EU Sustainable Finance in external action: an opportunity to promote sustainable buildings?
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The EU is a major financial player, as a source of foreign direct investment, but also as a pioneer standard-setter for sustainable financing through its “EU Sustainable Finance Strategy”. Its new financial instrument for external action, the Neighborhood, Development, and International Collaboration Instrument (NDICI), has the potential to integrate these sustainable finance principles. Investments in the buildings and construction sector should be a priority for sustainable financing. Buildings represent a quarter of global investment and are most households’ single main source of wealth. Buildings and construction already make up almost 40% of global emissions, with a growing trend. Following up on experiences made by development finance institutions in project and intermediary financing provides a sound basis for implementing this shift. The EU now has the potential to spearhead this transformation.

This paper (1) presents the sustainable finance challenge for buildings, (2) outlines the EU’s role in global financial flows and explains EU’s sustainable finance principles, and (3) puts the spotlight on implications for the buildings sectors and opportunities in EU external action to influence it.

The sustainable finance challenge for buildings

Buildings and construction make up almost 40% of global greenhouse gas emissions and are thus a major driver of global warming. Demographic growth, associated construction booms and increased household income, in particular in hot climates, is projected to result in at least a tripling of global energy demand just for cooling (GSR, 2020) – in particular in Africa and Asia. But the buildings sector is not only important for climate change mitigation. Around the world, people spend the majority of their time in buildings – thermal comfort of which is thus a crucial determinant for well-being and health in the face of climate change adaptation. The buildings and construction sector also provides jobs to millions of low and high skilled workers and is therefore also important for well-being and economic prosperity.

Investment into buildings stood at 5.8 trillion USD (GlobalABC, 2020), or 26% of the 22 trillion current USD total capital invested in 2019 (World Bank, 2021). EU national accounts show a similar share of buildings investments, with residential buildings receiving 23.1% and other buildings and structures a further 25.2% (Eurostat, 2021) of total investment.

1 Unless otherwise specified, EU refers to public EU institutions as well as private EU resident market participants.
2 The system of national accounts uses the terminology “dwellings” instead of residential buildings, which is, however, equivalent.
This share may be even higher in some developing countries. For example, national accounts of Indonesia show that 75% of investment went to buildings (residential and non-residential) in 2016 (OECD, 2021), making the sector the prime driver of national wealth creation.

Yet, finance for green buildings is not a top item on the international and EU international partnership agenda. In the implementation of the EU’s main investment instrument, the External Investment Plan, buildings played a minor role with only 3% of 3.5 billion EUR in blending contribution allocated to projects specifically targeting the buildings sector. These projects are in the EU neighborhood countries (Armenia, Georgia, Moldova, Ukraine, Morocco and Tunisia) with little share of current and projected global buildings emissions; and received investment and technical assistance grants (PEEB analysis, based on EFSD Operational Report, 2020).

The EU’s role in global financial flows

The EU has been a major global financial actor as a net lender in direct and other investments towards the rest of the world, and likely also for portfolio investments (Eurostat, 2021; Zucman, 2013; Hauser et al., 2016). The investments of EU resident institutions amounted to at least 28 trillion EUR in non-EU countries in 2019 (Eurostat, 2021). This makes the EU the most important provider of investment globally, before the United States. The majority of investments by EU residents occur in other mature economies, while only small capital flows reach Latin America and emerging economies in South East Asia. Still, the foreign direct investment stock of EU investors in Africa reaches 222 billion EUR (in 2018) – five times more than US or Chinese foreign direct investments (European Commission, 2020).

The EU is the largest provider of Official Development Assistance (ODA). 55% of total ODA spending in 2019 came from EU member countries (OECD, 2019). While information on financial flows by sector does not allow to deduce spending specifically on the buildings sector, this is unlikely to result in a double-digit share (OECD, 2020). No final guidelines exist on whether climate finance should be counted as part of ODA or outside but in common practice, it is often included. 27% of EU institutional ODA was marked as targeted towards climate principally or significantly (mostly mitigation projects, Donor Tracker, 2020). From a global investment flow perspective, however, ODA is only a stable albeit small share of overall

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1 A further 8% of blending contributions approved go to facilities for which building projects (or parts thereof) could potentially be eligible without being the main focus, or to projects that include construction of buildings as a minor part of a larger program.


