Veolia’s contribution to the consultation paper on the EIB approach to supporting climate action (Call for public views)

Questions set in the consultation paper¹

Theme 1:
- Is a volume-based lending target an appropriate climate action target for the Bank?
- Is the current list of eligible projects in the sectors targeted for EIB Climate Action fit for this purpose?
- How should the Bank’s climate action lending target evolve over time to reflect global policy development?

Theme 2:
- Based on its existing business model and taking current market constraints into account, how can the Bank further improve the solutions it is providing to foster more climate resilient low carbon growth, both within and outside the EU?
- What role should technical assistance and increased channeling of EU grants through the EIB play?

Theme 3:
- Based on its experience with support for venture capital funds, RSFF/InnovFin and NER300, how can the Bank increase its support for European RDI and emerging low carbon technologies? (VERI)
- How can energy-intensive industries that invest in innovation addressing lower carbon industrial processes be best supported?

Theme 4:
- How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies?
- What sort of financing structures should be supported to best catalyse private sector finance?

¹ Can be found here:
• Is the current EIB product portfolio appropriate to meet climate finance needs?
• How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects? (PAD, Finance Department)

**Theme 5:**

• How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process?
• Does the current approach of the Bank, to integrate a price of carbon into the economic appraisal of a project, adequately reflect issues such as carbon lock-in?
• How can the Bank further improve the EE and climate resilience of the projects it supports?

**Theme 6:**

• Building on its strong institutional position, how can the Bank improve its outreach on climate action issues to civil society, think-tanks, academia and the business community?

**Theme 7:**

• How could the Bank continue to develop its leadership and collaboration with other multilateral development banks and international financial institutions to better support the international climate finance debate and negotiations?
• What partnerships should the Bank develop in mobilising the UN-pledged USD 100bn annually by 2020 to support technical assistance and funding for mitigation and adaptation projects in low and middle-income countries?
Veolia’s contribution to Theme 4:

- How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies?

Development of low-carbon, resource-efficient and climate resilient technologies in Europe requires active involvement of both public and private sectors.

Such technological deployment of low-carbon solutions was expected to happen through the implementation of the EU Emissions Trading System (EU ETS) that was launched in 2005. Because of its current state and low carbon prices on the EU ETS market, this technological leap hasn’t occurred much beyond the wind and solar electricity segments, leaving in particular the energy efficiency dimension almost untouched yet. The European Commission is about to reform the system (through the establishment of the Market Stability Reserve) to ensure more predictable and higher CO2 quota prices.

In the meantime, Veolia’s experiences show the main obstacles for the deployment of innovation is high risk associated with R&D and innovation projects, and hence, a major difficulty to finance them - both internally (with the companies own resources) and externally (using financing from commercial banks).

An active research of subsidies is often a pre-condition for projects to successfully pass through the investment committees of major and smaller companies.

While essential financing tools exists at the EU level (subsidies granted in the framework of Horizon2020 and Life), their access remains highly competitive and can be applied to only a small number of large-scale projects (be it for the reason of their actual size or for the reason of the number of required participants from various Member States).

Another difficulty stems from a complicated blending of subsidies with public-private partnership contracts. PPPs are an effective means to increase and strengthen private sector’s implication in financing of necessary investments (as opposed to classic public work contracts). However, current legal framework (that comprises rules applicable to structural or EU-run funds, State aid and public procurement) discourages both public authorities and private investors from seeking such types of cooperation. Adapting this legal framework would result in greater and a more dynamic involvement of companies like Veolia.

For these reasons, we are of the opinion that the EIB could provide significant support by:

