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of the Regions**

**Commission for
the Environment,
Climate Change and Energy**

ENVE

Financing climate action: opportunities and challenges for local and regional authorities





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of the Regions**

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List of abbreviations

CCFT	Cities Climate Finance Training
CEF	Connecting Europe Facility
CF	Cohesion Fund
CLLD	Community-led Local Development
COSME	Programme for Competitiveness of Small and Medium-sized Enterprises
EAFRD	European Agricultural Fund for Rural Development
EBRD	European Bank for Reconstruction and Development
EEEF	European Energy Efficiency Fund
EERSF	Energy Efficiency and Renewable Sources Fund
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
ELENA	European Local Energy Assistance
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ETC	European Territorial Cooperation
EU	European Union
FLAG	Fund for Local Authorities and Governments
GHG	Greenhouse Gas
H2020	Horizon 2020
ITI	Integrated Territorial Investments
JASPERS	Joint Assistance to Support Projects in European Regions
JESSICA	Joint European Support for Sustainable Investment in City Areas
LoCaL	Low Carbon City Lab
LRAs	Local and Regional Authorities
NCCF	Natural Capital Financing Facility
NEFCO	Nordic Environment Finance Corporation
PDA	Project Development Assistance
PF4EE	Private Finance for Energy Efficiency
PPP	Private Public Partnerships
SEAI	Sustainable Energy Authority Ireland
TA	Technical Assistance
UIA	Urban Innovation Actions
VIPA	Lithuanian Public Investment Development Agency

Summary

Climate change will significantly impact cities and regions requiring local and regional authorities to take action and invest in mitigation and adaptation measures. Nevertheless, local and regional authorities face various obstacles in accessing and using public and private climate finance. In this context, the current report aims to inform the European Committee of the Regions in the preparation of its opinion on '*Climate finance: an essential tool for the implementation of the Paris Climate Agreement*' and answer the following research questions:

- What are the main international and national funding opportunities for climate change mitigation and adaptation measures available to EU local and regional authorities?
- What are the main obstacles faced by local and regional authorities in accessing and using such funding opportunities?
- How can the identified obstacles be overcome?

The structure of the report follows these three research questions. Namely, Part 1 presents an overview of EU and international climate finance available to EU local and regional authorities, as well as national financing opportunities in four selected EU Member States. Part 2 analyses the obstacles that local and regional authorities can face in accessing climate finance, while Part 3 presents a series of recommendations on how to overcome the obstacles identified. Specific recommendations are developed for local and regional authorities, EU and national policy makers, and financial actors. The report is based on desk review of relevant finance options, literature review and interviews with stakeholders.

1. Existing climate finance instruments available to EU regions and cities

This section presents a brief outline of existing climate finance instruments available to local and regional authorities (LRAs) in the EU. An overview of finance options at the EU and international levels is provided. This is followed by an outline of finance options available at the national level in four selected Member States. Both public and private sources of funding are included. Investments in mitigation and adaptation measures are both considered. The information in this section is based on a desk review of publicly available sources and relevant literature (for a complete list of references see Annex 3). The climate finance options at EU, international and national level presented in this section are summarised in overview tables in Annex 1 and 2.

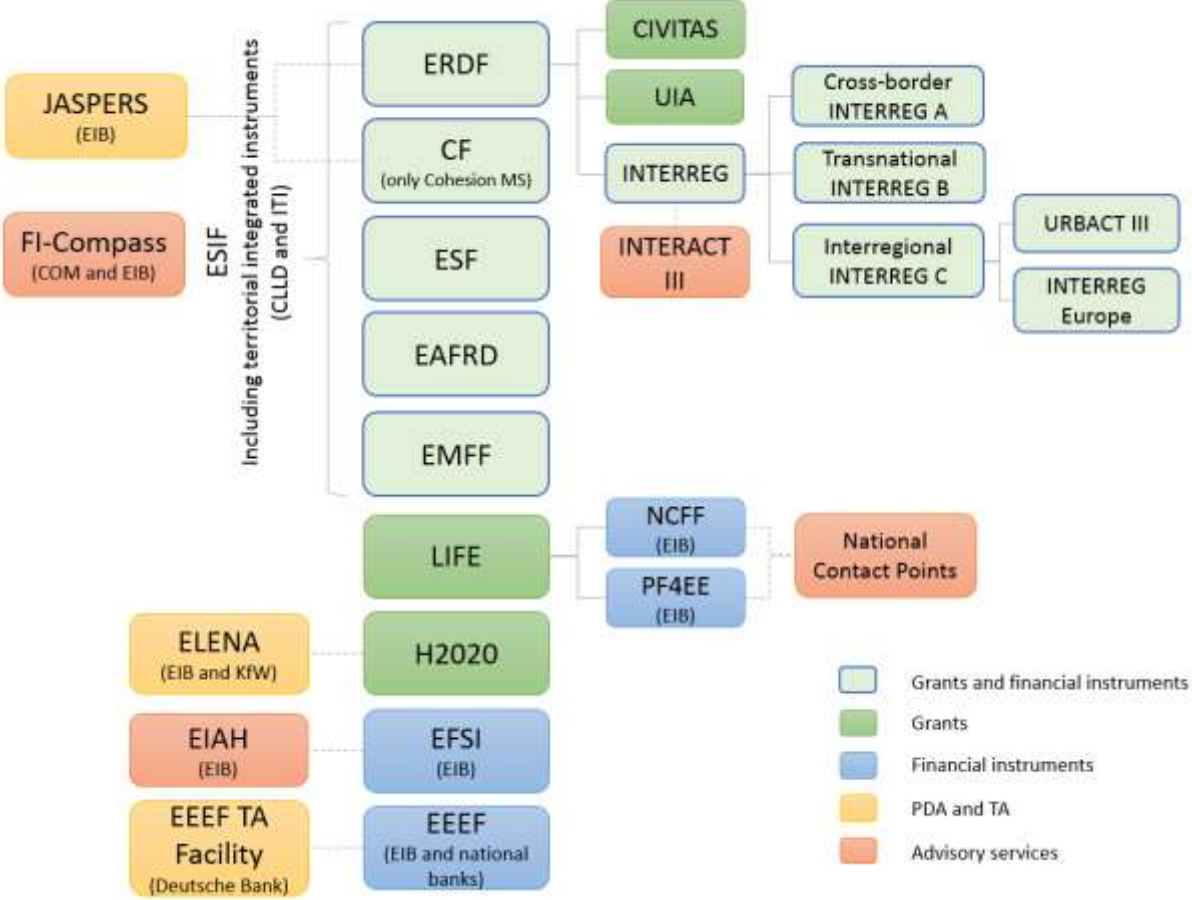
1.1 EU funds and financial instruments

To address the challenges of climate change over the coming decades, significant additional resources will need to be made available for climate action. For local and regional governments, who are often central to both climate mitigation efforts and adapting to climate impacts, climate finance is crucial as it can kick-start investments in mitigation and adaptation measures and leverage additional private investments¹. In recognition of the vast investment needs, the EU has committed at least 20% of the EU budget for the 2014-2020 period to climate action. Within this budget, several EU funds are available to LRAs to finance climate change mitigation and adaptation measures. Support is available in the form of non-repayable grants, financial instruments, and funding available for Project Development Assistance (PDA) and Technical Assistance (TA), as well as advisory services for some specific EU funding instruments.

Figure 1 presents an overview of the EU funding instruments available to LRAs to finance climate change mitigation and adaptation measures. EU financing instruments that support climate action but are directed specifically to other actors, such as enterprises (e.g. COSME) or infrastructure project promoters (e.g. CEF), are not included in the scope of this report.

¹ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017; and Ecofys and DIW Econ, 2016, How can EU climate financing be improved to achieve the 2030 climate and energy targets? Discussion paper, 9 May 2016.

Figure 1 Overview of EU funding available to LRAs for climate change mitigation and adaptation measures



Note: Where relevant, the managing body of the fund/ facility is indicated in parentheses.
 Source: Own analysis.

The **European Structural and Investment Funds (ESIF)**² represent an important source of funding for LRAs to tackle climate change issues. Although, in principle, each part of the ESIF can support both climate change mitigation and adaptation measures, some funds concentrate more on mitigation while others focus on adaptation. The European Regional Development Fund (ERDF) – including the European Territorial Cooperation (ETC) objective –, the Cohesion Fund (CF) and the European Social Fund (ESF) contribute mainly to finance climate change mitigation measures³. Conversely, the European

² European Commission, European Structural and Investment Funds, viewed 1 August 2017, https://ec.europa.eu/info/funding-tenders/european-structural-and-investment-funds_en

³ To track the contribution of the EU budget to climate action, the Commission applies the following climate markers (based on the OECD Rio Markers): 100% for expenditures whose primary objectives is climate action; 40% for expenditure where climate action is targeted but not as the principal objective of the expenditure; and 0% for expenditures that do not target climate action. Although in the ex-ante application of the markers, it is considered that the ESF will not contribute to climate action (see [European Commission, Tracking Climate Expenditure](#)), projects that contribute to climate objectives can be financed by the ESF (see [European Commission, Potential for climate action in ESF](#)). The exact extent to which the ESF (or other funds where

Agricultural Fund for Rural Development (EAFRD) contributes more to adaptation measures. The European Maritime and Fisheries Fund (EMFF) contributes to climate action in general.⁴ Funding from the ESIF can be provided in the form of grants or financial instruments to the final beneficiaries through Managing Authorities in the Member States which co-manage and implement the ESIF in each EU country.

Specific programmes under the ERDF are available to support local climate measures. The European Territorial Cooperation objective⁵ (ETC, or INTERREG) can support joint climate actions undertaken by local and/or regional governments across different countries. Within INTERREG, the URBACT III programme aims to support sustainable integrated urban development in cities across Europe by promoting cooperation and knowledge exchange⁶. INTERACT III provides advice on several issues, including on how to use financial instruments under INTERREG⁷. The ERDF also finances the CIVITAS programme and Urban Innovation Actions (UIA). CIVITAS is particularly designed to support sustainable urban mobility in the EU, while UIA supports new solutions for urban challenges that range from integration of migrants to energy transition.⁸ Both these programmes are potential sources of climate finance for LRAs.

Advisory services are available to beneficiaries seeking to access ESIF. JASPERS (Joint Assistance to Support Projects in European Regions) offers support to authorities and promoters in the preparation and implementation of ESIF projects⁹. With the recent increase in the use of financial instruments under ESIF, a specific advisory service, FI-Compass, is available to Managing Authorities to support them in using FIs. Previously, non-grant ESIF financial instruments for sustainable urban projects were supported through JESSICA (Joint European Support for Sustainable Investment in City Areas), which provided equity investments, loans and guarantees¹⁰.

climate action is not the primary objective) support climate action will be known only after the end of the current financing period (2014-2020).

⁴ COWI, 2016, Mainstreaming of climate action into ESI Funds – Final report, European Commission DG Climate Action.

⁵ European Commission, 2015, Regional Policy, European Territorial Cooperation, viewed 1 August 2017, http://ec.europa.eu/regional_policy/en/policy/cooperation/european-territorial/

⁶ URBACT, 2017, viewed 4 July 2017, <http://urbact.eu/>

⁷ INTERACT, 2017, viewed 4 July 2017, <http://www.interact-eu.net/>

⁸ Covenant of Mayors for Climate & Energy, 2016, Quick reference guide on financing opportunities for local climate and energy actions (2014-2020).

⁹ JASPERS, 2017, viewed 4 July 2017, <http://jaspers.eib.org/>

¹⁰ Covenant of Mayors for Climate & Energy, 2016, Quick reference guide on financing opportunities for local climate and energy actions (2014-2020) and EIB, 2017, Supporting urban development (JESSICA), viewed 4 July 2017, <http://www.eib.org/products/blending/jessica/index.htm>

The ESIF also include territorial integrated systems, which allow Managing Authorities to combine different priority axis and Operational Programmes to finance integrated urban and territorial strategies. The Community-led Local Development (CLLD)¹¹ and the Integrated Territorial Investments (ITI)¹² are territorial integrated systems that may be used to support climate actions taken by LRAs¹³.

In addition to the ESIF, four other EU funds are relevant for local climate finance: **LIFE**, **Horizon 2020** (H2020), the **European Fund for Strategic Investments** (EFSI) and the **European Energy Efficiency Fund** (EEEF). LIFE¹⁴ specifically finances environmental and climate projects in the EU. In addition to grants, two financial instruments exist under LIFE and are managed by the European Investment Bank (EIB): the Natural Capital Financing Facility (NCFE), which is tailored to biodiversity and climate adaptation projects¹⁵, and the Private Finance for Energy Efficiency (PF4EE), which provides finance for energy efficiency programmes of EU Member States¹⁶. The NCFE can be accessed directly by EU cities to finance green and blue infrastructure, which can be presented as stand-alone projects or integrated in an urban area investment scheme or as part of a social housing scheme¹⁷. The PF4EE provides loans, risk mitigation mechanisms and TA to national financial intermediaries, which provide energy efficiency financing to private and public entities. It is, therefore, an indirect financing source for LRAs.¹⁸

H2020¹⁹ supports climate action through research and innovation investments, and has a 35% target for climate expenditure across the fund²⁰. As a result, climate action is funded across all parts of the programme, particularly in the

¹¹ European Commission, 2014, Regional Policy, Community-led Local Development, viewed 1 August 2017, http://ec.europa.eu/regional_policy/en/information/publications/brochures/2014/community-led-local-development

¹² European Commission, 2014, Regional Policy, Guidance Fiche: Integrated Territorial Investment, viewed 1 August 2017, http://ec.europa.eu/regional_policy/en/information/publications/guidelines/2014/guidance-fiche-integrated-territorial-investment-iti

¹³ European Commission, DG REGIO, Presentation on 'The Urban Dimension in the Cohesion Policy 2014-2020', viewed on 28 June 2017 at <http://www.eib.org/>.

