



EIB Climate Strategy

Mobilising finance for the transition to a low-carbon
and climate-resilient economy

Contents

Executive Summary	I
Introduction and Mission	1
EIB commitment to Climate Action to date	3
<i>Lending for Mitigation and Adaptation</i>	3
<i>Sector Policies</i>	4
<i>Support to Low Carbon Research, Development and Innovation</i>	4
<i>Carbon Pricing and Greenhouse Gas Emissions</i>	5
<i>Advisory Services and Technical Assistance</i>	5
<i>Innovative Financial Tools</i>	6
<i>Green Bonds</i>	6
<i>Engagement</i>	6
Taking Climate Action at the EIB to the next level	8
Strategic Action Areas	9
1. <i>Reinforcing the impact of our climate financing</i>	9
2. <i>Building resilience to climate change</i>	14
3. <i>Further integrating climate change considerations across all of the Bank's standards, methods and processes</i>	17
Monitoring, reporting and outreach	21
Annex 1 - Climate Action Lending - Eligibility List	22
Annex 2 – Carbon pricing	23
Annex 3 – References to other documents	25
Annex 4 – Glossary	26

Note to the Reader:

- *On 20 June 2016, this document was amended to correct a typographic error in the description of Figure 1 of Annex 2.*
- *On 20 December 2017, this document was amended to extract Annex 1 and to create a separate document for the list of eligible sectors and eligibility criteria for Climate Action lending.*

Executive Summary

1. Climate change is arguably the greatest global challenge of our time. Climate risks are very real and undermine efforts made to improve welfare, notably in the world's poorest regions, and to ensure steady economic growth across the globe. The far-reaching impact of climate change on development and growth is at the heart of international discussions. 2015 marks a milestone on the path towards a more sustainable economy worldwide, with the adoption of Sustainable Development Goals and a new global climate agreement.

2. Immediate and coordinated action is crucial to overcome the challenges posed by climate change. Climate action ranks among the top objectives of the European Union (EU).

**As the EU bank, the European Investment Bank (EIB) has made
climate action one of its top priorities and developed
a leading position among international finance institutions in this area**

3. As well as fighting climate change and its negative impacts, promoting the transition to a low-carbon and resilient economy offers a real opportunity to successfully address other pressing challenges:

- Investing in the low carbon economy has an important role to play in creating new jobs in key industries which were hit hard by the crisis, notably renewables, construction and manufacturing.
- In parallel, investments in energy efficiency, networks and renewable energy will contribute to diversifying and securing Europe's energy supply and making vulnerable regions less dependent on unstable energy sources.
- Moreover, promoting research and innovation is key to maintaining Europe's position as a global leader in developing green technologies and bringing them to markets around the world.
- Mitigating and adapting to climate change will also have an overwhelmingly positive impact on living conditions - improving air quality, helping to ensure long-term global access to food, clean and affordable energy and water over the long term, making infrastructure more sustainable and reducing environmental degradation.

4. One of the key hurdles in the fight against climate change is to enable the investments required in this transition. Significant additional finance, estimated in the trillions of EUR, must be mobilised for climate action.

5. It is in this area of mobilising finance that the EIB is best placed to make a valuable contribution.

6. As a long-term financier and as an institution which has developed significant experience and expertise in financing climate action across Europe and globally, the EIB is uniquely positioned to provide investment for high quality low-carbon resilient projects, and to catalyse further finance.

7. In particular we have the capacity to mobilise additional private sector funding through financial leverage and innovative financial products. We have therefore set ourselves the mission:

To play a leading role, amongst financial institutions, in mobilising the finance needed to achieve the worldwide commitment to keep global warming below 2°C and to adapt to the impacts of climate change

8. The EIB's approach to climate action has evolved over time and has progressively been embedded into the Bank's activities and actions globally. It is from the thorough analysis of achievements and challenges encountered so far that this Strategy is built. The Climate Strategy will now guide our medium to long-term actions within and outside the EU to reinforce EIB finance for projects which bear a positive climate impact. We have identified three strategic areas where, moving forward, we will focus our climate action:

Reinforcing the impact of climate financing

9. We dedicate a minimum of 25% of our lending to specific climate action projects, and will continue to do so. But climate action is about more than volumes alone. Seeking maximum effectiveness means focusing our support on those activities with the highest impact. To enable this increase in impact we will take action to expand the pipeline of climate action projects. We will further develop innovative climate financing solutions, addressing market failure and seizing opportunities to attract private finance, including through the capital market. We will build on the solid success to date of our Climate Awareness Bonds to spur further sustainable growth of the Green Bond market.

Building resilience to climate change

10. Even with current levels of carbon in the atmosphere, changes in the climate are likely to have serious consequences for many sectors of the economy. Adaptive action is necessary regardless of the efforts made to mitigate climate change. The EIB is committed to best practice in adaptation, which includes risk screening to enhance resilience of its projects. We will strengthen our support to investments in specific adaptation activities. To build resilience to climate change impacts we will act to increase access to financing of adaptation projects and to increase our own portfolio of these projects. One of the barriers currently is the lack of knowledge and experience inside and outside the Bank and therefore we will invest in knowledge building and awareness raising. We will

also identify ways to prioritise the implementation of urgent or no-regret adaptation actions, to tackle those risks identified through a climate risk and vulnerability assessment for climate-sensitive projects.

Integrating climate change considerations across all EIB standards, methods and processes

11. Climate considerations must be examined across all activities to ensure that gains are made whenever possible and feasible. Given our significant lending volumes and the broad sectoral spread of the projects which we support, this is an area where we can further strengthen our effectiveness. To ensure our standards, processes and methodologies remain at the forefront of best practice, we will make continuous improvements to mainstreaming tools. In particular, we will extend coverage of sector policies and develop the assessment of climate risk and vulnerability. We will also continue to play a leading role in setting and harmonising standards among bilateral and multilateral Finance Institutions, and more broadly in the financial community.

Introduction and Mission

12. The European Investment Bank (EIB) is the European Union's (EU) bank and supports its policies through a wide spectrum of activities. The EU takes a global lead in addressing climate change. The EIB recognised this challenge early on and developed a leading position among international finance institutions in the field of climate action. The EIB's approach to climate action has evolved over time and has progressively been embedded into the Bank's activities and actions within and outside the EU.