- Continuing the development of innovative financial instruments for innovation (such as InnovFin);
- Better communicating on those instruments so that companies could quickly assess what type of instruments of the bank’s portfolio of offering they could use (on the model of evaluation tool used for InnovFin);
- Limiting conditions that apply to projects financed to the rules already set by the EU (to lessen the burden that weights on private operators when too many various and stringent rules are being observed);
- Adapting funding instruments available to small projects – it is not infrequent that the most innovative initiatives, even within large multinational companies, are small-scale pilot projects. If successfully financially and technically supported, those pilots are likely to transform into commercially large-scale deployable solutions that will contribute towards development of modern and low-carbon products, services and processes in the EU;
- Reinforcing access to “blended” schemes that mix a subsidy with reimbursable advances or preferential loans;
- Guaranteeing access to external funding for projects in the pre-bidding phase (during preparation of applications for calls for proposals organized by the European Commission, Member States and local authorities);
- Contributing towards the use of the Jean-Claude Juncker’s Investment Plan for Europe towards funding of innovative projects in the field of technological progress and infrastructures (that enable to lower CO2 emissions and result in a more efficient use of resources).
- In line with the strategy the EC has announced in the context of the Energy Union the EIB should set up a dedicated action plan for heating and cooling projects, a domain that represents 50% of the EU primary energy consumption

- What sort of financing structures should be supported to best catalyse private sector finance?

**Financing structures offered should answer the challenges of scarcity of funding for private and public operators, and those of long-term financing.**

**Fighting against climate change** means the necessity to deploy **innovative technologies and infrastructures** that will guarantee provision of low-carbon intensive products and services to the European citizens.

Recent economic transformations have put into the limelight the fact that **the public sector no longer has the means to finance the long-term investments that Europe needs**. In the current context of public finances crisis, local authorities adapt to fiscal austerity by reducing their public investments. Even with the subnational public sector remaining the driver for public investment - 65% of direct investments realized by the entire public sector in 2011 - public investment dropped substantially in 2010 and 2011 (-14% in two years) in two out of three EU countries.

While **private operators provide a part of the financing needed to fulfill the objectives mentioned above**, their investment capacities have become more and more problematic since the beginning of the financial and economic crisis in 2008. Faced with international competition many **companies** had to restructure their activities and are nowadays **reluctant to devote their financial resources to projects with high-risk profile** (which, as stated above, characterize technologically and capital-intensive projects).
In addition, Veolia, as a provider of environmental services of general interest, requires long term financing solutions. Indeed, as tariffs for services delivered are defined in the context of long-term contracts (oftentimes Build Operate and Transfer/ Build Operate Own and Transfer/ Design Build and Operate schemes), they have a varying duration ranging from 10 to 20 years. For this precise reason, long-term financing in the forms of capital (equity) and bank financing (debt) is indispensable, and in particular in the framework of concession contracts. Companies like Veolia need stable, long-term financial partners, with a long enough involvement to enable the amortization of assets.

Given those factors, multiple European companies are searching for financing solutions that will enable them to pursue investments planned to last several years and keep in check their debt ratios.

Hence, the most promising solutions are those that enable to deconsolidate a given investment on their balance sheet, and also those that can be quickly applied to small and scattered projects.

- Is the current EIB product portfolio appropriate to meet climate finance needs?

While the current EIB portfolio provides a wide range of various financial products (loans, guarantees and equities - direct or through intermediary financial bodies, as specified in the consultation), it lacks instruments that would enable participating parties to deconsolidate necessary investments from their balance sheet.

Financing instruments (debt or equity) should enable projects bearers to adapt to various risks allocations that are required by project participants.

As a result, it is necessary to favour a moderate risk profile for PPP projects within the environmental sector, with a balanced split of risks between the organising authorities, the industrial operators and the financial investors:

- Organising authorities: should be the bearer of the demand risk in the context of “build, operate and transfer” (volume) and the political risk linked to new requirements in the course of the execution of the PPP;
- Private industrial operators: should be the bearer of the construction, availability (industrial) and operational risks;
- Financial investors: should be the bearer of the counterparty risk.

Major infrastructure projects in particular, necessitate financial partners (investors) who will take majority stakes in a SPV (Special Purpose Vehicle) owning the new assets. Those partners should take similar risks as those taken by commercial banks.

Therefore, we are in favor of further development of specific, sector-based investment funds and facilities, to which the EIB provides guarantees and, which can take majority stakes in innovative and infrastructure projects.

An ideal model would be the one in which the same investor brings equity and take the majority of stakes (to enable deconsolidation for the operator).
EIB direct financing needs to be adapted to small and medium sized projects

The investment needed for infrastructure projects in the area of environmental public services falls between €5 million and €100 million. Most of these projects are of medium size (<€20 M).

