To: EIB Board of Directors
European Investment Bank
Boulevard Konrad Adenauer 100
Luxembourg

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JOINT CIVIL SOCIETY LETTER

SOCIAL AND GREEN EIB COALITION RECOMMENDATIONS FOR THE EIB'S ETS2 FRONTLOADING FACILITY

Dear EIB Board of Directors,

The 17 undersigned organisations, including members of the Social Climate Fund Tracker Group and the Social and Green EIB Coalition, welcome the proposed ETS2 Frontloading Facility as a potentially decisive intervention at a critical moment for the social credibility of EU climate policy. As carbon pricing in buildings and transport approaches implementation amid growing political resistance, the design and deployment of this facility will directly shape whether ETS2 is perceived as a tool for a just transition or as contributing to social hardship.[1] We therefore urge the EIB to ensure that the Frontloading Facility is firmly anchored in the objectives, safeguards, and targeting requirements of the Social Climate Fund (SCF) Regulation, and used to strengthen structural support for vulnerable households.

As we understand it, the facility will have **three different tracks**: investments for activities already laid out in the National Social Climate Plans (NSCPs), activities fundable under article 30d(6) of the ETS Directive (giving priority to investments that address the social impact of the emission trading), and a third track that is a combination of track 1 and 2.

Key proposals:

- **Preference for "Fast-track" option:**

Support a preference for funding measures and investments already identified in adopted or draft NSCPs. Encourage as many Member States as possible to opt for this route, as it enables rapid deployment while maintaining alignment with the SCF framework.

- **Member States without NSCPs:**

For Member States that do not yet have an NSCP in place, prioritise funding for measures and investments that are demonstrably compliant with the SCF.

- **Member States opting for "broader ETS2 measures":**

Where Member States choose to use the facility for broader ETS2-related measures, guidance should clearly anchor implementation in the requirements of the ETS Directive and position the facility as a benchmark for good practice.

[1] Multiple studies have shown the regressive impacts of ETS2 including the European Commission Impact Assessment. The SCF is insufficient to cover the necessary investments - renovation funding needs of vulnerable households in 10 Eastern and Southern European Member States alone amount to EUR 140 billion - almost double the size of the SCF.

- **Solidarity Mechanism between Member States**:

The SCF redistributes ETS2 revenues among Member States to support those with higher rates of energy poverty and lower GDP. To ensure solidarity between Member States at the very beginning of the ETS and counterbalance resistance, applying the SCF redistributional key to the facility would set a strong signal. We recommend the net beneficiary countries of the SCF when deciding on the size of the loan.

Priorities for "broader ETS2 measures"

- **Respect the priority to social impact across all spending objectives:**

Investments should clearly and demonstrably prioritise activities addressing the social aspects of carbon pricing, as required under Article 30d(6) of the ETS Directive, across all spending objectives.

- **Increase spending under Category 5 ("social support and just transition"):**

The facility should be used as a concrete demonstration of how ETS2 revenues can significantly increase spending under Category 5, which currently accounts for only around 9% of reported ETS revenue use. This would strengthen the social dimension of ETS2 implementation and enhance its political acceptability.

- **Apply strong environmental and social EIB due diligence:**

For loans to Member States that have not yet adopted their NSCP, the EIB must ensure that the selection of projects and sub projects financed through financial intermediaries is fully aligned with the Environmental and Social Sustainability Framework (ESSF). In particular, financed actions should deliver clear social and environmental benefits, including meaningful stakeholders engagement and targeted support for vulnerable groups, in line with ESSF standards 2 and 7. The EIB should demonstrate its own due diligence, carry out independent impact assessments, and clearly set out how compliance of subprojects is verified.

Reporting obligations stemming from ETS2 revenue use:

- **Move beyond box-ticking reporting:**

Under Commission Implementing Regulation (EU) 2024/1281, Member States currently report on the use of ETS revenues through a simplified Excel template. This template asks them to (i) identify the spending objective by referencing the relevant legal provision (e.g. Article 10(3)(h)(i)) and (ii) select one out of 15 predefined categories. Only one category—Category 5, "social support and just transition"—explicitly captures social impacts. As a result, the current reporting framework fails to reflect the Regulation's emphasis on using ETS revenues for activities that address the social impact of emissions trading across **all** spending objectives, as required by Article 30d(6)) of the ETS Directive.

- **Introduce narrative reporting:**

To bridge this gap, reporting on the facility should be complemented by narrative elements. These should explain how ETS2 revenues are used in practice, highlight good examples, and demonstrate how spending decisions prioritise social impacts across categories.

Governance for maximum impact and visibility

- Ensure broad public awareness and civil society involvement around the implementation of these first investments (e.g., publish in a dedicated website, organise in person events with stakeholders - in line with the recent Commission Guidance on the NSCPs). Transparency requirements should be explicitly embedded in the Facility's contractual agreements with Member States, ensuring broad public dissemination, awareness and participation in the planned investments.
- Prioritise investments that include and empower local stakeholders, such as energy communities and social housing, thus building bottom up support and acceptance of the projects.