13. Building on past achievements and challenges encountered, this climate strategy will now guide the EIB's medium to long-term actions to help channel finance into projects with a positive climate impact, in all regions of operation.

14. The coming years will be decisive in preventing severe impacts of climate change and in keeping global warming below 2°C compared to temperatures in pre-industrial times. There is an overwhelming scientific consensus underpinned by the conclusions of the Intergovernmental Panel on Climate Change (IPCC) that our climate is changing due to anthropogenic influence. Successive IPCC reports have also shown that the impacts of climate change such as more frequent and severe weather events, increasing water shortages, flooding, rising sea levels and ocean acidification are already being felt on a global scale today. As a consequence, these impacts are affecting our economies, displacing people and contributing to the very significant loss in biodiversity and ecosystem services globally.

15. To meet the challenges posed by climate change in the transition to a low-carbon climate resilient economy, a series of actions have to be undertaken. Many of those actions have significant co-benefits attached to them, not least in terms of economic growth and job creation. One of the key hurdles, however, is to mobilise the finance required for this transition. Significant additional finance, estimated in the trillions of EUR, must be mobilised for climate action. It is in this crucial respect that the EIB is best placed to make a valuable contribution. As a complement to its financing activities, the EIB also contributes by providing advisory services, including the sharing of substantial technical and financial expertise. We therefore set ourselves the mission:

To play a leading role, amongst financial institutions, in mobilising the finance needed to achieve the worldwide commitment to keep global warming below 2°C and to adapt to the impacts of climate change

16. Against the background of the aforementioned challenges, the Bank's role is to help deliver the EU Member States' climate policy objectives and take action vis-à-vis future generations and societies already affected by climate change. Being committed to leading the fight against climate change and its damaging effects, we have the responsibility to support this ambition through all of our activities. As a long-term financier and an institution which has developed significant experience and expertise in financing climate action, we are uniquely positioned to provide investment in high quality low-carbon resilient projects and to develop innovative finance instruments with the goal to catalyse and mobilise further finance. The actions of the EU are not limited to policies implemented within the EU but are embedded in international processes such as the UNFCCC. In that context, the EIB considers this strategy to be part of the EU proposition to the international community.

17. Promoting the transition to a low-carbon and resilient economy offers a real opportunity to successfully address other pressing challenges. The recent years of financial crisis have led to rising unemployment and economic growth has stagnated. The EIB works to stimulate jobs and growth, particularly in Europe. Investing in the low-carbon economy has an important role to play in this mission, creating new jobs in key industries that have been hit hard by the crisis, notably the renewables industry, the construction sector and manufacturing industry. In parallel, investments in energy efficiency, networks and renewable energy will contribute to diversifying and securing Europe's energy supply and making vulnerable regions less dependent on unstable sources of energy. Promoting research and innovation is key to maintaining Europe's position as a global leader in developing green technologies and bringing them to the markets around the world.

18. Mitigating and adapting to climate change will have an overwhelmingly positive impact on living conditions – improving air quality, helping to ensure access to food, clean and affordable energy and water over the long term, making infrastructure more sustainable and reducing environmental degradation.

19. The Sustainable Development Goals, successors to the Millennium Development Goals (MDGs), encompass many of these sustainability dimensions and provide additional high-level references to anchor climate action in the broader policy sphere. They apply globally, and are therefore of equal relevance to the EIB's activities within and outside the EU despite the vastly different situations of countries around the world.

20. Outside the EU, the Bank supports sustainable economic growth and job creation, with a particular emphasis on developing the private sector and fostering regional cooperation and integration. In line with the EU Development Consensus, the outcomes of the UN Financing for Development process and the review of the UN MDGs' achievements, the EIB's activities support projects that target the broader policy objectives of delivering sustainable social and economic development and environmental benefits. Formally, in the context of its External Lending Mandate (ELM), an update to the Climate Strategy adopted for the ELM in 2013 is required by the end of 2015. This will be provided separately and will be fully aligned with this strategy but may include more detail on some aspects.

EIB commitment to Climate Action to date

21. Climate action has been a key priority for the EIB and we can take pride in our considerable achievements. The Bank has delivered significant climate finance volumes underpinned by sector policies and priorities, specific screening tools (carbon price, carbon footprint) and some of the highest standards in the financial world. It has designed innovative and replicable finance solutions for climate action and engaged with its peers worldwide to harmonise standards, tools and methods.

22. As the EU bank, our mandate consists in supporting EU policy objectives, which include promoting innovation and skills, access to finance for small and medium-sized businesses, strategic infrastructure and climate action. We foster these interlinked objectives by lending, blending (combining EIB finance with other funding sources) and advising. Policy alignment, portfolio quality and the soundness of credit decisions are underpinned by an extensive due diligence process applying to each operation supported by the EIB. We respond to financing requests generated in a dynamic market with products typically characterised by long maturities and cost efficiency. In the area of climate action, EU climate policies and instruments such as the Emissions Trading System (ETS), Adaptation Strategy or the 2030 Climate and Energy package are integrated into operationally relevant practices and procedures which guide financing decisions, alongside long-term visions such as the EU Energy Union or the IPCC decarbonisation path by which global greenhouse gas emissions need to peak by 2020 at the latest, be reduced by at least 50% by 2050 compared to 1990 and be near zero or below by 2100 in order to contain global warming below 2°C.

Lending for Mitigation and Adaptation

23. Without appropriate and targeted climate finance we cannot hope to tackle climate change effectively. In the period 2010-2014 the Bank provided more than EUR 90bn to climate action projects, making the EIB one of the largest climate financiers globally. The Bank's climate action lending – i.e. projects or components of projects exhibiting special mitigation impacts or contributing to building climate resilience - rose from 20% in 2010 to a minimum of 25% in late 2011 and has subsequently remained at that level. The remaining 75 % of EIB lending is checked against stringent standards and safeguards ensuring that the projects are in line with the EU's policy objectives. Many projects in that category have low climate impacts. A considerable contribution can be made to reducing emissions by investing in the full spectrum of industries that our societies need, as long as realistic long-term effects and demand forecasts are factored in.

Consolidating support for climate action lending outside the EU

In terms of catalytic impact our lending activities outside the EU are of significant importance. This ties in with the rationale of the Financing for Development discussion. The success of the Sustainable Development Goals will require moving from billions in Overseas Development Assistance (ODA) to trillions in investments of all kinds, making maximum use of the catalytic effect of the International Finance Institutions (IFIs).

