



## Consultation Paper

### EIB approach to supporting climate action

#### Call for Public Views

##### **A. RATIONALE FOR THIS PUBLIC CONSULTATION AND PURPOSE OF THIS DOCUMENT**

1. Climate action is a key priority of the European Investment Bank (EIB). The Bank supports EU climate policy objectives and delivers finance for sustainable growth and employment impacts while fostering a low carbon and climate resilient future for Europe and across the globe.
2. The EIB has progressively integrated climate action (i.e. climate change mitigation and adaptation) considerations into its core activities and has an impressive track record in relation to climate action. The Bank is one of the largest providers world-wide of climate finance, has spearheaded financial innovation and creativity, and is encouraging private and public sector investment, boosting project implementation and consistently promoting low carbon solutions. In November 2013, the Bank released its "Statement on Climate Action" presenting the EIB's objectives and approaches in support of EU leadership on climate issues. The Statement guides EIB activities and outlines the standards that the Bank requires of the projects that it finances.
3. In view of recent market and policy developments, the Bank considers it timely to conduct a formal review of its approach to climate action. The objective of this review is to consolidate achievements and develop a more formalised set of strategic orientations guiding the Bank's climate action activities in the future.
4. As an input into the review process, and consequently into the development of the EIB's future strategic orientations on climate, the Bank is seeking views from external stakeholders. This Consultation Paper outlines the key themes on which the Bank is keen to obtain responses.

##### **B. AN EVOLVING POLICY FRAMEWORK AMIDST HEIGHTENED CLIMATE RISKS**

5. Climate change is a global challenge. Its impacts are increasingly visible, and aspirations for sustainable growth and poverty reduction are threatened by indications of, for example, rising surface temperatures and sea levels, changes in rainfall patterns and accelerated loss of biodiversity. It is widely accepted that warming of the climate system is unequivocal and that some effects of climate change are being felt more quickly or severely than had been anticipated even a decade ago.
6. To avoid dangerous levels of climate change, the long-term goal agreed in the context of the UN Framework Convention on Climate Change (UNFCCC) is to limit the global average temperature increase to below 2°C compared to pre-industrial levels. In order to have a likely chance of meeting this target, decision-makers need to ensure that global greenhouse gas (GHG) emissions will peak by 2020 and be reduced by at least 50% globally by 2050 compared to 1990.

7. Approximately 1 billion people worldwide are expected to be living in extreme poverty in 2015. Developing countries are seeking to raise the standard of living and welfare through economic growth. The growth and development gains made in recent decades in developing countries are being put at risk by climate change. Ongoing work on the adoption, by the United Nations, of a set of Sustainable Development Goals is likely to give a prominent place to the fight against climate change.
8. A key challenge is that the effects of climate change are likely to occur disproportionately in parts of the world with very low GHG emissions, and not in the parts that were responsible for producing them. The externalities associated with the use of fossil fuels and other contributors to GHGs are generally not priced-in, and climate change has thus been described as a market failure. International and EU policies therefore aim to address these market failures to ensure that development is sustainable along a low carbon and climate resilient path.
9. Consequently, the “common but differentiated responsibilities” recognised under the UNFCCC require the developed world to support this transition. The EU is committed to contributing, alongside other developed countries, to the mobilisation of USD 100bn a year by 2020 to address the needs of developing countries. The funding is envisaged to come from a variety of sources, public and private, bilateral and multilateral. The bulk of this finance is likely to be managed by the Green Climate Fund (GCF).
10. The European Union has continuously shown international leadership in tackling climate action by committing to significant carbon emission reductions and by establishing a price for carbon within the EU through its Emissions Trading Scheme. This approach is seen as compatible with the high priority given to growth, employment and competitiveness issues within the EU, particularly thanks to the continent’s strength in innovation and new opportunities associated with shifting to a decarbonised EU economy.
11. In October 2014, based on the results achieved under the 2020 Climate and Energy package, the European Council agreed on a climate and energy framework for the period up to 2030. In line with the long-term decarbonisation objectives of the EU under the 2050 roadmaps, the 2030 framework foresees a reduction target for domestic GHG emissions of 40% compared to 1990, to be shared between the ETS and non-ETS sectors, accompanied by a European-wide target for renewable energy of at least 27% and an indicative 27% energy efficiency target. In addition, the Council agreed on a financing mechanism for low carbon demonstration projects and to assist low income Member States with the implementation of the framework.
12. In addition, in June 2013 the European Council adopted the EU Strategy for Adaptation, which aims to contribute to a more climate resilient Europe and enhance the preparedness and capacity to respond to the impacts of climate change at local, regional, national and EU levels, including a vision for cross-border challenges and the outermost regions, developing a coherent approach and improving coordination.

### **C. THE EIB’S APPROACH TO CLIMATE ACTION**

13. The EIB is the European Union’s bank. It is owned by the European Union Member States and works closely with other EU institutions to implement EU policies. It is active in the EU, where it provides 90% of its finance, and in over 160 other partner countries in the world for the rest of its activities. It is the largest multilateral borrower and financier by volume and provides expertise for sound and sustainable investment projects which contribute to EU policy objectives.

14. As a public institution, the EIB must ensure that projects are technically, economically and financially viable and demonstrate that its support to projects improves their design, implementation or financial viability. As a bank, the EIB must also ensure that its overall level and mix of activity is consistent with maintaining its solid financial position.
15. The EIB's priorities are embodied in its 3-year Corporate Operational Plan (COP), which prioritises climate action as one of the fundamental areas for the Bank's intervention. The EIB is a significant player in assisting public and private actors across the world to deliver the capital investment necessary to promote low carbon and climate resilient growth. As an EU institution, the Bank supports the EU's long-term climate goals and its position within the international climate negotiations.
16. In order to achieve this, the Bank outlined four core objectives for its climate action approach in its Statement on Climate Action:
- To provide a range of climate finance solutions, for both mitigation and adaptation purposes, as part of the EU response to the climate challenge.
  - To catalyse private sector financial flows using the EIB's financial leverage and capacity to innovate.
  - To integrate climate considerations effectively into EIB activities and practices, including those related to the project cycle, the sector lending policies and the project-specific performance standards, as well as into the way the EIB manages its own facilities.
  - To engage constructively with a wide range of external stakeholders, recognising a common interest in and shared responsibility for coordinated climate action, specifically in the interests of developing and applying cost-effective finance and harmonised good practices.
17. Climate action is widely integrated across all of the Bank's activities:
- **At project level**, through the application of standards requiring specific actions with regard to GHG footprinting, to the integration of the economic damages associated with climate change, to identification of energy efficiency opportunities, and to resilience and vulnerability considerations,
  - **At sector level**, through the application of sector-specific policies, criteria or guidelines, which have been developed in full consistency with the relevant climate issues at sector level,
  - **At portfolio level**, by setting a minimum volume target, as a share of all EIB activities, for support for climate action projects or activities with particularly positive contributions to climate mitigation and adaptation – currently at 25% in the COP.
18. The EIB has emerged as one of the most innovative and proactive public financiers of climate action in terms of its product offering and ability to promote projects of high EU policy relevance. Beyond lending, other dimensions of EIB support include technical assistance with capacity building and project development, and the development of innovative climate finance products to catalyse private finance flows from investors wishing to support climate action projects.

19. Thus the Bank must strike a balance between various policy objectives and would welcome comments and views on any part of its current approach to climate action and how it can further improve its support for the global efforts to curb GHG emissions and adapt to the effects of climate change. The topics around which we would like to solicit opinions are organised according to the four core objectives of the EIB Statement on Climate Action, noting that the first two are both directly concerned with scaling up and innovating in the provision of financial support for climate action, whereas the others address other dimensions of the EIB's approach.

#### **D. PROVIDING A RANGE OF CLIMATE FINANCE SOLUTIONS**

##### **Scaling up resilient and low carbon investments**

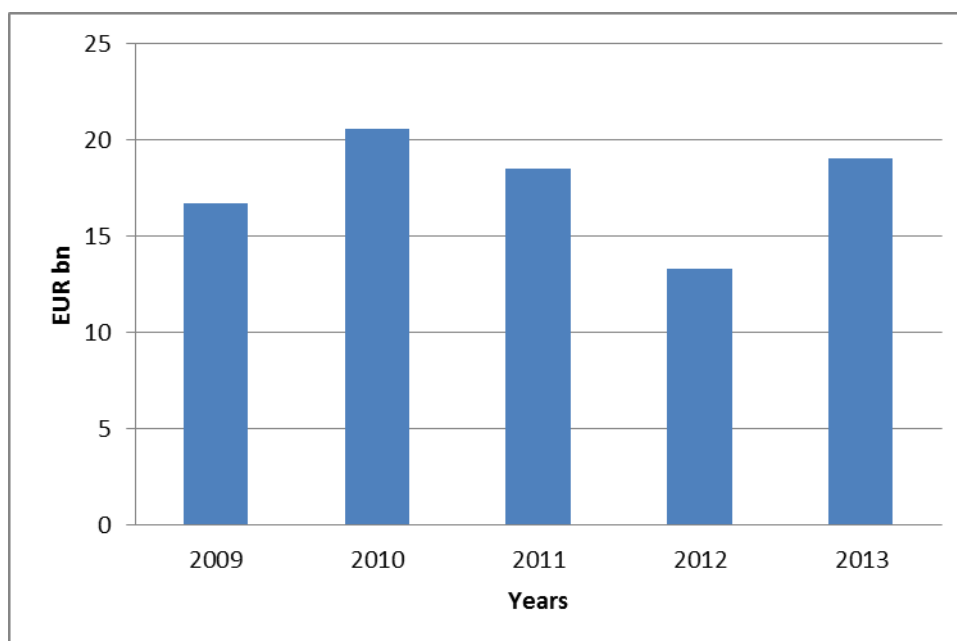
20. It is widely acknowledged that meeting the challenge of climate change involves significant additional investment. Meeting the EU's agreed climate and energy targets will require over roughly EUR 200bn per year in the 28 Member States, while available estimates imply total annual capital expenditure in developing countries of EUR 130bn to EUR 200bn, covering both mitigation and adaptation.
21. Moreover, the drop in public and private investment in the EU has become a clear source of concern in the aftermath of the financial crisis. Decisive action is required in order to create the right financial and regulatory environment for private investment, and to optimise the use of national and EU public resources. The new President of the European Commission has announced an ambitious package for jobs, growth and investment as a matter of the highest priority. It is likely that the European Investment Bank will contribute to supporting this process, which may have a significant impact on its strategic outlook.
22. The sizeable investment, both in the EU and globally, will require various funding sources, including private and public funds, grants, equity, risk capital, concessional loans, debt and bonds. This holds true both within the EU and in the rest of the world.
23. Modelling results also illustrate that achieving a least-cost solution at EU level imposes differential costs on Member States, with a tendency for lower income Member States to incur higher additional system costs as a percentage of GDP. Similarly, the additional investment required will fall disproportionately on the shoulders of developing countries, in relation to their GDP.

##### **Value added of EIB for climate action**

24. The Bank is not only the world's largest multilateral financier, but also the leading investor in climate action by volume. However, meeting global climate objectives will require significant new investments in low carbon technologies and projects and the direct impact of the EIB remains small in comparison with the overall investment needs. Consequently, rather than the volume of lending per se, the more relevant question is that of the value added by the EIB – through attracting other financiers, facilitating the creation of market capacity, supporting public policies that address market failures, supporting innovation and demonstration or helping accelerate project delivery.
25. In the period 2009-13 the EIB provided EUR 88bn of financing for climate, 90% of which was focused on the European Union and 10% in non-EU countries to further EU external and development policies. The Bank's core business and the majority of its activities are related to ***lending*** in support of projects.

26. In addition, the Bank is increasingly involved in **blending**, i.e. combining the Bank's lending activities with other financial sources, particularly from the EU budget and in close cooperation with the European Commission. The main goal is to improve the financial viability of projects and to increase the Bank's risk-taking capabilities for higher value added activities, in order to support the innovation and demonstration of new technologies and project types, as well as financing structures that can both address market failures and catalyse private sector financial flows.
27. The Bank is furthermore providing **advising** services to help with the design of investment programmes, as well as with building administrative and project management capacity to reduce the risks associated with project delivery.
28. The EIB has integrated climate considerations across its portfolio, but has also focused its financing on some particularly promising sectors in terms of climate performance. Climate action at the Bank can involve a whole project, e.g. a wind farm, or part of a project, e.g. its energy efficiency components. The Bank's volume of lending for these "Climate Action" investments over the period 2009 to 2013 is presented in Figure 1 below. This lending is measured against a clearly-defined set of projects and activities including, broadly speaking, lower carbon emission and sequestration projects (including renewable energy, sustainable transport and forestry), research, development and innovation (RDI) activity in low carbon and clean technologies, and investments to increase energy efficiency and resilience against anticipated climate change (e.g. improved flood defence programmes). Total lending figures are included in the Annex.

