Sources of Financing

EUROPEAN ENERGY RECOVERY PROGRAMME (EERP)

In March 2009 the EU set aside € 3.98 billion to assist European economic recovery. On 4 March 2010, the European Commission selected 43 major cross-border energy infrastructure projects, granting € 2.3 billion to 31 gas pipeline projects and 12 electricity interconnection projects. It is the largest amount the EU has ever spent on energy infrastructure. By co-financing parts of these projects up to 50% the EU contribution will help to lever up to € 22 billion of private sector investment. Regrettably most of these infrastructure investments are earmarked for conventional forms of energy and carbon capture. On 9 December 2009, the European Commission approved 15 projects under the EERP in the fields of carbon capture and storage (CCS) and offshore wind. The total sum of financial support to nine offshore wind energy projects is € 565 million.

COVENANT OF MAYORS & THE EUROPEAN ENERGY PROGRAMME FOR RECOVERY

In January 2008, nearly 100 mayors from across Europe signed up to the Commission-backed Covenant of Mayors, a commitment by city leaders to go beyond EU's CO_2 emissions reduction target of 20% by 2020. Since then and as of January 2011 more than 2200 local authorities in the EU have signed up. The initiative has received consistent praise from EU leaders since being set up, but has thus far being operating on a relatively modest budget.
In May 2010 the Commission has pledged to significantly increase the amount of funding available for such projects, using unused money from the European Energy Programme for Recovery (EEPR) in accordance with regulation 1233/2010. EU Energy Commissioner Oettinger indicated that € 146 million in unused funds will be available to support local and urban energy projects.
Island authorities that have signed the Covenant of Mayors will be eligible to receive some of this funding.

NER 300

"NER300" is a financing instrument managed jointly by the European Commission, European Investment Bank and Member States (www.ner300.com). Article 10(a) 8 of the revised Emissions Trading Directive 2009/29/EC contains the provision to set aside 300 million CO_2 allowances in the New Entrants' Reserve of the ETS for subsidising installations of innovative renewable energy technology and carbon capture and storage (CCS). The allowances will be sold on the carbon market and the money raised - which could be as much as € 4.5 billion if each allowance is sold for € 15-will be made available to projects as they operate.
The second half of 2011 Member States will be able to negotiate with the Commission on the particular projects each wants to fund. They will, as a group, need to agree on a portfolio of winning proposals before the Commission can commit NER300 funding to any project.

THE ELENA FACILITY

To facilitate the mobilisation of funds for investments in sustainable energy at local level, the European Commission and the European Investment Bank have established the ELENA technical assistance facility (European Local ENergy Assistance) financed through the Intelligent Energy-Europe programme. ELENA covers a share of the cost for technical support that is necessary to prepare, implement and finance the investment programme, such as feasibility and market studies, structuring of programmes, business plans, energy audits, preparation for tendering procedures - in short, everything necessary to make cities' and regions' sustainable energy projects ready for EIB funding.

INVESTMENT PROGRAMMES THAT CAN BE SUPPORTED BY ELENA

Many EU cities and regions have recently started to prepare or are initiating large energy efficiency and renewable energy proposals to tackle energy and climate change challenges. However, most of them are still at the conceptual stage and their implementation is proving difficult because many regions and cities, particularly medium to small ones, often do not have the technical capacity to develop large programmes in this area. ELENA helps public entities to solve such problems by offering specific support for the implementation of the investment programmes and projects such as retrofitting of public and private buildings, sustainable building, energy-efficient district heating and cooling networks, or environmentally-friendly transport etc.

EU STRUCTURAL FUNDS

The Structural Funds and the Cohesion Fund are the financial instruments of European Union (EU) regional policy, which is intended to narrow the development disparities among regions and Member States. The Funds participate fully, therefore, in pursuing the goal of economic, social and territorial cohesion. For the period 2007-2013, the budget allocated to regional policy amounts to around € 348 billion, comprising € 278 billion for the Structural Funds and € 70 billion for the Cohesion Fund. This represents 35% of the Community budget and is the second largest budget item. There are two Structural Funds:

- the European Regional Development Fund (ERDF) is currently the largest. Since 1975 it has provided support for the creation of infrastructure and productive job-creating investment, mainly for businesses;
- the European Social Fund (ESF), set up in 1958, contributes to the integration into working life of the unemployed and disadvantaged sections of the population, mainly by funding training measures.

