



INFO Day Nazionale LIFE

The new financial instruments under LIFE

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LIFE: why financial instruments?

- ↓ **Make optimal use of scarce public funds, i.e. identify ways of increasing leverage;**
- ↓ **Testing new instruments to mobilise or "crowd in" private finance;**
- ↓ **Address specific market barriers by investing in projects that are not considered commercially viable today but have the potential to be so in the future;**
- ↓ **'Fill the gap' in the financial market and demonstrate the business case for 'higher-risk' projects;**
- ↓ **Facilitate market uptake of climate friendly actions and greening of financial intermediaries via financial instruments;**
- ↓ **Complement traditional action grants**





LIFE: two pilots

- **Overall objective: Pilot concepts for "green" financial instruments; widen the financing opportunities for "green investments":**
- **Private Financing for Energy Efficiency (PF4EE): M€80 from LIFE Climate Action. Link with the EIB's initiative "DEEP Green"**
- **Natural Capital Financial Facility (NCFF): M€30 from LIFE Environment and M€30 from LIFE Climate Action; plus matching funds from EIB of M€50**



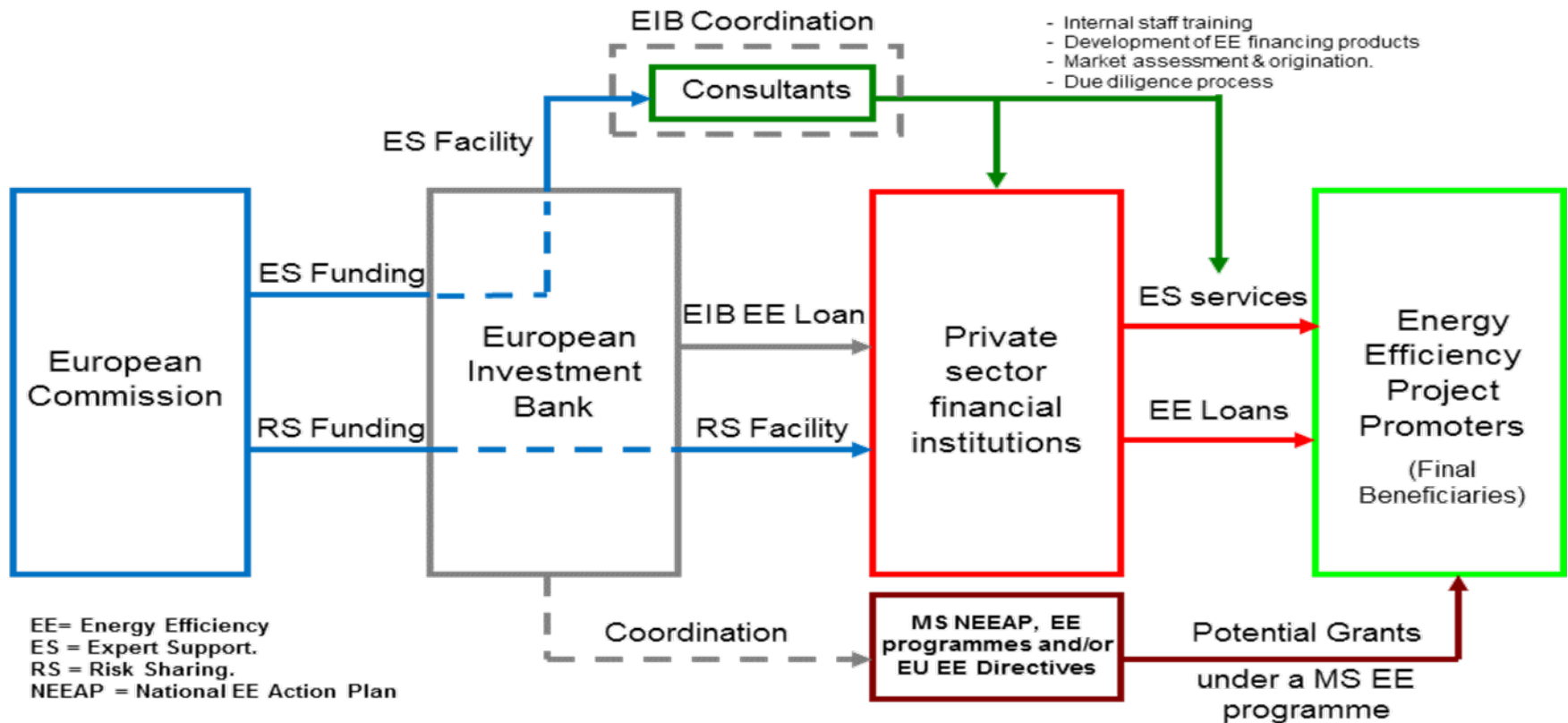
Objectives of the PF4EE

1. To make energy efficiency lending a more sustainable activity across financial institutions (FIs) in Europe;
2. To encourage private commercial banks and other financial intermediaries to address the energy efficiency sector as a distinct market segment;
3. To increase lending for energy efficiency in response to priorities identified by Member States' National Energy Efficiency Action Plans.