¹⁴ European Commission, 2017, Environment, LIFE Programme, viewed 1 August 2017, <http://ec.europa.eu/environment/life/>

¹⁵ EIB, 2017, Blending: Natural Capital Financing Facility - Boosting investment for biodiversity and nature-based adaptation to climate, viewed 28 June 2017, <http://www.eib.org/products/blending/nccff/index.htm>

¹⁶ EIB, 2017, Blending: Private Finance for Energy Efficiency (PF4EE), viewed 28 June 2017, <http://www.eib.org/products/blending/pf4ee/index.htm>.

¹⁷ EIB, 2017, Blending: Natural Capital Financing Facility - Cities, viewed 18 July 2017, <http://www.eib.org/products/blending/nccff/cities/index.htm>

¹⁸ Interview with EIB, 5 July 2017

¹⁹ European Commission, Horizon 2020, viewed 1 August 2017, <https://ec.europa.eu/programmes/horizon2020/>

²⁰ REGULATION (EU) No 1291/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020)

‘societal challenges’ programmable actions.²¹ Local governments are able to partner with researchers and other stakeholders to access funding under the H2020 programmable actions for research and innovation activities. Local governments may also benefit from the outcomes of H2020 actions. For example, the H2020 project CITYinvest offers TA and capacity building to local authorities for energy efficiency renovations of public buildings in three pilot regions: Liège (Belgium), Rhodope (Bulgaria) and Murcia (Spain). It also promotes innovative financing models for energy efficiency and knowledge exchange²². H2020 also provides grants for TA and PDA under ELENA (European Local Energy Assistance)²³. This instrument is specifically designed for LRAs to improve the quality and viability of their energy efficiency and renewable energy projects. LRAs can use ELENA for the preparation of studies, calls and ‘bankable’ projects. ELENA can be combined with future EIB operations, and serve as a first step for EIB financing operations.²⁴

The EEEF, managed by the EIB, provides finance for specifically energy efficiency and renewable energy in the form of Private Public Partnerships (PPP).²⁵ The EEEF includes a TA facility to support the preparation of sustainable energy programmes.

The EFSI²⁶ was designed to mobilise private financial resources for investments that are key for EU policy objectives. Economically and technically viable projects that are consistent with the EU policies are eligible for EFSI financing.²⁷ As climate action is a key priority of the EU, EFSI is an important financing source for climate change mitigation measures (e.g. investments in sustainable energy). Given its nature, EFSI seems, however, less suitable for adaptation measures as not all climate adaptation projects are ‘bankable’ i.e. they do not generate a direct financial return²⁸. As part of the Investment Plan that includes the EFSI, the European Commission launched the European Investment Advisory Hub (EIAH), which is managed by the EIB and aims to support project promoters during the project development process through dedicated advice and technical assistance from experts.²⁹ The EIAH is intended

²¹ European Commission, Horizon 2020 – Programme sections, viewed 28 June 2017, <https://ec.europa.eu/>

²² CITYinvest, 2017, viewed 4 July 2017, <http://www.cityinvest.eu/>

²³ EIB, 2017, ELENA – Supporting investment in energy efficiency and sustainable transport, viewed 1 August 2017, <http://www.eib.org/products/advising/elena/index.htm>

²⁴ Interview with EIB, 5 July 2017.

²⁵ European Energy Efficiency Fund, viewed 28 June 2017, <http://www.eeef.eu/objective-of-the-fund.html>

²⁶ EIB, 2017, European Fund for Strategic Investments, viewed 1 August 2017, <http://www.eib.org/efsi/index.htm>

²⁷ Article 6, Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal (OJ L 169/1 1.7.2015).

²⁸ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

²⁹ EIB, 2017, European Investment Advisory Hub, viewed 28 June 2017, <http://www.eib.org/eiah/>

to help project promoters, including LRAs, in overcoming technical obstacles before and during EFSI financing applications.³⁰

1.2 International level

In addition to EU financing for climate action, LRAs in the EU can access other international financing resources. The EIB, on top of its blending facilities developed with the EU, provides direct loans or loans via financial intermediaries, guarantees, and equity investments in the field of climate action to LRAs in all EU Member States as part of their standard operations. An example of an EIB loan through financial intermediaries is the cooperation between the EIB and the Belgian commercial bank Belfius to set up the ‘Smart Cities’ financing programme³¹. Thanks to this programme, Belgian cities and towns had the possibility to finance mitigation measures, such as photovoltaic panels and near-zero-energy public buildings³². Another example of EIB financing at local level is the EIB direct loan of EUR 50 million taken by the city of Bologna in Italy to finance the construction of a public high school with high energy efficiency standards, among other features³³.

The European Bank for Reconstruction and Development (EBRD) provides LRAs with financing options similar to the EIB only in certain EU Eastern Member States³⁴. The EBRD used to have a specific financing programme for adaptation and mitigation, the Sustainable Energy Initiative³⁵, which was operational until 2015. Since 2015, the EBRD has adopted the Green Economy Transition approach with the aim of supporting sustainable finance. Through this, LRAs can apply for direct EBRD financing (loans and equity) for large projects (between EUR 5 and 250 million). For smaller projects, LRAs can access EBRD financing through the Sustainable Energy Finance Facility³⁶, which provides credit lines to local financial intermediaries. Moreover, the EBRD acts as an agency for the Global Environment Facility³⁷, an international partnership of 183 countries working on global environmental issues, through

³⁰ Interview with EIB, 5 July 2017.

³¹ Belfius, Smart Cities, Climate Action & Circular Economy, viewed 1 August 2017, <https://www.belfius.be/publicsocial/FR/Themes/Smart-Cities/index.aspx>

³² EIB, 2016, Urban Agenda: Smart Cities make a beautiful world, viewed 1 August 2017, <http://www.eib.org/infocentre/blog/all/urban-agenda-smart-cities>

³³ EIB, 2017, Projects: Ambiente Urbano Bologna V, viewed 1 August 2017, <http://www.eib.org/projects/pipelines/pipeline/20160008>

³⁴ The EBRD finances operations in the following EU countries: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

³⁵ EBRD, Sustainable Energy Initiative, viewed 1 August 2017, <http://www.ebrd.com/what-we-do/sectors-and-topics/sustainable-energy-initiative.html>

³⁶ EBRD, EBRD Sustainable Energy Finance Facility, viewed 1 August 2017, <http://seff.ebrd.com/index.html>

³⁷ Global Environment Facility, viewed 9 August 2017, <https://www.thegef.org/>

which LRAs in EU countries with transition economies³⁸ can access grants for climate change mitigation projects. To do so, LRA project promoters need to contact the relevant national Operational Focal Point that reviews the project proposals and ensures that the eligibility criteria for the Global Environment Facility financing are met³⁹.

The Council of Europe Development Bank (CEB) also provides financing to LRAs within its Member States, with a focus on improving living conditions in rural areas⁴⁰. The CEB has financed local-level energy efficiency projects in Estonia⁴¹.

Green bonds⁴² represent an additional general climate finance instrument that is available to LRAs in the EU and allows LRAs to diversify their funding sources and access low-cost capital for infrastructure and climate investment⁴³. The number of sub-national and municipal green bond issuers increased during the years, nearly doubling from 2014 to 2016 and reaching around USD 20 billion globally⁴⁴. For instance, the Ile-de-France region entered the green bonds market in 2012 and the city of Gothenburg in 2013⁴⁵.

1.3 National level

Part 1.2 presents an overview of national-level public and private-sector climate finance for LRAs in Bulgaria, France, Ireland and Lithuania. For the selection of the Member States a balance between Northern-Southern, Eastern-Western and older-newer Member States was sought. A list of financing options available in each country is provided in Annex 1. The findings are based on a desk review of relevant options in each of the selected Member States. Where relevant, additional information from stakeholders' interviews was added.

The review suggests that most of the climate finance instruments identified support mitigation measures, such as energy efficiency improvements,

³⁸ In the EU, so far the following countries were eligible for Global Environment Facility: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

³⁹ Global Environment Facility, Funding, viewed 1 August 2017, <https://www.thegef.org/about/funding#>

⁴⁰ Future for Rural Energy in Europe, Funding, viewed 28 June 2017, <http://www.rural-energy.eu/>

⁴¹ Council of Europe Development Bank, The CEB and the environment, viewed 1 August 2017, <http://www.rural-energy.eu/uploads/ModuleXtender/Funding/7/managementenvironment-1-.pdf>

⁴² Green Bonds can be defined as bonds where the issuer is committed to use the proceeds exclusively to finance or re-finance eligible green projects i.e. projects and activities that promote progress on environmentally sustainable activities (based on the definition by the International Capital Market Association, 2015, Green Bond Principles, 2015 - Voluntary Process Guidelines for Issuing Green Bonds, March 27, 2015, p. 2).

⁴³ Green Bonds for Cities project, factsheet, viewed 5 July 2017, <http://local.climate-kic.org/>

⁴⁴ Climate Bonds Initiative, 2017, Green Bonds Highlights 2016, viewed 5 July 2017, <https://www.climatebonds.net/>

⁴⁵ Climate Bonds Initiative, 2015, Bonds and Climate Change: the state of the market in 2015, viewed 5 July 2017, <https://www.climatebonds.net/>

renewable energy and sustainable transport, while the options for financing adaptation action appear to be more limited. Newer Member States like Bulgaria and Lithuania seem to rely primarily on EU and other international funds that offer grants for climate action. France and Ireland are complementing EU or national grants with new and innovative financial instruments such as green bonds.

1.3.1 Bulgaria

Financing from EU funds or other international sources play an important role in supporting climate action in Bulgaria. For instance, during the current financing period (2014-2020) Bulgaria has allocated EUR 561.6 million from the ESIF to climate adaptation and risk prevention. More significant are the ESIF allocations to the low-carbon economy: EUR 1.5 billion.⁴⁶

Nonetheless, there are also several national public funds that can support energy efficiency improvements, renewable energy or actions for sustainable transport (see Table 2 in Annex 2 for more details). These funds are financed with the national budget, the international sale of GHG quotas and other public sources and provide predominantly grants or loans. The Energy Efficiency and Renewable Sources Fund (EERSF) offers also partial credit and portfolio guarantees and TA for energy efficiency investments; while the Fund for Local Authorities and Governments (FLAG) specifically supports municipalities in the process of obtaining EU funding. Although there are no labelled green bonds in the country so far, the municipality of Varna has issued municipal bonds that were used to finance the modernization of the city's street lighting⁴⁷. However, no dedicated facilities for supporting adaptation have been found. In the past, such investments were financed with the ESIF e.g. in the city of Smolyan ESIF were used to fund flood protection measures in the period 2007-2013⁴⁸. More details on the financing options available to Bulgaria LRAs can be found in Annex 2, Table 2.

1.3.2 France

France has been successful in making use of EU funds to finance climate action. During the current financing period (2014-2020) France has allocated EUR 4.8 billion from the ESIF to climate adaptation and risk prevention. Similarly, ESIF allocations to the low-carbon economy amount to EUR 4.9 billion.⁴⁹ In addition

⁴⁶ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

⁴⁷ Cochu, A. et al. 2016, Study on the potential of green bond finance for resource-efficient investments, November 2016, p.32, viewed 5 July 2017, <http://ec.europa.eu/environment/enveco/pdf/potential-green-bond.pdf>

⁴⁸ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

⁴⁹ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

to ESIF, some French cities have benefited, for instance, from the EEEF TA facility.

At national level, public financing is available through the French national investment bank *Caisse des Dépôts*, which plays an important role in providing climate finance – mainly in the form of loans – to LRAs. Private sector financing plays, nevertheless, an important role. Commercial banks, like *Crédit Coopératif*, offer loans for climate investments. The Ile-de-France region and the city of Paris are among the first LRAs in the EU that have issued green bonds to finance local climate action. With the proceeds of the green bonds, the city of Paris has already planned to implement two adaptation projects with adaptation benefits: the planting of 20,000 trees in the inner city and the creation of 30 hectares of new parks⁵⁰. More details on the financing options available to French LRAs can be found in Annex 2, Table 3.

