiency investments, especially in highly energy intensive economies do not constitute more significant part of the EFSI comparing to the EIB normal pipeline. EFSI keeps subsidising fossil fuel based investments such as gas distribution networks and environmental compliance of refinery. In transport sector, the countries with high density of motorways are being supported by the guarantee while their climate impact is overlooked. Therefore to ensure genuine sustainability via the EU guarantee, the EIB Management and Board shall undertake immediate steps to scale up financing for 2030 climate and energy targets, Energy Union goals and national energy efficiency and renewable energy action plans, in the framework of the EU Roadmap for moving to a low carbon economy in 2050 and the UN COP-21 agreement.

The Bank needs to integrate the Energy Efficiency First principle in its policies and operations. The EIB itself needs to better embrace the energy efficiency first principle in its energy and climate policies and implement it in its lending decision to redress its bias towards energy supply investments and allow stakeholders such as energy users and service providers to benefit from a growing energy efficiency market. It is a matter of EIB risk management principle and of public interest. In practice this would mean - besides mainstreaming energy efficiency measures for each project - that the EIB should develop an own energy reference scenario considering 80-95% greenhouse gas reduction by 2050[3] and stress-test individual projects against these scenarios in order to prevent financing of projects based on false energy demand assumptions.

[1] EIB 2015 Operation Evaluation - valuation of EIB financing of Climate Action (mitigation) within the EU 2010 - 2014 pp.10-11

[2] EIB 2015 Operation Evaluation- valuation of Climate Action, p 8

[3] This scenario would be consistent with EU leaders' commitment to reducing emissions by 80-95% by 2050 if similar reductions are to be taken by developed countries.

The Bank needs to be more pro-active in project development. The extremely low number of energy efficiency projects financed and the regional imbalance of renewables investments in Central and Eastern Europe has been interpreted by the EIB as a lack of bankable projects or the insufficient scale of individual projects. To overcome those barriers the EIB should take appropriate steps to increase energy efficiency and renewable energy financing by better assisting in project development and bundling of projects. In particular, the EIB should better use the tools provided in the EFSI itself:

- ❑ **Investment Platforms:** the EIB should facilitate the setting up of sectoral and regional Investment Platforms for energy efficiency, renewable energy and integrated approaches such as Covenant of Mayors or other community led energy initiatives.
- ❑ **European Investment Advisory Hub** (EIAH)/Technical Assistance (TA): the EIB should devote more resources to the EFSI's Technical Assistance.
- ❑ The EIB should better communicate its experience with **ELENA, JESSICA** and new EFSI projects as this knowledge can benefit other potential beneficiaries, such as through e.g. specific case studies of how cities used these programs.
- ❑ There is a need for decentralised ways of providing **Technical Assistance.** The EIB acknowledges the need for new ways of collaborating with more local authorities, which bundle their projects of various sizes to become more bankable. However, the EIB needs to adapt its approach, internal structure and capacities accordingly to make this possible.
- ❑ Furthermore the so-called **Investment Platforms** and collaboration with **national promotional banks** and/or local financial intermediaries in the EFSI framework should be organised in a way that bundling of smaller projects is supported. The advisory services of the EIB, like the Investment Advisory Hub, need to address this challenge sufficiently via relevant support schemes in terms of information and technical assistance. EIB shall share its experience in energy and climate financing with the intermediary banks but also require the same selection criteria and standards in projects to be applied by intermediaries.

Towards enhanced transparency and good governance

The EFSI governance needs to ensure a high level of transparency and accountability on how the fund will contribute to the achievement of EU long-term objectives, its additionality compared to EIB usual operations and its added-value for the European Union. In this regard, result-oriented and transparent operations will increase the expected well-being, environmental, social and economic benefits for European citizen of EFSI operations. During its implementation period, the EFSI has to make its investment decisions accessible and comprehensible by the public, in line with the EFSI regulation. You will find below the main elements to be put in place:

- ❑ For each project approved under the EFSI, standard project information needs to be published on the EIB website alongside the results of the 4 pillars assessment and the use of the scoreboard (including the rating of projects). The projects earmarked for potential use of the

EFSI guarantee should also be notified as such on the EIB website before the Investment Committee's decision, so that genuine transparency of the EFSI pipeline is achieved.

- Transparency of the decision-making of EFSI governing bodies is crucial. The Investment Committee and the Steering Board should systematically disclose the minutes of their meetings on the EIB website, in line with article 7 of the EFSI regulation.
- The independence of the Investment Committee (IC) is a central element of the EFSI governance. Hence in order for the IC to take fully independent decisions, the EIB needs to provide the committee with extensive and qualitative information on each project and their contribution to the 4 pillars on which the scoreboard is based. In addition, the opinion of "local investments committees" should be considered by the IC when taking a decision.
- In line with the EFSI regulation, the Steering Board shall regularly consult relevant stakeholders - including civil society - on the orientation and implementation of the investment policy carried out by the EFSI. Organising annual meetings with NGOs and trade unions would be a sound way to engage in a structured dialogue.

Ensuring additionality and added-value: no time for business as usual!

Both the EFSI legal set-up and the EIB procedures themselves are indistinct in guaranteeing and most of all demonstrating the aspired "additionality" regarding its financing and its "added-value" on achieving EU policy objectives, in particular in the framework of the post-Paris 2050 climate objectives. For the time being there is no genuine guarantee about the additionality of EFSI financing and added-value to EU's long-term sustainable development objectives, in particular the multiple dividends of a fossil free and decentralised energy system with substantial energy savings at its heart. The EIB has to explicitly demonstrate additionality beyond existing risk bearing capacities, at both project level and on an aggregated basis by:

- On aggregated basis the EIB should report on the EFSI role as a catalyst of sustainable development comparing to the EIB's standard project pipeline (for instance to what extent the ESFI boosts the Climate Action program of the bank or allowed for higher financing in disadvantaged convergence regions).
- For individual projects the bank shall indicate the reasons of absence of financing from other sources including own resources without a guarantee and explaining a source of higher risk covered by the guarantee

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