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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party of Financial Counsellors
Subject:	JTM 3rd pillar - Presentation by the Commission

Delegations will find attached the presentation given by the Commission on the public sector loan facility under the Just Transition Mechanism 3rd pillar in the Financial Counsellors Working Party on 8 June 2020.

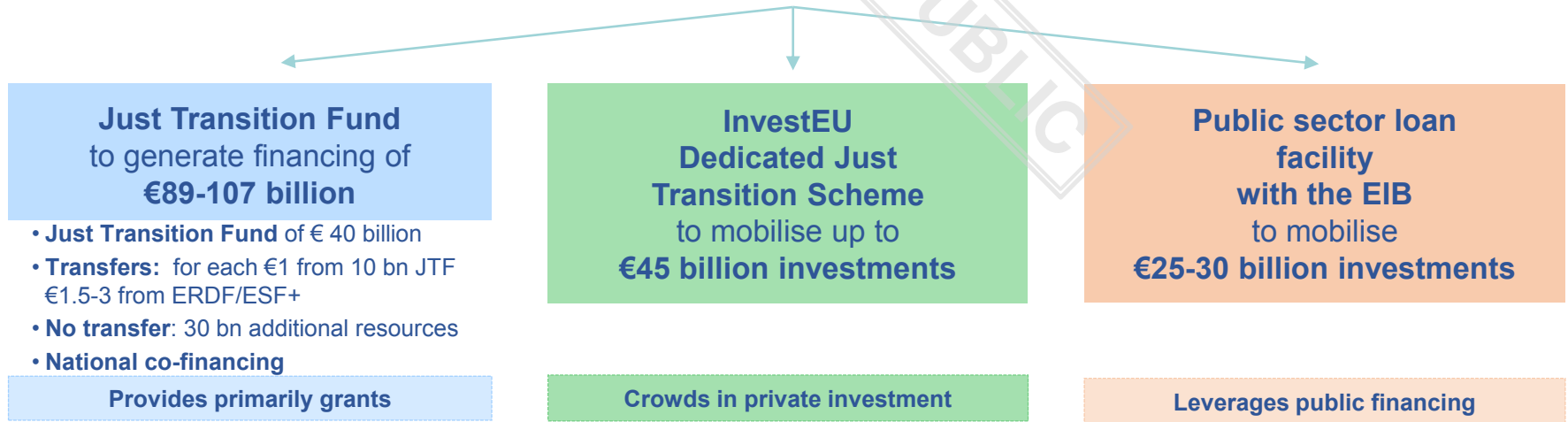
Just Transition Mechanism

Pillar 3 - Public sector loan facility

FiCO 8 June 2020



Just Transition Mechanism
at least EUR 160 billion investments
to support and finance regions most exposed
to transition challenges in all Member States



- Announced in the Green Deal Investment Plan and adopted on 28 May
- Adoption of a territorial just transition plan enables access to all three pillars of JTM
- Investments under pillars 2 and 3 of JTM need to benefit territories identified in the territorial just transition plans adopted by COM – without the obligation for projects to be located in these territories
- Pillars two and three of JTM have a wider thematic scope than JTF

Main features

- Combination of grants - EUR 1.525 billion from Union resources and EUR 10 billion of EIB loans
- Addresses development needs of the territories the most affected by climate transition
- Beneficiaries are public entities
- Direct management of the grants, through calls for projects
- National shares, resulting from JTF allocation methodology
- Advisory support to beneficiaries

Objectives of the third pillar – Article 3

- Address social and economic challenges stemming from the transition towards climate neutral economy
- Increases public sector investments by meeting specific development needs of the most impacted territories
 - ✓ Development needs detailed in territorial just transition plans
- High leverage on public investments :

EUR 1.5 billion grants => EUR 10 billion of loans => resulting in investments between EUR 25 and 30 billion
- Legal framework only applies to the grant component

Budget – Article 4

- EUR 1.525 billion of Union support (current prices), out of which:
 - ✓ *At least EUR 1.5 billion for grant component*
 - ✓ *Up to EUR 25 million for advisory support*

Sources:

- EUR 250 million from Union budget and
- EUR 1.275 bn from reflows stemming from
 - ✓ EFSI (EUR 1 bn) and
 - ✓ other financial instruments (listed in Annex I)
- Max. 2% of the resources for administrative expenditure
- National shares calculated pursuant to the methodology detailed in Annex I of the JTF Regulation and set out in implementing decision

Management – Articles 5-7

- Union support in the form of grant – directly managed by the Commission with possibility to implement through an executive agency
- EIB to provide loans (single loans or loan schemes = framework loans) with possibility to involve other financing partners e.g. increased resources
- Grant beneficiaries = borrowing entities (loans)
- National allocations earmarked for calls launched until 31 December 2024 – remaining resources available to all on a competitive basis
- Advisory support channelled through Invest EU advisory hub (EUR 25 million available) – indirect management (Article 12)
 - ✓ For preparing, developing and implementing projects
- Administrative agreement to sign with finance partners

Eligibility – Articles 8-9

- Beneficiaries need to be public entities and borrowers for the EIB loans
- Projects need to benefit the territories identified in territorial just transition plans
- Eligibility in terms of sectors legally not limited : transport, energy, district heating, social infrastructure etc.
 - ✓ BUT, certain restrictions through the EIB lending policy
 - ✓ Priority to be given to projects contributing directly to transition
- Projects generating insufficient stream of own revenues to get financing through solely loans
- Projects cannot receive funding from other Union programmes ie. no support under pillars 1 (JTF) and 2 (just transition scheme of Invest EU)

Grant support – Article 10

- Financing not linked to costs (FR): % of the loan provided by EIB
- Maximum grant rate of 15% - increased to 20% in less developed regions
- Practical considerations for background:
 - ✓ Grant agreement cannot be signed before the EIB financing agreement is signed
 - ✓ EIB loans around EUR 15 million + beneficiaries' own resources
 - ✓ Grant rate over the total project cost will be lower (e.g. 5-6%)
 - ✓ Case and possibility for loan schemes

Reduction or termination of grant support – Article 11

- Possibility to terminate if the economically most significant contract is not signed two years after the signature of the grant agreement
 - ✓ To make sure that project are mature at application; discipline in implementation
- Tailored conditions for loan schemes
- Conditions for termination and reductions detailed in the grant agreements
 - ✓ Need for close monitoring of project implementation
- EIB / finance partners are consulted

Monitoring, evaluation, audits – Articles 14-16

- Limited list of performance indicators – detailed in Annex II
 - ✓ *Financial support provided*
 - ✓ *Beneficiaries*
 - ✓ *Territories supported*
 - ✓ *Number of projects supported*
 - ✓ *Projects by sector*
- Alignment of monitoring requirements with the EIB and finance partners
- Interim evaluation by 30 June 2025 and final evaluation by 31 December 2031 at the latest
- Audits in line with Article 127 FR; finance partners to provide necessary documents

Timetable and work ahead...

- Negotiations and adoption of the proposal by the co-legislators

In parallel:

- Preparation and signature of administrative agreement with the EIB and preparation of the work programme

After entry into force of the Pillar 3 regulation:

- Adoption of the work programme – delegated act : management arrangements with EIB, award criteria, financing plan, timetable for calls etc. – Article 13
- Preparation of templates for Commission decision, calls for project, application form, grant agreements
- First calls for projects launched when first territorial just transition plans will have been adopted – ie after mid-2021