1.3.3 Ireland

Compared to Bulgaria, fewer financing instruments from international funding options are available in Ireland. Nevertheless, Ireland makes use of the ESIF to finance climate action. During the current financing period (2014-2020) Ireland has allocated EUR 1.3 billion from the ESIF to climate adaptation and risk prevention. ESIF allocations to the low-carbon economy are equal to EUR 581.8 million.⁵¹

An important source for energy efficiency investments is the national government through the Sustainable Energy Authority Ireland (SEAI), which offers a variety of grants for climate action (see Table 4 in Annex 2 for more details). Even though energy efficiency and building retrofits are primarily supported, SEAI grants are also available for electric vehicles. In 2016, the first green bonds from an Irish company were issued when Gaelectric - the Irish renewable energy and energy storage group, issued a Green Bond worth EUR 10 million⁵². Although there is no information about public green bonds in Ireland so far, there have been appeals for the national government to issue such bonds⁵³.

⁵⁰ European Environment Agency, 2016, Climate-ADAPT, Case study on Climate bond financing adaptation actions in Paris (2016), viewed 14 July 2017, <http://climate-adapt.eea.europa.eu/>.

⁵¹ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

⁵² Gaelectric, 2016, Ireland targets emerging environmental finance market, viewed 5 July 2017, <http://www.gaelectric.ie/ireland-targets-emerging-environmental-finance-market/>

⁵³ Hancock, C. 2017, Hayes says Ireland should issue green bonds, *The Irish Times*, Jan 26, 2017, viewed 5 July 2017, <https://www.irishtimes.com/business/economy/hayes-says-ireland-should-issue-green-bonds-1.2951120>

1.3.4 Lithuania

In Lithuania, financing options for climate action available to LRAs seem to be mainly public, both from the EU and the national budget. However, in Lithuania blending of ESIF and private investments was used to finance energy efficiency projects in the period 2007-2013. During the current period (2014-2020), blending of ESIF and private resources is being used to establish the Energy Efficiency Fund (ENEF), which finances the modernisation of central government owned buildings and of cities' street lightening. During 2017, another financial instrument will be launched for the modernisation of buildings owned by municipalities.⁵⁴ Private financial resources for climate action are also available from the Nordic Environment Finance Corporation. More details on the financing options available to Lithuanian LRAs can be found in Annex 2, Table 5.

In the period 2014-2020, Lithuania has allocated EUR 415.3 million from the ESIF to climate adaptation and risk prevention. ESIF allocations to the low-carbon economy during the same period are more than double: EUR 1.2 billion.⁵⁵

⁵⁴ FI Compass, Financial instruments for energy efficiency in the programming period 2014-2020, viewed 17 July 2017, <https://www.fi-compass.eu/>

⁵⁵ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

2. Main obstacles for Local and Regional Authorities when using climate finance instruments

This section presents the analysis of the main obstacles that LRAs face when using climate finance instruments. The analysis is based on a literature review and interviews with key stakeholders. All references are listed in Annex 3 while a complete list of the stakeholders interviewed is presented in Annex 4.

2.1 Lack of awareness about climate finance options

As highlighted in Part 1, there is a wide variety of financing options for climate action at local level. However, LRAs often lack awareness or knowledge about all the options available. This makes it harder for them to identify and choose the best financing instruments for supporting the planned climate action investments. Furthermore, LRAs rely primarily on public funds and might be unaware or not knowledgeable about equity and debt instruments for climate investments at the local level (e.g. blending facilities, revolving funds, green bonds)⁵⁶. Identifying the most suitable instruments can be particularly difficult for investments in adaptation as few financing options dedicated to adaptation measures exist. While some EU funds, such as LIFE, have clearly allocated resources for adaptation, there are few private-sector options available for financing adaptation measures⁵⁷. In practice, investments in adaptation are not always labelled as such and are supported by funding designed for sectors such as water management and urban revitalisations or through combinations of different types of financing from various sources and levels of government⁵⁸.

These obstacles limit the ability of LRAs to identify the available and most suitable options for their climate action investments. There are various initiatives and projects that are attempting to address this challenge. For instance, ‘one-stop shops’ provide comprehensive information about the different financing options available for energy efficiency in the EU, the opportunities to set up innovative financial instruments at the local level and offer technical and financial expertise on how to access and manage such sources (e.g. the CITYinvest project, financed by H2020). Another example is the Cities Climate Finance Training (CCFT) under the Low Carbon City Lab (LoCaL) programme by Climate-KIC and other organisations – including ICLEI, CDP and WWF. Under CCFT, the training takes the form of workshops

⁵⁶ Deng-Beck, C. and Price, L. 2016, Gap Analysis Report: Closing the gap between finance and urban climate action, viewed 10 July 2017, <http://e-lib.iclei.org/>; and interview with the Climate Bond Initiative, 30 June 2017.

⁵⁷ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

⁵⁸ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

and aims to inform local authorities on how to best use financial opportunities for climate action. For instance, success factors for green bonds and adaptation financing are some of the issues that are treated in the training.⁵⁹

2.2 Insufficient administrative capacity and technical knowledge

Even when LRAs have identified the most suitable climate finance instruments for their investments, the preparation of applications and securing financing can be challenging. For instance, applications for centrally-managed EU funds (e.g. H2020, LIFE) should be prepared in English and usually require a partnership with organisations from other Member States⁶⁰. Finding international partners or preparing applications in another language requires significant time and human resources for LRAs. Moreover, securing financing for large investments usually requires the collection of technical information, risk assessment and preparation of detailed analyses⁶¹. LRAs, especially small LRAs, do not always have sufficient human resources or skills to prepare such applications. Hence, insufficient administrative capacity is one of the most significant obstacles in accessing climate finance at local level⁶².

Overcoming these administrative capacity issues may require LRAs to acquire new competences such as financial and risk management skills, technical knowledge about urban development, and assessment techniques of the sustainability impact and financial benefits of a project⁶³. However, it has been suggested that LRAs might already have the required expertise in-house as LRAs have experience in urban regeneration, infrastructure development, capital raising, public engagement and communications. Consequently, how existing skills and expertise are harnessed may be more important than developing new skills⁶⁴. In this line, it was noted that the structure of city governments, which are typically organised by thematic departments, could be an obstacle to the full utilisation of internal knowledge and capacity to implement climate projects. For instance, the fact that the finance department does not cooperate with the environment and climate department could prevent the creation of synergies and the share of knowledge⁶⁵. Nevertheless, actions can be taken to support to LRAs to overcome the lack of knowledge on how to access climate finance at local

⁵⁹ Low Carbon City Lab, Climate-KIC, viewed 14 July 2017, <http://local.climate-kic.org/>

⁶⁰ Interviews with Ecofys, 6 July 2017, and Eurocities, 7 July 2017.

⁶¹ Interviews with Climate Alliance, 29 June 2017, and Eurocities, 7 July 2017.

⁶² Committee of the Regions, 2016, Results of the CoR online consultation on obstacles to investments at local and regional level, September 2016; Covenant of Mayors, 2016, Sustainable energy investment in European local authorities, Report based on a survey by the Covenant of Mayors Office, May 2016; and interviews carried out in the preparation of this report (see Annex 3 for a list of all interviews).

⁶³ ICLEI, Finance, viewed 14 July 2017, <http://www.iclei.org/activities/finance.html>

⁶⁴ Sullivan, R. Gouldson, A. and Webber, P. 2012, Funding low carbon cities: local perspectives on opportunities and risks, *Climate Policy*, 13 (4), pp. 514-529

⁶⁵ Interview with Low Carbon City Lab, 27 July 2017.

level. For instance, the LoCaL project has developed different programmes to support LRAs in accessing climate finance, such as ‘Matchmaker’ that aims to connect local authorities and investors.⁶⁶

LRAs may also seek to use the different options available for TA and/or PDA to overcome these obstacles. Such options may reduce transaction costs faced by LRAs by providing guidance concerning available financing options, financial risks, risk management approaches and accessing funding from the various EU funds⁶⁷. Although the TA/PDA options at EU level have been reported as useful (e.g. EEEF TA), some challenges remain. For instance, most TA/PDA grant applications constitute lengthy complicated procedures and require the preparation of detailed studies (e.g. energy audits) that can be as challenging for LRAs as the applications for financing instruments⁶⁸.

Internal administrative constraints can also hinder LRAs’ capacity to develop and implement innovative financial instruments such as green bonds⁶⁹. For instance, the preparation of Paris Climate Bond suggests that municipalities need extensive human resources and time, which can be an obstacle for small municipalities (see the box below for additional lessons learned).

Box 1. Green bonds

In 2015, the city of Paris issued the *Paris Climate Bond* for a total amount of EUR 300 million to finance its Climate & Energy Action Plan. The climate bond promises an annual interest rate of 1.75%. The list of projects to be financed by the green bonds is selected and managed by the Finance Management Support Service of the city with the Urban Ecology Agency of Paris. Vigeo, a sustainability rating agency, oversees the selection process. In addition, three banks (Credit Agricole CIB, HSBC and Société Générale CIB) were involved as partners of the city. As of 2016, two projects with climate adaptation benefits were included in the Paris climate bond: planting 20,000 trees within Paris and creating 30 hectares of new parks.

Based on the experience of the city of Paris, the following lessons can be drawn:

- Municipalities should bear in mind that issuing a green/ climate bond is a long process, which requires extensive human resources and time.
- Transparency and accountability are key for the success of a green or

⁶⁶ Climate-KIC, viewed 14 July 2017, <http://www.iclei.org/>

⁶⁷ Sullivan, R. Gouldson, A. and Webber, P. 2012, Funding low carbon cities: local perspectives on opportunities and risks, *Climate Policy*, 13 (4), pp. 514-529

⁶⁸ Interview with Climate Alliance, 29 June 2017.

⁶⁹ Interview with Climate Bonds Initiative, 30 June 2017.

climate bond. However, external rating requires financial resources.

- Sectoral experts are needed to develop a green/climate bond. If the municipality does not have the necessary resources in-house, it will need to know where to ask for help. For instance, the municipality could contact specialised organisations or banks.⁷⁰

2.3 Budgetary and regulatory constraints

Other obstacles for LRAs to access the climate finance options available can be related to budgetary or regulatory constraints. The preparation of applications for EU funds or other financing instruments might require the hiring of new personnel or even external consultants which can be very costly for LRAs, especially smaller LRAs⁷¹. Furthermore, obtaining co-finance from some EU funds (e.g. LIFE) or setting up new financial instruments (e.g. green bonds) require LRAs to have some own capital for investment⁷². Additionally, many LRAs plan their budgets some years in advance making the last-minute inclusion of new expenses difficult⁷³. Another issue is that national, regional and local legislation regarding the financing of municipal investments varies. Some LRAs are legally constrained from taking on debt, which in turns limits their climate finance options⁷⁴.

LRAs also face an issue concerning private financing options, such as loans. How loans for climate action are treated in accounting rules affects the LRAs' budget constraints and may constitute an obstacle to using private financing for climate action.⁷⁵ This issue was reported in particular for energy efficiency investments by the Energy Efficiency Financial Institutions Group⁷⁶. Under current rules, even though energy efficiency projects are financed partially or entirely by the private sector (e.g. through performance guarantees), these investments are by default recorded on the balance sheet of the public authority and accounted for as public sector debt. This is a major disincentive for LRAs to use private financing for energy efficiency investments, especially in Member

⁷⁰ European Environment Agency, 2016, Climate-ADAPT, Case study on Climate bond financing adaptation actions in Paris (2016), viewed 14 July 2017, <http://climate-adapt.eea.europa.eu/>.

⁷¹ Interviews with Climate Alliance, 29 June 2017, and Eurocities 7 July 2017.

⁷² Interviews with Eurocities, 7 July 2017.

⁷³ Interview with Eurocities, 7 July 2017.

⁷⁴ Covenant of Mayors, 2016, Sustainable energy investment in European local authorities, Report based on a survey by the Covenant of Mayors Office, May 2016; and interview with Eurocities, 7 July 2017.

⁷⁵ EU Sustainable Energy Week, Conference 'Accelerating the clean energy transition – financing energy efficiency at the local level', Brussels, 21 June 2017.

⁷⁶ Energy Efficiency Financial Institutions Group, 2015, Energy Efficiency – the first fuel for the EU Economy: How to drive new finance for energy efficiency investments, Final report.

States where the focus is on reducing public sector debt.⁷⁷ Moreover, the current Eurostat accounting rules for Energy Performance Contracting (EPC) have been criticised for not correctly accounting for the possible energy savings. Although energy efficiency investments will eventually lead to savings from the energy bill, these savings are not considered in the assessment of investments.⁷⁸ It should be noted that the European Commission has committed to take action in 2017 concerning accounting rules⁷⁹.