In order to speed up economic, social and territorial convergence, the European Union set up a Cohesion Fund in 1994. It is intended for countries whose per capita GDP is below 90% of the Community average. The purpose of the Cohesion Fund is to grant financing to environment and transport infrastructure projects.
These Funds are used to finance regional policy between 2007 and 2013 in the framework of the three new objectives, namely:

- the "convergence" objective to accelerate the convergence of the least developed EU Member States and regions by improving growth and employment conditions;
- the "regional competitiveness and employment" objective to anticipate economic and social change, promote innovation, entrepreneurship, environmental protection and the development of labour markets which include regions not covered by the Convergence objective;
- the "European territorial cooperation" objective to strengthen cooperation at cross-border, transnational and interregional levels in the fields of urban, rural and coastal development, and foster the development of economic relations and networking between small and medium-sized enterprises (SMEs).

Structural Fund and Cohesion Fund support for the three objectives always involves co-financing. The rates of co-financing may be reduced in accordance with the "polluter pays" principle or where a project generates income.

PRIVATE CAPITAL INVESTMENTS

Recent studies show that there is still room for substantial growth in private capital investments in European clean energy. The financial sector, including private equity and venture capital, needs to adapt their risk profiles to invest more in potentially high-growth SMEs and spin-offs active in the field of low carbon technologies.
The EIB is increasingly dedicating resources to energy projects (€ 7bn/year for 2009 and 2010) and has reinforced its contribution in the areas of Renewable Energies (RE) and Energy Efficiency (EE). It aims to develop less mature markets in and outside the EU and to favour the deployment of less-developed RE sources (such as solar power, biomass or biofuels).

The Benefits

It is expected that the long term effects of the Pact of Islands process would influence all European islands that are willing to adopt the methodologies, tools and mechanisms that will be developed during the life of this project.
In other words it is expected that the project results and the implementation of the ISEAPs and bankable projects will result in:

In the short term

- The acquisition of a better understanding of sustainable energy planning techniques and the identification of clear sustainability priorities and targets at the local level;
- The development of local skills in energy planning and energy modelling;
- Local knowhow in the identification and preparation of bankable projects and the due diligence process for their financing;
- Better understanding of the environmental and socio-economic implications of sustainable energy and energy efficiency projects;
- The involvement of local society in sustainable energy and environmental issues with the view to improve the visibility and the acceptance of renewable energy, energy efficiency projects in European islands;
- Showing to the rest of the EU that European islands can be in the forefront of the fight against climate change by planning and investing in green solutions which make a measurable contribution to the EU's 20-20-20 targets for the year 2020.

In the longer term

- A steady improvement of local economic conditions in the participating island communities through enhanced economic development, and a positive contribution in new jobs creation in innovative and highly technical sectors, retention of local population and improved investment conditions;
- A tangible contribution in EU sustainable energy and climate change policy targets and objectives and more specifically the achievement of the target of 20% CO_2 reduction by 2020;
- A steady increase in the levels of awareness of island communities of the societal value of sustainable energy plans, green investments with the participation of local citizens and the modalities of supporting and financing sustainable energy projects.

The most important benefit of the initiative is expected to be the replication effect it will generate in stimulating islanders, but also regional, national and European actors (including the private sector and the investment community) to embark in a series of parallel projects that will help form a favourable public opinion, accelerate the penetration of sustainable energy and transport systems and thus make a significant contribution in achieving the overall objective of the Pact of Islands, the reduction CO_2 beyond the 20% EU target by 2020..

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Sustainable Energy Europe
The ISLE-PACT project supports the Sustainable Energy Europe Campaign

THE PACT OF ISLANDS

Islands working together against climate change

PACT OF ISLANDS

EUROPEAN COMMISSION
Directorate-General for Energy

Background

In March 2007 the EU's leaders endorsed an integrated approach to climate and energy policy that aims to combat climate change and increase the EU's energy security while strengthening its competitiveness. They committed Europe to transforming itself into a highly energy-efficient, low carbon economy.