The EIB will continue to work closely with the Green Climate Fund (GCF) Secretariat and GCF Board, as it has since the initiation of the Fund. We are ready to mobilise our financial expertise and capacity for the Fund as an Implementing Entity once the accreditation process is concluded.

The Bank will progressively step up its advisory services activities for operations outside the European Union, in collaboration with its partner development finance institutions, building upon our highly successful experience as a technical assistance provider to ACP and FEMIP countries. The Bank will make use of funding opportunities in this respect, in particular those provided by the European Commission and by the GCF.

Sector Policies

24. Not all sectors have the same impacts on climate. One way we ensure that our lending portfolio is compatible with EU policies and emissions reduction pathways is through the application of climate sensitive sector screening criteria in major sectors. The most relevant sectors, due to their share in EIB financing and the underlying project typology, are energy and transport, which are both covered by publicly consulted and published EIB sector policies that apply both within and outside the EU. One important feature of the screening and assessment criteria for energy projects is the application of an Emissions Performance Standard (EPS) to electricity generation projects. The EPS rules out projects whose expected emissions are not in line with EU targets, on a technology-neutral basis. Energy efficiency investments are prioritised across the board. The EIB's transport policy only screens in motorway and airport projects if they have high socio-economic returns through criteria based on the full economic assessment of each investment.

Support to Low Carbon Research, Development and Innovation

25. While in volume terms, the Bank's 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), a very significant effort has been made in supporting low carbon technological development. The deep cuts in emissions required to meet long-term climate targets will require technology breakthroughs that will arise from research, innovation and demonstration projects. The EIB has been a crucial partner of the European Commission in setting up risk-sharing finance facilities to improve access to finance for research and innovation projects.

Carbon Pricing and Greenhouse Gas Emissions

26. The application of carbon pricing to a project has the effect of penalising the economic performance of carbon-intensive projects and sends an important signal to the market. The EIB was the first international financial institution to systematically introduce a cost of carbon into its project appraisal, exemplifying our cross-cutting commitment to low-carbon solutions throughout our lending portfolio. The social cost of emitting carbon dioxide, as currently applied by the EIB, is explained in Annex 2. Its level is based on a thorough review of the literature, and increases geometrically over time reflecting the cumulative damage of increasing concentrations of carbon dioxide in the atmosphere.

27. To understand and report on the impact of its activities, and to support the carbon pricing process, the Bank assesses and publishes the greenhouse gas emissions (GHG) of projects with significant emissions. Every year the overall emissions corresponding to the EIB-financed share of projects show a large saving of 2 to 3 million tonnes of carbon dioxide equivalent. We are currently the only international finance institution to publish both the absolute (or gross) and relative (or net) emissions, for each of these projects.

Advisory Services and Technical Assistance

28. Not all project developers have the necessary experience and knowledge to carry out the technical and financial preparation needed to attract the funding for climate-positive projects. To address this barrier, the EIB has developed several advisory services programmes which can include for example feasibility and market studies, programme structuring, energy audits, project preparation and implementation support and institutional capacity-building. In the area of climate action one of the most important programmes has been ELENA (European Local ENergy Assistance), which uses funds from the European Commission (EC) to provide technical support to European regions and cities to get energy efficiency and renewable energy projects off the ground. Outside the EU, we provide technical support in many ways, for example, in the context of the EU-Africa Infrastructure Trust Fund and the SE4ALL (Sustainable Energy for All) initiative.

Innovative Financial Tools

29. With funding requirements estimated in the trillions of EUR, private finance is essential to address the challenges of climate change. To attract finance, it is necessary that climate change related projects can also offer investment opportunities to the private sector. The Bank has therefore developed a number of innovative financial tools and mechanisms which aim at catalysing and mobilising private finance into low carbon and adaptation projects. Some others are blending instruments, combining grant and loan finance to improve financing conditions (optimised allocation of risk and/or reduced cost of capital). These products include equity funds, layered risk funds (e.g. Green for Growth Fund, European Energy Efficiency Fund) and fund of funds (e.g. Global Energy Efficiency and Renewable Energy Fund). In addition, the EIB developed joint instruments with the EC and other donors, for example in the area of energy efficiency (e.g. Private Finance for Energy Efficiency) or for conservation of natural capital and adaptation measures (e.g. Natural Capital Financing Facility). By developing these products, the EIB seeks to demonstrate to the market that investments in projects addressing climate change are sound, viable and can be replicated at larger scale.

Green Bonds

30. Green Bonds have the potential to enhance the accountability of environmental finance. A higher degree of transparency raises awareness, strengthens the monitoring of climate action and favours harmonisation of assessment of and reporting on the expected environmental impact of projects. This boosts the role of capital markets in climate finance by encouraging investors to shift their focus towards sustainable and socially responsible investments.

31. The EIB pioneered the Green Bond market in 2007 by issuing its first Climate Awareness Bond (CAB). CABs have their proceeds earmarked for EIB lending projects in the fields of renewable energy and energy efficiency. By end June 2015, CABs have raised over EUR 9bn equivalent, across 10 currencies.

Engagement

32. Climate change can be thought of as the ultimate challenge of this century. Any meaningful response must necessarily be a coordinated one. The EIB engages with a variety of stakeholders and peers, within the EU and around the world, to achieve progress on the climate finance agenda and share our expertise in developing climate finance solutions. Our core partners are the institutions of the EU and the Member States. On a global scale, the Bank engages with the United Nations (UN) supporting the various programmes where the Bank can add value and expertise, in particular the

Green Climate Fund. The EIB collaborates with a significant number of other climate action players at local or global level. In an effort to develop a better understanding of international climate finance streams, a group of multilateral development banks (MDBs) reports jointly on its climate finance and continuously improves its harmonised climate action accounting methodologies.

Taking Climate Action at the EIB to the next level

33. This strategy builds on the EIB's track record and commitment to climate action.

34. To put our mission into operation, we have analysed our achievements and challenges in climate action to date, including extensive consultations with external and internal stakeholders and experts. The Bank will continue to work under the current general framework which has allowed us to achieve significant success. As a result of this analysis, three strategic areas have been identified where the Bank will take action to consolidate and further strengthen its position.