Figure 1 Volume of EIB climate action signatures 2009 to 2013



29. Through its volume, low funding costs and long tenors, one of the primary impacts of the Bank's participation is to reduce the cost of debt to promoters or offer longer maturities and thus reduce the overall financing cost. Owing to the scale of the EIB, this has a non-marginal impact at European level. The climate action objective is translated into the EIB's Corporate Operational Plan, with a current target of at least 25% of the Bank's lending going towards projects specifically supporting climate action. However, the Bank's ability to maintain or increase its current lending for climate action very much depends on the amount, size and

quality of projects submitted to the Bank for financing, their broader institutional and regulatory environments and the creditworthiness of borrowers.

**Theme 1:** *Is a volume-based lending target an appropriate climate action target for the Bank? Is the current list of eligible projects in the sectors targeted for EIB Climate Action fit for this purpose? How should the Bank's climate action lending target evolve over time to reflect global policy development?*

30. The focus on lending volume, however, only partly illustrates the range of solutions provided by the Bank in support of climate action projects. Other dimensions of EIB intervention, which are significant enablers, or even critical to achieving long-term climate targets, are less visible through the overall lending numbers: they include leveraging private sector investment, supporting emerging technologies and RDI, technical assistance and advisory services, and activities in low and middle income countries where projects are often smaller and require more intensive involvement throughout their life-cycle.
31. Technical assistance and advisory services, to identify and prepare projects and financing structures, remain critical instruments to ensure the necessary flow of funding. The European Commission and the Bank are continuing to look for ways to build on the experience of ongoing or new joint programmes.

**Theme 2:** *Based on its existing business model and taking current market constraints into account, how can the Bank further improve the solutions it is providing to foster more climate resilient low carbon growth, both within and outside the EU? What role should technical assistance and increased channelling of EU grants through the EIB play?*

### **Supporting research, innovation and demonstration in low carbon emerging technologies**

32. In volume terms, Bank climate mitigation finance has been directed mostly to mature technologies, such as sustainable transport (e.g. metros, tramways and high-speed rail) and mature renewable power generation projects (onshore wind, hydro). However, the deep cuts in emissions required to meet long-term European climate targets will require the development and widespread deployment of low carbon technologies that are currently not available or competitive. To a certain extent, economic growth will both determine the necessary rate of such deployment and provide the opportunities for such investment in innovation. One of the distinctive features of the EIB is its support for research, innovation and demonstration in the field of low carbon emerging technologies
33. The European Commission and the EIB jointly established a Risk-Sharing Finance Facility (RSFF), now rebranded InnovFin for the new 2014-2020 programming period, to improve access to risk finance for research and innovation projects. In addition, the Bank and the Commission also cooperate closely under the so-called NER300 initiative, which funds Carbon Capture and Storage (CCS) and innovative renewable energy technologies. The EIB has been acting as an agent of the Commission to manage the initiative.

**Theme 3:** *Based on its experience with support for venture capital funds, RSFF/InnovFin and NER300, how can the Bank increase its support for European RDI and emerging low carbon technologies? How can energy-intensive industries that invest in innovation addressing lower carbon industrial processes be best supported?*

## E. CATALYSING PRIVATE SECTOR FINANCIAL FLOWS

34. The Bank supports climate action projects through a broad range of financial instruments, mainly medium and long-term direct or intermediated loans with fixed or variable interest rates in euros or other currencies, guarantees, investments in debt and equity funds and venture capital investments.
35. However, EIB financing alone is insufficient given the scale of the investment needs outlined above. New financing models will have to be developed to catalyse private sector investment, both in the EU and globally, that can address the financing gap and existing market failures.
36. The EIB has developed specific products, often in conjunction with EU or other donor funding, to catalyse private investment and leverage public funds. These products include alternative investment vehicles such as equity and debt funds, guarantees and/or subordinated loans with a view to providing indirect debt or equity for projects, taking more risk or enhancing the credit quality of projects or project sponsors. For these activities, the Bank is either using its own resources, for which it created a special activities reserve to allow greater risk-taking capabilities, or combining its financing activities with public funds provided by Member States and the European Commission (e.g. the external mandates or joint EC/EIB financial instruments).
37. In addition, the EIB recognises that institutional investors can play an important role in financing low carbon, climate resilient growth as they manage large amounts of capital and have long-term liabilities that should fit well with the long-term, stable and index-linked returns from low carbon projects.
38. One existing and successful product for institutional investors are Climate Awareness Bonds, the EIB's green bonds, whose proceeds are earmarked for projects supporting climate action. The Bank issued the very first green bond, has played a role in developing this new segment of the financial market and is currently the largest supranational issuer of green bonds. Climate Awareness Bonds have provided a direct interface between the investor community at large and the Bank's Climate Action portfolio. In addition, the Bank is seeking to develop asset-linked products for institutional investors.
39. The Bank is furthermore seeking to become an accredited intermediary of the Green Climate Fund and to work with its Private Sector Facility to engage the private sector in contributing to the USD 100bn target of additional climate finance by 2020.

**Theme 4:** *How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies? What sort of financing structures should be supported to best catalyse private sector finance? Is the current EIB product portfolio appropriate to meet climate finance needs? How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects?*

## F. INTEGRATING CLIMATE CHANGE CONSIDERATIONS ACROSS ALL EIB ACTIVITIES

40. A very significant part of the Bank's activity involves financing long-term physical infrastructure, tangible assets in capital-intensive parts of the economy (energy, transport, industry) or in R&D and innovation that will shape future growth. Widely interpreted, nearly all operations that the Bank supports have an impact, directly or indirectly, on GHG emissions, albeit with varying

degrees of significance. The overall GHG footprint of EIB-supported investment projects is assessed to be negative, indicating that on balance the EIB effectively contributes to the reduction of GHG emissions. Equally, many of the fixed assets, organisations and communities supported by the Bank are exposed to some degree of risk from current and future climate change impacts.

41. The environmental viability of projects is a core requirement of the Bank and is rigorously checked and monitored. In recent years, aligning with evolving EU and international climate policy, the EIB framework used to assess the social and environmental sustainability of projects has significantly developed and has in particular broadened in scope to integrate climate considerations, with implications for the methods and processes used by the Bank to appraise and monitor projects.
42. Projects submitted to the Bank for financing go through a due diligence process, including the environmental aspects, to minimise possible adverse impacts on the environment. The overarching framework of the EIB's environmental appraisal is set by the EU Treaties and the EU Charter of Fundamental Rights and is derived from the body of EU environmental law, including international agreements and conventions, concluded by the EU. It comprises a Policy Statement (the EIB Statement of Environmental and Social Principles and Standards). Various internal operational requirements have been defined for different types of financial products and circumstances to ensure that all financing activities are consistent with these standards. These are outlined in the EIB Environmental and Social Handbook, which specifies 10 Standards, including one related to climate considerations.
43. The Handbook describes the steps for determining the scope of the environmental and social due diligence activities that the EIB carries out for all operations in all regions throughout the project cycle. Both climate change and biodiversity and ecosystem loss – by virtue of their nature (e.g. public goods and externalities attributes) and scale (broad in geographical and sector scope) – are considered to be transversal issues for which a uniform approach across all projects is applied.
44. The Bank has developed various internal management tools that guide the way that the EIB conducts its due diligence, through project preparation, appraisal, approval, monitoring and supervision, and support its decision-making process. These reflect the policy-driven nature of the Bank, the experience acquired to date, the approach to due diligence systems shared with its institutional peers and other sources of good international practice.
45. At the heart of the decision-making process, the Bank has a value added scoring tool that measures a project's contribution to the different policy priorities of the Bank. This tool helps the Bank to identify and rank investment opportunities. The EIB rates all projects early in the project cycle. Projects exhibiting specific environmental benefits are favoured. The rating is reviewed after appraisal to inform decision-making by the Bank, as well as during project implementation and operation to assess project outcomes.
46. In addition, the Bank routinely estimates the carbon footprint of the investment projects it finances. It reports both the absolute and relative emissions from a project. Absolute emissions correspond to the emissions from a typical year of operation of the project. Relative emissions refer to the avoided emissions resulting from the project compared to a baseline, or credible alternative scenario without the project. An external review of the 2011 carbon footprint data was completed in 2013, confirming the Bank's carbon footprint approach and methodology. The GHG estimation methodology is public. Project carbon footprint data is available to the public through the Environmental and Social Data Sheet held in the Bank's public register of documents. The Bank is also committed to separately estimating and reporting on the emissions from its own internal operations (i.e. building, employee travel, etc.).



47. The EIB relies heavily on cost-benefit analysis in the course of its due diligence. As explained in the Bank's published guide on the Economic Appraisal of Investment Projects, the costs associated with a project's environmental externalities, such as local air pollution, water and noise, where they are reasonably quantifiable, are included in its economic analysis. Regarding GHG the core idea is to estimate emissions with and without a project, and then convert this difference in physical flows (tonnes of CO<sub>2</sub>eq emissions) into monetary damage or benefit by multiplying by a cost of carbon (EUR/t CO<sub>2</sub>eq). These values reflect an estimate of the social damage of an additional tonne of CO<sub>2</sub> emitted into the atmosphere. Assuming that the marginal damage of emissions increases as a function of the atmospheric concentrations of carbon, an absolute increase in value per year is added. This is entirely separate from any view the Bank may take on ETS allowance prices, in particular where it may be exposed to such risk.
48. With the exception of intermediated lending, where impacts are difficult to estimate ex-ante and data is not available, the expected GHG impacts from the investment projects financed by the Bank are aggregated in proportion to lending volume and reported annually. These GHG figures – the annual Carbon Footprint Exercise – refer to the operations signed in that particular year. Although these figures are consistently estimated and reported, they can only offer an order of magnitude measure which is dependent on the appraisal assumptions considered, sometimes at very early stages of project implementation. The Bank monitors the operation of these projects once fully operational and if the operation varies significantly from that expected, the GHG impacts may be re-evaluated.
49. Analyses to date of the project and portfolio GHG footprint have shown that carbon intensity figures are difficult to interpret, and the overall portfolio figures are highly affected by individual signatures in each year. However, work to examine indicators that may be developed from the five years of GHG data is ongoing and may have potential in certain sectors to inform the Bank's judgement on projects and policies.
50. Finally, the Bank is developing new tools to routinely include climate change parameters into project identification (pre-appraisal) and appraisal, screening all projects for possible climate change adaptation risks. The Bank has stepped up its support for adaptation measures to reduce projects' climate change vulnerability and their broader impacts on society and the economy. Technical assistance is particularly being addressed at performing climate vulnerability assessments that identify risk factors that need to be made more climate change resilient.

**Theme 5:** *How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process? Does the current approach of the Bank, to integrate a price of carbon into the economic appraisal of a project, adequately reflect issues such as carbon lock-in? How can the Bank further improve the EE and climate resilience of the projects it supports?*

## **G. ENGAGING WITH EXTERNAL STAKEHOLDERS**

51. The EIB favours exchanges with external stakeholders and endeavours to uphold high standards in the framework of its Transparency Policy. A wide range of information on projects and horizontal issues is available on the Bank's website, including project-specific estimates of GHG emissions according to its published methodology. At project level, the Bank's Environmental and Social Standards also include provisions on Stakeholder Engagement which are wide-ranging and foster an approach to project management whereby a variety of views are taken into account when designing and implementing EIB-financed activities.

52. The Bank organises formal public consultations on particularly important topics, and regularly engages with civil society, academia, think-tanks and the business community in order to maintain dialogue and gather feedback on its activities. This is also achieved by ensuring a presence in a number of conferences, workshops and working groups in which policy orientations and methodological issues are discussed.
53. As a public institution, the Bank is also in contact with public sector organisations at national, European and international levels. Of particular relevance are the EU institutions, especially the European Commission. The EIB maintains a number of channels of communication on policy issues, focusing on measures to improve the enabling environment for climate action, and related advisory services. At the same time, specific financial instruments have been developed, often blending EU funds to enhance EIB support. In addition to these various dimensions of partnership, the EIB has played a unique role in the NER300 programme and has engaged in a dialogue on its potential role in the implementation of the 2030 Climate and Energy package.