Recommendations on specific investments

1. Provision of affordable renovation loans

In the design of **renovation loans**, the facility should respect the provisions of the Energy Efficiency Directive (EED), article 24, which requires Member States "to **support** people affected by energy poverty, vulnerable customers, people in low-income households and, … people living in social housing". Specifically, Member States shall:

a. foster technical assistance and the roll-out of enabling funding and financial tools, such as on-bill schemes, local loan-loss reserve, guarantee funds, funds targeting deep renovations and renovations with minimum energy gains;
b. foster technical assistance for social actors to promote vulnerable customers' active engagement in the energy market, and positive changes in their energy consumption behaviour;
c. ensure access to finance, grants or subsidies bound to minimum energy gains and thus facilitate access to affordable bank loans or dedicated credit lines.

Additionally, article 17(19) of the Energy Performance of Buildings Directive (EPBD) on financial incentives requires Member States to 'introduce **effective safeguards** to protect, in particular, vulnerable households, including by providing rent support or imposing caps on rent increases, and may incentivise financial schemes that tackle the upfront costs of renovations.

To have these requirements regarding technical support and safeguards reflected in the facility, the EIB should:

- Strengthen due diligence and monitoring for corporate landlords by including the company's track record regarding tenants' rights. For e.g. in Germany there is mounting jurisprudence finding excessive rent increases after renovations and excessive billing for housing-related services including energy provision relating to corporate landlords that benefitted from EIB loans for retrofitting. In the case of the multinational real estate company Vonovia, when put under public scrutiny for rent increases following modernisations for which the company might have benefitted from public subsidies[2], including subsidized loans, the German Ministry of Finance declared that the EUR 600 million loan Vonovia received from the EIB in 2022 was not tied to any social conditionality.

- Reporting should include disaggregated indicators, including housing affordability and quality improvements (such as indoor air quality, thermal comfort, and reduction in energy bills); access to renovation support by vulnerable groups; and measurable reductions in energy reporting should include a description of how beneficiaries engaged tenants and tenants' organisations in monitoring the renovation process and results, any forms of renovictions / displacements, changes in affordability of housing costs including bills.
- Data must be publicly accessible, updated annually, and subject to regular independent audits.

We further recall that both the Energy Efficiency Directive (EED) and the Energy Performance of Buildings Directive (EPBD) **require EU funding to prioritise vulnerable households and people in energy poverty** (EED Article 8(3); EPBD Article 17). In particular, EED Article 24 requires Member States "to support people affected by energy poverty, vulnerable customers, people in low-income households and, … people living in social housing Member States shall:

d. implement energy efficiency measures to mitigate distributional effects … of emissions trading in the buildings and transport sectors;
e. make the best possible use of public funding … from the Social Climate Fund… and revenues from emission trading… for investments into energy efficiency improvement measures as priority actions.
f. carry out early, forward-looking investments in energy efficiency improvement measures before distributional impacts from other policies and measures show their effect".

To reflect this requirement in the facility, the EIB should require applicants to socially target the financial support by providing 100% grants for upfront costs for vulnerable households in the lowest two income deciles.

2. Social Leasing for EVs

The existing social leasing scheme for EVs in France has been shown to only benefit a small minority of low-income households. Indeed, only around 3 per cent of the beneficiaries of the scheme were from the lowest income decile. From this experience, a coalition of organisations working in the field of transport poverty have agreed on the following recommendations for social leasing schemes that involve private leasing companies:

- Obligation for leasing company to fully eliminate upfront costs;
- Obligation of reporting obligations for leasing companies on socio-economic characteristics, transport dependency, remaining barriers;
- Establish an open and transparent monitoring committee for transport poverty and social leasing;
- Leasing duration minimum of 6 years to manage residual value and avoid wasting available funding, plus the inclusion of second hand vehicles;
- Define environmental requirements for vehicles eligible for social leasing, and include a 'Made in the EU' location criterion where possible.

[2] Under § 559a German Civil Code both the total amount of grants (e.g., subsidies) and any interest advantage from subsidised loans must be deducted from the total modernisation costs, as only a defined share of the remaining costs can legally be passed on to tenants. The EIB Environmental and Social Data Sheet (2022) for the Large-Scale Energy Efficient Housing Germany (project number 2022-73) does not contain any information on how the renovation will impact rent or utility bills. Investments under the Social Climate Fund Regulation should fully benefit vulnerable households (following art.9 of the SCF Regulation on pass-on benefits).

Given these requirements for a leasing scheme to be truly social, a more prominent role for the state and/or local authorities should be preferred, for example by exploring the use of public tenders or public service delegations. To ensure the social acceptability of ETS2, support must extend beyond investment in privately owned and rented vehicles towards a more diverse set of mobility solutions, particularly in rural areas where dependence on private cars is highest and ETS2 price impacts on low-income households are most severe. This includes express buses, carpooling networks, shared vehicles, improved rail services, demand-responsive transport, and cycling infrastructure.

Conclusion:

The ETS2 Frontloading Facility presents the EIB a concrete opportunity to demonstrate leadership in aligning EU climate finance with social justice objectives at a moment of heightened political sensitivity. By ensuring strict compliance with its Environmental and Social Standards, as well as its environmental, climate, and social due diligence procedures, the EIB can contribute to a robust and socially equitable roll-out of ETS2, while mitigating its distributional impacts from the outset. To achieve its intended objectives, the facility must be firmly anchored in the requirements of the ETS Directive, the Social Climate Fund, the Energy Efficiency Directive, and the Energy Performance of Buildings Directive. We therefore call on the EIB Board to use this facility as a benchmark for socially targeted ETS revenue use and as a visible contribution to reducing energy and transport poverty across the EU.

Thank you for your attention.

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Challenging Public Investment Banks

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