- 1. Reinforcing the impact of our climate financing**
- 2. Building resilience to climate change**
- 3. Further integrating climate change considerations across all of the Bank's standards, methods and processes.**

35. In each of these three strategic action areas, there is solid foundation on which to build. The following chapters will outline how we will further improve, deepen and fine-tune what we have been doing so far.

Strategic Action Areas

1. Reinforcing the impact of our climate financing

36. The Bank will continue to dedicate a minimum of 25% of its financing to specific climate action projects.

37. Effective climate action, however, is about more than just finance volumes: it requires us to steer our activities and financing towards those initiatives and projects which have the highest impact. This action area therefore focuses on how we can further increase the impact of our activities.

38. We see the impact of our climate finance along three main dimensions:

- Investing in projects which bring significant mitigation or adaptation gains
- Catalysing and mobilising additional climate finance from a range of sources
- Reducing financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy

39. Beyond our current sector based eligibility approach to climate action, a more refined focus on impact should enhance EIBs overall contribution. To define the full range of high impact activities, we need to better understand the characteristics of those activities in the context of the Bank's operations. This will lead to the establishment overtime of a basic typology of high impact operations, in terms of high impact sectors/projects, and/or structures with high financial impact.

40. Through this strategy the EIB will identify operation types with a particularly high financial impact and/or high mitigation or adaptation gains. Where justified we will put processes and systems in place to prioritise them within the climate action portfolio. Therefore, to increase the impact of our climate finance we will:

- Improve our methodologies and definitions of impact, which will allow us to better identify and prioritise high impact projects.
- Seek to further increase our impact through financial innovation targeting higher impact projects/sectors and mobilisation of private resources.
- Take action to increase the pipeline of climate action projects.
- Support the Green Bond market in quantity and quality.

Key Outcomes: Deliver climate finance both in volume (a minimum of 25% of EIB finance) and quality. Enhance both financial and non-financial impact of EIB climate interventions, supported by robust reporting.

1.a. Financing specific climate action projects

41. The Bank has been a very active financier in various key sectors addressing climate change. It has been instrumental in getting critical emerging renewable technologies such as offshore wind and concentrated solar power (CSP) off the ground and has made important inroads in difficult sectors such as energy efficiency, low-carbon RDI and adaptation. The EIB can be instrumental in developing other sectors and types of projects that will be critical in enabling the necessary transformation of our societies, for example through significant GHG emissions reduction, investment in innovative technology or support for promising policy initiatives.

42. The Bank has drawn up a list of eligible sectors under climate action. Our eligibility criteria for the climate action portfolio already recognise the mitigation and adaptation aspects of this impact. To increase the climate effectiveness of projects classified as climate action, the Bank will progressively adjust the list of eligibility criteria, in response to new insights and developments regarding the impacts of projects. The current definition of these eligibility criteria is included as Annex 1 to this strategy. These definitions are being brought into line with the joint MDB climate finance tracking methodology, in particular the design process criteria for adaptation projects. This list will be updated as necessary to reflect the effectiveness of the Bank's climate action and our improved understanding of climate impact, risks and climate adaptation needs.

1.b. Innovating for financial impact

43. As a financial institution, the Bank is well placed to support operations that are innovative in a financial sense, i.e. that target new sectors/projects and that mobilise private sector finance and/or tap into new sources of capital.

44. Some high impact investments will be fragmented i.e. large numbers of small projects. The Bank will therefore continue to look for ways in which to increase its support to smaller-scale investments. The Bank will seek to innovate and to replicate or build upon the existing financial structures and products (e.g. Framework Loans, Multiple Beneficiary Intermediated Loans and other intermediated structures such as funds) developed in recent years that have proven successful in bundling and/or aggregating smaller climate projects in suitable sectors and regions, in particular outside the EU. Advisory services could also contribute to developing new financing structures for small projects.

45. It is likely that increasing financial impact will require assumption of risks levels exceeding the Bank's own risk bearing capacities. Therefore there may be a need for additional risk sharing products and instruments for climate action, bearing in mind that markets globally are currently risk constrained rather than short of liquidity. The suggestions in section 1d below for dedicated facilities

and trust funds, and also greater collaboration with emerging, dedicated climate finance entities, should be understood as key measures in this regard in addition to developing the project pipeline.

46. The EIB will therefore continue to place itself at the forefront of financial innovation and assess the needs for further product offering and financial structures addressing market failures, reducing barriers to entry and responding to the needs of emerging business models in climate action areas. This may take different forms inside the EU, where the Investment Plan for Europe (IPE) is likely to shape the process in the immediate future, and outside of the EU, where other instruments and policies take precedence. The overall aim of these efforts will be to provide channels for private sector investment in climate action at a scale more in line with the needs linked to climate change. A particular, but not exclusive target for these efforts will be institutional investors such as pension funds and asset managers, in addition to the banking system.

1.c. Defining high impact projects and sectors

47. A typology of high-impact projects per sector will be developed, with the following as guidelines:

- The importance of projects for the transition to a global 2°C target will to a large extent be linked to sector and technology considerations. This can be assessed in different ways, for example by looking at available sectoral decarbonisation roadmaps or carbon intensities. Different levels of priority will be developed by comparing the existing portfolio of projects with these roadmaps, taking into consideration investment needs but also having in mind that not all projects will be bankable for a variety of technical, economic and credit reasons. This work has to a large extent been carried out when the existing sector policies for energy and transport were developed.
- Policy developments will be key in shaping those roadmaps. Inside the EU, EU and Member State policies, including for example the EU long term vision of a low-carbon and climate-resilient society, or National Renewable Energy Action Plans and Adaptation Programmes are likely to be crucial references. Outside the EU, the reference should be to national legislation and policies, including Nationally Appropriate Mitigation Actions (NAMAs), National Adaptation Programmes of Action (NAPAs) and Intended Nationally Determined Contributions (INDC).
- Horizontal policy linkages associated with significant co-benefits such as economic growth and competitiveness, biodiversity or resource efficiency, for example, in particular as they relate to EU policy and the Bank's overall strategic goals as expressed in its Corporate Operational Plan (EIB COP).
- Ability to reduce technical and institutional barriers to investments in adaptation and mitigation in line with the mission, e.g. small size and weak counterparty profile and to address market failures.