**Theme 7:** *Building on its strong institutional position, how can the Bank improve its outreach on climate action issues to civil society, think-tanks, academia and the business community?*

### **Supporting low and middle-income countries' plans for resilient, low carbon growth**

54. Around 10% of EIB Climate Action lending, or some EUR 9bn over the past five years, has been to projects outside the EU, in support of EU external cooperation and development policies. This lending is undertaken either under the EU-guaranteed EIB external lending mandate or at own risk, with investment grade counterparties, using dedicated regional or sector facilities. Outside the EU, the financing of projects is often carried out in partnership with other Multilateral Development Banks (MDBs), and/or bilateral and International Financial Institutions (IFIs).
55. The architecture of the international financial agreements, the high profile of the climate issue in international organisations such as the United Nations and OECD, and the general need for harmonisation within the IFI community all give rise to a number of inter-institutional initiatives and coordination platforms in which the EIB is present. The Bank is currently actively involved in supporting the UN SE4All initiative and is a signatory to the MDB Declaration on Sustainable Transport, which committed to a significant scaling-up of investment as part of the Rio+20 processes. More generally, the Bank has engaged in numerous partnerships with other organisations to work on the climate agenda.
56. For example, the EIB has been working since 2011 with other MDBs on joint definitions of what constitutes mitigation and adaptation for the purposes of climate finance tracking. This year the EIB led the coordination effort to issue the Joint MDB Report on Climate Finance for 2013 in time for the UN Climate Summit in September 2014 and coordinated closely with the UNFCCC, OECD, and the International Development Finance Club (IDFC) including KfW and AFD on this work. The MDBs are also working together on GHG emission assessment methodologies, and have begun to examine how to develop a joint framework for the assessment of their financial leverage.
57. The creation of the Green Climate Fund is widely seen as a key element of the delivery of climate finance in the coming years. The Bank is actively seeking to become an implementation agent of the Green Climate Fund and work with its Private Sector Facility to engage the private sector in contributing to the USD 100bn target of additional climate finance by 2020.

**Theme 8:**

*How could the Bank continue to develop its leadership and collaboration with other multilateral development banks and international financial institutions to better support the international climate finance debate and negotiations? What partnerships should the Bank develop in mobilising the UN-pledged USD 100bn annually by 2020 to support technical assistance and funding for mitigation and adaptation projects in low and middle-income countries?*

## Annex to the Consultation Paper

### The role of EIB in promoting climate action to date

#### I. RATIONALE FOR THE STRATEGIC REVIEW OF THE BANK'S APPROACH TO CLIMATE ACTION

A1. The European Investment Bank (the "EIB" or "Bank") is the largest supranational borrower and lender in the world. It is the financial arm of the European Union supporting EU policies and their priority objectives. It is owned by the EU Member States and its mandate is to provide finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy objectives. The EIB mainly operates within the EU. Roughly 10% of its lending goes to projects outside the EU in support of the EU's external and development policies.

A2. The Bank's activities are guided by EU policies. Projects financed need to make a significant contribution to growth and employment in Europe, in particular by targeting projects in the following priority areas: (i) increasing innovation and skills; (ii) promoting economic growth, employment and social cohesion through access to finance for smaller businesses; (iii) climate action and (iv) financing strategic infrastructure.

A3. The environmental and social viability of all projects financed is a core requirement of the Bank and has therefore always been rigorously checked and monitored. This has been one of the cornerstones of the Bank's current appraisal practice and has allowed the Bank to gain considerable technical experience that has subsequently been fully exploited in its financing solutions for climate action projects.

A4. Climate action, as one of the policy priorities of the Bank, has been gradually integrated into all activities of the Bank to align the Bank's approach with evolving EU and international climate policy. As a consequence, the focus on the social and environmental sustainability of projects has significantly increased.

A5. This is reflected at all levels of EIB activities:

- At **project level**, the Bank's approach to climate concerns is embedded in a number of publications on Bank standards and appraisal procedures, including the Bank's Guide to Economic Appraisal<sup>1</sup>, the Statement on Environmental and Social Principles and Standards<sup>2</sup>, the Environmental and Social Handbook<sup>3</sup> and the Methodologies for estimating GHG emissions from projects<sup>4</sup>;
- At **sector level**, the Bank has incorporated climate action considerations into the individual sector policies. In particular, climate action considerations were integrated into energy and transport sector consultations that were concluded in 2011 and 2013 respectively<sup>5</sup>);
- At **portfolio level**, the EIB's overall level of ambition in the area of climate action is set out in the Bank's Corporate Operational Plan. The current version, covering the period

<sup>1</sup> <http://www.eib.org/infocentre/publications/all/economic-appraisal-of-investment-projects.htm>

<sup>2</sup> <http://www.eib.org/infocentre/press/news/all/eib-statement-of-environmental-and-social-principles-and-standards.htm>

<sup>3</sup> <http://www.eib.org/infocentre/publications/all/environmental-and-social-practices-handbook.htm>

<sup>4</sup> <http://www.eib.org/about/documents/footprint-methodologies.htm>

<sup>5</sup> <http://www.eib.org/infocentre/publications/all/eib-energy-lending-criteria.htm>

2014 to 2016, foresees an annual target of at least 25% for climate action investments as a percentage of total EIB lending.

### **Purpose and scope of this annex**

- A6. Given this bottom-up integration of climate issues across the Bank's operations, references to EIB climate action can be found in a wide range of EIB publications, although it is not particularly easy for an external stakeholder to understand the overall approach of the Bank to climate action. Links to these different documents can all be found on the consultation website.
- A7. The primary purpose of this annex is therefore to provide a coherent overview of the Bank's climate action approach as a whole. It does not strive to be comprehensive and does not amend or substitute for the more detailed technical material, such as sector lending policies, mentioned and referenced in the document, to which readers should refer for authoritative guidance.
- A8. This annex sets out the Bank's current approach to climate action. It is a "stocktaking" exercise that provides a snapshot of the current outcome of a continuous process of integrating and mainstreaming climate issues into the Bank's policies and practices over many years. In this sense, it remains limited to a description of current practice and how its different building blocks have developed over the years.
- A9. These practices and EIB experience with financing climate action projects are reflected in a range of financial instruments, from traditional to more innovative initiatives that target the different barriers faced by climate action investments. The financial instruments referred to in this note are quoted as examples of possible operations of the Bank in climate finance. Logically, the eligibility and lending criteria formulated in this document must not be construed as the Bank's commitment to fund a particular project or sector. As is normal practice at the Bank, any project-specific credit decision will remain subject to a detailed, satisfactory due diligence and documentation as well as to formal approval by the EIB's decision-making bodies in compliance with the Bank's credit risk policy guidelines.
- A10. This annex is intended to complement and inform the current call for public views being launched by the Bank. This public consultation encompasses the strategic review of the Bank's approach to addressing climate change (the Bank's "climate action"). The final goal of this review is to develop a more formalised set of strategic orientations that will guide the Bank's climate action activities in the future. These will be presented to the EIB's Board of Directors for approval in 2015. As an input into the current review, the Bank is seeking views from external stakeholders. Key issues on which the Bank is keen to obtain a response are summarised in the Call for Public Views.
- A11. This annex is structured as follows: Section II explains why the Bank is engaged in climate action and sets out a framework for defining and addressing climate change. Climate action activities are defined as those which result in net carbon sequestration, such as forestry; which lower GHG emissions, such as renewable energy and sustainable transport (mitigation investments); or which are primarily intended to improve resilience to anticipated climate change impacts (adaptation investments). Nevertheless, climate considerations have been incorporated across all sectors and activities of the Bank. Section III details the Bank's lending to climate action projects, distinguishing the different operations, sectors and volumes outside and within the EU. Section IV describes the critical characteristics of the portfolio of EIB financial instruments, notably the catalytic role of the EIB and its more innovative financial instruments designed to leverage public sector funds to engage the private sector, and technical assistance within and outside the

EU. Section V shows other EIB activities, such as blending or EU/EIB joint financial initiatives, technical assistance and international partnerships complementing the Bank's climate lending activities. Ensuring that climate considerations are incorporated appropriately into the economic, technical and financial assessment of all projects appraised by the Bank and how this is embedded in the Bank's project cycle is described in Section VI. In addition, for projects which are potentially particularly carbon intensive, the Bank has introduced additional safeguards above and beyond its standard due diligence. These are summarised in Section VII.

## II. EIB'S SUPPORT FOR CLIMATE ACTION

A12. Climate action is one of the policy priorities of the Bank. By integrating climate considerations across all the Bank's activities and specifically by financing climate action projects or activities, the Bank encourages low carbon and climate resilient growth in Europe and around the world and supports the transition to a sustainable low carbon future. A very significant part of the Bank's activity involves financing long-term physical infrastructure, tangible assets in capital intensive parts of the economy (energy, transport, industry) and critical for development or in R&D and innovation that will shape future growth. Widely interpreted, nearly all operations that the Bank supports have an impact, directly or indirectly, on global emissions, albeit with varying degrees of significance. Equally, many of the fixed assets supported by the Bank are exposed to some degree of risk from expected future climate change impacts. Recognising the complementarity of climate mitigation and adaptation measures in certain sectors and the co-benefits that these measures may bring to other sectors (water, health, biodiversity conservation, security of supply, social impacts, etc.), the Bank's activities are therefore increasingly focused on financing low carbon climate resilient investments in land-use and water management.

A13. The overall goal of the Bank's support for climate action is to contribute to the transition to a climate resilient and low carbon economy and society. The EIB Statement on Climate Action<sup>6</sup> sets out the following four core climate action objectives:

- To provide a range of climate finance solutions, for both mitigation and adaptation purposes, as part of the EU response to the climate challenge.
- To catalyse private sector financial flows using the EIB's financial leverage and capacity to innovate.
- To integrate climate considerations effectively into all EIB activities and practices, including those related to the project cycle, the sector lending policies and the project-specific performance standards, as well as into the way the EIB manages its own facilities.
- To engage constructively with a wide range of external stakeholders, recognising a common interest in and shared responsibility for coordinated climate action, specifically in the interests of developing and applying cost-effective finance and harmonised good practices.

A14. The key focus areas for climate action financing are renewable energy and energy efficiency, sustainable transport, sustainable urban development, waste and water, forestry and agriculture and carbon markets. Research and development activities across all sectors and industries in support of low carbon resilient innovation are also actively supported. Adaptation investments to increase resilience to climate change impacts are also prioritised across sectors and activities.

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<sup>6</sup> [http://www.eib.org/attachments/strategies/statement\\_climate\\_action\\_en.pdf](http://www.eib.org/attachments/strategies/statement_climate_action_en.pdf)

A15. Although estimates vary, it is widely acknowledged that meeting the challenge of climate change requires significant additional investment in resilient and low carbon assets across the globe. It is generally accepted that new sources and types of finance will be needed. The Bank is strongly positioned to catalyse private finance and leverage public funds and has the expertise, flexibility and creativity needed to develop innovative financial instruments that help to improve the risk profile of operations.

A16. These innovative climate finance products, which often combine grants or different funding sources with EIB financing, enable investment in new sectors and facilitate development of large-scale programmes with improved effectiveness, impact and replicability.

A17. The Bank can provide support for capacity building or for project development and implementation as required. It also has strong in-house technical expertise on projects within and outside the EU. In this sense, it has been instrumental in the financing of emerging technologies, addressing market deficiencies and bridging financing gaps. It also co-finances climate investments in partnership with other public and private companies, bringing together the relevant parties and stakeholders (e.g. EU institutions, Member States, European international and bilateral financial institutions).

### **A framework for assessing EIB support for climate action**

A18. [Figure 2](#) illustrates how the integration of climate action into the Bank's activities is organised. Three distinct areas can be identified. Firstly, as represented by the blue band in the lower half of [Figure 2](#), climate action considerations have been steadily integrated over recent years throughout the methods and processes used by the Bank to appraise and monitor all investment projects. At the heart of the decision-making, the Bank has a value added scoring tool that measures a project's contribution to the different policy priorities of the Bank. The EIB rates all projects early in the project cycle. The rating is reviewed after appraisal to inform decision-making by the Bank, as well as during project implementation and operation to assess project outcomes. In addition, based on the piloting phase from 2009 to 2011, an assessment is routinely made of the expected GHG emissions or sequestration during the operation of investment projects, and where these are above significant thresholds they are reported in the documentation that goes to the internal decision-making bodies of the Bank. Similarly, the economic justification of the project, where appropriate, takes account of the cost of emissions alongside the other costs and benefits of a project. An individual due diligence is also performed for each project, including the environmental aspects of investment projects and their likely impacts. Finally, the Bank is currently examining ways to routinely integrate an assessment of a project's vulnerability to expected future climate change impacts in order to inform the necessary measures to adapt those projects to the expected impacts and make them more resilient. These areas are discussed in more detail in [Section VI](#) below.





resilience to future climate change (adaptation). From the outset, the list was designed to identify climate action projects as early as possible in the project cycle, whilst recognising the need to ensure credibility in light of actual project data.