To kick-start this process, the EU Heads of State and Government set a series of demanding climate and energy targets to be met by 2020, known as the "20-20-20" targets. These are:

- A reduction in EU greenhouse gas emissions of at least 20% below 1990 levels;
- 20% of EU energy consumption to come from renewable resources;
- A 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency.

The EU leaders also offered to increase the EU's emissions reduction to 30%, on condition that other major emitting countries in the developed and developing worlds commit to do their fair share under **a global climate agreement.** United Nations negotiations on such an agreement are ongoing.
In January 2008 the European Commission proposed binding legislation to implement the 20-20-20 targets. This 'climate and energy package' was agreed by the European Parliament and Council in December 2008 and became law in June 2009.

The core of the package comprises four pieces of complementary legislation:

1. A revision and strengthening of the **Emissions Trading System** (EU ETS), the EU's key tool for cutting emissions cost-effectively. A single EU-wide cap on emission allowances will apply from 2013 and will be cut annually, reducing the number of allowances available to businesses to 21% below the 2005 level in 2020. The free allocation of allowances will be progressively replaced by auctioning, and the sectors and gases covered by the system will be somewhat expanded.
2. An **"Effort Sharing Decision"** governing emissions from sectors not covered by the EU ETS, such as transport, housing, agriculture and waste. Under the Decision each Member State has agreed to a binding national emissions limitation target for 2020 which reflects its relative wealth. The targets range from an emissions reduction of 20% by the richest Member States to an increase in emissions of 20% by the poorest. These national targets will cut the EU's overall emissions from the non-ETS sectors by 10% by 2020 compared with 2005 levels.
3. **Binding national targets for renewable energy** which collectively will lift the average renewable share across the EU to 20% by 2020 (more than double the 2006 level of 9.2%). The national targets range from a renewables share of 10% in Malta to 49% in Sweden. The targets will contribute to decreasing the EU's dependence on imported energy and to reducing greenhouse gas emissions.
4. A legal framework to promote the **development and safe use of carbon capture and storage (CCS).** CCS is a promising family of technologies that capture the carbon dioxide emitted by industrial processes and store it in underground geological formations where it cannot contribute to global warming. Although the different components of CCS are already deployed at commercial scale, the technical and economic viability of its use as an integrated system has yet to be shown. The EU therefore plans to set up a network of CCS demonstration plants by 2015 to test its viability, with the aim of commercial update of CCS by around 2020. Revised EU guidelines on state aid for environmental protection, issued at the same time as the legislative package was proposed, enable governments to provide financial support for CCS pilot plants. The climate and energy package creates pressure to improve energy efficiency but does not address it directly. This is being done through the EU's energy efficiency action plan.

Island communities: their contribution to the EU Climate-Energy Policy

In March 2007, the European Parliament passed a Resolution calling on the European Commission to take a number of measures with the view to provide additional support to European island communities in order to overcome their natural and economic constraints.

The resolution also calls on the Member States "to ensure that the special environmental, cultural and social characteristics of the island regions are effectively protected using measures, such as the drawing up of appropriate regional development plans and the controlling of building and construction activity, and, in addition, to adopt, in cooperation with the Commission, integrated programmes to safeguard cultural heritage and environmental resources".

After the approval of a European Parliament Resolution regarding specific EU support for island communities, the European Union approved in the budget of 2008, in December 2007, a budget line of 3 million € to finance island-specific actions.

The **Pact of Islands** initiative is similar and parallel to the initiative of the **Covenant of Mayors,** which has a series of similar objectives and has already attracted significant interest in Europe by attracting over 2200 European cities and municipalities (as of December 2010) that have signed the Covenant and have committed to going beyond the objectives set by the EU for 2020 reducing the CO_2 emissions by at least 20%, through the implementation of a Sustainable Energy Action Plan for those areas of activity relevant to their mandates. The Covenant of Mayors initiative was formally launched by Commissioner Piebalgs on the 29th of January 2008, in the framework of the EU Sustainable Energy Week.
In March 2009 a call for proposals was launched by DG Energy inviting interested island partnerships to submit proposals for the development of a binding Pact of Islands committing island authorities to plan, develop and implement a series of Island Sustainable Energy Action Plans (ISEAPs) and a pipeline of bankable projects with the view to achieve a minimum of 20% CO_2 emissions reduction by the year 2020.