- The characteristics of projects which are particularly successful in crowding-in additional external finance.
- The specific role of Short-Lived Climate Pollutants (SLCPs), based on their climate-forcing properties and their relevance to EIB financed operations; this will be explored in a dedicated analysis of SLCP emissions in the current portfolio.

1.d. Increasing the pipeline of projects

48. To be able to prioritise high impact bankable projects within the same volume target, the pipeline of climate action projects needs to be expanded. There are several activities that will contribute to increasing the pipeline:

- Strengthen origination processes to achieve a minimum of 25% of lending to specific climate action projects.
- Enhance technical and financial advisory services, particularly in project preparation and implementation support, to help realise more bankable projects. The Bank will reinforce its advisory activities offer in support of climate action to facilitate better design and preparation, ultimately leading to more effective implementation and access to finance. As part of this effort, the Bank also aims at broadening the range of potential beneficiaries supported, including those with less developed in-house capacity, and at promoting smaller scale and/or more complex projects. The Bank's technical and financial advisory activities also include support for decentralised financial instruments within the Union in the low-carbon area and access to finance for relevant research and innovative technologies.
- Assess the need and availability for new funding sources in support of high impact climate action operations, including advisory and blending activities. While the EIB does benefit from external funding, it will be necessary to create a more efficient stable architecture for future funding needs. This is due to the fact that current sources of funding are fragmented, generally carry a high transaction cost, and may not be sufficient to fully implement this strategy. Two main avenues will be explored to address this challenge:
 - Establishing a trust fund open to a wide range of contributions, or
 - Creating a climate finance facility from its own resources.

The feasibility, structure and modalities of such sources of funding will be worked out. Different compartments may apply to different types of operations or be regionally targeted.

- Develop operations with dedicated Green Investment Banks: in response to the specialised issues posed by climate finance a number of dedicated financial entities or mechanisms are being established by national and regional authorities. e.g. the UK's

Green Investment Bank, with which the EIB has already concluded some initial operations. In general these entities are original and innovative, thus making interesting counterparts for the EIB, especially when they face a scarcity of low cost capital in their early years. The Bank will therefore prioritise the development of relationships with these entities.

1.e. Support the Green Bond market in quantity and quality

49. Capital market investors, seeking to orient their portfolios towards sustainable and socially responsible investments, have increasingly been focusing on project impacts. In response to this, the EIB, together with several other MDBs, has developed a framework for reporting on the expected impact of projects associated with its Green Bonds.

50. The Bank has a successful trajectory of Green Bond issuance. Until now, the proceeds from these bonds have been allocated to renewable energy and energy efficiency projects. This clearly focused scope has allowed the establishment of a framework of minimum requirements and governance that enjoys broad market support and is attracting increasing attention from policy makers. We will continue engaging with capital market participants in the establishment of best market practices for the Green Bond segment, e.g. through the Green Bond Principles. In addition, the EIB will continue its work on the recently developed (together with several other MDBs) format for Green Bond Impact Reporting, and pursue the harmonisation of impact reporting standards in the MDB/MFI/IFI community to promote the transparency and accountability of climate finance.

51. In recognition of the value of this market segment, the EIB remains committed to maintain its developmental role, to spur further sustainable growth of the Green Bond market¹.

¹ As per the 'Joint statement by Multilateral Development Banks (MDB) on climate finance' of September 2014: <http://www.eib.org/attachments/press/joint-mdb-statement-on-climate-finance.pdf>

2. Building resilience to climate change

52. Even if average temperature increase globally remains under 2°C, changes in the climate are likely to have serious consequences for many sectors of the economy, with implications for critical issues such as water, food and energy security and human health. The transitions ahead are likely to jeopardise growth and development gains in some regions and sectors, with significant social implications. Adaptive action is therefore necessary regardless of the efforts made to mitigate climate change.

53. The EIB is committed to applying best practice in risk assessment, which includes the risk screening element to enhance the resilience of its investments, but also to investing in specific adaptation activities, such as in land and water resource management. This is a fast-moving field, in which expertise must continuously be developed, both within and outside EIB.

54. The social dimension of adaptation issues, including gender issues, should also be clearly identified and considered where relevant in all adaptation work, to enhance the effectiveness of implementation on the ground. Taking these dimensions into account, in line with the EIB's Environmental and Social Standards, will in particular avoid adaptation activities exacerbating inequalities and other vulnerabilities, and help to protect the most vulnerable groups.

55. All of the above-mentioned adaptation-related activities of the EIB will be closely coordinated with the related work on disaster risk management.

56. To build resilience to climate change impacts we will:

- Increase the portfolio of adaptation operations
- Develop the use of climate risk and vulnerability assessment
- Make operations more resilient to climate impacts

Key outcomes: An increase in adaptation finance supported by robust and transparent accounting and reporting

2.a. Increasing the portfolio of adaptation operations

57. Climate change is already having a significant impact on ecosystems, economies and communities today. There are more frequent and severe weather events such as flooding, droughts or storms. In particular, the impact on our water resources and increasing water scarcity might pose one of the biggest challenges ahead.

58. Despite the fact that we are already witnessing impacts of climate change, action to adapt to this changing environment is only gaining momentum slowly. There are several reasons for the slow uptake of adaptation measures. Firstly, adaptation is frequently perceived as a responsibility that has to be assumed by the public sector. As adaptation to future impacts is often a preventive action, which is ultimately cost saving but in most cases not directly revenue generating, there is no real market for adaptation activities yet. The beneficiaries are often multiple, and it is therefore difficult to identify individual contributions for their financing. In addition, there are regulatory barriers, because regulations, standards and codes that address adaptive action still need to be developed. One of the most important barriers, however, is the information and knowledge gap. Adaptation is a new field of action, and knowledge and information are only slowly being developed. A general lack of understanding of the issue often leads decision-makers to underestimate the risks. As a result, capacity and expertise in the field of adaptation are currently sparse and insufficient.

59. The EIB aims to address these barriers in order to step up investment in adaptation activities. Firstly, we will tackle the information barrier by further building up knowledge and expertise in our institution and thus lay the foundations for creating a solid pipeline of adaptation projects, including those under multi-scheme operations. This knowledge and expertise will inform planning decisions, systems resilience, technology selection and project design. In addition, the Bank will develop the capacity of those who are tasked with strengthening resilience on the ground. The Bank has already embarked on this process by holding capacity building sessions in the framework of the EU Financing Institutions Working Group on Climate Change Adaptation (EUFIWACC). Further outreach with networks such as the Mayors Adapt initiative will continue supporting the process of exchanging knowledge and experience and building capacity.

