MAINSTREAMING CLIMATE FINANCE DISCUSSIONS

CEE Dialogue

WARSAW 2020

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Climate Investment & Sustainable Finance: What progress and insights for the CEE region?

Webinar on 18th of December 2019

Agenda

1. *Climate Finance Tracking in CEE – State of play on EU sustainable finance* **Tom Jess**, E3G
2. *Mapping Climate and Energy Finance: Lessons Learnt from Czechia* **Michaela Valentová**, Czech Technical University in Prague
3. *Lessons from Latvian Landscape* **Agris Kamenders**, Riga Technical University
4. *How to consider natural gas and nuclear power in climate finance landscapes* **Hanna Fekete**, NewClimate Institute

Background

As countries move forward to implement national climate strategies, National Energy and Climate Plans (NECPs) and more broadly Nationally Determined Contributions (NDCs), there is an increasing need to understand how to transform investment needs into capital raising and financing plans. Today countries in Central Europe are moving forward to collect the information and data to support this process. Emerging insights from the CEE countries demonstrate how they are beginning to track domestic climate investment and finance flows and how they are integrating this into the climate policy planning process and implementation.

Key remarks

Tom Jess (E3G): *Climate Finance Tracking in CEE – State of play on EU sustainable finance*

- Platform on Sustainable Finance (to be established in 2nd half of 2020)
  - Platform will support update/development of the taxonomy
  - It will also have an EU Observatory/Advisory function:
    - monitor and report regularly to the Commission on EU and Member State level trends regarding capital flows towards sustainable investment
    - advise the Commission on the possible need to develop further measures to improve data availability and quality
    - advise the Commission on the evaluation and development of sustainable finance policies, including concerning policy coherence issues
  - Sustainable finance and EU institutions – climate change and net zero target as priority axes of discussions; increasing importance of the sustainable finance topic in the strategic communication of the EU institutions
  - Renewed EU Green Financing Strategy

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Michaela Valentová (Czech Technical University in Prague): *Mapping Climate and Energy Finance: Lessons learnt from Czechia*

- Private sector is the main contributor to climate and energy investment (60% of investments is being supported by private resources)
- Grants as single most important instrument supporting investments in low-carbon investments in Czechia
- Majority of investment in energy efficiency, while renewables „on hold“
- The current support system does not seem to trigger sufficient investment in the renewable energy supply and infrastructure sector
- Major share of the climate and energy investment remains untracked (especially in buildings) due to unavailability of data
- Lessons learnt:
    - It is possible to obtain good overview of public finance flows, but much less data is available for private sector (e.g. investment channeled through EIB)
    - Establishing climate finance definitions and methodology as well as systematic tracking of public and private investment is important for comprehensive and unbiased assessment

Agris Kamenders (Riga Technical University): *Lessons from Latvian Landscape*

- In 2018 at least EUR 190 million were invested in energy efficiency measures in buildings and businesses, while EUR 41 million was invested in RES, in total 231 million EUR of investment
- EU funds play a big role in total investments and driving private investment. However existing EU support has mainly been used in the form of grants
- Green bonds issued by ALTUM (a Latvian, state-owned development finance institution, which offers state aid for various target groups) make it possible to take loans for energy efficiency and RES projects
- Latvian Energy Efficiency Facility LABEEF has developed the first financial instruments that can help to attract international financial institutions and refinance ESCO projects
- Data on public and EU investments are available, yet there is no information on investments made by private and private financial institutions. Systematic assessment for reporting and surveys of private investment is needed
- Reviewing the technologies and the projects that have received investments, it can be concluded that they were mainly covered comprehensive renovation of buildings, whereas in the RES sector investments were focused on bioenergy projects. Another significant source of financial flows are large power supply enterprises such as Latvenergo

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- Currently there is no information available on investments made by power supply enterprises under the energy efficiency obligation scheme or investments made by private individuals, enterprises and other private parties in projects not related to the use of EU funds
- In the municipal sector the investments are also mainly linked to the use of EU funds and loans from the Treasury. For the time being, PPP are not commonly used instrument

Hanna Fekete (New Climate Institute): *How to consider natural gas and nuclear power in climate finance landscapes?*