3 Direct investment = foreign direct investment; Portfolio investment = investment in equity or debt that is marketed or marketable; Other investment = all residual investments such as trade credits, loans, currency and deposits, and other assets and liabilities (IMF, 2002)

4 In terms of debt, 20% of African external governmental debt is estimated to be owed to China (making it the biggest bilateral creditor), with 35% owed to multilateral institutions (Jubilee Debt Campaign, 2018)
financial flows to developing countries (UNCTAD, 2019), and should therefore not remain the sole lever of the external dimension of the EU green deal.

The European Fund for Sustainable Development Plus (EFSD+) is the new enlarged financing vehicle available to the European Commission (Ceccarelli, 2020)\(^7\) and will have a global reach (instead of being limited to the Neighbourhood and Africa) and the potential to use i.e. guarantees made available to development finance institutions (after an approval process; European Commission, 2018). It is funded directly from the EU budget within the Neighbourhood, Development and International Cooperation Instrument (NDICI) of the current Multiannual Financial Framework (MFF) 2021-2027 and backed by an €53.4 billion\(^8\) external action guarantee. The EFSD+ provides a combination of external action guarantees, blending, and investment climate support with a focus on leveraging private finance.\(^9\)

EU institutions, member states and citizens (through their savings) are thus in a strong position for increasing capital available for sustainable development aligned to the Paris Agreement. Such efforts should be considered as part of the external dimension of the EU Green Deal. Additionally using the EU’s collective weight in ODA and climate finance to push for sustainable finance in its external action, particularly in the buildings sector, can prepare the ground for the redirecting commercial finance into low-carbon building investments.

EU initiatives on Sustainable Finance\(^10\)

The Renewed EU Sustainable Finance Strategy puts forward a more comprehensive framework than previous strategies to transform financial and industrial sectors, to mobilise the massive investments needed to move the EU towards climate neutrality. The proposed strategy focuses on three main areas:

1) Definitions, standards and labels for sustainable financial assets and products – this includes an EU taxonomy on sustainable economic activities and sustainability disclosure requirements
2) Pipeline development and scaling up of investments as well as investment protection

An EU taxonomy of environmentally sustainable activities is part of the renewed sustainable finance strategy. The EU taxonomy is a classification of economic activities that

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\(^7\) These are: 1) The European Fund for Sustainable Development + (external action guarantee (merging and replacing a number of previously existing instruments), blending, and investment climate support), 2) Traditional EU external action instruments (Budget support, TA, parallel co-financing and fragile state support) and 3) Trust Funds for special targeted interventions outside of the annual planning cycles (i.e. Syrian Recovery Trust Fund, Fund for Africa).

\(^8\) More information on the NDICI budget: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1267

\(^9\) Given the still unclear additional developmental impact of using development funds for crowding in private finance, deployment must be observed and managed closely to assure funds are spent in the sectors and regions most in need (i.e. social infrastructure, least development countries, …) (European Parliament, 2020).

\(^10\) More information can be found on DG FISMA’s website: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
can be labelled as environmentally sustainable. This will shape finance flows, primarily within the EU, but is expected to also affect the rest of the world, as many EU based private and institutional investors as well as insurers and commercial banks operate globally. They will be able to transfer their experience with identifying sustainable activities and analysing non-financial information disclosures abroad. The impact of the taxonomy will be further reinforced through a new corporate sustainability reporting directive. The proposed new corporate sustainability reporting directive would require all large and listed companies to report sustainability information, and to present i.e. the percentage of capital expenditure on activities aligned with the EU taxonomy.

An EU consultation in 2020 provided insights into how the EU renewed sustainable finance strategy could also be used internationally. The below box summarizes key recommendations given in the consultation.