60. By raising awareness of the risks and building knowledge on best practice for adaptation, we can increase the number of projects into which resilience is built and identify more adaptation projects. Most importantly, however, we will continue to proactively identify projects that have adaptation as a core objective. This action is very closely linked to the ambition described in the section 1d 'Increasing the pipeline of high impact projects', i.e. support projects with a considerable positive impact. As was suggested under 1d, we will explore whether this can be done through scaling up the blending of our own resources with EU funding or through another financial vehicle, such as a dedicated trust fund or facility. Should the Bank become an implementing entity of the GCF, supporting adaptation projects through this vehicle would form the core of our efforts in this context in non-EU countries. In building the pipeline, the Bank will also enhance its technical and financial advisory services, particularly in project preparation and implementation support, broadening the range of potential beneficiaries supported, including those with less-developed in-house capacity.

2.b. Developing the use of climate risk and vulnerability assessment

61. It is important for the Bank and its project promoters to understand climate risks for the most vulnerable projects. To identify the most vulnerable projects, the EIB has developed and piloted a screening tool, allowing assessment of the direct risks to Bank-supported activities linked to climate change. The use of this tool will be mainstreamed, and the tool will be further refined as experience is gained in its application. The EIB commits to screening all operations for direct risks from impacts from current and/or future climate change.

62. Once vulnerable projects are identified, a full-fledged climate risk and vulnerability assessment can be carried out. A process for climate risk and vulnerability assessment has been developed and piloted for the water sector. When justified by the screening results described above, an assessment of climate risk and vulnerability is required of the project promoters. When needed EIB clients can also receive support based on an approach developed by EIB water and climate experts.

63. This process helps project promoters consider in a comprehensive way how the project and the system it pertains to are vulnerable to climate variability and change, quantify climate risks to the viability of the project, and identify relevant adaptation options to increase climate resilience. In extreme cases, the process may indicate project feasibility is at stake and result in the definition of a different, more resilient project scope. Stakeholder engagement at key stages of the climate risk assessment has proven crucial for its success. The process considers the direct physical dimension as well as the economic and environmental dimension of risk and vulnerability, e.g. including the vulnerability of project supply chains or dependence on ecosystem services or other critical networks that may also be exposed to climate risk.

64. This pioneering practice will be progressively extended to other sectors, which are likely to have sectoral or regional specificities. Guidance will be developed for promoters on how to carry out vulnerability assessment and identify adaptive actions.

65. Work on the climate risk and vulnerability framework will be closely coordinated with work on disaster risk management.

2.c. Making operations more resilient to climate impacts

66. As described in 2b above, a more in-depth risk and vulnerability assessment will be carried out for operations identified as presenting a high risk profile. Based on that analysis, physical or soft measures at the planning, design and implementation stages should be established to reduce these risks. Some measures may be necessary to protect assets against the effects of climate change, but many of the most effective adaptation measures need to be taken at the planning and design stages, and are not necessarily very costly. The EIB will therefore identify ways of giving priority to the implementation of urgent or no-regret adaptation actions, on a sector-specific basis as relevant.

3. Further integrating climate change considerations across all of the Bank's standards, methods and processes

67. Climate action is not only a matter of channelling finance into mitigation and adaptation. Climate considerations must be given due attention across all activities to ensure that gains are made at every possible opportunity. This presents significant opportunities for the EIB given our substantial lending volumes and the broad sectoral spread of the projects which we support.

68. The integration of climate throughout our activities relies on the progressive introduction and periodic revision of good practices, to ensure standards, processes and methodologies remain at the forefront.

69. To integrate climate change considerations consistently we will:

- Make continuous improvements to mainstreaming tools;
- Extend the coverage of sector policies and regularly update existing policies;
- Assess and manage portfolio climate change risks;
- Manage the EIB's internal footprint.

Key outcomes: Wide use of a broader range of climate mitigation and adaptation tools and methodologies for all EIB investments, contributing to the quality of the portfolio, the integrity of its policy alignment, and transparent reporting.

3.a. Continuously improving mainstreaming tools

70. The Bank has developed a number of tools to integrate climate considerations in the investment decision-making process.

71. With a focus on GHG emissions mitigation and due to the EIB's strong reliance on CBA in its assessment of projects, the Bank has been incorporating a cost of carbon into its projects since 2007, thus allowing the due diligence process to factor in the likely damage associated with GHG emissions, alongside other external costs of emissions. This is part of a wider systematic effort to integrate relevant external costs, on a consistent basis, into the analyses performed internally, as explained in the EIB Guide to Economic Appraisal of Investment Projects. The cost scenarios for carbon have been updated and are presented in Annex 2. They extend further into the future than those currently used, thus contributing to the integration of long-term perspectives into the analysis. They will be periodically updated in line with the emerging research and evidence.

72. GHG assessment is critical to this effort, as the project and baseline emissions are needed for the CBA calculation chain. The assessment is also currently used to screen projects for emissions performance in power generation, and to verify the climate impact of hydropower and bio-energy projects. The accuracy, consistency and comparability of these assessments are thus important features of the due diligence process. GHG assessments are also used for overall portfolio reporting, and they could be integrated into further refinements of sector approaches in the future. It is therefore important to continuously review and, where necessary, improve the methodology's quality and coverage. In particular, an approach will be developed to provide an approximate assessment of the overall footprint of financially intermediated lending and equity operations. Further consideration will also be given to life-cycle and so-called "Scope 3" considerations, within the remit of the EIB's due diligence process.

73. Efforts to mainstream energy and broader resource efficiency considerations across sectors will be pursued in line with the EIB's long-standing commitment to support energy efficiency as a matter of priority.

74. Mainstreaming of risk screening for direct climate change impacts on projects is described in 2b above.

75. As a longer-term endeavour, the Bank will work on the development of tools to account for project impacts on biodiversity, ecosystem services and biodiversity-based livelihoods.

76. In terms of broader mainstreaming, the Bank will continue to play a leading role in harmonisation and standard-setting within the MDB/MFI/IFI community and more broadly in the financial community. The Bank recognises the value of common positions, principles, standards and methodologies reached among financial institutions in the fast-moving area of climate finance. Current priorities are to close remaining gaps in the practice of climate finance tracking, and to pursue the harmonisation of GHG assessment methodologies.