A23. The list has been periodically updated internally in light of evolving standards (e.g. the new energy screening and assessment criteria in 2013) and the continuing joint work among the Multilateral Development Banks (MDBs) to harmonise reporting standards<sup>7</sup>, in which the Bank plays a very active role. It provides the framework used to report on climate finance flows against other European or international standards (such as the Rio Markers on climate change, green bonds impact reporting, etc.).

A24. Based on a number of principles, several approaches are used. In many cases, projects within certain sectors are included automatically, reflecting the low or zero GHG emissions associated with their operation (e.g. wind farm); others are included on a case-by-case basis depending on their absolute GHG emissions (e.g. large hydro); and others depend on their level of relative GHG emissions (e.g. CHP). Adaptation by contrast, is a process-based approach.

### III. EIB LENDING FOR CLIMATE ACTION

#### Overview of EIB lending for climate action 2009-2013

A25. The Bank's Corporate Operational Plan (COP) currently sets a target of a minimum of 25% of total annual lending for a defined list of climate action projects, i.e. projects promoting climate mitigation and/or climate adaptation. The primary impact of the Bank's involvement is to improve the financial viability of projects, support the innovation and demonstration of new technologies and project types, foster good mitigation and adaptation practice and catalyse private finance flows from investors wishing to support climate action projects. In this context, lending volume is only one dimension of the Bank's contribution to supporting climate action projects, not least because it is dominated in quantitative terms by EU projects. As set out below, it is important to stress the Bank's role in supporting climate action projects outside the Union, as well as in a number of emerging areas which, despite resulting in smaller lending volumes, are targeted for their high policy relevance.

A26. There is a whole range of issues, however, that limit the effectiveness of the EIB's activities despite its efforts to increase climate finance and support for project implementation. It needs to be recognised that the Bank is subject to the normal operating constraints of financial institutions and may sometimes face structural or institutional barriers that constrain investment flows and the mobilisation of climate finance – and hence the Bank's capacity to implement investments. These are not only of a financial nature (insufficient returns for the perceived risks, financial constraints of promoters) but also technical (promoter's capacity to implement projects, insufficient technical due diligence) and especially regulatory (policy stability/predictability, regulatory uncertainty, incentives, risk permission, administrative processes).

A27. Creating and improving enabling environments and regulatory frameworks for climate action investments remains crucial to facilitating international flows to specific investment projects and is beyond the Bank's mandate. The Bank's ability to increase current lending to the scale needed in the fight against climate change ultimately depends on the quality of projects identified by and

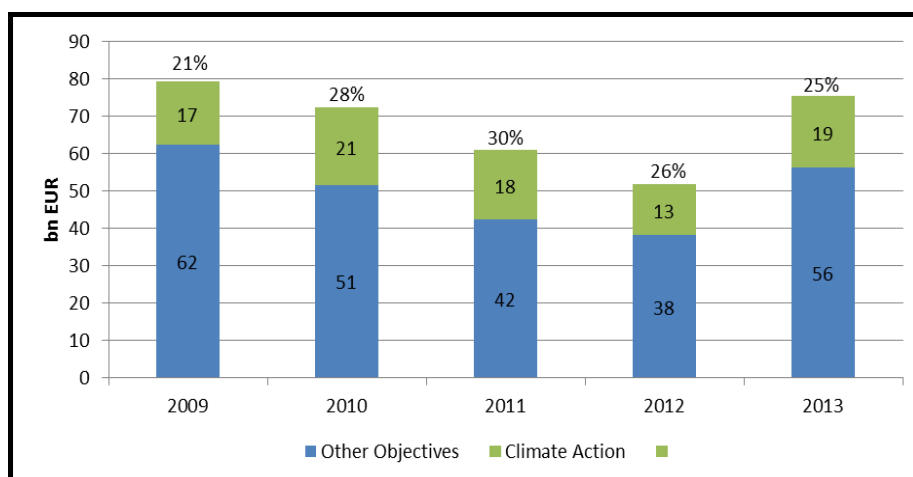
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<sup>7</sup> <http://www.eib.org/projects/documents/joint-report-on-mdb-climate-finance-2013.htm>

submitted to the Bank for financing, the regulatory and policy environment and the creditworthiness of the promoters.

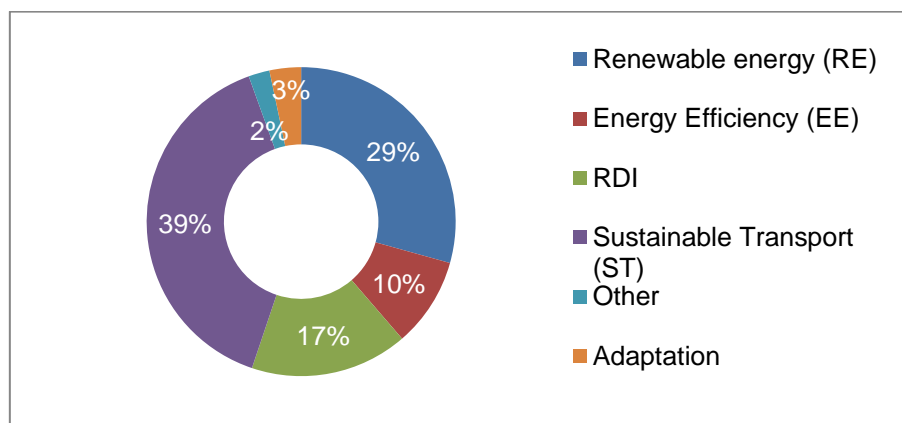
A28. Notwithstanding the fact that much EIB lending is climate friendly where it serves to modernise fixed capital in Member States and mandate regions and as such contributes to cleaner industries and operations, Figure 3 shows the volume of EIB lending to projects specifically defined as climate action over the period 2009 to 2013 as a percentage of overall EIB lending. As stated earlier, these are projects that make a targeted contribution to climate action. Overall volumes have followed the general trend in EIB lending over this period. They are also linked to the existence of an overall target for climate action at portfolio level. In percentage terms, EIB lending for climate action has remained between 25% and 30% from 2010 onwards.

**Figure 3 Volume of total EIB lending and climate action signatures 2009 to 2013**



A29. The Bank supports climate action projects through a range of financial instruments tailored to the needs of its clients, which range from loans to guarantees or investments in equity and debt funds through a variety of counterparties (sovereign or sub-sovereign bodies, corporates, and financial intermediaries).

A30. Figure 4 shows the breakdown of EIB climate action lending by sector, confirming the relatively capital-intensive nature of transport and energy projects. A relatively small proportion of projects tend to account disproportionately for meeting the volume-based target. For instance, over the period 2009 to 2011, approximately 10% of climate action projects accounted for nearly 50% of total climate action lending.

**Figure 4 EIB climate action lending 2009 to 2013 split by sector**

A31. Whilst the most visible indicator, the focus on “headline” lending volumes reveals only one dimension of EIB backing for climate action projects. It is important to emphasise other roles of the Bank such as its support for emerging technologies at very early stages of development, or its support also for research and innovation and its ability to develop a range of innovative instruments for climate finance to tackle existing market deficiencies. Climate action outside the EU often takes up most of the technical assistance or advisory services of the Bank.

### Support for R&D and emerging clean technologies

A32. The Bank offers support to emerging technologies in their early stage of development to enable the sufficient market traction needed for their development. The Bank has shown steady backing for innovative technologies and technology transfer – solar PV, offshore wind, concentrated solar power (CSP), highly fuel-efficient vehicle engines, alternative fuels and others – often ahead of the market. This backing, sometimes based on risk-sharing facilities structured to support weaker risk profiles of promoters or technologies, has proved to be catalytic in attracting other public and private financial institutions to finance particular sectors.

A33. The Bank’s support for emerging clean technologies and innovative processes remains critical in its approach to climate action, and hence the Bank is a major player in low carbon RDI financing. Low carbon innovation entails high risks associated with investing in unproven technologies. In particular, high risk capital-intensive demonstration projects are needed to prove the commercial viability of new technologies. The EU recently addressed these aspects in the Innovation Union strategy to create an innovation-friendly environment that will promote Europe’s economic growth and job opportunities.

A34. Specific financial support, in the Horizon 2020 framework, targets key technologies, low carbon industrial processes and new high value-added and low carbon products and production. This includes measures to reinforce successful existing initiatives like the Risk Sharing Finance Facility co-financed by the Bank and blended with grants to improve the risk profile of operations. Technical assistance is generally not needed as the technical capacity to develop the projects resides in the promoters. A possible exception to this is technical assistance addressed at facilitating the transfer of knowledge in projects with a stronger innovation component.

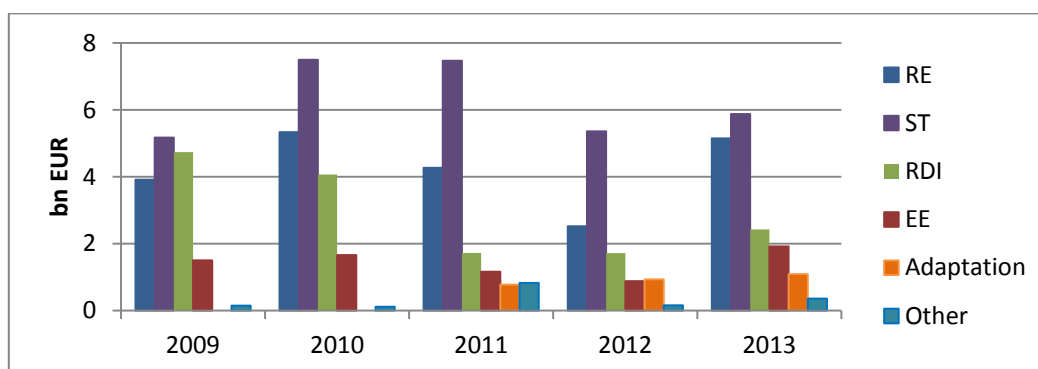
A35. The EIB has been supporting the NER300 Initiative, which is one of the largest existing funding programmes for carbon capture and storage (CCS) demonstration projects and innovative renewable energy technologies. Funded through the sale of 300 million allowances from the New Entrants Reserve (NER) of the third phase of the EU Emissions Trading Scheme (EU ETS), NER300 is a good example of how proceeds from an emissions trading scheme can be used to

fund demonstration projects or other innovative climate finance activities. Acting as an agent of the European Commission, the EIB appraised projects seeking funding from the initiative and monetised the 300 million EU allowances. The EIB has successfully completed sales under the NER300 Initiative and, despite challenging market conditions, it raised more than EUR 2bn for projects across the EU. The Commission awarded this amount to 42 projects in December 2012 and July 2014.

### Climate action within the EU

A36. The EIB encourages low carbon and climate resilient growth in Europe and supports in this sense international climate policy goals and European leadership in addressing the consequences of climate change. The Bank considers climate action to be of strategic importance and seeks to ensure that its activities and projects financed are as climate friendly and sustainable as possible, while maintaining the balance with other policy goals such as creating jobs and promoting EU competitiveness and growth. These constraints have been extensively addressed in a number of sector-specific reviews<sup>8</sup>. Figure 5 below shows the Bank's track record on climate action in lending in the EU.

Figure 5 EIB climate action lending in the EU per sector



A37. Since 2007, with the introduction of the Energy Sector Lending Policy, the Bank's lending to renewable energy and energy efficiency projects increased from below 10% of total lending to the energy sector in 2006 to over 52% in 2011, reflecting the strong growth in those markets and the high priority given to these sectors over this period. The Bank's support has been directed towards both mature and emerging technologies in areas – e.g. offshore wind or concentrated solar power – where massive upfront capital costs and high perceived risks challenge technology development. The Bank has therefore been instrumental in the achievement of current levels of deployment of these technologies.