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**How could the EU use its renewed sustainable finance strategy internationally?**

*Summary of PEEB’s analysis of the contributions to the consultation*

**Market stakeholders showed overwhelming support for the EU to champion sustainable finance principles not only domestically, but also abroad.** Almost 70% of respondents consider the current level of global coordination insufficient to promote sustainable finance globally, and to ensure coherent frameworks and actions to deliver on the Paris Agreement. Lack of international standards was identified as the overwhelming missing factor by 42%. To increase participation of the private sector to deliver to this goal, the consultation participants gave over 400 suggestions for solutions. Four clusters of solutions together made up over half of all suggestions: global alignment of standards such as on taxonomies, disclosures and carbon pricing (22%), global coordination in general (13%), leading by example (11%) and increasing ambition (10%). The majority of participants also indicated that an adaptation of EU principles would be welcome and necessary for other geographies.

**In the context of European international cooperation and development policy, the participants of the consultation clearly favored using guarantees and other blending tools as instruments, but global alignment of standards and a strengthened role of multilateral development banks and domestic financial institutions figured also among the top three proposals for policies.** 56% of respondents believe the EU taxonomy could at least partially be useful to crowd in private finance via development banks, provided some aspects (i.e. social dimension, reference to standards) were improved. In fact, many EU development financial institutions have also already gone ahead and developed their own, similar, criteria.

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**Relevance for the buildings and construction sector**

The proposed regulation on the EU taxonomy provides a classification of activities in the buildings sector that can be considered sustainable. This classification (“taxonomy”) is supposed to guide investments towards activities that are in line with the EU’s climate targets and that may continue to be labelled as “sustainable”. The taxonomy could indeed be a game-

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11. The taxonomy on activities considered sustainable in the context of climate change mitigation was proposed in 2020, the sustainable activities for the remaining target areas are scheduled to be proposed by end 2021.
changer, and the consultation on its first delegated act drew massive interest, with over 46 000 answers received.\textsuperscript{12} The taxonomy defines for each of its target areas (climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) the activities that are considered sustainable. For these activities, it establishes technical screening criteria as well as “do no significant harm” criteria that must be fulfilled for the activity to be considered sustainable.

The table below outlines in summary form the most important technical screening criteria related to the buildings sector. Additional building-sector related activities included in the taxonomy are addressed in annex 3 of this document.

<table>
<thead>
<tr>
<th>Type of economic activity\textsuperscript{13}</th>
<th>Technical Screening Criteria</th>
</tr>
</thead>
</table>
| Construction of new buildings | − Primary Energy Demand of new construction is at least 10% lower than nearly zero energy building requirements in national measures.  
− Energy performance certified by energy performance certificate.  
− For buildings > 5000m\textsuperscript{2}: life cycle global warming potential calculated, and level of performance is tested post construction, both disclosed to investors and clients |
| Renovation of existing buildings | − As applicable in national regulations for major renovations  
− Or reduction of primary energy demand of at least 30% |
| Acquisition and ownership of buildings | − Buildings built before 12/2020: at least EPC class A, or within top 15% of national building stock expressed in primary energy demand  
− Buildings built after 12/2020: meet criteria for “construction of new buildings”  
− Large non-residential building with HVAC output >290kW: operated efficiently through energy performance monitoring and assessment |

The taxonomy addresses some of the key difficulties for increasing finance for green buildings while avoiding greenwashing, such as lack of a common understanding of what sustainability and/or Paris Alignment mean in the context of buildings, and by what metrics to judge the investment opportunities as well as the limited requirements (and capacities) for information disclosure. Due to this lack of information, transaction costs are usually high for non-specialist investing entities trying to assess risk and increase the available capital for sustainable buildings. These obstacles also apply to investors outside the EU, where data availability is often even more limited.