The majority of available financial instruments offered by the EIB, such as bonds – in particular “project bonds” – are too expensive to put in place for small and medium sized projects. Thus, in the absence of mutualisation vehicles, they are de facto reserved for larger projects (>€100M).

The European “Project Bonds” initiative launched in 2012 represents a partial response for running projects. They are only suitable for a limited number of infrastructure projects as they are based on recurrent and stable cash flow (not taking into account operational risk).

Although major projects are crucial to the delivery of public environmental services, so are the smaller projects imagined and built locally, which put together, ensure the entire territory of the EU is covered with necessary equipment and services. Therefore, financial mechanisms should also be available to smaller projects, in particular those in the field of energy efficiency, waste and water management. Those projects require lighter financing mechanisms, with lesser emphasis on due diligence. Alternatively, costs of due diligence can be reduced if the project types can be standardized or if homogeneous portfolios of projects can be aggregated and adapted instruments to such mechanisms are being offered.

The establishment of the European Energy Efficiency Fund and the Marguerite Fund are interesting initiatives for operators of public services in the energy sector. They bring equities and hence offer to industrial operators a possibility to develop the project without carrying its investment on their balance sheet. It would be useful to extend the scope of such instruments to cover smaller projects and to develop such tools in the waste management and water resources sector as well as in the energy efficiency in the industry.

Funding instruments for technology innovation and infrastructure projects should be available for the earliest stages of project development

EIB usually cannot be involved in the bidding process, when industrial operators bid for public contracts and necessitate robust financing schemes and guarantees. The same is true for projects that are likely to apply for funding from R&D and innovation schemes.

It only provides lending and equity participation once projects were selected throughout a tendering procedure, in particular when it comes to medium and smaller projects. This might stall the ability of operators to prepare competitive offers and to deploy relevant infrastructure projects.

Enhancing the ability of the EIB to be involved in financing during call for tenders of infrastructure projects would be desirable.
Funding should also be available quickly enough for the projects’ bearers to enable them to launch their investments, while their wait for decisions regarding potential grants they had applied for.

- How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects?

Advisory services provided by the EIB are essential so that the project bearers could effectively use innovative financial instruments. Those services should be developed in close cooperation with public and private operators so that they could best answer their actual needs for assistance in projects financing and projects development.

Given scarcity of public financial resources, blending facilities (that combine subsidies, loan guarantees, equity and/or loan-based schemes) are currently largely studied and developed by the European Commission and the EIB.

For instance, the Joint European Support for Sustainable Investment in City Areas (JESSICA) was developed by the European Commission in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). It has supported sustainable urban development and regeneration through financial engineering mechanisms. Through the scheme, EU countries could choose to invest some of their EU structural fund allocations in revolving funds to help recycle financial resources to accelerate investment in Europe’s urban areas, and in some cases, to foster energy efficiency and thermal renovation in urban settings (for instance, in Lithuania, the United Kingdom, and Spain).

These instruments are key to fostering deployment of low carbon, resource-efficient, and climate resilient technologies and infrastructures, which support technological advances.

However, they can only be effective if investors and operators of projects to be deployed have a good understanding of these facilities, and know how to use them. They also have to perceive clearly their utility, as compared with traditional banking services offered by commercial banks.

In this perspective, it is necessary to provide tailored technical assistance both to public and private stakeholders, in particular on issues of projects financing and state aid rules. Despite significant expertise in project financing, private operators still may be struggling with understanding the most recent changes regarding state aid rules in the field of innovation and environment that dictate state aid thresholds for given type of investment. This type of knowledge is essential when it comes to understanding whether various types of aides (from the EU and national sources) could be combined to maximize the viability of projects. Another area in which increased assistance should be guaranteed is development of “blended projects” – those public-private partnerships that benefit from the EU grants (either from the EU cohesion policy or from the Horizon2020, or from the mix of both as it is possible in the 2014-2020 programming period).

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In January 2015, the EIB has launched Fi-compass, the new platform for advisory services on financial instruments under the European Structural and Investment Funds (ESIF), designed to meet the needs of ESIF managing authorities, EaSI microfinance providers and other interested parties, by providing practical know-how and learning tools on financial instruments. While this initiative is vital for the success of innovative financial instruments, private operators should be consulted and associated so that services offered could better match their actual needs.