Member State legal frameworks can create indirect barriers to climate action at local and regional levels. A specific example of a regulatory barrier to the implementation of adaptation measures is the legislative framework in Germany. German regulations require the use of concrete and accurate data for the strategic and spatial planning. This implies that future climate projections cannot be used to plan investments due to their inherent uncertainty.⁸⁰ This might prevent LRAs from implementing climate proofing measures, although funding opportunities are available.⁸¹

2.4 Ensuring the ‘bankability’ of potential investments

Another significant challenge for LRAs to access financing instruments, especially non-grant instruments, for climate action is demonstrating the ‘bankability’ of the planned investments. The low ‘bankability’ of some climate action projects is often due to lack of sufficient data about future returns on investment. There is usually insufficient information about the amount of finance needed to support adaptation action or about the future benefits/savings from avoided damages that resilience and adaptation measures can bring⁸². The latter point is linked to the fact that, unlike with mitigation, there is no single metric that can be used to quantify the benefits of adaptation actions. Moreover, the benefits of adaptation actions might arise so far in the future that they cannot be integrated in the financial assessment of a project. Therefore, combining adaptation and mitigation investments (e.g. energy efficiency refurbishments can

⁷⁷ Climate Alliance, 2016, Accounting rules creating barriers for mobilising energy efficiency investments, 21 June 2016, viewed 10 July 2017, <http://www.climatealliance.org/>; and interviews with Climate Alliance, 29 June 2017, and Eurocities, 7 July 2017.

⁷⁸ E3G, 2016, Stakeholders’ letter on ‘Reviewing accounting rules and/or debt treatment for energy efficiency investments will help close the energy efficiency financing gap in Europe’, viewed 14 July 2017, <https://www.e3g.org/>

⁷⁹ European Commission, 2016, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, Clean Energy for all Europeans, Brussels, 30.11.2016, COM(2016) 860 final.

⁸⁰ Lorenz, S. et al. 2016, Use of Climate Projections in Adaptation Planning: Lessons from England & Germany. SRI Briefing Note 9, University of Leeds, viewed 12 July 2017, <http://www.see.leeds.ac.uk/>

⁸¹ Interview with Ecofys, 6 July 2017.

⁸² E3G, 2014, Cities and resilience to climate change – Workshop summary, viewed 10 July 2017, <https://www.e3g.org/>

be an opportunity to make buildings more resilient, while larger infrastructure or urban renewable projects can be used to make cities more resilient and adapted to climate changes) might make it easier to obtain sufficient financing for adaptation⁸³.

Although adaptation projects are more likely to be considered ‘un-bankable’ by investors, some mitigation projects may also be challenging to finance for LRAs. For instance, the viability of energy efficiency investments can be impacted by the fact that potential future savings are not always included in the business case and by the methods for calculating those savings⁸⁴. It is also key that cities and LRAs are able to identify and show to investors where the largest potential for climate benefits in their territory. Cities need to be able to identify the locations with the largest potential for energy efficiency improvements and prepare detailed and accurate investment plans that reflect how this potential can be used⁸⁵. Cities might also lack the ‘capacity to report and quantify non-financial information on mitigation projects’, which can hinder private investments⁸⁶.

Another challenge to making climate action investments ‘bankable’ and viable for funding is that some of those projects are small and dispersed, especially in the case of energy efficiency investments⁸⁷. In such cases, LRAs should explore the possibility to combine multiple smaller investments either within the same LRAs or with neighbouring LRAs into larger ‘bundles’ that are more ‘bankable’ or ‘fundable’⁸⁸. Nevertheless, combining different investments into ‘bankable’ bundles can be challenging in itself and LRAs often need guidance and support to do this successfully⁸⁹. Training LRAs on how to best combine different climate action investments to secure financing is another area where TA/PDA can play a significant role. Another relevant action is setting up ‘one-stop shops’ where interested LRAs can combine smaller energy efficiency investments into bigger projects (e.g. the French initiative Énergies POSIT’IF serves as a ‘one-stop shop’ for aggregating small scale projects)⁹⁰.

⁸³ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017; and Interview with I4CE, 29 June 2017.

⁸⁴ Interview with Eurocities, 7 July 2017.

⁸⁵ Interview with the 2 Degrees Investment Initiative and SUEZ, 11 July 2017.

⁸⁶ F. de Boer, 2015, White Paper: Barriers to Private Sector Investments into Urban Climate Mitigation Projects, CDP with support from Low Carbon City Lab.

⁸⁷ Covenant of Mayors, 2016, Sustainable energy investment in European local authorities, Report based on a survey by the Covenant of Mayors Office, May 2016; and interview with EIB, 5 July 2017.

⁸⁸ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017; Interview with Eurocities, 7 July 2017; Interview with EIB, 5 July 2017.

⁸⁹ Deng-Beck, C. and Price, L. 2016, Gap Analysis Report: Closing the gap between finance and urban climate action, viewed 10 July 2017, <http://e-lib.iclei.org/>; and interview with Eurocities, 7 July 2017.

⁹⁰ Interview with EIB, 5 July 2017.

A specific obstacle to private finance for energy efficiency is the misperception by private investors of the risks linked to such investments. Indeed, the risk perceived by investors is often higher than the actual risk of energy efficiency projects. To address this problem, the Energy Efficiency Financial Institutions Group (EEFIG), supported by the EU, has recently launched the De-Risking Energy Efficiency Platform (DEEP). DEEP is an open access platform that provides investors with information about energy efficiency projects, e.g. on their technical and financial performance.⁹¹ This platform is expected to be beneficial to project promoters, including LRAs, as it increases transparency on energy efficiency projects and facilitates the monitoring of performance.⁹²

2.5 Political constraints

The access of LRAs to climate finance can be further constrained by political limitations, such as reluctance to undertake climate action investments or misalignment of priorities at the different levels of governance. In some cases, there might be a misalignment between EU and national policy priorities in the field of climate action. This can result in Member States not incentivising and ‘sponsoring’ EU funds for climate action.⁹³ Furthermore, LRAs might be reluctant to undertake climate action investments due to fears of low public acceptance. Local politicians might also prioritise projects that are seen by the citizens as having a higher priority locally, e.g. dealing with unemployment or developing economic activities⁹⁴. Previous research also identified the difficulty for cities to prioritise climate action compared to other urban projects⁹⁵. Moreover, the fact that cities’ planning and projects might be influenced by the electoral cycle can be perceived as potential risk by private investors⁹⁶.

Political reluctance can also constitute an obstacle for LRAs to introduce fiscal instruments and incentives that can contribute to mitigation measures, although fiscal instruments are recognised as an important tool and source of climate finance.⁹⁷

⁹¹ EU Sustainable Energy Week, Conference ‘Accelerating the clean energy transition – financing energy efficiency at the local level’, Brussels, 21 June 2017.

⁹² Build Up, 2016, De-risking Energy Efficiency Platform, viewed 18 July 2017, <http://www.buildup.eu/>

⁹³ Interview with Ecofys, 6 July 2017.

⁹⁴ Interview with Ecofys, 6 July 2017.

⁹⁵ F. de Boer, 2015, White Paper: Barriers to Private Sector Investments into Urban Climate Mitigation Projects, CDP with support from Low Carbon City Lab.

⁹⁶ Interview with Low Carbon City Lab, 27 July 2017.

⁹⁷ OECD, 2010, Cities and Climate Change, OECD Publishing. <http://dx.doi.org/10.1787/9789264091375-en>

2.6 Challenges in meeting the requirements of EU or international funds

Specific challenges in meeting the requirements of EU funds have also been observed. One obstacle reported by some LRAs is linked to the thematic nature of financing instruments and to the fact that the eligibility criteria for certain funds are often too prescriptive. At local level, this prevents the realisation of synergies between different types of climate action, such as the combination of energy efficiency, renewable energy and sustainable mobility.⁹⁸

Furthermore, the strict requirements and complex procedures of some centrally managed EU funds, such as H2020, can also pose obstacles to LRAs. For example, preparing successful H2020 applications has been challenging for less experienced LRAs from Eastern Member States. On the contrary, stakeholders from Northern and Western Member States seem to have more experience in preparing applications and might therefore have a comparative advantage. This creates a risk of isolating and excluding Eastern LRAs from cooperative EU projects⁹⁹.

Eligibility criteria represent an additional limitation for European LRAs to access some types of international financing instruments. In fact, most of the international instruments for climate finance are dedicated exclusively to developing countries, with little to no access for external actors.

⁹⁸ Climate Alliance, Eurocities, Energy Cities, RES Coop, Énergies POSIT'IF, 2017, Joint statement on local energy efficiency financing, viewed 10 July 2017, <http://www.climatealliance.org/>

⁹⁹ Interviews with Eurocities (7 July 2017) and POLIS (20 July 2017).

3. Recommendations

This section presents recommendations for addressing the obstacles identified in Part 2 and further improving access and use of climate finance instruments by LRAs. The recommendations are structured by target group.

3.1 Recommendations for LRAs

- **Mainstreaming climate action into other investments**

Securing capital for mitigation and adaptation measures can be challenging for LRAs for budgetary, legal or political reasons. A possible way to overcome such constraints is to mainstream climate action into investments in other sectors and develop a transversal approach across different services within the same authority¹⁰⁰. For instance, mitigation and adaptation measures can be mainstreamed into LRAs' on-going investments in infrastructure maintenance and urban development. In public infrastructure, renewable energy can be incorporated into the public lighting system; in transport electric public transport vehicles or vehicles using biofuels can be introduced, cycling routes and paths can be introduced or traffic management techniques employed; and in public safety flood protection measures can be undertaken.

- **Combining mitigation and adaptation measures**

As financing instruments for adaptation are scarce, LRAs should search for synergies with mitigation financing options and develop projects that implement mitigation and adaptation measures at the same time. For example, renovations of urban areas can be used to improve urban areas' resilience to floods, heat waves or other extreme events; while energy efficiency investments can be an opportunity to make the building stock more resilient to climate change.

- **Aggregating small scale projects**

Another common obstacle to LRAs is that climate investments are often too small or scattered to attract investors. Hence, options to aggregate small projects e.g. between neighbouring LRAs, should be explored. This approach is already supported by the EIB financing. An example is the Energy Efficiency Private Housing project in France, where the refurbishment of residential buildings was aggregated to a single project with the total cost of EUR 800 million¹⁰¹. The recommendation of aggregating small projects is valid also for financial

¹⁰⁰ Energy Cities, 2015, Unlocking investment in cities: ELENA-EIB technical assistance facility – Project review in five European local authorities, viewed 12 July 2017, <http://www.energy-cities.eu/>

¹⁰¹ B. Topaloğlu, 2017, EIB presentation *Financing energy efficiency – support by the EIB* at the 'Financing Energy Efficiency in Central Europe' conference, Prague, 27 April 2017, viewed 20 July 2017, <https://ec.europa.eu/>

instruments such as green bonds. For example, this has been done by Swedish municipalities with the *Kommuninvest Green Bonds*¹⁰² (see next point for more details). Advice and help services on green bonds can be provided to small LRAs to aggregate climate projects and connect them with relevant partners such as financing institutions.¹⁰³

- **Partnering with other LRAs and local stakeholders**

Cooperation between local authorities can bring synergies and economies of scale, and might help aggregating small scale projects. Different local authorities can benefit from having one single managing office and from sharing experiences and competences, as the *Spårvagnar i Skåne* project between the cities of Malmö, Lund and Helsingborg shows. The three Swedish municipalities cooperated to create new tram networks and reduce the use of car with expected reduction of GHG emissions.¹⁰⁴ Another example of cooperation between cities in Sweden is the issuance of three green bonds by *Kommuninvest*. The proceeds of the green bonds are expected to finance municipal investment projects in renewable energy, energy efficiency, green buildings, public transport and water management.¹⁰⁵

In addition to cooperating with other local authorities, LRAs can explore the opportunities for synergies and partnership with other local stakeholders. For instance, local energy agencies can provide technology expertise, advice on audits or information about existing state grants and other financing options available¹⁰⁶. For this reason, LRAs can partner with local energy agencies to benefit from their technical expertise and knowledge of financing options, but also to team up and develop large sustainable energy plans. Furthermore, local banks, businesses or other investors can also be valuable partners to LRAs providing expertise and/or additional resources for climate investments through the use of financial instruments or Public-Private Partnerships (PPP).

- **Exploring non-grant instruments**

Although grants are an essential source of funding for climate investments at the local level, they cannot meet all the climate finance needs of LRAs. Instead,

¹⁰² Kommuninvest, 2017, Press release: Kommuninvest now behind the three largest green bonds ever issued out of Sweden, 17 May 2017, viewed 20 July 2017, <http://kommuninvest.se/>

¹⁰³ Interview with Climate Bonds Initiative, 30 June 2017.

¹⁰⁴ Energy Cities, 2015, Unlocking investment in cities: ELENA-EIB technical assistance facility – Project review in five European local authorities, viewed 12 July 2017, <http://www.energy-cities.eu/>

¹⁰⁵ Kommuninvest is a Swedish municipal cooperation for efficient and sustainable financing of housing, infrastructure, schools, hospitals etc. that is in place since 1986. The cooperation counts 288 municipalities and county councils/regions in Sweden.

Kommuninvest, 2017, Press release: Kommuninvest now behind the three largest green bonds ever issued out of Sweden, 17 May 2017, viewed 20 July 2017, <http://kommuninvest.se/>

¹⁰⁶ Interview with I4CE, 29 June 2017.

grants can be used as an important initial source of financing to leverage private investment through the introduction of complementary non-grant instruments such as green bonds, revolving funds, guarantees and debt financing.