**Opportunities for EU external action**

The EFSD+, as the EU’s new financing vehicle, provides an excellent opportunity to increase and crowd-in investment in sustainable buildings. EFSD+ support must remain coherent with the taxonomy principles in its blending or guarantee support for projects or through financial intermediaries. In the absence of global taxonomies, already existing

\textsuperscript{12} The consultation closed in December 2020 (Reuters, 2021).

\textsuperscript{13} See annex 3 for a complete list of buildings sector related economic activities.
initiatives for defining “sustainability” criteria for construction or renovation of buildings can be used as a basis for investments outside the EU. This could build on methodologies used by European development finance institutions such as EIB, EBRD, and AFD, and provide the basis for further work on a common ground taxonomy globally.

AFD notably developed a methodology to evaluate the contribution of energy-efficient building projects to its climate objectives. AFD’s accounting tool uses concrete quantitative indicators to assess the performance of a building and score the climate mitigation and adaptation benefit of the investment. For example, to be credited for climate mitigation, a new construction must undergo an energy and environmental performance improvement study and achieve at least 20% reduction compared to the business as usual scenario in two of the following categories: greenhouse gas emissions, energy consumption and water consumption. The project’s score will depend on its performance beyond this baseline.

The EFSD+ also allows for the development of sustainable investment criteria (i.e. taxonomies) in other countries through policy support. Buildings could act as a pilot sector. The investment climate support pillar of the EFSD+, in additional to the geographic and thematic programming funds, has the potential to support governments in preparing Paris-aligned investment opportunities that attract financing from national and international sources. For example, it could support an analysis of the investment climate and structured public-private dialogue, as well as technical cooperation on regulatory frameworks and market tools such as labels (European Commission, 2019). Support for investment frameworks could well build on PEEB’s longstanding technical cooperation experiences in partner countries.

Conclusions:

- The EU is in an excellent position to promote investment projects and national investment frameworks for sustainable and Paris aligned activities in partner countries.
- Internal and external ambition must be coherent, in particular for EU-based development finance institutions.
- Sustainable finance investments must be tackled beyond ODA-related support, and significant efforts need to be deployed to improve the general investment framework¹ in and with EU partner countries.
- As the largest global building investments are made in emerging economies in hot climates (not in the EU), promoting EU sustainable finance principles in external action would allow for greening investment where most urgent climate action needs to happen.
- Experiences made so far, among others in the building sector by PEEB and the Global Alliance for Buildings and Construction (GlobalABC), provide a promising starting point.
Bibliography


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European Commission (2020). *Sustainable Finance: EU Classification System for Green Investments*. Available at: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW


ANNEX

1) Analysis of the financing going towards buildings through the EIP based on the EFSD Operational Report 2019

From a total of 3.5 billion EUR EU contribution in the form of blending, 117 million EUR (3% of all blending funds) were directly targeting buildings. A further 283 million (8% of all blending funds) was allocated to facilities for which building related projects are potentially eligible, or to projects in which buildings played a (minor) role.