3.b. Extending coverage of sector policies and regularly updating existing policies

77. The Bank will extend the coverage of sector lending policies in key areas of relevance. Relevance refers here to both the climate sensitivity of the sector, and the volume of EIB activities in that sector, which determines the Bank's ability to effect change.

78. The development of new sector policies, or updating of existing ones when triggered by material changes in economic conditions, policy or regulation, will of course be underpinned by the state of EU policy at the time. It will also refer to the longer-term horizon of transition pathways towards a maximum 2°C global temperature rise and will take into account the most recent scientific knowledge and available best practice. It will draw on methods of prioritising certain types of project

based on existing criteria such as performance standards, economic performance, or others to be developed. In this context, energy efficiency and, more generally, resource efficiency considerations will be taken into account.

79. Reliance on sector policies or criteria is grounded in the EIB's successful experience in improving project outcomes through sector-specific tools and methods. Overall, extended coverage will be an effective means to align the portfolio even more closely with climate policy within each sector. It is also a way to capture inter-sectoral issues, including co-benefits, and assess overall lending priorities in the longer term.

3.c. Assessing and managing portfolio climate change risks

80. There is a growing body of knowledge pointing to potential systemic risks to the financial system linked to the direct and indirect effects of climate change. It is likely that many of those risks would be covered by the insurance and re-insurance industry. The extent and speed of the transition may generate not only physical threats to the integrity of assets, but indirect threats resulting from significant shifts in technological trends and business models. Some asset managers, for example, have come to the conclusion that their holdings in carbon-intensive industries are creating a long-term liability under likely scenarios of climate change, due to the restrictive policies and regulations that will need to be put into place to limit global warming.

81. The EIB is a long term lending institution that applies strict sustainability standards during due diligence and our indirect equity holdings form a relatively modest share of the balance sheet. Nevertheless, the EIB has debt positions on a number of counterparts with activities in various sectors that could theoretically be affected by the kind of transitions described above. The extent to which systemic risks linked to climate change might affect the Bank's financial position in the future has not yet been clearly mapped out.

82. The Bank recognises that all types of climate change related investment risks need to be fully taken into consideration and incorporated into its portfolio risk management. As a first step the EIB will assess the state-of-the-art approaches, product offerings and examples applied by financial institutions regarding inclusion of climate change related risks and opportunities. The EIB will then undertake a preliminary scoping exercise on its existing assets, to assess the level of relevance of systemic climate risk to its financial standing. If necessary according to the conclusions of the scoping exercise, it will develop a more comprehensive climate change risk assessment framework, based on that scoping exercise, to make screening of its complete portfolio possible.

3.d. Managing the EIB's internal footprint

83. The Bank has been measuring and managing its carbon footprint annually since 2007. Since then, a number of measures to reduce the footprint of the Bank's premises have been introduced, among which the use of renewable electricity and cogenerated heat and power, the replacement of the EIB car fleet and taxi service with lower-emissions vehicles and the replacement of the old printers fleet by fewer multifunctional print/scan/copy devices. The Bank has improved the energy performance of its physical office facilities services by actively managing the lighting and heating of unoccupied workplaces and out-of-hours energy consumption, in addition to already using low-energy lighting. Additional steps to curb the Bank's internal footprint will be addressed at stirring behavioural changes among the Bank's staff.

84. The Bank intends to broaden the scope of its current environmental management processes to better understand and manage its direct environmental impacts (estates and operations). Furthermore, it will, where possible, seek to reinforce systematic environmental review processes to better determine its environmental impacts (energy, waste generation, water use, etc.) and develop carbon reduction objectives and targets for further environmental improvement within the framework of an appropriate Environmental Management System (EMS).

85. Offsetting/compensation through high quality, certified mechanisms will remain a feature in respect of the residual carbon emissions.

Monitoring, reporting and outreach

86. This strategy will be implemented primarily by delivering financial support to investment, by providing technical assistance and by developing and sharing good practice to increase the Bank's climate action impact and effectiveness. The Bank will develop internal action plans that will detail the activities to be taken to develop these three strategic areas. The plans will include the necessary monitoring and reporting requirements to evaluate the Bank's achieved output by the end of 2018.

87. The EIB will uphold the principles of accountability and transparency in all of these processes.

88. The Bank will proactively work on maintaining a varied network of partnerships and contributions. It will also strengthen its role in sharing experiences and improving the knowledge base and tools in general.

Annex 1 - Climate Action Lending - Eligibility List

This list has been revised to bring the definitions of the eligibility criteria into line with the joint MDB climate finance tracking methodology, as stipulated in paragraph 42 of the Climate Strategy.

It is published separately on EIB's publication website, on the following webpage:

<http://www.eib.org/infocentre/publications/all/climate-action-lending-eligibility-list.htm>.

Annex 2 – Carbon pricing

The Bank's approach to incorporating external costs and the cost of carbon in particular, is set out in Chapter 4 of The Economic Appraisal of Investment Projects at the EIB². Drafted in early 2013, it presents estimates of the cost of carbon over the period 2010 to 2030 based on the recommendations of an earlier study conducted for the Bank by the Stockholm Environment Institute (SEI).

Given the long asset life of some of the capital-intensive assets financed by the Bank, however, it is now necessary to extend the cost of carbon over a longer time period. Figure 1 presents the estimates that have been adopted by the Bank out to 2050, drawn from the original SEI study. These figures will be periodically reviewed in light of the growing evidence from the climate modelling literature.