- **Using fiscal instruments and incentives to complement other financing sources**

Fiscal instruments can represent a useful complementary resource for climate action, although they are usually less popular among citizens and local politicians. For instance, fiscal incentives and urban congestion charges can be used to limit the use of cars in cities. The cities of London, Stockholm and Milan have introduced urban congestion charges with positive results in terms of reduction of CO₂ emissions.¹⁰⁷

- **Using PDA and TA facilities for internal capacity-building**

As highlighted by two sustainable energy projects in Bristol and Brussels, PDA and TA can be used to improve and develop in-house skills and expertise in climate projects. In this light, the use of external consultants should be limited, to the extent possible, to specialist areas. This could allow local authorities to receive long-lasting benefits from PDA and TA facilities.¹⁰⁸

- **Promoting climate action in the local community**

In addition to undertaking climate investments, LRAs play a key role in steering local climate action and leading the local community. For cities to reach their mitigation and adaptation goals, households and industries should become more resilient and energy efficient. Therefore, LRAs should incentivise and motivate their citizens and local businesses to take action, for instance through regulatory measures or by providing information about climate action and financing options available to households and industry. Such activities would help to generate demand for climate finance within local communities, which would in turn strengthen the capacity of LRAs to develop and justify their needs for climate finance.

3.2 Recommendations for EU policy-makers

- **Revising the accounting rules for climate action**

The current Eurostat accounting rules on EPC prevent many LRAs from undertaking energy efficiency investments or lead to over-reliance on grant schemes, which results in insufficient investments in energy improvements of the building stock in the EU. Therefore, it is important that the accounting rules

¹⁰⁷ OECD, 2010, Cities and Climate Change, OECD Publishing. <http://dx.doi.org/10.1787/9789264091375-en>

¹⁰⁸ Energy Cities, 2015, Unlocking investment in cities: ELENA-EIB technical assistance facility – Project review in five European local authorities, viewed 12 July 2017, <http://www.energy-cities.eu/>

are revised to not hinder local investments in energy efficiency and enable LRAs to use the available public funding for leveraging private investments. For instance, EPC can be classified as services or buy-and-leaseback contracts allowing public authorities to finance energy efficiency ‘off balance sheet’¹⁰⁹.

- **Making applications for EU funding more accessible to LRAs**

The preparation of successful applications for EU funds poses various obstacles to LRAs, which often face constraints in time, human resources or in-house expertise. Creating a multi-stage process for the application to EU funds can ease the burden on LRAs. For instance, a first stage where LRAs can send an expression of interest with a first idea/ draft of the project might be introduced. If the expression of interest gets approved, the LRAs could then prepare a full application. This would help LRAs avoid investing time and resources in bids that might not be successful. LRAs sometimes spend a month or more to prepare an application that eventually does not get approved, while preparing an expression of interest would be less time consuming. Furthermore, investing resources in unsuccessful applications can create institutional fatigue and discourage LRAs from further attempts to secure EU funding. Losing interest in EU funds after several rounds of unsuccessful applications, which can potentially lead to no climate action.

Another possible improvement could be having the possibility for LRAs to submit the application documents as well as other reporting documents in the local language. Although this would represent an additional level of administration, it should not be overly cumbersome as the EU institutions have already in place a sophisticated translation machine. There is a need for climate change resources, such as decision-making tools for policymakers, in local languages¹¹⁰. The option of delivering project outputs, such as reports and other deliverables, in local language would also assist in addressing this need while at the same time making EU funding processes more accessible for LRAs. The improvement and creation of helpdesks with specific expertise could further help LRAs in their application process for EU funds or PDA/TA facilities. Providing help and validation to LRAs during the application process can substantially facilitate LRAs access to different financing options.¹¹¹ In addition, creating an EU Climate Finance Information Portal can help inform LRAs and other stakeholders about all available EU funding opportunities for climate action.

¹⁰⁹ EU High Level Expert Group on Sustainable Finance, 2017, Financing a Sustainable European Economy, Interim Report, July 2017, viewed 21 July 2017, <https://ec.europa.eu/>

¹¹⁰ Interview with Ecofys, 6 July 2017.

¹¹¹ Interview with Ecofys, 6 July 2017.

- **Strengthening TA and PDA facilities**

TA and PDA are among the most important tools for LRAs to overcome the obstacles of insufficient administrative capacity or expertise in developing successful applications for climate financing.¹¹² PDA facilities such as ELENA have proven useful for LRAs in the past helping them implement innovative financial instruments and develop internal skills and capacities¹¹³. Nevertheless, application procedures for TA and PDA can be almost as cumbersome or restrictive to LRAs as the application procedures for funds themselves. For example, many LRAs are too afraid to take on project risks due to the repayment clause under the Horizon2020 PDA. Moreover, the high investment volumes required by ELENA often pose an obstacle to smaller municipalities or Member States where project aggregation is impossible¹¹⁴. For these reasons, there have been calls from LRAs to establish a small-scale TA/PDA facility with more balanced risk sharing rules and an accompanying fund that can support the financing of projects receiving TA. Such a facility can also support capacity building and local or regional ‘one-stop shops’.¹¹⁵ Moreover, a small-scale TA/PDA facility could encourage the piloting of new, innovative actions at a small scale, with limited risk.

- **Promoting partnerships between different types of regions**

To prepare successful applications for certain EU funds that are rather competitive, such as Horizon 2020, LRAs will need to cooperate with other organisations. However, it seems that LRAs in Northern and Western EU Member States are more experienced in the use of EU funds and tend to work together, while Eastern EU countries that are less experienced are not usually involved in these partnerships¹¹⁶. This could disadvantage Eastern EU Member States in accessing competitive funds. However, newer and less experienced Member States might also learn from cooperating with older Member States. In the framework of certain EU funds, the EU should encourage and promote the cooperation between less and more developed regions. For instance, URBACT currently requires the participation of at least two cities from less developed regions when initial partnership networks are established (usually four to six cities altogether)¹¹⁷. One possibility could be to include geographic diversity as a relevant criterion in the selection of proposals. For example, in the case of

¹¹² Interview with EIB, 5 July 2017.

¹¹³ Energy Cities, 2015, Unlocking investment in cities: ELENA-EIB technical assistance facility – Project review in five European local authorities, viewed 12 July 2017, <http://www.energy-cities.eu/>

¹¹⁴ Climate Alliance, Eurocities, Energy Cities, RES Coop, Énergies POSIT’IF, 2017, Joint statement on local energy efficiency financing, viewed 10 July 2017, <http://www.climatealliance.org/>

¹¹⁵ Climate Alliance, Eurocities, Energy Cities, RES Coop, Énergies POSIT’IF, 2017, Joint statement on local energy efficiency financing, viewed 10 July 2017, <http://www.climatealliance.org/>

¹¹⁶ Interview with Eurocities, 7 July 2017.

¹¹⁷ URBACT, 2016, The URBACT III Programme, Programme Manual, 6th Version, October 2016, viewed 17 July 2017, <http://urbact.eu/>

H2020, gender balance and the participation of SMEs are currently factors to be considered when deciding between proposals that have received the same score (*ex aequo* proposals)¹¹⁸. Geographical or socio-economic diversity of applicants could also be included as a relevant factor here, without undermining the overall quality of successful proposals.

- **Supporting European LRAs in international climate negotiations**

In the next years the details for the implementation of the Paris Agreement will be negotiated by EU policy makers. This might be an opportunity to revisit the conditions of existing international climate financing instruments or the introduction of new ones. This offers an opportunity to loosen some of the requirements for international climate finance with a view to allow European LRAs to engage in joint initiatives with developing countries in a decentralised cooperation perspective. This could prove particularly beneficial as it could support knowledge exchange on climate action between countries in the Northern and Southern part of the world¹¹⁹.

- **Prioritising projects that support mainstreaming climate action**

Climate action can be embedded in sectoral projects, such as transport, construction and agriculture. Therefore, in the selection process the EU could prioritise projects that include a climate action component. This would allow LRAs to create synergies between different sectors when planning their projects. This could be achieved through building climate objectives into the selection criteria for the more sectoral funds within ESIF (e.g. EAFRD and EMFF) and for EFSI.

3.3 Recommendations for national policy-makers

- **Strengthening the role of LRAs in ESIF**

As cities are facing major climate risks and are often essential actors in actions that address these risks, regional and national governments need to ensure cities are more involved by in the definition of needs related to climate action and preparation of Operational Programmes.¹²⁰ This will help to improve the overall planning within Operational Programmes, ensuring that actions at the city and local levels are adequately funded, and help to improve the overall efficiency of ESIF investments.

- **Setting up and replicating ‘one-stop shop’ initiatives**

¹¹⁸ European Commission, *Horizon 2020 Work Programme 2014-15*, '19. General Annexes Revised', Commission Decision C (2014)4994 of 22 July 2014, part 18

¹¹⁹ Interview with Low Carbon City Lab, 27 July 2017.

¹²⁰ Climate Alliance, Eurocities, Energy Cities, RES Coop, Énergies POSIT'IF, 2017, Joint statement on local energy efficiency financing, viewed 10 July 2017, <http://www.climatealliance.org/>

As lack of expertise and knowledge are one of the main obstacles, ‘one-stop shops’ have so far proved to be a useful support tool for LRAs to implement energy efficiency projects. In fact, ‘one-stop shops’ can provide a set of services to their beneficiaries, including technical assessments, support with tendering procedures and information about financing options. Successful examples include Énergies POSIT’IF in France and CITYinvest, an EU wide project funded by Horizon 2020. So far, CITYinvest supported the establishment of Liège RenoWatt (Belgium) and is currently aiding the set-up of a similar scheme with the Association of the Rhodope municipalities (Bulgaria). This approach helps engaging LRAs and pushing forward energy efficiency investments.¹²¹ National authorities could support the creation of ‘one-stop shops’ that aid LRAs in planning and developing energy efficiency measures, adaptation projects or sustainable infrastructure. ‘One-stop shops’ could provide not only advice how to prepare successful projects but also match the projects with possible investors¹²².

- **Facilitating adaptation at local level**

Adaptation strategies are often developed centrally at national, regional or sector level while a significant part of the required adaptation action will have to be taken at the municipal level and across economic sectors. Therefore, national and regional adaptation strategies should better reflect the needs of municipalities and encourage local-level planning of relevant investments. Moreover, it is important to clearly define competences and responsibilities on adaptation and climate risk management between different governance levels. Where local authorities are given responsibility, they should also be more involved in the decision-making and resource allocation processes.¹²³

3.4 Recommendations for financial actors

- **Providing new financial instruments for climate investments**

‘Despite its extensive capacity, the finance system in Europe currently meets only a fraction of the climate adaptation investment needed at local, national and European level.’¹²⁴ While there is an increasing number of financial instruments available for mitigation projects, such as energy efficiency and renewable energy, more blending facilities for climate change adaptation could be developed. The NCFE is a good example in this direction, but more facilities are needed to meet the financial need to make European cities more resilient. In

¹²¹ Interview with Climate Alliance, 29 June 2017.

¹²² EU High Level Expert Group on Sustainable Finance, 2017, Financing a Sustainable European Economy, Interim Report, July 2017, viewed 21 July 2017, https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf

¹²³ N. Mabey et al., 2014, Underfunded, underprepared, underwater? Cities at risk, E3G.

¹²⁴ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

addition to creating specific facilities for adaptation, financial institutions could develop a systemic approach to re-evaluate and re-direct funding that promotes unsustainable activities¹²⁵. In the area of climate change mitigation, financial instruments have so far been used mainly to finance energy projects. However, the scope could be extended to other types of mitigation projects, such as sustainable mobility, industrial emissions and sustainable agriculture.

- **Developing non-thematic financing facilities**

LRAs face difficulties in meeting strict eligibility criteria that link financing platforms and facilities to specific themes. Thematic instruments risk undermining synergies between different types of climate, environmental and social measures (e.g. energy efficiency and improved air quality, mobility and social inclusion) and limiting innovation in the development of measures. To face this issue, financial institutions could provide more flexible financing facilities to LRAs that are not thematically oriented ‘to overcome barriers to action and allow aggregation of different type of investments in cities’.¹²⁶ This would support LRAs in developing actions that are specifically suited to local needs, rather than focused on meeting restrictive selection criteria.

- **Making climate finance more accessible for LRAs**

Even though financial instruments for climate investments from both public and private sources exist, they are not always easily accessible to LRAs e.g. due to restrictions regarding the possible beneficiaries, stringent eligibility criteria or complex application procedures. Therefore, it is important that financial instruments for climate action are made available specifically to LRAs or the requirements of existing instruments consider the administrative capacity constraints faced by many LRAs. For example, financial instruments can be tailored to the different needs, sizes and capabilities of LRAs to leverage investment¹²⁷. Specific instruments can also be set up to finance small municipal projects or bundles of small municipal projects. Meanwhile, the eligibility criteria of existing financing options can be extended or modified to allow public-sector actors such as LRAs to be beneficiaries.