The objective of the project is to create the Pact of Islands, promote the adhesion of the European islands and act as a catalyst by funding preparatory actions in order to support a series of ISEAPs and bankable projects as well as public information/ dissemination programmes in the area of renewable energies, energy efficiency, sustainable transport and sustainable energy communities in European islands.

A consortium of 12 European islands was formed in March 2009 and the ISLE-PACT proposal was submitted and selected by DG Energy as the winning proposal. The consortium is led by Comhairle nan Eilean Siar (CnES – the regional authority of the Outer Hebrides of Scotland) and includes partners from Gotland – Sweden, Samsø – Denmark, Azores and Madeira – Portugal, Canary Islands and Balearics – Spain, Sardinia – Italy, Malta, the Greek Islands of the Aegean, Crete and Cyprus.

The Grant Agreement was signed on behalf of the consortium by CnES at the end of December 2009. The project was supported by the Islands Commission of the CPMR - Conference of Peripheral Maritime Regions of Europe.
The Islands Commission in its 2010 General Assembly in the Azores unanimously approved a Resolution in favour of the project.

The Pact of Islands

The Pact of Islands is a binding instrument with which island authorities will enter into a political engagement in order to help achieve the European Union's sustainability objectives for the year 2020. The Pact of Islands document is structured in a manner similar to the Covenant of Mayors and is taking into account the particularities of European island communities. The Pact of Islands signatories make a number of significant commitments, such as:

- to go beyond the objectives set by the EU for 2020, reducing the CO_2 emissions in their respective territories by at least 20%;
- to submit an Islands Sustainable Energy Action Plan (ISEAP), including a Baseline Emission Inventory, which outlines how the objectives will be reached and priority bankable projects;
- to submit an implementation report at least every second year following the submission of the Action Plan for evaluation, monitoring and verification purposes;
- to organise Energy Days, in co-operation with the European Commission and with other stakeholders, allowing citizens to benefit directly from the opportunities and advantages offered by a more intelligent use of energy, and to regularly inform the local media on developments concerning the action plan;
- to attend and contribute to events organised by European Institutions relating to the Pact of Islands & the Covenant of Mayors;
- to mobilise sustainable energy investments in their respective territories.

All 12 project partners that participate in the ISLE-PACT project have made a commitment to have their insular authorities sign the Pact of Islands.

The partners have also committed to enlarge the number of island-signatories by inviting observer islands and other non-participating islands to sign the Pact of Islands and use the expertise and tools developed by the ISLE-PACT project in order to develop their own ISEAPs and bankable projects.

Identified bankable projects will seek financing from local, national and European public or private funding sources. The European Union has pledged to increase its financial support for sustainable energy projects through various financing tools, existing or under development.

The Pact of Islands Signing Ceremony

The signing process started in September 2010. By mid-March 2011 over 35 island authorities have pledged to sign the Pact of Islands. On 12 April 2011 the first Pact of Islands Signing Ceremony takes place at the Committee of the Regions in Brussels. More islands are expected to join the Pact and work together to achieve the common goal of fighting climate change and using energy more wisely. To learn more about the Pact of Islands process please visit **www.islepact.eu**

The ISLE-PACT Project (www.islepact.eu)

The ISLE-PACT project is committed to developing Local Sustainable Energy Action Plans and a pipeline of bankable projects with the aim of meeting or exceeding the EU sustainability target of reducing CO_2 emissions by at least 20% by the year 2020. The project's duration is 30 months, 1 February 2010 – 31 July 2012

The project's coordinator is **The Outer Hebrides of Scotland - Comhairle nan Eilean Siar (CnES).**

The project is co-financed by the **European Commission, Directorate General for Energy.**

Currently there are 12 participating groups of European Islands (over 50 islands) involved. Cooperation with more islands is welcome as the ISLE-PACT process has been conceived to include all European Islands. The ISLE-PACT partner-island authorities have made the commitment to sign the Pact of Islands and work together with the European Commission, energy experts and financial institutions, to identify bankable projects with the view to implementing sustainable energy actions in their island regions.

How to join the Pact of Islands

If you are an island authority and wish to join forces with other islands in the fight against climate change (the Pact of Islands initiative) you may contact the ISLE-PACT office in Brussels:

Rond Point Schuman 14
1040 Brussels, Belgium
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