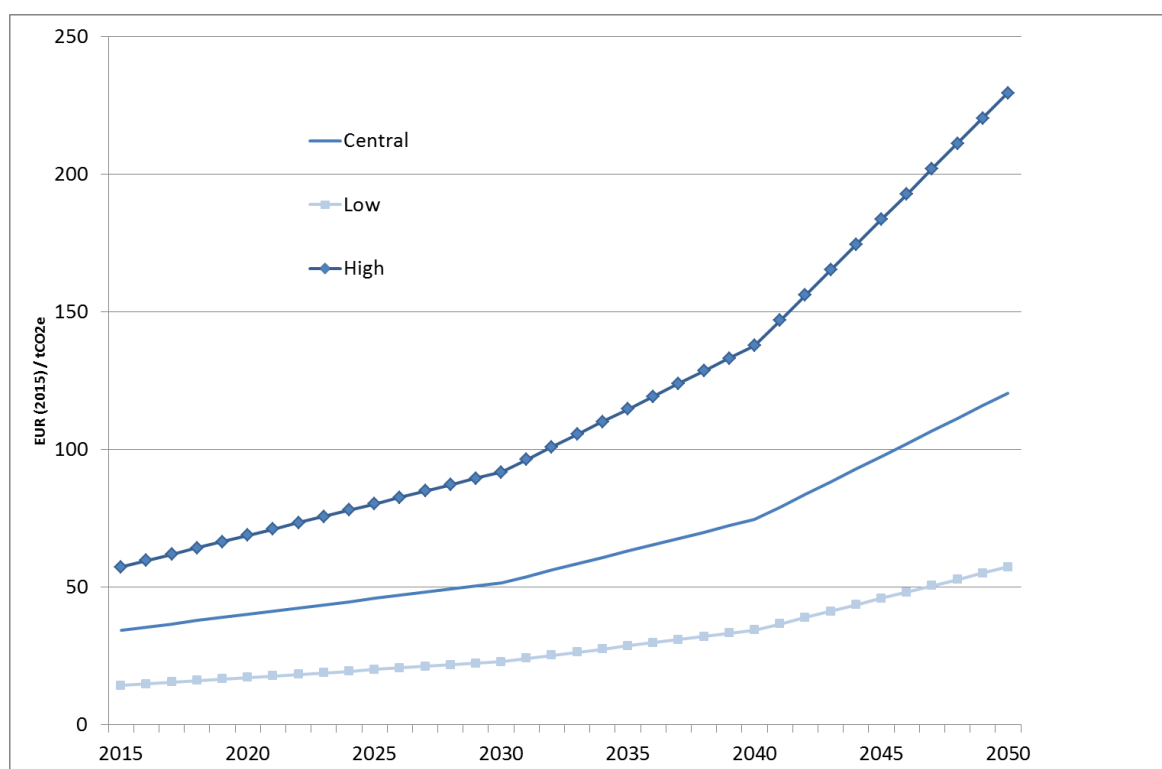


Figure 1 EIB cost of carbon to 2050

As shown in Figure 1, the Bank's estimates rise in real terms at an increasing rate over time. For instance, the central estimate rises by approximately one EUR per year through to 2030. Thereafter, it

² This is available on the Bank's website at <http://www.eib.org/infocentre/publications/all/economic-appraisal-of-investment-projects.htm>.

rises to approximately two EUR per year to 2040, and approximately four EUR per year thereafter. This convex property is consistent with the findings of the majority of climate change models³.

To conclude, the Bank will:

- maintain its existing values for carbon out to 2030, as presented in the Economic Appraisal publication, albeit noting that Figure 1 presents those estimates updated in terms of 2015 EUR;
- extend values from 2030 out to 2050, rising at an increasing rate as presented in Figure 1;
- continue to review these estimates, and adjust as necessary, in light of emerging climate change modelling literature.

³ See for example European Commission 2011, Impact Assessment accompanying the Communication: A Roadmap for moving to a competitive low carbon economy or Stern (2008). The economics of climate change, *American Economic Review* 98(2).

Annex 3 – References to other documents

This section includes references to other public background documents to the climate action strategy paper, notably:

- Statement on Environmental and Social Principles and Standards:
<http://www.eib.org/infocentre/press/news/all/eib-statement-of-environmental-and-social-principles-and-standards.htm>
- Environmental and Social Practices Handbook:
<http://www.eib.org/infocentre/publications/all/environmental-and-social-practices-handbook.htm>
- Consultation Paper - EIB approach to supporting climate action - Call for public views:
http://www.eib.org/attachments/consultations/eib_climate_action_call_for_public_views_en.pdf
- Eligibility list of Climate Action projects:
http://www.eib.org/attachments/consultations/climate_change_mitigation_and_adaptation_en.pdf
- Energy Sector Lending Policy:
<http://www.eib.org/infocentre/publications/all/eib-energy-lending-criteria.htm>
- Transport Sector Lending Policy:
<http://www.eib.org/infocentre/publications/all/eib-transport-lending-policy.htm>
- EIB 3 Pillar Assessment:
http://www.eib.org/attachments/general/events/2013_11_07_roundtable_added_value_briefing_note_en.pdf
- EIB's GHG emission calculation methodology for investments:
http://www.eib.org/attachments/strategies/eib_project_carbon_footprint_methodologies_en.pdf
- The Economic Appraisal of Investment Projects at the EIB:
http://www.eib.org/attachments/thematic/economic_appraisal_of_investment_projects_en.pdf
- EIB Corporate Operational Plan (EIB COP):
<http://www.eib.org/infocentre/publications/all/operational-plan-2015-2017.htm>
- Climate Strategy for the External Lending Mandate:
<http://www.eib.org/infocentre/publications/all/eibs-climate-strategy-outside-the-eu.htm>
- 2014 Joint Report on Multilateral Development Banks' Climate Finance:
http://www.eib.org/attachments/documents/joint_report_on_mdb_climate_finance_2014.pdf

Annex 4 – Glossary

CAB	Climate Awareness Bond
CBA	Cost-benefit analysis
CCAC	Climate and Clean Air Coalition
CHP	Combined heat and power
COP	Conference of Parties to the UNFCCC
CSP	Concentrated solar power
EC	European Commission
EIB	European Investment Bank
EIB COP	EIB Corporate Operational Plan
ELENA	European Local ENergy Assistance
ELM	External Lending Mandate
EMS	Environmental Management System
EPS	Emissions Performance Standard
ETS	Emissions Trading System
EU	European Union
EUFIWACC	EU Financing Institutions Working Group on Climate Change Adaptation
GCF	Green Climate Fund
GHG	Greenhouse gas
INDC	Intended Nationally Determined Contributions
IPCC	Intergovernmental Panel on Climate Change
MDBs	Multilateral development banks
MDG	Millennium Development Goals
NAMAs	Nationally Appropriate Mitigation Actions
NAPAs	National Adaptation Programmes of Action
RDI	Research, Development and Innovation
SE4ALL	Sustainable Energy for All
SLCPs	Short-Lived Climate Pollutants
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change



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