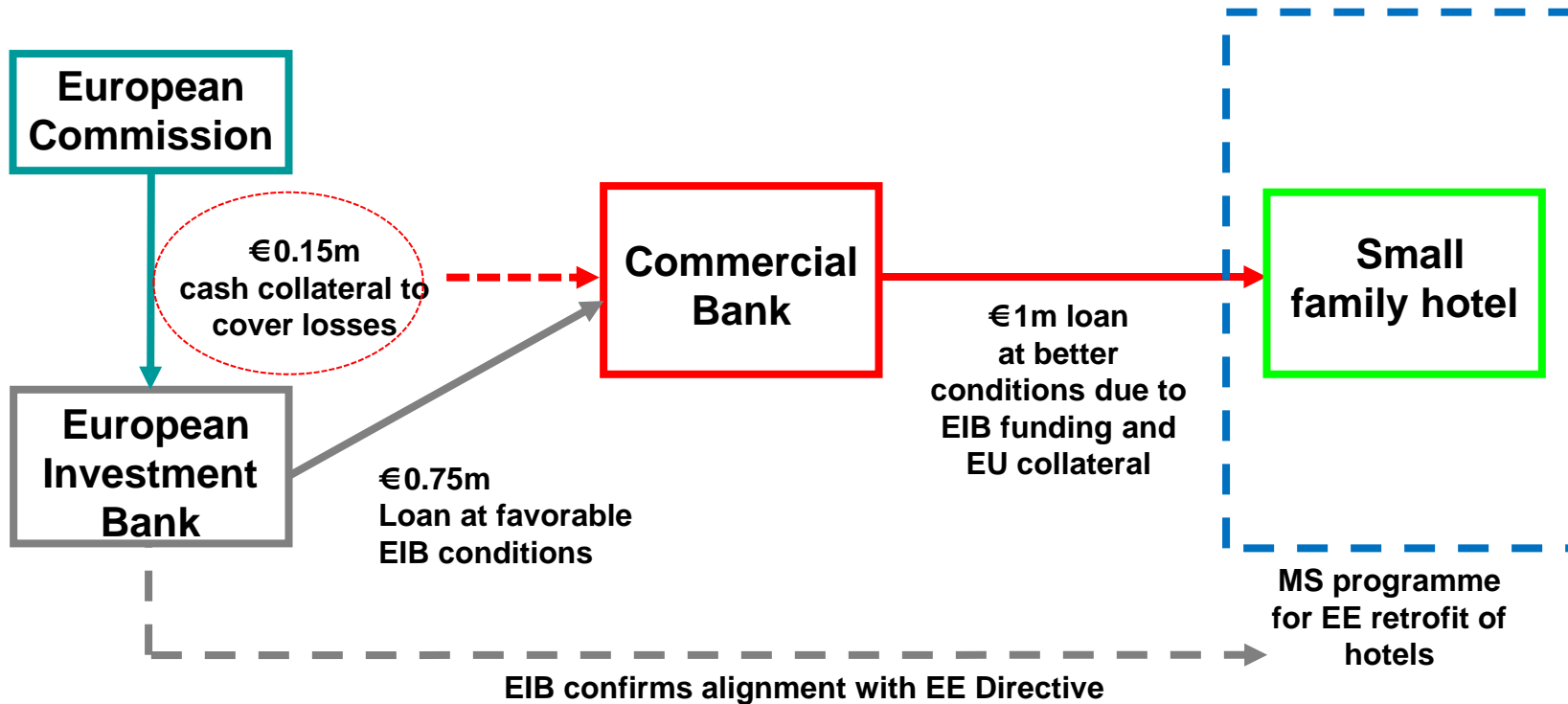


PF4EE: Structure





PF4EE: Example





PF4EE complementarity with MS instruments

- Numerous MS' programmes provide support to funding EE;
- Cohesion policy funding will allocate min. €23 billion to EE/RES and urban transport (doubling current allocations);
- However, this is often in the form of grants and public sector activity, and doesn't cover the full cost of projects;
- Financial instruments can complement grant schemes;
- PF4EE will test new approach to be up scaled by financial instruments supported by structural funds.



NCFF

- ➔ **Why? Financing gap for biodiversity and adaptation; emerging market opportunities for investments in natural capital**
- ➔ **Market failures: perceived high risks, lack of track record, long pay-back periods**
- ➔ **Objectives: Encourage investments in revenue-generating or cost-saving projects promoting the conservation of natural capital to meet biodiversity/adaptation objectives and support green growth; Demonstrate to private investors the attractiveness of natural capital projects; build project pipeline**



NCFF - Approach

- ➔ **Investment facility (debt and equity, direct and indirect) + support facility (building pipeline, project development)**
- ➔ **2 stages approach: i/Pilot phase (2014-2017) for testing approaches; ii/ Operational/roll out phase (2017-2020)**
- ➔ **Participants: European Commission; EIB (matching amounts for investments; manager of facility); other investors in operational phase**
- ➔ **Challenges: testing the various financial mechanisms and project categories; ensuring a broad geographical reach in the EU.**





NCFF : Example of project based on payment for ecosystem services

- **What is the project?**