A38. Energy efficiency investments have also significantly increased despite very challenging market barriers and failures. Tailor-made innovative solutions, often combined with technical assistance, can tackle the barriers identified (bundling of small and scattered energy efficiency investments, behavioural and technological issues, and organisational barriers related to competences, information and awareness) and have allowed the Bank to substantially scale up investments. The Bank is actively working to develop new financial instruments and initiatives to support energy efficiency gains on the scale required in the fight against global climate change.

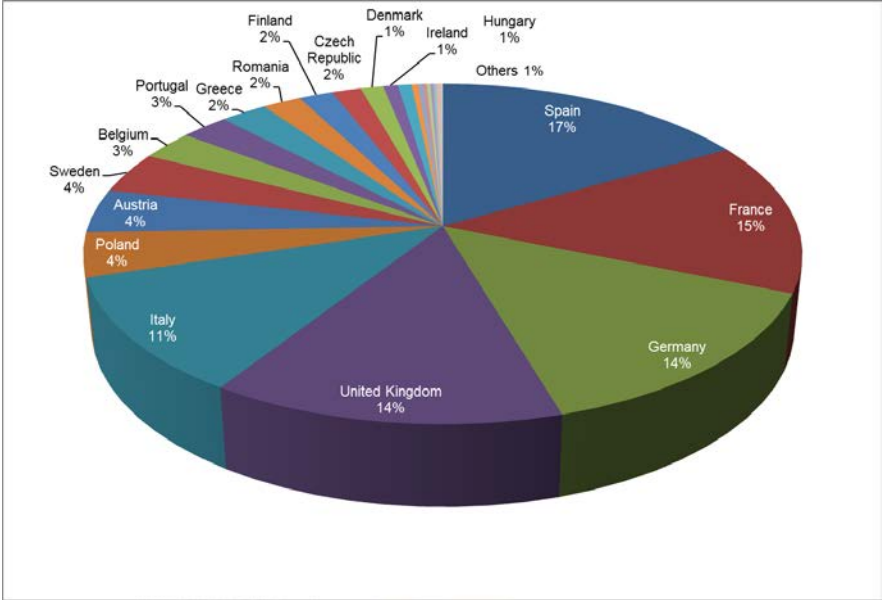
<sup>8</sup> See [http://www.eib.org/attachments/strategies/eib\\_energy\\_lending\\_criteria\\_en.pdf](http://www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf) and <http://www.eib.org/infocentre/publications/all/eib-transport-lending-policy.htm>

A39. In its transport lending, the Bank pursues an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This requires a mix of transport solutions where railways, inland waterways, public urban transport infrastructure, cycling and pedestrian networks supporting shifts from private to public transport modes, plus inter-modal hubs supporting shifts from high emission to lower emission modes, are prioritised.

A40. The EIB has emerged as a leading lender to the forestry and land use sectors: during the five year period 2009-2013, the Bank provided EUR 4.4bn in loans to support forestry sector projects, most of which within the EU, and the Bank’s support to the sector is steadily growing. Its lending to the forestry sector includes afforestation, reforestation, forest rehabilitation and protection (including disaster recovery), wood processing, timberland funds, and REDD+ (Reducing Emissions from Deforestation and forest Degradation). Eligible activities cover the full forest value chain, from site preparation for planting through to the production of timber, paper, packaging and energy. Forests play a major role in climate change mitigation, by storing carbon in trees and soil, and may also support adaptation, by reducing risks of erosion, flooding and landslides. They also have a crucial role to play in watershed management. In addition, forests are valuable habitats for biodiversity.

A41. EIB lending has supported the national strategies of the different EU Member States. The lending shares per country depicted in Figure 6 reflect the investment effort made by the different EU countries and the conducive regulatory and administrative frameworks enabling these investments but also the increasingly complex market conditions. The potential investment to achieve environmental sustainability and the overarching goal of sustainable development remains however high.

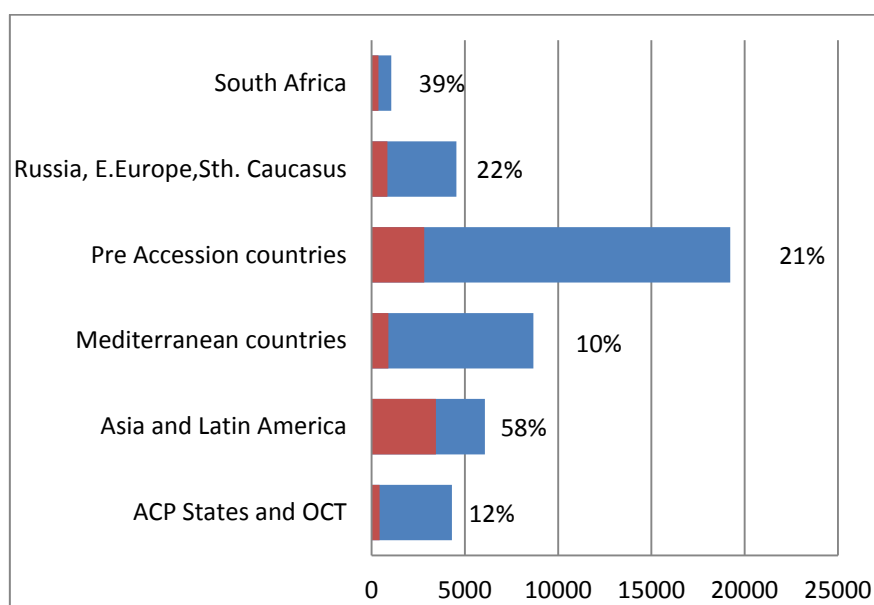
Figure 6 EU country share of EIB climate action lending 2009-2013



## Climate action outside the EU

A42. The geographic distribution of lending in non-EU countries is limited by the regional ceilings in the different external mandates<sup>9</sup> of the Bank. Figure 7 below shows total climate lending from 2010 to 2013 outside the EU as a percentage of overall lending by external mandate region. Approximately half of this climate lending was for renewable energy (51%), followed by sustainable transport (21%), energy efficiency (15%), research and innovation, forestry, land use etc. (7%), and adaptation (6%). In addition to the external mandates, the EIB provides additional lending from its Own Risk Facilities (ORF)<sup>10</sup>. Climate action-related projects feature prominently in all of these facilities.

**Figure 7 EIB climate action lending (red) outside the EU 2009 - 2013 (EUR m) as % of total lending in the region (blue)**



A43. The EIB is present in key blending facilities outside the EU<sup>11</sup>. Blending facilities combine EIB own lending resources with EU grants and are an opportunity for the Bank to carry out operations with higher value added, especially in the regions where it has had very limited or no access to budgetary funds. The EIB is a key supporter of the European Commission (EC) in the blending facilities.

A44. The IPCC's 5<sup>th</sup> Assessment Report recognises that immediate action to reduce deforestation and restore degraded forests plays a critical role in urgently addressing climate change. Although globally deforestation rates have declined in the last decade – largely due to increased regulation and enforcement – the sector is still responsible for 10% of global emissions. Sustainable management of agriculture, forests and other land is important in underpinning a country's

<sup>9</sup> Several external mandates are entrusted by the European Union and Member States to the EIB. The External Lending Mandate (ELM), which covers the Pre-Accession Countries, the EU Neighbourhood, Asia (including Central Asia), Latin America and South Africa; the Cotonou Partnership Agreement covering the Africa, Caribbean and Pacific (ACP) region; and the Overseas Association Decision covering the Overseas Countries and Territories (OCT). All mandates include climate action as a key objective.

<sup>10</sup> One of the ORFs is a newly established Climate Action and Environment Facility (CAEF), which has replaced the Energy Sustainability Facility, for countries in Asia, Latin America, ACP and South Africa, amounting to EUR 1.5bn for the 2014-16 period. The Pre-Accession Countries and EU Neighbourhood will be served by separate facilities.

<sup>11</sup> The EIB participates in the EU Platform for Blending in External Cooperation (EUBEC).

transition to sustainable development, ensuring food security and biodiversity protection alongside landscape-based climate action. REDD+ (Reducing Emissions from Deforestation and Degradation) is widely recognised as a cost-effective mitigation tool which not only encourages financial flows to forest conservation but which can also provide economic, social and other environmental benefits. The EIB has begun to invest through a fund in REDD+ and aims to identify further prudently diversified, financially robust vehicles for maintaining this signal of support.

A45. In December 2012, the EIB published a Climate Strategy outside the Union<sup>12</sup> relating to External Lending Mandate<sup>13</sup> countries, but, especially on the methodological side, also extending to Africa, the Caribbean and Pacific regions (ACP) and Overseas Countries and Territories (OCT). This will be reviewed at the end of 2015, and will thus benefit from the outcome of the current review and consultation. Within it, the EIB commits to several focal areas, including:

- More proactive approach to supporting innovative mitigation projects, including helping to guide country processes such as Nationally Appropriate Mitigation Actions (NAMAs) and national Low Emission Development (LED) strategies;
- Improving climate resilience in most vulnerable countries, including through improved project screening, increased financing of high quality demonstration adaptation projects, support for country needs identified in National Adaptation Programmes of Action (NAPAs), and technical assistance;
- Further collaboration in both of the above areas with the European Union, the European External Action Service and Member States, to achieve a more structured alignment with the resulting country operational programmes. The EIB is also engaging with key Member States which are particularly active in promoting climate action in developing countries to further support climate action through grants channelled via EIB Trust Funds (see section V below).

A46. This strategy positions the Bank in the international climate finance context as a leading multilateral provider of climate finance outside the Union. In the context of the UNFCCC Copenhagen climate finance agreements<sup>14</sup>, the EIB is actively contributing to a worldwide goal of jointly mobilising USD 100bn a year by 2020 to address the climate change mitigation and adaptation needs of developing countries. The funding will come from a variety of sources, public and private, bilateral and multilateral, and is likely to be largely channelled through the new Green Climate Fund (GCF).

A47. Of course, it has to be recognised that in many developing countries, actual investment in climate action markets is currently rather limited, although the development of NAMAs and NAPAs should help identify and tackle such barriers. Weak regulatory environments often discourage private investment, compounded in many cases by subsidised energy prices that disincentivise investment in climate action projects.

A48. Figure 8 below provides a breakdown of climate lending by sector and region. The unevenness between the different regions is driven by the factors of creditworthiness, absorption capacity and actual demand. The Eastern Neighbourhood is an example of the challenges in regard to climate action, largely because the market potential is not matched by regulatory support. Likewise, in the Southern Mediterranean region, weak regulation and high energy

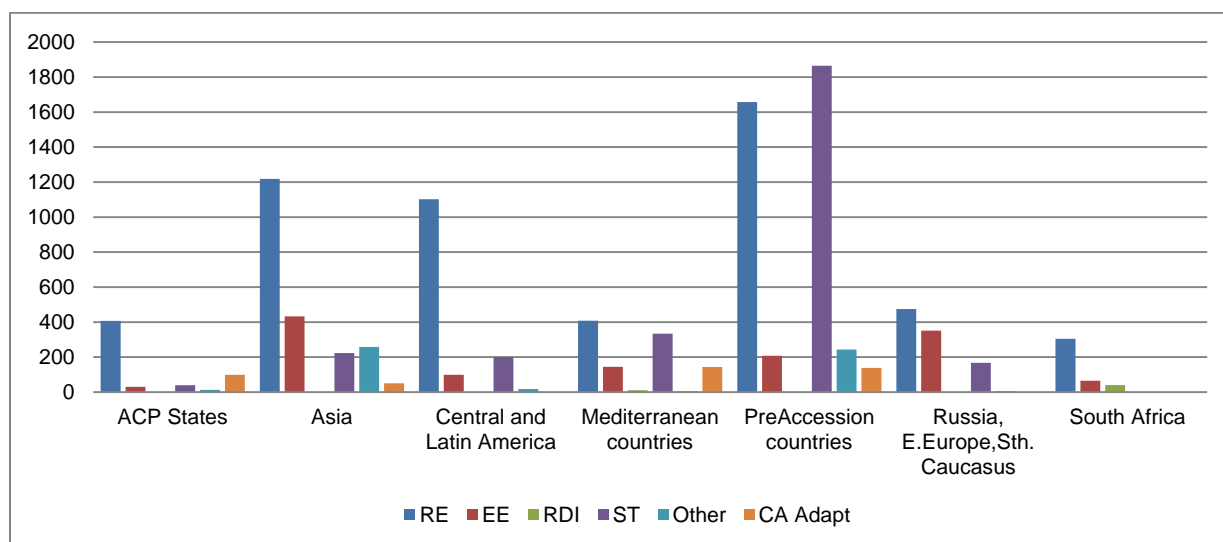
<sup>12</sup> <http://www.eib.org/infocentre/publications/all/eibs-climate-strategy-outside-the-eu.htm>

<sup>13</sup> Part of the Bank's financing operations outside the Union are carried out under an EU budget guarantee, set out in the external mandates for EIB activities in different regions of the world: Pre-Accession Countries, Southern and Eastern Neighbours and partner countries in Asia, Latin America and South Africa.