- **Setting climate action targets and criteria for investments**

Climate change impacts are likely to affect investors’ portfolios resulting in calls for divestment from fossil fuel projects and setting climate action requirements

¹²⁵ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

¹²⁶ Climate Alliance, Eurocities, Energy Cities, RES Coop, Énergies POSIT’IF, 2017, Joint statement on local energy efficiency financing, viewed 10 July 2017, <http://www.climatealliance.org/>

¹²⁷ Climate Alliance, 2015, EIB consultation on financing climate action, 16 March 2015, viewed 21 July 2017, <http://www.eib.org/>; Committee of the Regions, 2015, Contribution of the Committee of the Regions to the stakeholder consultation of the European Investment Bank on the Bank’s approach to supporting climate action, viewed 21 July 2017, <http://www.eib.org/>

for new investments. This is particularly relevant for public banks (e.g. EIB, national development or investment banks) or other institutional investors whose responsibility is to act in the public's interest¹²⁸. Therefore, setting climate-related targets and criteria for investments can free up funds from fossil fuel projects and reduce the perceived risk of mitigation and adaptation projects resulting in more finance available for climate investments. More specifically, public banks and investors can:

- define volume targets about the minimum amount of climate investments e.g. the EIB has a 25% climate target for its lending portfolio¹²⁹;
- define standards and a taxonomy of climate projects e.g. a group of multi-lateral development banks including the EIB apply a common set of criteria to classify investments as mitigation or adaptation action¹³⁰;
- define climate-related criteria for projects to be eligible for financing e.g. energy efficiency improvements, GHG emission reductions, resilience¹³¹;
- consider the overall climate impacts of the portfolio (e.g. by measuring GHG emissions, applying a carbon price) and favour projects with mitigation and adaptation benefits¹³².

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- **Developing internal competence on climate projects**

Although it is often pointed out that LRAs lack the necessary knowledge to access climate finance and implement mitigation and adaptation projects, little attention is given to the specific competences of the financial actors that provide climate finance. Financial actors should also be knowledgeable about climate change measures and the specific needs of climate finance. Therefore, internal training tailored to climate finance in financial institutions could be beneficial¹³³.

¹²⁸ EU High Level Expert Group on Sustainable Finance, 2017, Financing a Sustainable European Economy, Interim Report, July 2017, viewed 21 July 2017, https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf

¹²⁹ EIB, 2017, Climate and environment, viewed on 21 July 2017, <http://www.eib.org/>

¹³⁰ 2015 Joint Report on Multilateral Development Banks' Climate Finance, August 2016, viewed 31 July 2017, http://www.eib.org/attachments/documents/joint_mdb_report_on_climate_finance_2015.pdf

¹³¹ EIB, 2015, EIB Climate Action Public Consultation, Issue Matrix, viewed 21 July 2017, <http://www.eib.org/>

¹³² EIB, 2015, EIB Climate Action Public Consultation, Issue Matrix, viewed 21 July 2017, <http://www.eib.org/>

¹³³ Interview with Low Carbon City Lab, 27 July 2017.

Annex 1: List of EU and international climate financing options

Table 1 Overview of EU and international climate finance options available to LRAs

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
EU climate financing options					
ERDF	DG REGIO	Adaptation and mitigation	Sustainable energy and transport, energy efficiency and building retrofits, flood prevention, development of risk monitoring systems and adaptation strategies	Grants and financial instruments	Thematic objectives 4 ‘Supporting the shift towards a low-carbon economy in all sectors’ and 5 ‘Promoting climate change adaptation, risk prevention and management’ are particularly relevant for climate action under the ERDF.
ETC or INTERREG	DG REGIO	Adaptation and mitigation	International cooperation projects in the same areas as ERDF	Grants	INTERREG can support projects in the same fields as ERDF.
URBACT III	DG REGIO	Adaptation and mitigation	Sustainable urban development	Grants	This fund is part of INTERREG.
CIVITAS	DG MOVE	Mitigation	Sustainable urban mobility	Grants	CIVITAS is financed by ERDF.
UIA	DG REGIO	Mitigation	Urban challenges, including energy transition	Grants	UIA is financed by ERDF.
INTERACT III	DG REGIO	Adaptation and mitigation	Same as INTERREG	TA	Advice provided on the use of INTERREG
CF	DG REGIO	Adaptation and mitigation	Sustainable energy and transport, energy efficiency and building	Grants and financial instruments	Thematic objectives 4 ‘Supporting the shift towards a low-carbon

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
			retrofits, flood prevention, development of risk monitoring systems and adaptation strategies		economy in all sectors' and 5 'Promoting climate change adaptation, risk prevention and management' are particularly relevant for climate action under the CF. The CF is available specifically to the least developed EU regions.
ESF	DG EMPL DG REGIO	Mitigation and adaptation	Developing skills in climate action and sustainability sectors of the economy, training how to adapt to the impacts of climate change in the workplace	Grants and financial instruments	Although the ESF is not mainly targeted to climate action, some of the thematic objectives can be used to support mitigation measures (e.g. under thematic objective 10 'Investing in education, training and lifelong learning'). Nevertheless, the objectives supported by the ESF remain rather broad and it is yet unknown if climate action projects have been supported in the period 2014-2020.
EAFRD	DG AGRI	Adaptation and mitigation	Sustainable energy, water efficiency, reduction of GHG emissions in agriculture	Grants and financial instruments	Union priority 5 'promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in agriculture, food and forestry sector' is

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
					particularly relevant for climate action under the EAFRD.
EMFF	DG MARE	Adaptation and mitigation	Smart, sustainable fisheries (including energy efficiency and adaptation measures)	Grants and financial instruments	Union priorities 1 and 2 ‘promoting environmentally sustainable, resource-efficient, innovative, competitive and knowledge-based fisheries and aquaculture’ are particularly relevant for climate action under the EMFF.
CLLD	DG REGIO, DG AGRI, DG MARE, DG EMPL	Adaptation and mitigation	Capacity building, training and networking related to climate change and the transition to a low carbon society	Grants	The average project size should be minimum EUR 3 million for the funding period (7 years).
ITI	DG REGIO, DG AGRI, DG MARE, DG EMPL	Adaptation and mitigation	Low carbon economy, adaptation and risk prevention management, sustainable transport	Grants, repayable assistance and financial instruments	
JASPERS	DG REGIO and EIB	Adaptation and mitigation	Same as the ESIF	PDA and TA on ESIF projects	
FI-Compass	EIB and DG REGIO	Adaptation and mitigation	Same as the ESIF	TA on ESIF financial instruments	This is an advisory service.
LIFE	DG ENV and DG CLIMA	Adaptation and mitigation	Adaptation, mitigation and climate governance	Grants	
NCCF	EIB	Adaptation	Green and blue infrastructure in cities	Financial instruments	

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
PF4EE	EIB	Mitigation	Energy efficiency	Financial instruments	The PF4EE offers indirect finance to LRAs through financial intermediaries (e.g. Crédit Coopératif in France and BIPER in Italy).
H2020	DG RTD and a number of EU executive agencies (REA, EASME, INEA)	Adaptation and mitigation	Research and innovation in low-carbon energy, energy efficiency, sustainable transport, adaptation and ecosystems, health, food security and other themes relevant for the EU 2020 Strategy	Grants, PDA	<p>Horizon 2020 supports research in various areas, the most relevant for climate action are the themes under the seven Societal Challenges including: ‘Secure, clean and efficient energy’; ‘Smart, green and integrated transport’ and ‘Climate action, environment, resource efficiency and raw materials’. Nevertheless, research under other societal challenges such as health or food security and agriculture might have relevance for adaptation.</p> <p>The Horizon 2020 PDA facility requires a minimum expected leverage factor of 15 i.e. the triggered investment must be at least 15 times the PDA support received. PDA grants are paid in full only if this minimum leverage factor is met.</p>

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
					Otherwise the EU support, in part or in full, must be reimbursed.
ELENA	EIB and KfW	Adaptation and mitigation	Same as H2020, ESIF or the other relevant financing sources	TA and PDA	In order to receive ELENA funding the total investment of the programme to be supported must be at least 20 times the amount of the ELENA grant assistance i.e. it must achieve a minimum expected leverage factor of 20. The beneficiary is obliged to reimburse, in part or in full, the contribution received if the minimum leverage factor is not achieved.
EFSI	EIB	Mitigation	Energy efficiency, renewable energy and sustainable transport	Financial instruments (guarantees)	Although adaptation projects could be possibly financed by EFSI, the projects have to be economically viable.
EIAH	EIB	Mitigation	Same as EFSI	TA	
EEEF	EIB, Deutsche Bank and CDP	Mitigation	Energy efficiency and renewable energy	Financial instruments	The EEEF includes a TA Facility to support the preparation of projects.
International climate financing options					
EIB standard operations	EIB	Adaptation and mitigation	Energy efficiency, renewable energy, sustainable transport, water measures	Direct and indirect loans, guarantees and equity	Projects must meet EIB's lending criteria to be eligible.

Fund/ programme	Administrative body	Field	Sector/ area	Financing vehicle	Additional information (if relevant)
EBRD – Green Economy Transition approach	EBRD	Adaptation and mitigation	Energy efficiency, renewable energy, sustainable transport, water measures	Direct and indirect loans, guarantees	
Sustainable Energy Finance Facilites	EBRD	Mitigation	Sustainable energy	Credit lines to financial intermediaries	
Global Environment Facility (GEF)	GEF Agencies ¹³⁴	Adaptation and mitigation	Sustainable energy, adaptation projects	Grants,	Available only to EU countries that are considered transition economies (see footnote 39 in the report for a list of countries). Project promoters should contact the Operational Focal Point in their country ¹³⁵ .
Council of Europe Development Bank (CEB) financing	CEB	Adaptation and mitigation	Flood protection, energy efficiency and sustainable transport	Project loans for individual projects, programme loans for multi-projects programmes, Public Sector Financing Facility, Cross Sectorial Loan Programme	LRAs in the CEB member countries are eligible to access CEB financing. However, target countries of the CEB are: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

¹³⁴ There are 18 GEF Agencies, of which the following ones are relevant for EU countries: EBRD, FAO, UNDP, UNEP, WB, Conservation International, International Union for Conservation of Nature.

Global Environment Facility, 2017, GEF Agencies, viewed 2 August 2017, <https://www.thegef.org/partners/gef-agencies>

¹³⁵ A list of national Operational Focal Points is available at https://www.thegef.org/focal_points_list.

Annex 2: National financing for climate action

It should be noted that the financing options presented in this Annex represent a selection of the most important national financing sources for LRAs in Bulgaria, France, Ireland and Lithuania, as well as examples of local funds, rather than an exhaustive mapping. Climate finance options exclusively targeted to households or industry/companies have not been included as LRAs cannot directly receive support from such sources. Nevertheless, climate finance options available to households or companies are important for supporting wider mitigation and adaptation objectives at the local level. LRAs can play an intermediary role in connecting and supporting households or companies in using climate finance instruments.

Bulgaria

Table 2 Overview of national public and private funding instruments for climate action in Bulgaria

Financing options	Field	Financing source	Type	Financing vehicle	Sector/area	Short description
National Programmes for the ESIF ¹³⁶	Adaptation and mitigation	EU budget, national budget	Public	Grants and financial instruments	Energy efficiency, renewable energy, sustainable transport, flood risk management, risk monitoring systems, preparation of adaptation plans	<p>In Bulgaria the ESIF are implemented through thematic national-level programmes. The most relevant Operational Programmes (ERDF and CF) for the period 2014-2020 are ‘Regions in growth’, ‘Environment’ and ‘Transport and transport infrastructure’, which jointly support actions for energy efficiency improvements in buildings, sustainable urban transport and actions for flood risk management and recycling of municipal waste.</p> <p>Allocations to climate adaptation and risk prevention: EUR 78.5 million from CF and EUR 483.1 million from EAFRD.</p> <p>Allocations to low-carbon economy: EUR 1.2 billion from the ERDF, EUR 311.6 million from the EAFRD and EUR 1.3 million from the EMFF.¹³⁷</p> <p>In the previous financing period, allocations for flood risk management have successfully contributed to adaptation action e.g. in the city of Smolyan¹³⁸.</p>
EEA Financial Mechanism and Norwegian Financial Mechanism ¹³⁹	Adaptation and mitigation	Governments of Iceland, Lichtenstein, Norway	Public	Grants	Energy efficiency, renewable energy and other projects contributing to climate action	<p>The EEA Financial Mechanism and Norwegian Financial Mechanism provide grants to 15 EU countries in Central and Southern Europe and the Baltics (including Bulgaria) to reduce economic and social disparities and strengthen cooperation. In the period 2014-2021 these two mechanisms will provide financial contributions in several priority sectors including ‘Environment, energy, climate change and low carbon</p>

¹³⁶ The OPs for the period 2014-2020 can be found here: <https://www.eufunds.bg/programen-period-2014-2020/operativni-programi-2014-2020> (viewed 4 July 2017)

¹³⁷ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

¹³⁸ European Environment Agency, 2017, Financing urban adaptation to climate change, EEA Report No 2/2017.