- In the discussion on the PA-alignment gas and nuclear energy remain contentious topics
- Investments in both types of technologies need to take into account
    - Long-term decarbonisation scenarios and national decarbonisation plans
    - Broader sustainability concerns – PA sets the provision that mitigation and adaptation actions need to be aligned with principles of sustainable development and poverty eradication efforts
    - Where possible complex assessment of each project should be implemented to determine their PA-alignment
    - It is advisable to track financial flows towards natural gas and nuclear energy separately
    - Where possible consider political context of the country analysed for integration of results in outputs

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Climate finance tracking and the design of recovery packages: from global practice to the Polish context

Webinar on 29th of June 2020

Agenda:

1. *Impact of COVID-19 on aligning finance with the Paris Agreement* **Aki Kachi**, NewClimate Institute
2. *Driving economic recovery in France by investing in climate* **Ian Cochran**, I4CE
3. *Landscape of climate finance in the Polish energy sector – current trends and future needs* **Zofia Wetmańska**, WiseEuropa

Background

The economic crisis triggered by the COVID-19 pandemic results in additional challenges for the "just transition" in European countries, but also creates new opportunities related to the emergence of new low-carbon solutions, especially for the CEE region. Moreover, it creates an opportunity for an unprecedented redirection of financial flows towards sustainable investments especially in the context of stimulus packages designed to help Europe recover from the economic impact of COVID-19.. Given the urgent need to support stakeholders with the transition process, tools such as 'Landscapes of domestic climate finance' can use the tracking of historical financial flows to support the appraisal of the investment gap. This in turn can help support the design of packages for post-crisis recovery.

Key remarks

Aki Kachi (NewClimate Institute): *Impact of COVID-19 on aligning finance with the Paris Agreement*

- COVID-19 climate impact will depend on the shape of the recovery, trends in energy and emissions intensity of the economy
- Political context differs from that prevailing during the financial crisis of 2009, new factors, relevant from the climate perspective, that now need to be considered include: Paris Agreement, EU Green Deal – notably the target of climate neutrality by 2050, TCFD, increasingly active pension funds and asset owners, and initiatives like Network for Greening the Financial System as well as ever decreasing costs of renewables. Further, the EU's discussions of a medium term increase of ambition from a 40% reduction target by 2030 to 50-55% also has major implications for investment decisions made in Europe today.

- Adopting a sustainable recovery path may help fight both the COVID-19 economic crisis and the climate crisis, since strong climate policies plus sustained investments can

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provide valuable jobs (9 million jobs can be saved or created (IEA scenario)), revitalise economics (increase in global GDP may amount to 1,1% per year (IEA scenario)) and get the world on track to meeting the 1,5°C Paris Agreement goal

Ian Cochran (I4CE): *Driving economic recovery in France by investing in climate*

- Climate action can support positive outcomes in three areas:
  - Environment – by maintaining the credibility of the Green Deal, by preserving the industrial capital of low-carbon sectors, by adapting our economy to climate change
  - Economy - by contributing to the revival of activities in the short term while simultaneously reducing exposure to future crises: oil price shocks, food and industrial supply, etc.
  - Health - by reducing the vulnerability of society to health threats, particularly through the improvement of air quality and reduction of fuel poverty
- In France, I4CE has used its landscape of climate finance methodology as a foundation to design green recovery proposals and packages
- Green recovery requires thinking and planning in terms of policy package, rather than focusing on individual options, that would address key climate sectors; further analysis is needed to develop a package capable of restarting the whole economy
- Based on this analysis, I4CE has identified a public finance package that entails: public investments, co-financing options, renovation work obligations, financial tools enabling minimal share of own funds, technical support measures for local authorities, households and companies;
- I4CE has estimated that the proposed packaged of 7 billion euros per year of additional investment could would enable generation of additional EUR 19 bn investment per year
- Focused needs to be placed on investments that are ready to be launched and are in line with the long-term strategy

Zofia Wetmańska (WiseEuropa): *Landscape of climate finance in the Polish energy sector – current trends and future needs*

- The crisis caused by the COVID-19 pandemic, combined with the announcement of the EU and national stimulus packages, require the validity of Polish NECP to be revisited. A comparison of current investment levels with the NECP indicates that if the renewables were to be developed at a pace and scale envisaged by NECP, the investments in renewables will have to undergo an almost two-fold decrease over the upcoming decade
- Adoption of a more ambitious scenario, one that would include further development of PV and unblock further investments in onshore wind farms, would enable a substantial transformation of the Polish energy system as well as coal exit by 2035, while maintaining the current level of investment in renewable energy
- Maintaining the high pace of investments in RES achieved in 2018-2019 will mean that the 2020s energy investment gap implied by the current NECP can be avoided.