<p>| Blending projects approved until 12/2019 with a main focus on buildings |
|---------------------------------------------|-----------------|-----------------|-------------|-------------|-----------------|
| Country         | Year of approval | Project title                                           | Consortium of finance institutions | Sector                        | Total project cost (million EUR) | EU contribution (million EUR) | Type of EU contribution |
| Armenia         | 2019             | Armenian Public Buildings Energy Efficiency Programme   | EIB                               | public buildings              | 53.47                         | 11.47                        | Investment grant, technical assistance |
| Belarus         | 2017             | Eastern Europe Energy Efficiency and Environment Partnership (E5P) expansion to Belarus | EBRD                              | energy efficiency in municipalities | 113.2                         | 10.2                         | Investment grant |
| Georgia         | 2018             | Energy Sector Reform                                    | KfW                               | energy efficiency in buildings | 307.85                        | 8.8                          | Investment grant, technical assistance |
| Georgia         | 2019             | Energy Efficiency in Public Buildings Programme          | KfW, EBRD                         | rehabilitation of public buildings | 130.6                         | 25.8                         | Investment grant, technical assistance |
| Moldova         | 2019             | Moldova Energy Efficiency                                | EIB                               | sustainable energy efficiency improvements targeting public and residential buildings in various cities | 94.05                         | 15.4                         | Investment grant, technical assistance |
| Ukraine         | 2019             | Energy Efficiency in Small Municipalities                | NEFCO                             | energy efficiency in public buildings, such as hospitals and schools | 15.55                         | 7.05                         | Investment grant, technical assistance |
| Morocco         | 2017             | Euromed University of Fes (UEMF)                         | EIB                               | construction of the University’s eco-campus | 147.57                        | 13.57                        | Investment grant |
| Tunisia         | 2019             | Modernisation of Schools (phase II)                      | EIB                               | construction of new public primary education infrastructure and school | 161.65                        | 25.15                        | Investment grant, technical assistance |
|                 |                  |                                                            |                                   |                               | 117.44                       |                              |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>Year of approval</th>
<th>Project title</th>
<th>Consortium of finance institutions</th>
<th>Sector</th>
<th>Total project cost</th>
<th>EU contribution (million EUR)</th>
<th>Type of EU contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Côte D'Ivoire</td>
<td>2019</td>
<td>Sustainable Use of Natural Resources and Energy Finance in Côte d'Ivoire (SUNREF)</td>
<td>AFD</td>
<td>energy efficiency and renewable energy</td>
<td>37.8</td>
<td>2.5</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2017</td>
<td>Urban development and sanitation in priority neighbourhoods of Antananarivo – Phase III (Lalankely III)</td>
<td>AFD</td>
<td>construction of neighborhood (lanes equipped with drains, roadways, sewerage and sanitary facilities, public lightening, and public and sports facilities)</td>
<td>26.37</td>
<td>3</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2019</td>
<td>Sustainable Use of Natural Resources and Energy Finance in Madagascar (SUNREF)</td>
<td>AFD</td>
<td>green investments from the private sector</td>
<td>39.99</td>
<td>2.99</td>
<td>Technical assistance</td>
</tr>
<tr>
<td>Regional East</td>
<td>2017</td>
<td>Green for Growth - Extension to Neighbourhood East II</td>
<td>KfW</td>
<td>energy efficiency and renewable energy sector</td>
<td>53.2</td>
<td>10.2</td>
<td>Equity, technical assistance</td>
</tr>
<tr>
<td>Regional East</td>
<td>2019</td>
<td>Finance and Technology Transfer Centre for Climate Change (FINTECC)</td>
<td>EBRD</td>
<td>climate technologies</td>
<td>570.4</td>
<td>15.4</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Georgia</td>
<td>2019</td>
<td>Promoting Local Currency Lending: GGF ‘L Shares’ for Georgia</td>
<td>KfW</td>
<td>business leases of energy efficient machinery and vehicles</td>
<td>196.3</td>
<td>10.1</td>
<td>Equity</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2018</td>
<td>Municipal Transport and Investment Programme</td>
<td>EIB</td>
<td>public infrastructure (urban transport, energy efficiency, water supply, wastewater and solid waste management)</td>
<td>205.78</td>
<td>15.68</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2018</td>
<td>Ivano-Frankivsk district heating</td>
<td>EBRD</td>
<td>reduction of energy losses, as well as gas and electricity consumption, and improving the quality of service of the company’s heat and hot-water supply system.</td>
<td>13.83</td>
<td>2.53</td>
<td>Investment grant</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2019</td>
<td>EFSE Local Currency Lending to MSMEs</td>
<td>KfW</td>
<td>micro and small enterprises (MSEs), but also private households for home improvement</td>
<td>85.5</td>
<td>15.2</td>
<td>Equity, technical assistance</td>
</tr>
<tr>
<td>Regional South</td>
<td>2018</td>
<td>MENA SANAD - Fund for Micro, Small and Medium Enterprises</td>
<td>KfW</td>
<td>financial inclusion, access to housing loans for underprivileged sections of society, in addition to agricultural lending and financial technology</td>
<td>182.44</td>
<td>22.44</td>
<td>Technical assistance, equity</td>
</tr>
<tr>
<td>Regional South</td>
<td>2019</td>
<td>SEMED Green Economy Financing Facility</td>
<td>EBRD</td>
<td>high-performing and eco-friendly technologies and practices for a self-sustaining green economy</td>
<td>261.82</td>
<td>35.53</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Regional South</td>
<td>2019</td>
<td>Green for Growth Fund (Top-Up ENR South C Shares)</td>
<td>KfW</td>
<td>energy efficiency and renewable energy sectors</td>
<td>53.5</td>
<td>13.5</td>
<td>Equity, technical assistance</td>
</tr>
<tr>
<td>Egypt</td>
<td>2019</td>
<td>Green Economy Financing Facility II (GEFF II)</td>
<td>EBRD</td>
<td>energy efficiency and renewable energy, climate change adaptation measures (including resource efficiency)</td>
<td>189.86</td>
<td>24.86</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Egypt</td>
<td>2019</td>
<td>4 E for Egypt: Excellence and Energy Efficiency in Education</td>
<td>KfW</td>
<td>technical and personnel capacity of technical education schools</td>
<td>115.7</td>
<td>13.4</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2018</td>
<td>PEURL</td>
<td>AFD</td>
<td>multi-city urban development programme</td>
<td>100.64</td>
<td>20.56</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Morocco</td>
<td>2018</td>
<td>Green Economy Financing Facility (GEFF)</td>
<td>EBRD</td>
<td>renewable energy and energy efficiency</td>
<td>197.11</td>
<td>21.11</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Morocco</td>
<td>2019</td>
<td>Youth Employment Programme</td>
<td>AFD</td>
<td>construction of vocational training centers</td>
<td>164.97</td>
<td>15.3</td>
<td>Investment grant, technical assistance</td>
</tr>
<tr>
<td>Palestine</td>
<td>2017</td>
<td>SUNREF Palestine: Sustainable Use of Natural Resources and Energy Finance</td>
<td>AFD</td>
<td>small and medium size green investments</td>
<td>42.5</td>
<td>8.35</td>
<td>Investment grant</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2017</td>
<td>Provile 2</td>
<td>AFD</td>
<td>neighborhood living condition improvement</td>
<td>235.69</td>
<td>30.69</td>
<td>Investment grant, technical assistance</td>
</tr>
</tbody>
</table>