<sup>14</sup> In the United Nations Framework Convention on Climate Change (UNFCCC) Copenhagen Accord (2009), and later in the UNFCCC Cancun Agreements (2010), developed countries jointly pledged up to USD 30bn of "fast start" climate finance for developing countries for the period 2010-2012 and set the goal of jointly mobilising USD 100bn annually by 2020. See [www.unfccc.int](http://www.unfccc.int)

subsidies translate into relatively few climate action projects financed by the EIB to date. Climate change will continue to be a large investment area for the EIB in Asia and Latin America. Finally, a significant share of EIB financing in 2012-2013 in South Africa has been for climate action projects. The ACP and OCT regions also have a strong focus on climate action, since they include many of the countries that are most vulnerable to the impacts of climate change.

**Figure 8 EIB climate lending outside EU by sector and region (in EUR m)**



#### IV. ENGAGING PRIVATE SECTOR INVESTORS

A49. The Bank's traditional financing products are medium and long-term direct or intermediated loans with fixed or variable interest rates in euros or other currencies, guarantees, investments in debt and equity funds and venture capital investments. EIB direct lending is addressed at financing large projects and companies while indirect lending through credit lines to local banks or other intermediaries allow support for smaller projects. The EIB offers the opportunity to combine its financing with EU grants, depending on the scope and definition of the project.

A50. Meeting global climate objectives will require significant new investments in low carbon technologies and projects and the direct impact of the EIB remains small in comparison with the overall investment needs. Consequently, the Bank is very active in engaging the private sector in financing low carbon projects by developing new products and instruments that either catalyse private sector financing or leverage public funds to address a particular policy issue. These products include alternative investment vehicles such as equity and debt funds, guarantees and/or subordinated loans with a view to providing indirect debt or equity to projects, taking more risk or enhancing the credit quality of projects or project sponsors. For these activities, the Bank either uses its own resources, for which it created a special activities reserve to allow greater risk-taking capabilities, or combines its financing activities with public funds provided by Member States and the European Commission (e.g. the external mandates referred to above or joint EC/EIB financial instruments).



- A51. One example of the use of the Bank's own balance sheet is investment in equity funds. The main purpose of EIB fund investments is the associated catalytic effect stemming from the thorough appraisal process of the EIB investment, which typically provides comfort to third parties and thus helps the fund manager to raise additional public and private capital. In addition, equity funds enable experience to be gained with new asset classes with a view to potentially mainstreaming these into the core EIB business at a later stage or targeting projects that would otherwise be too small to benefit from EIB lending activities.
- A52. At the end of 2013, the EIB had committed more than EUR 500m to 19 climate-related infrastructure funds. These relate to a diverse range of sectors including renewable energy, energy efficiency, forestry and sustainable land use, land rehabilitation, soil decontamination and biodiversity conservation. The total target fund commitment to these funds is EUR 4bn. This represents a catalytic effect in the form of investments additional to the EIB investment of 6.5x<sup>15</sup>. The ratio of total investment supported at final project level to the EIB's commitment<sup>16</sup>, the so-called multiplier effect, is estimated to be 26.1x.
- A53. Examples of instruments that target specific policy outcomes are the so-called layered-risk funds. Typically, the EIB acts as a cornerstone investor and sponsor of these funds and structures them around a specific policy outcome, such as extending financial coverage to new and/or under-banked markets, or to demonstrate innovative financial structures. The capital structure of such an investment vehicle typically rests upon the provision of a first loss piece covered by public funds.
- A54. This risk-cushion allows the EIB and other public financiers to invest in more senior tranches, bringing the benefits of the EIB's financial strength to achieve economic sustainability and stimulate investment from other sources. On the asset side of the fund, this structure allows the possibility to issue notes to private investors who remain most senior in the cash waterfall of the fund. Recent examples are the European Energy Efficiency Fund (EEEEF) or the Green for Growth Fund (GGF).
- A55. The EIB also offers innovative climate finance instruments for capital market investors. It recognises that meeting the climate finance challenge will require the mobilisation of long-term capital from additional financing sources, such as institutional investors like asset managers, sovereign wealth funds, pension funds and insurance companies.
- A56. The Bank has been a pioneer and an active promoter of Green Bonds in the international capital markets. In 2007, it was the first supranational borrower to issue a Green Bond<sup>17</sup> (Climate Awareness Bond – CAB), with proceeds earmarked for renewable energy and energy efficiency investments. As of October 2014, the EIB's CABs / Green Bonds had raised over EUR 7bn equivalent across 10 currencies (mostly in EUR, USD, GBP and SEK). CAB proceeds had been allocated to 55 projects in 19 countries within and outside the EU by end-2013.
- A57. In addition, the Bank has supported asset-backed bonds from renewable energy and water projects and provides credit enhancement for infrastructure bonds through the Project Bond Initiative<sup>18</sup>, which – while not designed for low carbon projects – has also supported a transmission link to a large offshore wind project.

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<sup>15</sup> [http://www.eib.org/attachments/thematic/innovative\\_climate\\_finance\\_instruments\\_en.pdf](http://www.eib.org/attachments/thematic/innovative_climate_finance_instruments_en.pdf)

<sup>16</sup> Assuming an average 80:20 debt to equity ratio for the underlying projects.

<sup>17</sup> [http://www.eib.org/investor\\_relations/documents/eib-climate-awareness-bonds.htm](http://www.eib.org/investor_relations/documents/eib-climate-awareness-bonds.htm)

<sup>18</sup> <http://www.eib.org/products/project-bonds/index.htm>

## V. BLENDING / TECHNICAL ASSISTANCE / PARTNERSHIPS

### Blending facilities and trust funds

A58. Blending is a powerful tool to support EU climate action. The EU has seven regional blending facilities, and a significant proportion of their operations are already climate relevant. But more can possibly be done in particular to strengthen the link between blending and relevant climate policies, and to attract larger volumes of financing for, and broader coverage of, the climate agenda.

A59. The Bank also manages a number of trust funds, e.g. the FEMIP<sup>19</sup> Trust Fund and the Eastern Partners Technical Assistance Trust Fund, which can provide both technical assistance and various financial instruments to enhance loan concessionality. The Bank is exploring with existing and potential contributory donors how these trust funds can more pro-actively encourage climate investments.

### Technical assistance

A60. Technical assistance plays a critical facilitator role in defining new investment opportunities and helping promoters to develop a comprehensive action plan and project pipeline in the field of climate change mitigation and adaptation. It may also be critical to the construction of the necessary favourable environment for climate action investments in terms of regulatory frameworks and institutional capacity building.

A61. The EIB delivers technical assistance for climate action activities in broadly three main forms: (i) advisory services provided to national or regional authorities to support the planning and preparation of projects before submission to the Bank for financing; (ii) technical assistance provided directly to promoters (public or private) to support the project development cycle, from conception to implementation and operation, and technical, environmental or legal advisory services to financial structuring; and (iii) support for the implementation of more innovative financial instruments and structures.

A62. JASPERS (Joint Assistance to Support Projects in European Regions), for example, is a technical assistance partnership between the European Commission, the EIB, the European Bank for Reconstruction and Development (EBRD) and KfW Bankengruppe (KfW) that supports the preparation of projects across different sectors - some of them climate action projects – to be submitted for grant financing under the EU Structural and Cohesion Funds. JESSICA (Joint European Support for Sustainable Investment in City Areas) is also a technical assistance initiative provided by the EIB and the Council of Europe Development Bank (CEB) to advise and assist national, regional and local authorities on a range of financial instruments in support of integrated and sustainable urban development plans. ELENA (European Local ENergy Assistance) is also a joint EIB-EC initiative that targets EU local municipalities and regions and supports the implementation of large energy efficiency and renewable energy projects. It covers a significant part of the cost of the technical support needed to prepare, implement and finance an investment programme.

A63. The Bank has developed a programme of technical assistance to include capacity and strategy building at a regional multilateral development funding institution (MDFI) offering funding to qualifying projects in the Caribbean region in the field of Climate Change (CC) and Climate Adaptation (CA) in particular. The Caribbean region has a history of weather-related disasters, and the expected trend towards more extreme patterns of weather will have a disproportionate

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<sup>19</sup> Facility for Euro-Mediterranean Investment and Partnership

effect on the countries of the region. Also outside the EU, the Bank is engaging with Mediterranean countries (FEMIP) in the preparation of their Nationally Appropriate Mitigation Action plans (NAMAs, see section III above) reflecting climate change policy objectives with the goal of helping to channel climate finance to concrete projects under the NAMA framework.

A64. Finally, technical assistance funds are also dedicated to individual projects to overcome institutional or other barriers holding up project implementation and to add specific climate action aspects such as energy audits or climate risk and vulnerability assessments. Project-specific situations may require diverse kinds of technical assistance, for example from technical assistance for cumulative environmental impact assessment for a particular region or country to technical assistance to set up a project implementation unit, etc.

## Partnerships

A65. The Bank recognises the critical importance of coordinated action in the field of climate and engages constructively with a wide range of external stakeholders through various partnerships and activities. Prominent among the various partnerships where EIB is active is the support for the European Commission's priority policy objectives. The Bank is fully aligned with the EC climate policy goals and has developed close links with the different EC Directorates to better serve the financial requirements of the climate agenda. These links recognise the potential major role that the EIB can play in attracting capital and channelling financial investment flows towards climate action projects.

A66. Since 2010 the Bank has been actively working with other Multilateral Development Banks (MDBs) to further coordinate our financing, ideas and analyses and continue harmonising our approaches to climate action in order to promote transparent and robust climate finance tracking and reporting. This collaborative effort to achieve further harmonisation goes beyond financial flow tracking as MDBs are currently working to also harmonise impact reporting in terms of GHG emissions and other impacts as well as appraisal methodologies. As part of this, the Bank is a signatory to the MDB Declaration on Sustainable Transport.

A67. The Bank has observer status at the annual meetings of the Conference of Parties (COP) to the UNFCCC and is actively contributing with its resources and experience to the global climate change negotiations and the overall financial architecture of a future global climate agreement. The Bank is working towards becoming an accredited implementing entity of the Green Climate Fund, and will also work with its Private Sector Facility to help mobilise private sector finance as part of the contribution to the USD 100bn target of additional climate finance by 2020. The Bank also supports the United Nations climate agenda through specific participation in different programmes such as the UN Sustainable Energy for All (SE4ALL) initiative and the Climate and Clean Air Coalition to Reduce Short Lived Climate Pollutants (CCAC) initiative.

## VI. INTEGRATING CLIMATE ACTION INTO THE PROJECT CYCLE

A68. This section explains the considerations that are routinely taken into account during the appraisal of projects submitted to the Bank for financing. The environmental impacts are taken into account for all projects financed by the EIB. For investment projects, the potential impacts of climate change and GHG emissions are examined during the project appraisal process. The general project appraisal process at the Bank seeks to ensure that projects are not only financially viable but also technically, economically, socially and environmentally viable. The Bank has also set up monitoring protocols during project implementation and operation to follow up on the main technical, social and environmental aspects identified during the appraisal and thereafter.

A69. Climate action has been integrated into this framework over a number of years, in pursuit of a general objective of portfolio quality enhancement, ensuring that minimum quality criteria are satisfied and potentially providing tools to further enhance the quality of selected operations. This section explains the core building blocks of streamlining climate considerations into the Bank's project cycle. These are (i) individual environmental and social due diligence of projects; (ii) value added assessment (iii) the internalisation of costs from climate damage in the economic assessment of projects; and (iv) the assessment of the vulnerability of projects to future anticipated climate change. Since 2009, the Bank has also been estimating and reporting the GHG embedded in the projects it finances.

### **Environmental and social due diligence of EIB operations**

A70. The EIB promotes sustainable development through the operations it finances, by focusing on their value added and aiming for positive project outcomes. It does this by carrying out an integrated assessment of the economic, environmental and social (E&S) aspects of the operations, while at the same time ensuring alignment with EU policy and sustainable acceptable economic, financial and technical viability.