¹³⁹ EEA grants, viewed 4 July 2017, <http://eeagrants.org/What-we-do/EEA-and-Norway-Grants-2014-2021>

Financing options	Field	Financing source	Type	Financing vehicle	Sector/area	Short description
						economy’.
Bulgarian-Swiss Cooperation Programme ¹⁴⁰	Adaptation and mitigation	Government of Switzerland	Public	Grants	Environment, including green public procurement	With this programme Switzerland helps reduce economic and social disparities in the enlarged EU (including Bulgaria) by providing support in areas where e.g. Bulgaria needs to catch up, and in which Switzerland can offer know-how and expertise. The areas in which support is available include environment and one of the ongoing projects is for green public procurement.
Fund for local authorities and governments (FLAG) ¹⁴¹	Adaptation and mitigation	National budget	Public	Loans	Areas supported by relevant EU funds	FLAG is a revolving mechanism for financing the development and implementation of economically and financially viable projects in the area of municipal infrastructure and for supporting the administrative capacity of municipalities with a view to absorbing EU funds. It aims to overcome the problem of cash shortage for municipalities when they develop project proposals or finance approved projects in the framework of the OPs, co-financed by the EU funds. The loans are administered through a Managing Bank and are exclusively available only to municipalities or municipal companies.
Energy Efficiency and Renewable Sources Fund (EERSF) ¹⁴²	Mitigation	Global Environment Facility (through the World Bank), the Government of Austria and the Government of Bulgaria,	Public	Loans, Partial credit guarantees, Portfolio guarantees, Technical Assistance	Energy efficiency, renewable energy, energy audits	The EERSF provides financing and support for energy efficiency investment projects to companies, municipalities and private individuals. Renewable energy is supported only for own consumption and as an integral part of an energy efficiency investment.

¹⁴⁰ Bulgarian-Swiss Cooperation Programme, viewed 4 July 2017, <http://swiss-contribution.bg/en>

¹⁴¹ Fund for local authorities and governments – Bulgaria, viewed 4 July 2017, <http://www.flag-bg.com/?l=2>

¹⁴² Energy Efficiency and Renewable Sources Fund – Bulgaria, viewed 4 July 2017, <http://www.bgeef.com/>

Financing options	Field	Financing source	Type	Financing vehicle	Sector/area	Short description
		energy companies				
National Trust EcoFund (NTEF) ¹⁴³	Adaptation and mitigation	National budget, international sale of GHG quotas	Public	Grants	Sustainable transport and other climate action projects	The NTEF provides support through two relevant programmes – Investment Climate Programme and Investment Climate Programme – Electric Vehicles.
Energy and Energy Efficiency Fund ¹⁴⁴	Mitigation	Private resources	Private	ESCO contracts	Energy efficiency	This is the first fund in Bulgaria that invests in securities and re-invests in contracts with energy service companies (ESCO contracts) for a guaranteed energy efficiency result.

France

Table 3 Overview of national public and private funding instruments for climate action in France

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
ESIF	Adaptation and mitigation	EU and national budgets	Public	Grants and financial instruments	Energy efficiency, renewable energy, sustainable transport, flood risk management, development of adaptation plans	France implements the ESIF through National and Regional Programmes. Both regions and municipalities can be final beneficiaries of ESIF. 2014-2020 ESIF allocations to climate adaptation and risk prevention in France: EUR 530.9 million from the ERDF and EUR 4.3

¹⁴³ National Trust Eco-fund – Bulgaria, viewed 4 July 2017, www.ecofund-bg.org

¹⁴⁴ Covenant of Mayors, Sustainable Energy Action Plan of Smolyan Municipality, viewed 5 July 2017, http://www.covenantofmayors.eu/about/signatories_en.html?city_id=6892&seap

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
						billion from the EAFRD. 2014-2020 ESIF allocations to low-carbon economy: EUR 4.3 billion from the ERDF, EUR 530.2 million from the EAFRD and EUR 19.6 million from the EMFF. ¹⁴⁵
EEEEF	Mitigation	EU, investment banks and private investors	PPP	Financial instruments and TA	Energy efficiency and renewable energy	The EEEF supported two energy efficient heating systems in the cities of Orléans (EUR 5.1m) and Rennes (EUR 7.3m). ¹⁴⁶
Regional Energy Services Operator (OSER) ¹⁴⁷	Mitigation	EEEEF, Caisse des Dépôts and own resources	Loans PDA	Loans and TA	Energy efficiency and renewable energy	OSER is a local public company whose shareholders are the Rhône-Alpes Region and the participating municipalities. Financing (soft loans) and PDA are available to the shareholders for energy refurbishment of public buildings. Any municipality in the region can become a shareholder.
City of tomorrow ¹⁴⁸	Mitigation (adaptation measures can be integrated in urban management projects)	Caisse des Dépôts	Public	Grants and equity	Sustainable transport and energy, urban management	Funds (EUR 336 million for the period 2015-2017) for big metropolises to support their innovative projects in sustainable transport and energy, as well as urban management.
Zero interest green	Mitigation	Caisse des Dépôts	Public	Loans	Energy efficiency	Zero-interest loans for renovation of public buildings available during the

¹⁴⁵ European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

¹⁴⁶ European Energy Efficiency Fund, viewed 13 July 2017, <http://www.eeef.eu/technical-assistance.html>

¹⁴⁷ Energy Cities, 2014, *Financing schemes increasing energy efficiency and renewable energy use in public and private buildings*, Comparative study for the INFINITE Solutions project.

¹⁴⁸ Caisse des Dépôts, Ville de demain, viewed 30 June 2017, <http://www.caissedesdepots.fr/ville-de-demain>

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
growth loan ¹⁴⁹						period 2016-2017. Loan duration between 15 and 20 years.
Green growth loan ¹⁵⁰	Mitigation	Caisse des Dépôts	Public	Loans	Energy efficiency renovations of public buildings, clean transport, renewable energy	Loans for energy efficiency renovations of public buildings, clean transport, renewable energy. Loan duration between 20 and 40 years. Interest rate linked to the inflation rate + 0.75 pp.
Urban project loan ¹⁵¹	Mitigation	Caisse des Dépôts	Public	Loans	Sustainable transport and renewable energy	Loans for urban projects, including transport infrastructure, production and transmission of renewable energy. Interest rate linked to the inflation rate + 100 pp.
Urban development loan ¹⁵²	Mitigation	Caisse des Dépôts	Public	Loans	Sustainable transport and renewable energy	Loans for urban projects, including transport infrastructure, production and transmission of renewable energy. Interest rate linked to the inflation rate + 60 pp.
Heating Fund ¹⁵³	Mitigation	French Environment and Energy Management Agency (ADEME)	Public	Grants	Renewable energy	Funding for installation of heating systems based on renewable energy (e.g. solar thermal and geothermal). Funds cumulable with EU funds.
Investment Fund for Green	Mitigation	EIB and local commercial banks ¹⁵⁵	Private	Loans	Renewable energy and energy efficiency	Local Authorities in the region 'Centre' can obtain soft loans (preferential interest rate compared

¹⁴⁹ Caisse des Dépôts, Prêt Croissance Verte à taux zero, viewed 30 June 2017, https://www.prets.caissedesdepots.fr/IMG/pdf/fiche_pcv0.pdf

¹⁵⁰ Caisse des Dépôts, Prêt Croissance Verte, viewed 30 June 2017, <https://www.prets.caissedesdepots.fr/pcv-offre-sur-mesure.html>

¹⁵¹ Caisse des Dépôts, Prêt Projet Urbain, viewed 30 June 2017, <https://www.prets.caissedesdepots.fr/ppu.html>

¹⁵² Caisse des Dépôts, Prêt Renouvellement Urbain Aménagement, viewed 30 June 2017, <https://www.prets.caissedesdepots.fr/pru-am.html>

¹⁵³ ADEME, Fonds chaleur 2017, viewed 30 June 2017, http://www.ademe.fr/sites/default/files/assets/documents/instruct_generales_fds_chal_2017_06-04-17.pdf

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
Economy - Preveo ¹⁵⁴						to market levels) for renewable energy, energy efficiency renovations and construction of low energy buildings.
Picardie Pass Rénovation	Mitigation	The project benefits from ELENA	Public	Financial instruments and TA	Energy efficiency	Publicly-owned company in charge of delivering ‘zero upfront cost’ retrofitting services to households
Supporting Funds for Local Investment ¹⁵⁶	Adaptation and mitigation	National government	Public	Grants	Sustainable energy and green growth	All French cities can apply for energy transition and green growth projects (EUR 500 million allocated to this priority in 2016)
Issuance of green bonds	Adaptation and mitigation	Financial market	Private	Bonds	Renewable energy, energy efficiency, sustainable transport, adaptation measures in biodiversity, water and building renovation projects	The Ile-de-France region and the city of Paris have both issued green bonds, which could serve as example to other French LRAs. Green & Sustainability Bond are the municipal bonds issued by the Ile-de-France region. The proceeds support sustainable development projects, including renewable energy, energy efficiency and sustainable transport. Climate adaptation measures can be

¹⁵⁵ Banque Populaire Val de France, Caisse d'Epargne, Crédit Agricole de la Touraine et du Poitou, Centre Ouest, Centre Loire et Val de France.

¹⁵⁴ Energy Cities, 2014, Financing schemes increasing energy efficiency and renewable energy use in public and private buildings, Comparative study for the INFINITE Solutions project.

¹⁵⁶ Ministère de l'Aménagement du Territoire, de la Ruralité et des collectivités territoriales, Le fonds de soutien à l'investissement local, viewed 30 June 2017, <https://www.territoires.gouv.fr/le-fonds-de-soutien-a-linvestissement-local-fsil/>

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
						imbedded in biodiversity, water and building renovation projects. ¹⁵⁷ Similarly, the city of Paris issued green bonds in 2015 to finance renewable energy, energy efficiency, low-carbon transport and climate adaptation (green surfaces and urban re-forestation). ¹⁵⁸
PREVair ¹⁵⁹	Mitigation	Crédit Coopératif	Private (Commercial bank)	Loans	Reduction of GHG emissions	Medium or long-term financing (from 3 to 15 years) for projects that support GHG reduction. Available to companies and all non-for-profit organisations.
Loan REV3 ¹⁶⁰	Mitigation	Crédit Coopératif and CCI Nord de France	Private (Commercial bank)	Loans	Sustainable energy	Loan for low-carbon economy investments (e.g. production of renewable energy, circular economy etc.), starting from EUR 12,000 for a duration between 3 and 15 years. Only in the regions Nord-Pas de Calais and Picardie.

¹⁵⁷ Climate Bonds Initiative, 2014, viewed 3 July 2017, <https://www.climatebonds.net/2014/05/%C3%AEle-de-france-issues-eur600m-830m-12yr-aa-green-muni-they-had-so-many-orders-one-hour>

¹⁵⁸ Climate Bonds Initiative, 2015, viewed 3 July 2017, <https://www.climatebonds.net/2015/11/update-vive-paris-green-bond-mkt-builds-cop21-host-city-paris-issuing-inaugural-green-bond->

¹⁵⁹ Crédit Coopératif, viewed 3 July 2017, <http://www.credit-cooperatif.coop/>

¹⁶⁰ Crédit Coopératif, viewed 3 July 2017, <http://www.credit-cooperatif.coop/>

Ireland

Table 4 Overview of national public and private funding instruments for climate action in Ireland

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
Regional programmes for the ESIF ¹⁶¹	Adaptation and mitigation	EU budget, national budget	Public	Grants and financial instruments	Energy efficiency, renewable energy, sustainable transport, flood risk management, development of adaptation plans	In the 2014-2020 period two Regional OPs (Border, Midland and Western ROP and Southern and Eastern ROP) will implement the ESIF in Ireland and support the shift towards a low-carbon economy. Allocations to climate adaptation and risk prevention: EUR 1.3 billion from the EAFRD. Allocations to the low-carbon economy: EUR 175 million from the ERDF, EUR 404.4 million from the EAFRD and EUR 2.4 million from the EMFF. ¹⁶²
EEEF	Mitigation	EU budget and investment banks and private investors	PPP	Financial instruments and TA	Energy efficiency and renewable energy	The Limerick and Clare Education and Training Board benefited from the EEEF TA for building upgrades and renewable energy installations for a total of EUR 336,000. The Roscommon County Council received EUR 184,000 for TA for a biomass district heating project. ¹⁶³
Better Energy Communities ¹⁶⁴	Mitigation	SEAI	Public	Grants	Energy efficiency	Through the Better Energy Communities initiative, the SEAI

¹⁶¹ The two ROPs are available at: http://ec.europa.eu/regional_policy/

¹⁶² European Commission, 2017, ESIF Data, viewed 13 July 2017, <https://cohesiondata.ec.europa.eu/themes>

¹⁶³ European Energy Efficiency Fund, viewed 13 July 2017, <http://www.eeef.eu/technical-assistance.html>

¹⁶⁴ Sustainable Energy Authority of Ireland, Deep Retrofit Pilot Programme, viewed 5 July 2017, http://www.seai.ie/Grants/Better_Energy_Communities/

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
						offers grant supports for community energy projects such as energy efficiency improvements in homes, community, private and public buildings.
Deep Retrofit Pilot Programme ¹⁶⁵	Mitigation	SEAI	Public	Grants	Energy efficiency and renewable energy	Although the end beneficiaries of the Deep Retrofit Pilot Programme will be households, the support is administered through community groups, local authorities and energy agencies. The offered services will aim for significant upgrades of buildings toward nearly zero energy requirements and integration of renewable energy solutions.
Electric Vehicle Grant Scheme ¹⁶⁶	Mitigation	SEAI	Public	Grants	Sustainable transport	Through the Electric Vehicle Grant Scheme, the SEAI offers grant support to private and public sector consumers for purchasing electric vehicles.
Environmental Fund ¹⁶⁷	Adaptation and mitigation	Revenues from the levies on plastic shopping bags and the landfill of waste	Public	No information	Environment	The Fund can support various types of environmental projects including ‘partnership projects, that involve local authorities, to improve the quality of the environment for particular local communities’.