**Total:** 283.34
2) Results of the PEEB analysis of the answers to the consultation on the sustainable finance consultation

Raw data used is available at: https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en

The consultation received 648 submissions, of which roughly 1/3 also replied to the questions relevant to EU external action (Question 76 to 81). 50% of respondents were from the financial institutions (banking, investment management, insurance, pension provision, market infrastructure, credit rating, accounting, auditing) while the remaining 50% were other respondents (business associations, companies, research institutions, social entrepreneurs, EU citizens).

Question 76. Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

Almost 70% of respondents to this question consider the current level of global coordination highly or rather insufficient to promote sustainable finance globally, and to ensure coherent frameworks and actions to deliver on the Paris Agreement.

<table>
<thead>
<tr>
<th>1 - Highly insufficient</th>
<th>2 - Rather insufficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 - Neutral</td>
<td>4 - Rather sufficient</td>
</tr>
<tr>
<td>5 - Fully sufficient</td>
<td>Don’t know / no opinion / not relevant</td>
</tr>
</tbody>
</table>

Question 76.1 What are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?
The one issue identified as the overwhelming missing factor are international standards, mentioned by 42% of answers. Other missing factors identified were lacking EU leverage (16%), lack of conducive context (14%) and limited collaboration (14%), lack of binding implementation (8%) and other financial instruments (5%).

