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

Webinar Invitation: EU Climate Investment and Finance Tracking Contact Group

This webinar is financed by the European Climate Initiative (EUKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). It is the overarching goal of the EUKI to foster climate cooperation within the European Union (EU) in order to mitigate greenhouse gas emissions. The opinions put forward in this workshop are the sole responsibility of the organizers and do not necessarily reflect the views of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Supported by:

Based on a decision of the German Bundestag
Moderation: Zofia Wetmanska – WiseEuropa

- **Introduction:** Where are we today on the European Sustainable Finance Agenda – Tom Jess, E3G

- **Climate Investments in the CEE region:** the Increase in Climate Finance and Investment Tracking in Central Europe

- **Presentation of New Insights:**
  - Czech Landscape of Climate Finance - Michaela Valentová, Czech Technical University in Prague
  - Lessons from Latvian Landscape – Agris Kamenders, Riga Technical University
  - The connection between the real economy tracking and the sustainable finance agenda – Zofia Wetmanska, WiseEuropa & Hanna Fekete, NewClimate Institute

- **Discussion:**
  - What are the key difference between the investment and financing models between countries?
  - What lessons could countries take away?
  - How to integrate sustainable finance agenda with available methodologies for climate finance tracking?
EU Climate Investment and Finance Tracking Group

- Launched at EUKI-Supported Workshop in Berlin in March 2019
- Part of the EUKI-sponsored “Landscape of Climate Finance: Promoting debate on climate finance flows in Central Europe”,

The objective of this group:
- Connect and foster the exchange of knowledge and expertise between different types of actors (research, think-tanks, government, among others) on the finance and investment topics related to the low-carbon resilient transformation of European countries.
- Contact group has a specific objective of increasing the participation of representatives from Central and Eastern European countries in these discussions.
Where are we today on the European Sustainable Finance Agenda – Tom Jess E3G
Climate Finance Tracking in CEE – State of play on EU sustainable finance

Tom Jess, E3G
18.12.2019
1. Where are we today on the EU sustainable finance agenda?
2. What can we expect in 2020?

To think about throughout:
- How can the landscaping exercises help ground this broader agenda in the real economy?
- Looking at this from the perspective of the CEE countries
State of play on EU sustainable finance – what’s happened since Action Plan on Sustainable Finance?

The Action Plan aims to:
1. reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
2. manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
3. foster transparency and long-termism in financial and economic activity.
The EU taxonomy and landscaping exercises

- Multiple steps to establish the taxonomy:
  1. The legislative process (Reg.) sets out the framework for taxonomy (establishes ‘Platform on Sustainable Finance’) - (May ‘18-Dec ‘19)
  2. TEG advice on criteria for determining sustainability (Jun ’18-Feb ‘20).
  3. COM integrates criteria into Reg. through Delegated Acts (end ‘20)
  4. ‘Platform’ is established to support update/development of the taxonomy (Q3 ’20-..)

  ‘Platform’ also has observatory function
The Platform on sustainable finance will be established in 2020, it will:

- be composed of representatives of EEA, EIB, ESAs + private stakeholders, civil society, academia.

- 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**;
Looking ahead – what can we expect? Political context: EU institutions

European Commission
• European Green Deal is priority
• VP Dombrovskis at the helm of finance

European Parliament
• No longer a two group majority
• Renew Europe/Greens king-makers
• “Climate Emergency” declaration

European Supervisory Authorities
• Starting to consider climate

European Council
• Climate neutrality target by 2050 to be agreed 12-13 December
• East-West divide + nuclear/gas issue

European Investment Bank
• End fossil fuel financing from the end of 2021 and EU climate bank

European Central Bank
• Lagarde climate champion
Looking ahead – what’s to come?

- **European Green Deal**
  - Dec 12

- **Sustainable Europe Investment Plan**
  - Jan 8

- **Proposal for Just Transition Mechanism**
  - Jan 8

- **Initiatives to screen & benchmark green budgeting practices**
  - From 2020

- **Croatia Presidency**
  - Mar 3

- **SME Strategy**
  - TBC

- **Climate Law**
  - Feb 26

- **Hungary Presidency**
  - Mar 3

- **EU Green Financing Strategy**
  - June 2020

- **Platform on Sustainable Finance Operational? Q3**

- **Germany Presidency**
  - June 2020

- **Taxonomy Delegated Act**
  - Q4 2020

**European dates**

**National dates**
Mapping Climate and Energy Finance: Lessons Learnt from Czechia
Mapping Climate and Energy Finance: Lessons Learnt from Czechia