A71. The overarching framework of EIB's approach to the E&S performance of its operations is set by the EU Treaties and the EU Charter of Fundamental Rights and is derived from the body of EU environmental and social law<sup>20</sup>, including international agreements and conventions concluded by the EU. It reflects the policy-driven nature of the Bank, the experience acquired to date, the approach to due diligence systems shared with its institutional peers and other sources of good international practice. It comprises the following components:

- An Overarching Policy Statement which sets forth the key policies, principles, scope, mitigation hierarchy and organising framework of the Bank's approach to potential environmental and social impacts and risks arising out of its activities. The Statement generally applies to the EIB itself, setting forth the key principles to which it holds itself accountable.
- Operational Requirements have been defined for different types of financial products and circumstances. The relevant EIB Environmental and Social Standards (Vol. I of the EIB E&S Handbook) are mandatory in their application to borrowers and promoters. They include a standalone EIB climate-related standard.

A72. The EIB Environmental and Social Handbook outlines the Bank's approach to appraising, managing and monitoring environmental and social impacts, risks and opportunities in proportion to their significance. It describes the steps for determining the scope of the environmental, social and monitoring activities that the EIB carries out for all operations in all regions throughout the project cycle. Some of these Environmental and Social standards are generic (e.g. related to formal Environmental Impact Assessment (EIA) requirements) while others are sector/project-specific, e.g. end-of-pipe and ambient emissions standards. Both climate change and biodiversity and ecosystem loss – by virtue of their nature (e.g. public goods and externalities attributes) and scale (broad in geographical and sector scope) – are considered to be transversal issues for which a uniform approach across all projects is applied.

A73. Internal procedures guide the way that the EIB conducts its due diligence, through project preparation, appraisal, approval, monitoring and supervision as well as in meeting its documentation and disclosure requirements with respect to environmental and social matters. In

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<sup>20</sup>For example the Industrial Emissions Directive, the Large Combustion Plants Directive, the Habitats Directive, etc.

order to manage risks and opportunities, EIB staff rate all projects early in the project cycle, according to their respective expected impact and risk to the environment and human well-being. The rating is reviewed after appraisal to inform decision-making by the Bank, as well as during project implementation and operation to assess project outcomes. The EIB Transparency Policy applies broadly to information disclosure and public access to environmental and social information obtained and generated by the EIB.

### **Value added assessment**

A74. At the heart of the Bank's decision-making lies a value added (VA) scoring tool that measures a project's contribution to the different policy priorities of the Bank. This tool not only helps the Bank to identify and rank investment opportunities but also ensures a close alignment of project prioritisation with the Bank's lending priorities and informs the Bank about the ex-post results and impacts of the project.

A75. Once the EIB establishes that a project adheres to its basic eligibility criteria, a multi-disciplinary appraisal team carries out an in-depth assessment using the Three Pillar methodology. Each of the pillars consists of a number of scoring indicators to quantify assessment. These indicators are applied for all projects. The scoring is structured around three main value added criteria: (i) the quality of projects and their contribution to sustainable growth and employment; (ii) the relevance of intervention at the EU level (EIB policy) and (iii) the contribution of the EIB to advancing the project. The EIB rates all projects early in the project cycle.

A76. The value added assessment (the "Three Pillar Assessment"<sup>21</sup>) is reviewed after project implementation to provide information about the results achieved. This allows the reporting of project results and impacts from the Bank activities. The methodology has been reviewed by a panel of academics specialising in cost-benefit analysis.

A77. Projects including specific environmental benefits and/or specific features making an exceptional contribution towards the achievement of EU policy objectives are favoured. In this way climate aspects are also highlighted in the VA framework and are prioritised with higher ratings for the project. The value added assessment criteria are complemented by a monitoring framework which is used consistently through the project cycle.

### **Integrating climate impacts into the economic assessment of projects**

A78. As set out in further detail in the Bank's Guide to Economic Appraisal of Investment Projects, the Bank has included the costs associated with climate change, as well as local and regional air pollutants more widely, into its economic analysis of projects for a number of years. In fact the EIB was among the first IFIs to formalise the use of environmental externalities in its decision-making process. Although some subtle variations exist, the core idea is to estimate emissions with and without a project, and then convert this change in physical flow (tonnes of CO<sub>2</sub> emissions) into monetary damage or benefit by multiplying by a cost of carbon (EUR/t CO<sub>2</sub>).

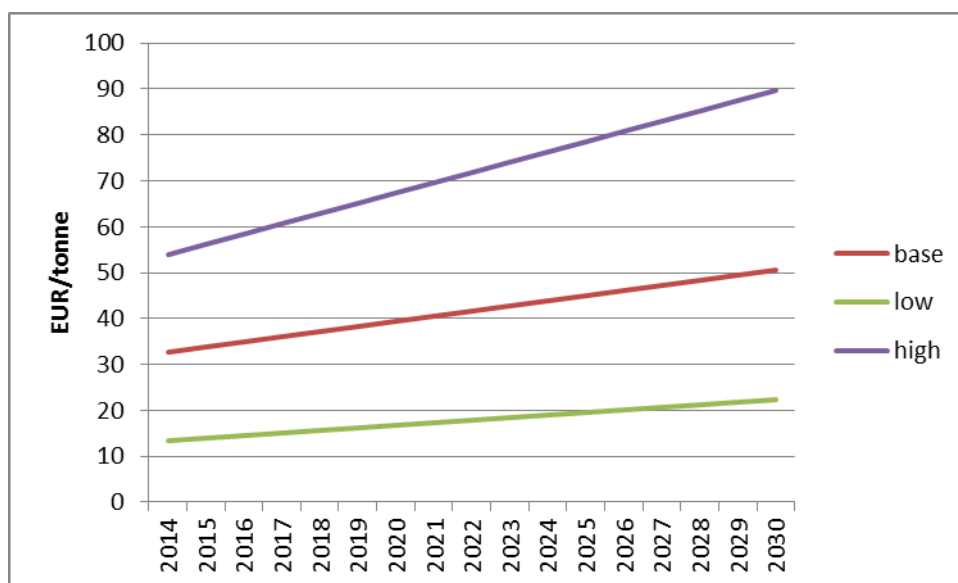
A79. Figure 9 presents the economic price of carbon currently applied by the Bank (in 2013 euros), based on a review of the appropriate literature. Note that these values reflect an estimate of the social damage of an additional tonne of CO<sub>2</sub> emitted to the atmosphere. Assuming that the marginal damage of emissions increases as a function of the atmospheric concentrations of carbon, an absolute increase in value per year is added as shown in Figure 9. This is entirely

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<sup>21</sup> [http://www.eib.org/attachments/general/events/2013\\_11\\_07\\_roundtable\\_added\\_value\\_briefing\\_note\\_en.pdf](http://www.eib.org/attachments/general/events/2013_11_07_roundtable_added_value_briefing_note_en.pdf)

separate from any view the Bank may take on ETS allowance prices, in particular where it may be exposed to such a risk. The Bank also integrates local air pollution, water and noise externalities as the project appraised may require.

**Figure 9 Economic price of carbon<sup>22</sup>**



### Reducing the climate vulnerability of projects financed and targeting adaptation projects

A80. The Bank recognises the growing importance of adaptation in case of a possible delay of effective global mitigation measures to keep global warming below 2°C, and due to projected impacts even if that target is met. In parallel to supporting mitigation measures, the Bank identifies adaptation investment needs, in terms of both specific activities to adapt countries, regions, cities and businesses to climate change and the additional investment required to make projects more resilient to expected climate change impacts.

A81. The expected increase in global average temperatures due to increased concentrations of GHG in the atmosphere can lead to very significant effects and physical changes to the environment and poses significant risks to projects, specifically in risky sectors (e.g. projects particularly exposed to water supplies and availability, to increased salinization of water streams or to the severity of heavier rainfall, floods, storms and other extreme events), or to projects in vulnerable areas (coastal areas, tropical regions, landslides, heat waves) or regions already threatened by harsh climatic conditions (floods, droughts, cyclones). The need to anticipate these by mainstreaming climate risk considerations into the project cycle and promote adaptation projects is becoming crucial.

A82. The Bank is working on tools to routinely include climate change parameters into project identification (pre-appraisal) and appraisal that screen all projects for possible climate change risks. This screening also seeks to ensure that the potential consequences of projects for the resilience of ecosystems and human structures are addressed and included in planning processes and in the Strategic Environmental Assessment and Environmental Impact Assessment, when these are carried out.

<sup>22</sup> These graphs are based on the updated CO<sub>2</sub> price scenarios that replace the values published previously, most recently in the Bank's *Guide to Economic Appraisal of Investment Projects*

A83. The Bank has stepped up its support for adaptation measures to reduce projects' climate change vulnerability and their broader impacts on society and the economy. Technical assistance is particularly being targeted at performing climate vulnerability assessments that identify risk and how projects can be made more climate change resilient. It also advises clients during project appraisal on adequately preparing their organisations to be more climate resilient.

### **Estimating the GHG emissions from projects**

A84. As a public institution, the Bank is committed to understanding the impact of its financing in terms of GHG emissions and sequestration. Since 2009, it has been estimating the GHG emissions of the investment projects financed, and this information is now regularly published. A robust estimate at project level is a prerequisite to an appropriate estimate of some of the environmental costs and benefits of a project in climate terms. Separately, the Bank is also committed to estimating and reporting on the emissions from its own internal operations (i.e. building, employee travel, etc.). This section concentrates on the emissions associated with the projects financed by the Bank.

A85. The Bank carried out a three-year pilot phase from 2009-2011 to measure the impact in GHG emissions from the projects it finances. Based on this work, a project carbon footprinting requirement has been introduced at the appraisal stage for all direct investment loans or large framework loan allocations. Project carbon footprinting is now mainstreamed into the Bank's operations, while an external audit and review of the 2011 data was completed in 2013, confirming the Bank's Carbon Footprint Exercise (CFE) approach and methodology. The methodology is published and, moreover, since January 2014 individual project carbon footprint data has been available to the public through the Environmental and Social Data Sheet held in the Bank's public register<sup>23</sup>.

A86. As presented in detail in the methodology, the Bank only estimates certain emissions from a project. Broadly speaking, it estimates direct emissions or sequestration physically occurring from sources operated by the project – e.g. from combustion processes or timber growth – as well as indirect emissions embedded in any electricity or heat used. In addition, however, in the case of network projects, the methodology also includes, where relevant, wider emissions – e.g. from vehicles using the road network. The methodology is not a life-cycle analysis, incorporating emissions from up and downstream processes. Nor does it include emissions from the construction period of a project.

A87. The Bank's carbon footprinting reports two measures: absolute and relative emissions from a project. Absolute emissions correspond to the estimated emissions from a typical year of operation of the project. Relative emissions refer to the change in emissions resulting from the project. Estimating this relative impact requires the establishment of a baseline, or credible alternative scenario without the project, against which the impact of the project in GHG terms can be compared. This is clearly a theoretical exercise (a counterfactual) and hence incorporates an additional level of uncertainty beyond that involved in estimating absolute emissions.