- **A brewery's production is affected by the practices of upstream land managers, with impact on water quality. Land managers would need to invest, which would create co-benefits on biodiversity protection, climate resilience, for example to create a buffer strip and/or other management practices.**
- **How does it generate revenue / save costs?**
- **Contractual arrangement between brewery and land manager: payment for the ecosystem services they provide.**



NCFF: Example of project – cont.

- **What is the role of the NCFF?**
- **Investment facility: Provide funding for the loan supporting the necessary investments.**
- **Support facility: Help coordinate between the brewery and land managers, therefore securing the business model of the approach.**
- **What barriers would be addressed?**
- **Lack of track record (difficulty in monetising the expected benefits), long payback periods**





Conclusions

- **EU faces significant challenges in reducing GHG emissions, adapting to inevitable climate change and to preserve natural capital;**
- **An optimal policy response requires the use of an array of regulatory and financial support tools, including action grants, integrated projects and financial instruments, that can adequately address different challenges and constraints;**
- **Inducing transitional change requires innovative ways of mobilising private finance in order to meet Europe's current and future climate and environment objectives;**
- **The two financial instruments to be implemented are linked to strategic areas of EU climate action, i.e. energy efficiency and adaptation, and complement other climate-related financing. NCFE is also linked to a strategic area of EU environmental policy, i.e. natural capital preservation and complements grant funding in this area.**





<http://ec.europa.eu/environment/life/index.htm>

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