¹⁶⁵ Further details: <http://www.seai.ie/Grants/Deep-Retrofit-Programme/>

¹⁶⁶ Further details: http://www.seai.ie/Grants/Electric_Vehicle_Grant_Scheme/

¹⁶⁷ Further details: <http://www.dccae.gov.ie/en-ie/environment/topics/environmental-protection-and-awareness/environmental-fund/Pages/default.aspx>

Lithuania

Table 5 Overview of national public and private funding instruments for climate action in Lithuania

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
National Programmes of ESIF	Adaptation and mitigation	EU and national budgets	Public and private	Grants and financial instruments	Energy efficiency, renewable energy, sustainable transport, flood risk management, development of adaptation plans	<p>In addition to grants, Lithuania used financial instruments under the ESIF in the period 2007-2013 to establish the VIPA energy efficiency fund for residential buildings. During the current period (2014-2020), blending was used to support energy efficiency investments at national and local level (see below for more details about the Energy Efficiency Fund).</p> <p>Lithuania implements the ERDF, CF and ESF with the Lithuanian multi-fund Operational Programme.</p> <p>2014-2020 ESIF allocations to climate adaptation and risk prevention: EUR 4.8 million from the ERDF, EUR 123.3 million from the CF and EUR 287.2 million from the EAFRD.</p> <p>2014-2020 ESIF allocations to the low-carbon economy: EUR 608.5 million from the ERDF, EUR 455 million from the CF, EUR 176.1 million from the EAFRD and EUR 418.1 thousand from the EMFF.¹⁶⁸</p>

¹⁶⁸ European Commission, 2017, ESIF Data, viewed 13 July 2017 at <https://cohesiondata.ec.europa.eu/themes>

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
Energy Efficiency Fund (ENEF) ¹⁶⁹	Mitigation	Ministry of Finance, Ministry of Energy, Public Investment Development Agency	Public and private (blending)	Loans and guarantees	Energy efficiency and public street lighting	The ENEF was established by blending ESIF and private resources to finance energy efficiency projects. ENEF provides loans for energy efficiency investments in central government buildings and guarantees for modernization of cities' street lighting.
Climate Change Special Programme ¹⁷⁰	Adaptation and mitigation	Assigned Amount Units and EU Emission Allowances; donations; penalties to operators.	Public	Grants	Energy efficiency, renewable energy, environment-friendly technologies, reforestation and afforestation, education programmes on climate change, and climate change management.	A special programme to finance climate change mitigation and adaptation measures in Lithuania was launched in 2009.
Programme for Environment and Climate Co-operation ¹⁷¹	Adaptation and mitigation	Nordic Council of Ministers and the Barents Hot Spots Facility	Public	Grants	Climate projects in general	Programme for Environment and Climate Co-operation between Nordic and North-West Russian non-commercial partners. It provides grant financing for cooperation projects that contribute to improvements of the environment and climate in North-West Russia.

¹⁶⁹ VIPA (Public Investment Development Agency), Municipality grants, viewed 3 July 2017, <http://vipa.lt/page/enefen>

¹⁷⁰ Ministry of Environment of the Republic of Lithuania, Climate Change Special Programme: overview, viewed 3 July 2017, <http://www.am.lt/VI/en/VI/index.php#a/538>

¹⁷¹ Nordic Environment Finance Corporation (NEFCO), Programme for Environment and Climate Co-operation, viewed 3 July 2017, <https://www.nefco.org/work-us/our-services/grants/programme-environment-and-climate-co-operation>

Financing options	Field	Financing source	Type	Financing vehicle	Sectors/areas	Short description
NEFCO's Investment Fund ¹⁷²	Mitigation	Nordic Environment Finance Corporation (NEFCO)	Private	Loans and equity	Energy efficiency, renewable energy district heating and pollution abatement	Loans on market terms for energy efficiency, renewable energy district heating and pollution abatement. The maximum amount is EUR 5 million. Projects must be economically viable and have a positive environmental impact. Available also to Estonia, Latvia and Poland.
Municipality Grants ¹⁷³	Adaptation and mitigations	National funding (managed by VIPA ¹⁷⁴)	Public	Grants	Sustainable energy and transport, flood prevention, water measures and other adaptation projects eligible under ESIF	National government grants available to municipalities to co-finance ESIF projects.

¹⁷² Nordic Environment Finance Corporation (NEFCO), Investment Fund, viewed 3 July 2017, <https://www.nefco.org/work-us/our-services/loans-and-equity/investment-fund>

¹⁷³ VIPA (Public Investment Development Agency), Municipality grants, viewed 3 July 2017, http://vipa.lt/page/municipality_grants

¹⁷⁴ VIPA is the Lithuanian Public Investment Development Agency.

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Annex 4: List of stakeholders interviewed

Type of stakeholder	Name
City network	Climate Alliance
City network	Eurocities
Local and regional authorities network	POLIS
Network of organisations	Climate-KIC, Low Carbon City Lab programme
Think tank	Institute for Climate Economics (I4CE)
Think tank	2 Degrees Investing
Financial institution	European Investment Bank
International organisation	Climate Bonds Initiative
Consultancy	Ecofys (lead organisation responsible for delivering the Mayors-ADAPT project)

Annex 5: Methodological note

Task 1: Desk research (part 1 of final report)

Existing climate funding opportunities for Local and Regional Authorities (hereinafter LRAs) will be identified based on desk research in the following areas:

- EU and international funding (e.g. ESIF, LIFE, EIB, EBRD, Green Climate Fund);
- National public funding (e.g. development and investment banks);
- National private financing instruments (e.g. commercial banks, green bonds).

Table 6 presents a preliminary non-exhaustive list of sources that provide information on the existing climate financing resources for LRAs.

Table 6 Preliminary list of sources for the summary of existing climate finance instruments

Author/ organisation	Public/ private financing	EU/ national/ local financing
Covenant of Mayors (Overview of existing funding sources and cities' action plans)	Public and private (incl. blending)	EU
Institute for Climate Economics (I4CE) (FR)	Public and private	National
EIB	Public and private (incl. blending)	EU
Cities Climate Finance Leadership Alliance (CCFLA)	Public and private	Other
UNFCCC (national reports)	Public	EU and national
National RE action plans to the EC	Public	EU and national
National EE action plans to the EC	Public	EU and national
Climate Bonds Initiative (CBI)	Private	EU and national
Energies POSIT'IF (FR)	Public and private	EU and national
Caisse des Dépôts (FR)	Private	National
KfW (DE)	Private	National

The research team will use the template illustrated in Table 7 to gather relevant information on the existing climate funding opportunities for LRAs. The template will allow an effective collection of information to cover different types of funding, as well as different Member States.

Table 7 Template for collecting information and examples of the existing climate funding opportunities for LRAs

EU/ national	Funding instrument	Funding source	Climate mitigation and/or adaptation	Public/ private/ blending
EU	ERDF	EU budget	Climate mitigation and adaptation	Public
EU	ESIF - FI Compass	EU budget and private resources	Climate mitigation and adaptation	Blending
[...]				

The desk research on national public and private funding opportunities will be carried out for a selection of three or four EU Member States. The selection will be mainly based on the existence of national climate finance in the country and availability of information. To the extent possible, geographic representation of the selected countries will be sought. Possible countries to include are: Bulgaria, France, Germany, Netherlands, Italy, one Baltic State (e.g. Lithuania), Ireland. The research team will discuss the selection with the Committee of the Regions before finalisation.

The main output of Task 1 will be Part 1 of the draft final report ‘Summary of the existing climate finance instruments that are available to EU regions and cities’.

Task 2: Literature review (parts 2 and 3 of final report)

The literature review on climate financing for LRAs will focus on the following research topics, as specified by the Committee of the Regions:

- The obstacles faced by LRAs in accessing the climate tools identified in Task 1;
- Recommendations to improve climate finance for LRAs.

A preliminary non-exhaustive list of literature sources is presented below:

- Cities Climate Finance Leadership Alliance, 2015, The state of city climate finance 2015.
- Energy Efficiency Financial Institutions Group, 2015, Energy Efficiency – the first fuel for the EU Economy: How to drive new finance for energy efficiency investments.
- Germanwatch, 2015, Finding the Finance, Financing Climate Compatible Development in Cities.
- I4CE, 2016, Landscape of climate finance in France.
- Norden, 2015, Public-Private Partnerships for Climate Finance.
- ODI, 2015, Climate finance for cities How can international climate funds

best support low-carbon and climate resilient urban development?, Working paper 419.

- Sullivan R., A. Gouldson & P. Webber, 2013, 'Funding low carbon cities: local perspectives on opportunities and risks', *Climate Policy*, 13:4, pp. 514-529.
- UNEP, 2014, *Climate Finance for Cities and Buildings – A Handbook for Local Governments*, UNEP Division of Technology, Industry and Economics (DTIE), Paris.
- World Bank, 2011, *Guide to Climate Change Adaptation in Cities*.

The results of the literature review will feed into the drafting of Parts 2 ('Analysis of the main obstacles LRAs face when using climate finance instruments') and 3 ('Recommendations for further improving access to and use of climate finance instruments by EU regions and cities') of the draft final report.

Task 3: Interviews (parts 2 and 3 of final report)

The research team will carry out a maximum of 10 semi-structured interviews with relevant stakeholders. The main stakeholders' group will be associations representing national LRAs at the EU level. If possible, a national or EU financial institution will be included in the list of stakeholders to include the financial sector's point of view in the analysis.

In the following, we present a preliminary list of stakeholders to interview:

- Covenant of Mayors;
- Energy Cities;
- Eurocities;
- ICLEI;
- The Council of European Municipalities and Regions (CEMR);
- Climate Alliance;
- Union of Baltic Cities;
- EIB or national investment bank.

Based on Milieu's previous experience in stakeholders' consultations, we suggest sending to the stakeholders a letter of support from the Committee of the Regions when contacting them in order to increase the response rate.

Examples of questions that will be asked during the interviews include:

- What climate finance options for LRAs are you familiar with?
- Which of these options do you think are most suitable for LRAs? Why?
- What is the experience of your organisation or within your member organisations with any specific climate finance options that have been

- used?
- What do you think are the main obstacles to access the following types of climate finance for LRAs?
 - EU funding (e.g. ESIF)
 - Blending facilities
 - National public funding
 - National private financing (e.g. loans from commercial banks)
 - How do you think that these obstacles can be overcome?

The main challenge that we envisage in performing Task 3 is the short time frame to contact the relevant stakeholders and carry out interviews. To face this challenge, the research team will start contacting the stakeholders as soon as the methodology note is finalised with the Committee of the Regions.

The information collected through interviews will provide the basis for analysing the obstacles faced by LRAs in accessing climate finance, as well as formulating recommendations for further improvement. The recommendations will be structured by groups of actors: LRAs, policy-makers at EU and national level, and private and public finance institutions.

The main output of Task 3 will therefore be drafting Parts 2 and 3 of the draft final report.

Task 4: Preparation of the final report

Parts 1, 2 and 3 of the draft final report will be put together to prepare the draft final report due 24 July 2017. The draft final report will have the structure outlined in the Request for Services and will be revised based on comments and feedback by the Committee of the Regions to prepare the final report.

Table 8 Outline of the final report

Section	Description	Notes
Summary [1 page]	Summarises the objectives of the study, its research questions, its structure, and the content of Parts 1 to 3.	The summary will serve as an introduction to the report and will synthesise the main findings
Part 1 [ca. 8 pages]	Summary of the existing climate finance instruments that are available to EU regions and cities.	Part 1 will contain primarily the findings of the desk research (Task 1). Any relevant findings from tasks 2 and 3 will also be included.
Part 2 [ca. 6 pages]	Analysis of the main obstacles LRAs face when using climate finance instruments.	Part 2 will contain the findings of the literature review (Task 2) and the interviews (Task 3).
Part 3	Recommendations for further	Part 3 will contain the findings of the

Section	Description	Notes
[ca. 6 pages]	improving access to and use of climate finance instruments by EU regions and cities.	literature review (Task 2) and the interviews (Task 3).
Annex(es)	Methodological note; References and other information sources; list of stakeholders consulted, if any.	The final methodology note, list of sources consulted during the desk research and literature review, list of stakeholders interviewed, interview questionnaire or any other relevant input will be added as Annexes to the report.

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**European Committee
of the Regions**

Created in 1994 following the signing of the Maastricht Treaty,
the European Committee of the Regions is the EU's assembly of 350 regional and
local representatives from all 28 Member States, representing over 507 million Europeans.

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