A88. The methodology used by the Bank to estimate emissions is publicly available and its results have been audited. The Bank continues to work closely with other IFIs to develop harmonised approaches and in 2012 it signed the harmonised IFI framework<sup>24</sup>. It is useful to stress some limitations of the current methodology:

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<sup>23</sup>This is available at <http://www.eib.org/infocentre/register/index.htm>

<sup>24</sup> [http://www.eib.org/attachments/documents/ifi\\_framework\\_for\\_harmonised\\_approach\\_to\\_gga.pdf](http://www.eib.org/attachments/documents/ifi_framework_for_harmonised_approach_to_gga.pdf)

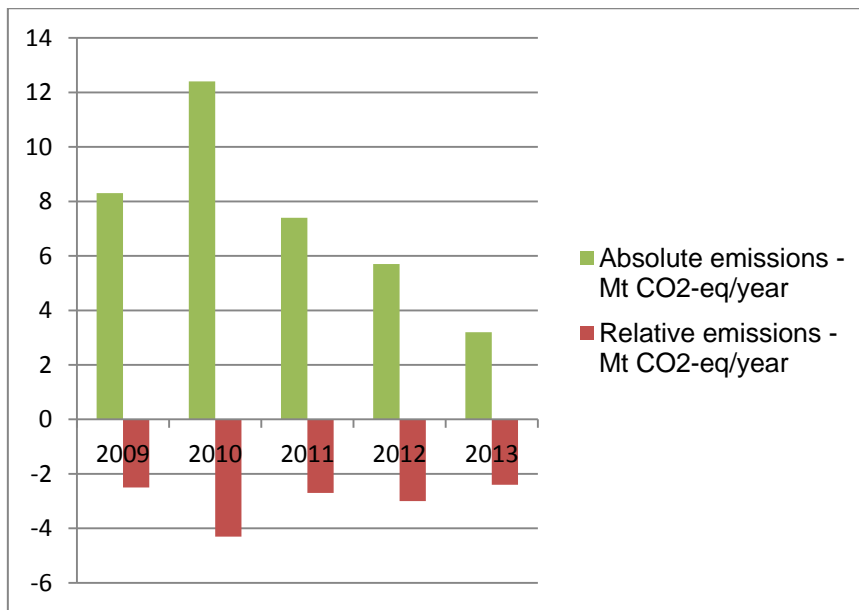
- Reporting only applies to investment loans, and larger components of framework loans, above certain emissions thresholds. The thresholds have been introduced for reasons of proportion. Based on earlier work in 2009, it is estimated that the threshold captures 95% of GHG emissions from investment projects;
- The methodology is not applied to intermediated loans, which equates to almost one-third of the Bank's lending in recent years. The Bank continues to examine ways in which, where relevant and reliable, the GHG impact of SME lending can be assessed and reported;
- Specific methodologies are being developed for airport and port projects. This work is still in a pilot phase; and finally,
- As is standard in Bank reporting, emissions are recorded for projects at the time of finance contract signature, not actual disbursement. Moreover, when reporting, the Bank takes the proportion of project emissions corresponding to the proportion of the Bank's finance relative to the overall project cost signed that year. So if the Bank is financing 40% of the project cost, it will record 40% of the project emissions under its own account.

A89. Despite these limitations, the introduction of a consistent measurement framework allows the Bank to report on the GHG impact of its portfolio – in addition to the more standard reporting on lending volume. These limitations and the research performed to date on these figures, show that it is difficult to use carbon footprint targets as a decision-making tool. The Bank is continuing to improve its estimation methods and is examining the use of these figures in the assessment and reporting of impacts.

A90. Figure 10 below shows the Bank's aggregated prorated absolute and relative emissions – i.e. the annual Carbon Footprint Exercise (CFE), with each project's emissions prorated to the size of the EIB loan. Relative emissions estimate the increase or saving in emissions from the project compared to a baseline – and savings are presented as negative numbers. The figure reveals that there is relatively little correlation between the aggregate GHG emissions and EIB lending volumes. Bank signatures were approximately EUR 80bn in 2009, falling by approximately EUR 10bn per year to just over EUR 50bn in 2012 and recovering to over EUR 70bn in 2013. Absolute emissions fell by a similar proportion over the whole period, from around 8 million tonnes CO<sub>2</sub>eq in 2009 to just under 6 million in 2012 and 3.2 million in 2013. This reflects the large influence of a relatively small number of GHG-intensive projects on the overall Bank lending.

**Figure 10 EIB project emissions 2009 to 2013 – prorated to lending volume**

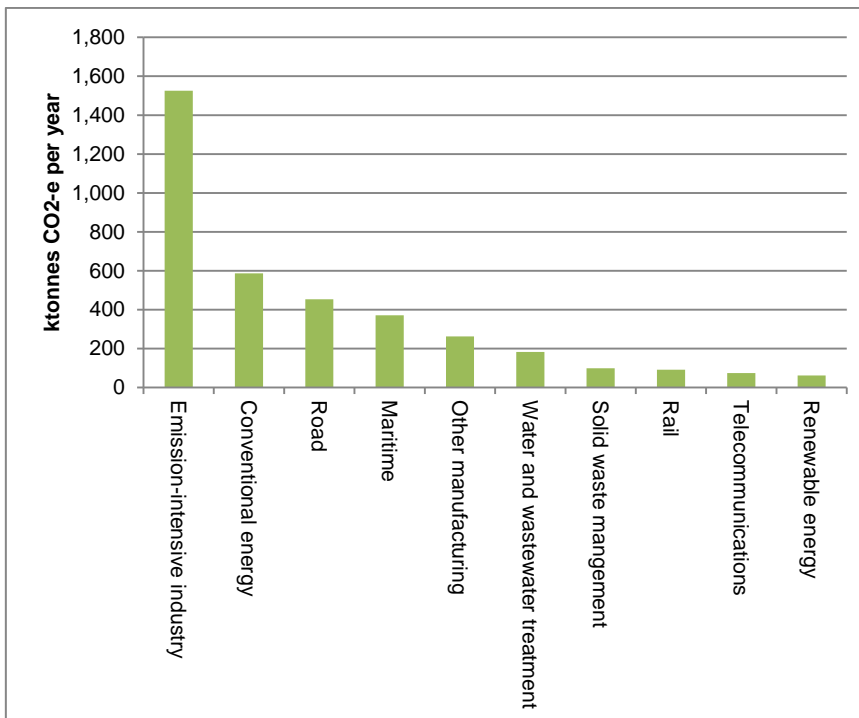




**Note:** Relatively slight modifications to the methodology in 2012 may imply minor inconsistencies between the data over the period 2009 to 2011 and 2012.

A91. Figure 11 shows the absolute emissions per project across different sectors, averaged across different projects financed by the Bank in the period 2009 to 2013. Emission-intensive industry and conventional energy projects exhibit emissions of an order of magnitude beyond many other sectors financed by the Bank – and hence dominate the aggregate emission results.

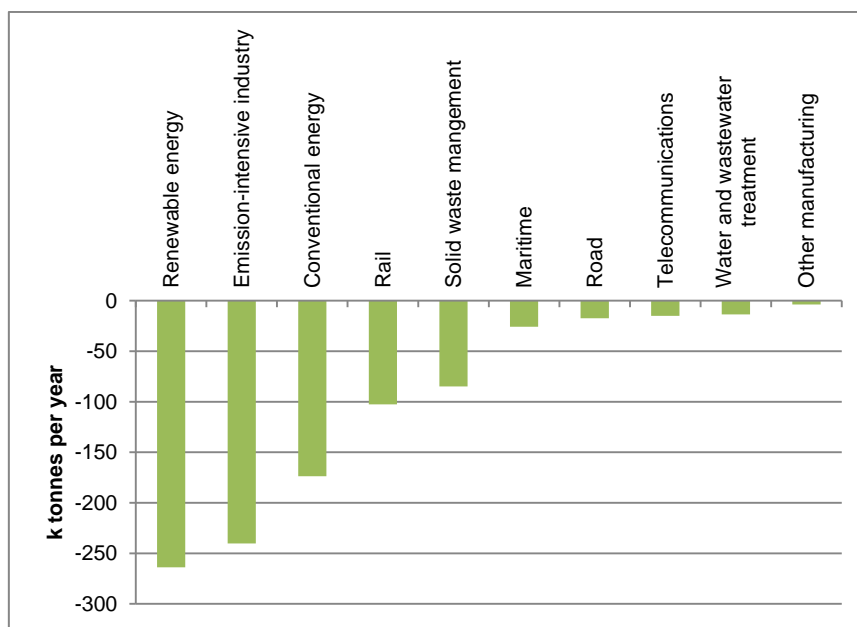
**Figure 11 Mean absolute emissions per project 2009 to 2013**



**Note:** This chart presents results based on the project – not the portion financed by EIB.

A92. Figure 10 also shows some degree of correlation between absolute and relative emissions. Large emission savings tend to be associated with high absolute emitters. This is also demonstrated in Figure 12, which shows average relative emissions per project, also averaged across different projects financed by the Bank in the period 2009 to 2012. Conventional energy and emission-intensive industry projects also tend to be sources of relatively large emission savings.

**Figure 12 Mean relative emissions per project 2009 to 2013**



**Note:** This chart presents results based on the project – not the portion financed by EIB.

A93. The GHG estimates for projects yield important information for understanding the impact of a project on the climate – but may not give the whole picture, not even in terms of GHG. The Bank is continuing to examine different ways to apply this data to improve decision-making and information on project impacts; and indeed, the Bank's energy lending criteria introduce an emissions performance standard for conventional power and heat plants. The impact of a project in terms of GHG emissions is a key parameter in its own right; but it is also used as an input in economic analysis, as explained above.

## VII. SAFEGUARDS AROUND POTENTIALLY CARBON-INTENSIVE SECTORS, AND RISKS TO BIODIVERSITY

A94. This section explains the role of sector-specific eligibility and assessment criteria for potentially carbon-intensive sectors, such as conventional power generation, energy-intensive industry or certain transport modes; and activities which may be associated with damage to biodiversity, such as biomass from high conservation value forest. It should be stressed that these safeguards apply in addition to the standard requirements set out in Section VI above. In a number of cases these additional safeguards were implemented following public consultation and formulated within the framework of the Bank's sector approach. They are only highlighted here for information, their full rationale can be viewed in the relevant sector policy.

### Power and heat generation

A95. In 2013, the Bank revised its screening and assessment criteria for energy projects. It replaced the former criteria for coal and lignite plants with a technology neutral threshold emission performance standard, or EPS, (in g/kWh) for all fossil fuel power projects, above which projects are screened out. This is currently set at 550g/kWh based on existing EU climate commitments. Only limited exemptions were agreed by the Bank's Board of Directors. The EPS provides a technology neutral screening tool which is designed to ensure a "no-regret" approach to the financing of fossil fuel generation, and in particular avoid locking in carbon-intensive assets. Full details can be found in *EIB and Energy: Delivering Growth, Security and Sustainability*.<sup>25</sup>

### **Energy-intensive Industry**

A96. The Bank's lending to emission-intensive industries (including steel, aluminium, glass, cement, pulp and paper, chemicals) focuses on investments in the development and deployment of environmental technologies or the modernisation and – to a lesser extent – expansion of production sites in regions eligible under the EU's cohesion or external cooperation policies. The Bank – both within and outside EU – aims to support best practice resulting in emission limit values and energy consumption in line with the EU Emissions Trading Scheme product benchmarks (thus reflecting the average greenhouse gas emission performance of the 10% best performing installations in the EU) as well as emission limit values based on the Best Available Techniques (BAT), as defined in the Industrial Emissions Directive.

### **Transport**

A97. The Bank's Transport Lending Policy (TLP), introduced in 2007 and updated in 2011<sup>26</sup>, places additional requirements on carbon-intensive modes of transport to ensure that mobility benefits outweigh any residual climate cost. For instance, both road and civil aviation projects need to demonstrate high forecast economic returns taking into account the value of carbon emissions in the cost-benefit analysis. In the case of airports, in markets where the Emissions Trading Scheme is not applicable, traffic projects are adjusted to reflect the effect that would be expected from the introduction of such a scheme.

### **Bioenergy**

A98. The Bank's appraisal process for bioenergy projects pays particular attention to the sustainable production and supply chain of biomass. The EIB excludes from its financing any installation that makes use of products procured from high conservation value natural forests, or plantations that were established on areas converted from natural forests after November 1994.

### **Expanding water supply**

A99. The Bank's 2008 Water Sector Lending Policy focuses on water efficiency, demand-side management and leakage reduction, which lowers the need for carbon-intensive water treatment and pumping. Adaptation investments to increase resilience to climate change impacts are also targeted. In the case of new water supply, the policy requires promoters to demonstrate that demand-side measures have been adequately considered and implemented. In the case of desalination plants, this needs to be coupled with a demonstration that there is a pressing water scarcity, security or adaptation need, in addition to showing that demand-side measures are insufficient to meet the demand-supply gap and that desalination is the least cost option.

### **Solid waste management**

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<sup>25</sup> <http://www.eib.org/infocentre/publications/all/eib-energy-lending-criteria.htm>

<sup>26</sup> <http://www.eib.org/infocentre/publications/all/eib-transport-lending-policy.htm>

A100. The disposal of biodegradable waste to landfill results in emissions of methane (CH<sub>4</sub>), a powerful greenhouse gas. In addition, recycling and recovery of energy from waste can reduce the consumption of virgin materials and save the greenhouse gas emissions during manufacturing of new goods. Project appraisal is modulated to ascertain the feasibility, viability and justification of projects and adherence to EU policy and solid waste management plans. Adherence to key principles, such as the proximity principle, is also verified, to minimise the risk of unlawful waste shipments. The Bank promotes consistency with the “waste hierarchy” principle and life-cycle approach and supports projects representing a move up in the waste hierarchy from waste disposal at landfills to an increased focus on increasing material recycling and energy recovery from waste materials.