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Importantly, maintaining high capital expenditure in the energy sector in the 2020s will make it possible to avoid the escalation of financial needs at later times, when cheap public funds, such as those foreseen in the post-COVID19 Recovery Plan for Poland, are not available

- Results of the Landscape of climate finance for the energy sector enable to highlight three key recommendations for the redesign of the strategic approach to low-carbon transformation:
  - abandon the false belief that transformation has to be driven by public funds disbursed in the form of direct support and the engagement of state-owned enterprises
  - redefine the role of the state as a regulator, whose objective is to create favourable conditions for investors to mobilise private funds
  - facilitate the flow of direct financial support only to areas where it is necessary (e.g. investments carried out by local governments as well as investments in bioenergy and small hydropower plants which complement PV and wind generation)

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Thematic recommendations and reflection points

Aligning finance with the PA

- The objectives of the Paris Agreement and the emerging notion of 'Paris alignment' or 'Paris consistent' investment and finance is changing the way that finance and investment are discussed in terms of climate change. Today, there is a mandate to not just count the financial flows supporting climate objectives, but rather to understand how they are contributing – or not – to the long-term objectives. This poses many challenges, principally given that the shape of the transition is uncertain. Furthermore, the transition will also vary between countries given different points of departure, specificities, and national context.
- In addition to estimating current levels of investment and finance contributing to climate goals, it will be increasingly important for countries and regions to have a dynamic overview of the impact of all finance and investment flows – and how this is evolving over time.

EU Action Plan on Sustainable Finance

- Despite the crisis caused by COVID-19 pandemic, the EC remains committed to present Renewed Sustainable Finance Strategy in Q3 of 2020, signaling the importance of the topic and its role in the sustainable recovery from the impacts of the pandemic.
- Already several tools and concepts developed by the EC's Technical Expert Group on sustainable finance have been mainstreamed into discussions on the recovery, including the taxonomy and the "do-no-significant harm" principle.
- Given that the EU recovery package, as well as the lending streams of the EIB, are being guided and influenced by the taxonomy. This tool will have a growing impact on the private sector as well.
- Taking into account the evolving nature of the taxonomy (i.e. the continuous need to revise thresholds to reflect any policy and technological developments as well as to facilitate a substantial reduction of emissions (in line with net-zero 2050 target)), the EC is currently establishing the Platform on Sustainable Finance.
- The Platform will serve as an advisory body responsible for the analysis of the sectors that have not been addressed by the TEG and other environmental objectives (apart from climate change adaptation and mitigation, there are 4 other i.e. sustainable management and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems), as well as for the regular update and revision of the full list of economic activities.
- Additionally, the Platform will be responsible for monitoring and reporting on capital flows towards sustainable investments. Improved climate finance tracking has become a common objective of also other frameworks, including MFF and InvestEU.

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Climate finance and the NECPs & long-term climate strategies

- The investment needs of national climate objectives and the potential means of financing these needs should be taken into account as early as possible in the next wave of revisions of National Energy and Climate Plans.
- Including the investment and finance dimension can provided an indicator of whether actions and policies are sufficient to mobilize the investment and finance needed to achieve the structural changes in the real economy.
- While still in early days of testing, the development of forward-looking investment and financing scenarios can also help countries determine how choices made around policy packaged and approaches to achieve climate goals can have significant implications for who will need to conduct the investment – and the options at their disposal to finance it.
- I4CE's work in France and WiseEuropa's efforts in Poland have demonstrated that landscapes of climate finance can also be a useful tool to quickly develop proposals and guide public debate to ensure that responses to a crisis such as COVID19 take into account existing climate goals. By mobilizing this expertise, it helps to ensure that actions build upon an understanding of what is already working, who is financing what – and identifies gaps where synergies and co-benefits can be found between economic, social and environmental objectives.
- Today, estimating the investment needs of a long-term climate strategy remains a challenge and depending heavily on the pathway ultimately chosen to achieve milestones and goals. Nevertheless, the translation of long-term goals into near-term milestones and objectives – and in turn understanding the embodied investment and finance needs to achieve these milestones – can be a pathway to engage the broader finance and investment community on both the risks and opportunities that may be encountered during the transition.

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