Michaela Valentová, Czech Technical University in Prague
together with Jaroslav Knápek and Aleksandra Novikova

Climate investment capacity (CIC): climate finance dynamics & structure for financing the 2030 targets
Project overview

Climate investment capacity (CIC): climate finance dynamics & structure for financing the 2030 targets

Climate and Energy Investment Maps (CEIM)
- IKEM
- CVUT
- RTU

Investment Need Analyses
- IKEM
- CVUT
- RTU

Capital Raising Plans
- CVUT
- RTU

Knowledge transfer, networks & training platform

2018 — 2020
Why tracking?

Paris Agreement

Article 2 §1
This Agreement, (…), aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by
a. Holding the increase in the global average temperature to well below 2°C...
b. Increasing the ability to adapt …
c. Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development
Concept and methodology

What  **Who invests how much into what kind of measures and which intermediaries and financial instruments facilitate these flows.**

How  A bottom-up approach tracking investment at a technology/measure level, aggregating it to sector level and then to country level.

+  Institutional setup, investment patterns, proportion of public/private spending
   Potential over- and underspending for further investigation
   Comparing countries may help understand how to improve policies

-  A significant amount of input data
   No policy impacts/effectiveness, no gaps to reach targets
Climate and Energy Investment Map for Czechia (bln CZK)

The 2017 Climate and Energy Investment Map for Czechia (CZK billion)

EU Budget: 3.7
Government Budget: 3.0
Public Budget: 0.7
Corporate Actors: 3.1
Households: 7.6
Government Actors: 6.7
Grants: 5.1
Energy: 11.4
Buildings: 15.6
Market-Rate Debt: 4.4
Energy Efficiency: 11.4
Renewable Energy: 5.1
Others: 1.6

Notes:
a) All financial flows represent total tangible investment including public support into the reduction of GHG emissions with one exception: namely electrical appliances in the buildings sector. Financing of intangible measures is excluded.
b) The government budget includes state budget, mainly from the EU ETS revenues, but it excludes public procurement and administrative costs. Regional and municipal investments are covered in the public budgets.
c) Debt owed does not represent the actual finance flows (e.g. debt repayment), but it is shown to highlight the original investors or asset owners who make use of public and commercial financial institutions as financial intermediaries. The map includes only primary investment flows, e.g. the resources available to investors at the time they had to cover for their capital expenses. It does not cover therefore such financial instruments as guarantees, green bonds, the cost of capital or debt repayment by investors, the compensation payments from the public budget to energy generators supplying renewable electricity under the feed-in tariff, and others.
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60 % of the investment comes from private sources

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The 2017 Climate and Energy Investment Map for Czechia (CZK billion)

The single most important instrument are grants.
Climate and Energy Investment Map for Czechia (bLn CZK)

The 2017 Climate and Energy Investment Map for Czechia (CZK billion)

Majority of investment in energy efficiency, while renewables „on hold“.

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Lessons learnt

- Good overview over public finances, but much less available for private sector (e.g. investment channelled through EIB)

- Regular tracking of public investment (in the right format), and reporting and surveys of private investment

- Unclear taxonomy of climate investment

- Total and incremental investment leading to low-carbon transition

- Introduce regularity and systematic assessment in combination with the investment needs
Key messages

- Private sector is the main contributor to climate and energy investment.
  - our diagram clearly shows the importance of public financial incentives to mobilise private investment.

- There is a room for a wider plethora of instruments to trigger climate and energy investment

- 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

- Establishing climate finance definitions and methodology as well as systematic tracking of public and private investment is important for comprehensive and unbiased assessment
Thank you.

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www.ikem.de/en/portfolio/cic2030/
Lessons from Latvian Landscape – Agris Kamenders (Riga Technical University)
Lessons from Latvian Landscape
Part of the EUKI-funded project: Climate Investment Capacity 2030

Agris Kamenders
Riga Technical university
Project overview

Climate investment capacity (CIC): climate finance dynamics & structure for financing the 2030 targets

<table>
<thead>
<tr>
<th>Climate and Energy Investment Maps (CEIM)</th>
<th>Investment Gap and Need Analyses (INGA)</th>
<th>Capital Raising Plans (CRP)</th>
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Knowledge transfer, networks & training platform

Supported by:

[Logos of Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and European Climate Initiative]
Climate and Energy Investment Maps
main questions:

1. How much money was invested in energy efficiency and renewable energy projects in 2018?
2. Who were the biggest investors?
3. Which financial instruments were most prevalent?
4. Which sectors were supported and what type of technological equipment was financed?
5. What methodology and data sources should be used for such an annual assessment to be carried out?
Energy and GHG emission overview

Final energy consumption by sectors (2018)
- Industry and construction: 23%
- Transport: 14%
- Households: 30%
- Agriculture, forestry, fishery: 29%

Total energy consumption by types of sources (2018)
- Oil in total: 34%
- Coal: 12%
- Natural gas: 24%
- Firewood: 2%
- Wood chips: 2%
- Biomass: 1%

GHG emissions by sector (2018), excluding LULUCF
- Energy: 37%
- Transport: 28%
- Industrial processes: 23%
- Agriculture: 5%
- Other: 0%
NECP 2030 targets

**Climate**
- GHG emission: -6% (against 2005)
  - 7% in Transport
- CO₂ capture: <3,1 milj. units

**RES share**
- 50% form total
- >+0,55% annual heat supply
- 57,6% RES share

**Energy Efficiency**
- Cumulative energy savings: 20 473 GWh
- Public building retrofit: 500 000 m²

**Interconnection goal**
- More than 60%

Compared to 2020:
- RES increases by 10%
- Reduction of energy consumption by 20%
- (3000 renovated apartment buildings and 300 public buildings)
Investments in Energy Efficiency and Renewable Energy Projects in Latvia in 2018

Total: 231 mil€

29%

48%
Lessons learned

• The chosen reference year was 2018, thus most up-to-date information available was gathered. An analysis of the investments made shows that 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** plays a big role in total investments and driving private investment. However existing EU support has mainly been used in the form of grants. Creating cyclicity with diverse levels of investment over various years;

• **Other financial instruments**: green bonds issued by ALTUM make it possible to take loans for energy efficiency and RES projects. And Latvian Energy Efficiency Facility LABEEF have made it possible to develop the first financial instruments that can help attract international financial institutions and refinance ESCO projects;

• Data on public and EU investments available, yet there is no information on investments made by private and private financial institutions. Systematic assessment for reporting and surveys of private investment needed.
Lessons learned

• Reviewing the technologies and the projects that have received investments, it can be concluded that they were mainly made in comprehensive renovation of buildings, whereas in the RES sector investments were made in bio-energy projects. Another significant indication is by large power supply enterprises such as Latvenergo.
• 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 made are also mainly linked to the use of EU funds and loans from the Treasury. For the time being, no local government climate projects have been implemented in Latvia, which would include private investments.
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Discussion

• What are the key difference between the investment and financing models between countries?

• What lessons could countries take away?
The connection between the real economy tracking and the sustainable finance agenda – Zofia Wetmanska, WiseEuropa & Hanna Fekete, NewClimate Institute
How to consider natural gas and nuclear power in climate finance landscapes

Hanna Fekete
Webinar - 18 Dec 2019
Decision tree for checking Paris-alignment of investments in electricity generation

Does the project have direct emissions associated to its operation?

- Yes
  - Is the project viable with shadow carbon price?
    - Yes
      - Will the project be decommissioned before the targeted year of full decarbonisation?
        - Yes
          - Does the national decarbonisation pathway allow for increase of this source?
            - Yes
              - Add. Considerations ok?
                - Yes
                  - Aligned
                - No
                  - Not ok
            - No
              - Misaligned
        - No
          - Not ok
    - No
      - Consider broader sustainability factors, especially for large hydro, nuclear, bioenergy

- No
  - Ok

(Germanwatch & NewClimate 2018)
How can climate finance landscapes deal with finance flows to nuclear and gas?

Track financial flows towards natural gas and nuclear **separately**.

Where possible, do more **complex assessment** of each project to categorise it “green” or “Paris-aligned”.

Consider **political context** of the country analysed for integration of results in outputs.
Thank you

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References


How to integrate sustainable finance agenda with available methodologies for climate finance tracking?

- Have most recent national landscapes referred to the EU taxonomy and if so, to what extent?

- Current/future challenges with integrating the EU Taxonomy with the landscape approach – or should it/could it be integrated at all?
Discussion

• What are the key difference between the investment and financing models between countries?
• What lessons could countries take away?
• How to integrate sustainable finance agenda with available methodologies for climate finance tracking?

• What subjects would you like to see presented in 2020?
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