Question 77. What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs? Please list a maximum of 3 proposals:

When asked what the European Commission could do to facilitate global coordination of the private sector (financial and non-financial) to deliver on those goals, a number of proposals were made that were clustered according to the following areas based on an analysis of the free text submissions. The need for a global alignment of standards came out as the most dominant proposal, mentioned in this analysis, too. 22% of submitted proposals included global alignment of standards, of which 46% were referring to regulations and standards in general, and 22% to global non-financial reporting / disclosure requirements, 16% to a global carbon price, and 15% to a global taxonomy.

A large number of answers contained proposals for more global collaboration (13%), leading by example (11%), and increased ambition (10%).
8% of answers suggested more awareness campaigns and information was necessary, 7% proposed improved monitoring and impact data, while 6% insisted on policy coherence (i.e. SDG alignment of development corporation financing), 5% mentioned capacity building and TA measures, and 5% suggested to increase diversity in the participation of the debate on sustainable finance.

Links to other sectors (i.e. research and innovation) were mentioned in 4% of answers. (Better) integration of sustainability in trade arrangements were suggested by 3%, and only 1% proposed voluntary initiatives.

**Question 78. In your view, what are the main barriers private investors face when financing sustainable projects and activities in emerging markets and developing economies? Please select all that apply.**

The main barriers faced by private investors in emerging markets and developing economies identified by the survey respondents were distributed as follows:

- Internationally comparable sustainable finance frameworks (29%),
- Excessive perceived or real investment risk (22%),
- Lack of clearly identifiable sustainable projects on the ground (19%),
- Lack of difficulties to measure sustainable project achievements (19%)
- Other risks (11%) that were mainly related to regulatory and political factors and risk and investment climate as well as heterogeneity and conflicting interests and data and transparency issues.

**Q78. What are the main barriers private investors face (...) in emerging markets and developing economies?**

- Lack of clearly identifiable sustainable projects on the ground
- Excessive perceived or real investment risk
- Lack of internationally comparable sustainable finance frameworks
- Difficulties to measure sustainable project achievements over time

**Question 78.1 Please specify what other main barrier(s) private investors face when financing sustainable projects and activities in emerging markets and developing economies:**

Other risks were mainly related to regulatory and political factors and risk and investment climate as well as heterogeneity and conflicting interests and data and transparency issues.

**Q78.1 Differentiation of "other barriers"**

- Data & transparency
- Risk & investment climate
- Awareness & social factors
- Regulatory & political
- Heterogeneity & conflicting objectives
- Uncertainty & incentives
Question 79. In your opinion, in the context of European international cooperation and development policy, how can the EU best support the mobilisation of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions? Please provide a maximum of 3 proposals:

In the context of European international cooperation and development policy, the proposals for potential support of EU policies could be clustered in the following main proposals, where guarantees and other financial instruments and the introduction of global standards ranked highest.

Question 80. How can EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies? Which tools are best-suited to help increase financial flows towards and within these countries and what challenges can you identify when implementing them? Please select among the following options (don’t know/no opinion/not relevant, theses tools need to be adapted to local specificities in emerging markets and/or developing economies, some tools can be...
applied but not all of them, all EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change).

Only 5% of respondents believed the current EU sustainable finance tools to be applicable without change in those contexts, while 14% believed some tools could already be applied and 48% stated that all needed to be adapted to the local specificities. 33% did not provide an opinion. The largest needs for adjustment were seen in adapting to national transition pathways (30 mentions), disclosure requirements (26 mentions), technical criteria revision (22 mentions), coherence with international standards (17 mentions), coverage of sectors (11 mentions) as well as cost (10 mentions).

**Question 80. How can EU sustainable finance tools be used (...)?**

- All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change
- These tools need to be adapted to local specificities in emerging markets and/or developing economies
- Some tools can be applied, but not all of them
- Don’t know / no opinion / not relevant

**Question 81. In particular, do you think that the EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies?**

Regarding the potential usage of the EU taxonomy within development banks to crowd in private finance, 23% believe it could be used and 33% believe it could be partially applied.
**Question 81.1** If "no" or "yes, but only partially", please explain why and how the obstacles you identify could be best addressed.

The most recurrent criticism and comments regarding its potential for application centered around: missing elements in the current proposed EU taxonomy such as a social dimension that would be particularly relevant in emerging markets and developing economies, as well as the need for adaptation of technical criteria and references to local (or international) standards, not EU ones. Respondents also insisted on harmonization with existing taxonomies or standards in use by Development Finance Institutions. Those that did not consider the EU taxonomy an appropriate tool stated technology neutrality as an impeding factor, as well as a high level of complexity in terms of procedures and technical criteria and remaining ambiguity.

**Q81.** Is the EU taxonomy suitable for use by development banks to crowd in private funds (....)?

- **Yes**
- **Yes, but only partially**
- **No**

**Q81.1** Other obstacles identified:
- Own taxonomies needed
- Missing elements (i.e. social factors)
- Context adaptation necessary
- Other general problems
3) Excerpt from the EU taxonomy, focus on buildings (April 2021)

The full draft of the first delegated act regarding the environmental objectives of climate change mitigation and adaptation from the EU taxonomy is available here: https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy

<table>
<thead>
<tr>
<th>Construction of new buildings</th>
<th>Technical Screening Criteria</th>
<th>Do No Significant Harm Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary Energy Demand of new construction is at least 10% lower than nearly zero energy building requirements in national measures.</td>
<td>Adaptation: general criteria</td>
</tr>
<tr>
<td></td>
<td>Energy performance certified by certificate.</td>
<td>Water: Minimum criteria for water use of installations</td>
</tr>
<tr>
<td></td>
<td>For buildings &gt; 5000m²: life cycle global warming potential calculated and level of performance is tested post construction, both disclosed to investors and clients</td>
<td>Waste: at least 70% of non hazardous construction and demolition waste prepared for re-use, recycling or other material recovery</td>
</tr>
<tr>
<td></td>
<td>• Adaptation: general criteria</td>
<td>Pollution: no use of substances of very high concern (i.e. asbestos), low levels of formaldehyde etc.</td>
</tr>
<tr>
<td></td>
<td>• Water: Minimum criteria for water use of installations</td>
<td>Biodiversity: Environmental Impact Assessment carried out, no construction on arable/crop land, forest land, or greenfield land of high biodiversity</td>
</tr>
<tr>
<td>Renovation of existing buildings</td>
<td>As applicable in national regulations for major renovations</td>
<td>As above, without biodiversity</td>
</tr>
<tr>
<td></td>
<td>Or reduction of primary energy demand of at least 30%.</td>
<td></td>
</tr>
<tr>
<td>Installation, maintenance and repair of energy efficiency equipment</td>
<td>Measures complying with minimum requirements for each component as required in national measures for</td>
<td>Adaptation: general criteria</td>
</tr>
<tr>
<td></td>
<td>• Insulation</td>
<td>Pollution: no use of substances of very high concern (i.e. asbestos), particular attention for insulation renewal/addition</td>
</tr>
<tr>
<td></td>
<td>• Windows</td>
<td></td>
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<tr>
<td></td>
<td>• Doors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• HVAC systems</td>
<td></td>
</tr>
</tbody>
</table>
### Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
- Installation, maintenance and repair of charging stations for electric vehicles
- Adaptation: general criteria

| Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling of energy performance in building | Installation of one or more of the following measures:  
- Thermostats, sensing equipment  
- Building automation and control systems  
- Smart meters  
- Façade and roofing elements with solar shading or control function | Adaptation: general criteria  
Pollution: no use of substances of very high concern (i.e. asbestos), |

| Acquisition and ownership of buildings | Buildings built before 12/2020: at least EPC class A, or within top 15% of national building stock expressed in primary energy demand | Adaptation: general criteria  
Biodiversity: Environmental Impact Assessment carried out, no construction on arable/crop land, forest land, |
- Buildings built after 12/2020: meet criteria for “construction of new buildings”
- Large non-residential building with HVAC output >290kW: operated efficiently through energy performance monitoring and assessment
- or greenfield land of high biodiversity