Dear Sir/Madam,

Thank you for inviting CDP to respond to your public consultation on EIB approach to supporting climate action. I am delighted to attach the CDP response below.

While the points in this document are made quite briefly, CDP would be happy to set up a meeting to discuss any of them in more detail. Please contact me if you would like to discuss this further or if you have any questions or requests for clarification in relation to our response.

Yours faithfully,

Kate Levick

Director of Policy & Regulation
Public consultation on EIB approach to supporting climate action

Theme 1:
1. Is a volume-based lending target an appropriate climate action target for the Bank?

It is important to measure lending volume and this should not be abandoned. EIB notes (para 21) that its strategy may be affected in the near future by the need to focus on implementing the European Commission’s new jobs, growth and investment package. This is an argument to maintain a funding volume target of some kind, in order to protect the climate-related part of EIB’s mission and ensure that economic investment is done in a low-carbon way. This kind of conflict is already a risk cited by EIB, ref A21, “This level somehow reflects the limits imposed by other policy priorities covered by the Bank, which are sometimes in conflict with the objective of supporting low carbon emissions reduction projects (for example, innovation in energy-intensive industries or strategic infrastructure addressing energy security of supply and/or growth, SMEs, employment and cohesion goals.)”

A more radical approach that could be considered by the bank is to replace the lending volume target with an overall emissions cap for project lending. This would have the effect of limiting the number of emissions-intensive projects that could be funded by EIB and could be combined with other measures to increase the number of low-emissions projects.

It is also important to try to understand the overall impact of the bank’s activity beyond lending. Perhaps an approach could be developed for target-setting and reporting which is analogous to emissions reporting scopes under the GHG Protocol, e.g. as set out in the table below.

<table>
<thead>
<tr>
<th>Scope</th>
<th>GHG Protocol definition</th>
<th>Possible EIB definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>All direct GHG emissions</td>
<td>Lending volume</td>
</tr>
<tr>
<td>Scope 2</td>
<td>Indirect GHG emissions from consumption of purchased electricity, heat or steam</td>
<td>Leveraged investment due to EIB activities</td>
</tr>
<tr>
<td>Scope 3</td>
<td>Other indirect emissions</td>
<td>Wider market effect of EIB activities, e.g. effect on energy markets of scaling up renewable technologies and hence bringing down prices</td>
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</tbody>
</table>

Looking at the breakdowns of EIB lending at present it seems that there is underinvestment in some areas, e.g. Central & Eastern Europe, climate resilience. The EIB states (A27) that “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 submitted to the Bank for financing, the regulatory and policy environment, and the creditworthiness of the promoters.” Perhaps future EIB targets should be more specific in terms of sector/geography, in order to drive the emergence of projects in areas that are not currently well served. (There is a potential tension here with the current need for EIB’s strategy to be in line with national strategies, and a case for a centrally set strategy that might in some cases drive greater action in a particular MS than has been suggested by the national government.)

2. Is the current list of eligible projects in the sectors targeted for EIB Climate Action fit for this purpose?

The current project list is reasonable as a list of “should do” projects, however in order to have a coherent strategy on climate change EIB should also have a list of project types which it will not fund.
The EIB should be aligning its investment strategy, looking prospectively at what type of technology need to be implemented today in order to achieve a world in where global temperatures do not rise more than two degrees. This does not require sophisticated carbon accounting, rather simple lists of “should do” and “can’t do” investment projects like the ones published by the Climate Bonds Initiative\(^1\). The “can’t do” investment projects could for example include the installation of coal power facilities (unless high-efficiency and fitted with Carbon Capture and Storage.)

Priority should be given to “should-do” investments aligned with a two-degree world, for example power production from renewable sources, public transportation systems, electrification of transport, energy efficiency or restructuring critical infrastructure to decrease vulnerability to physical climate risks (adaptation to climate change).

3. **How should the Bank’s climate action lending target evolve over time to reflect global policy development?**

Given that EIB will be channelling a huge amount of funds through the Global Climate Fund (GCF) it is inevitable that this money will be spent according to GCF’s priorities, although we presume that EIB will have the opportunity as part of this relationship to set some operating guidelines for this, however (e.g. what can or cannot be supported from EIB-derived funds.)

Presumably also the remaining portion of EIB’s lending will continue to be driven by EU policy priorities. It would be sensible to build in some flexibility reflect the likelihood of calls for change and scaling-up, so that the bank can respond to those quickly, e.g. if the EU makes a new pledge on climate finance at the UNFCCC COP21 international climate change negotiations in Paris in December 2015, or at a Conference of the Parties, particularly in the event that a “ratchet mechanism” within any Global Deal agreed in Paris means that previous EU financing commitments need to be scaled up later.

**Theme 2:**

4. **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?**

One of the key barriers to mainstream investment in low carbon growth is the lack of large-scale investment opportunities. The Bank is already issuing green bonds, but any opportunities to increase issuance should be taken up where possible. Leadership in this space is a clear role for the Bank and transparency around measurement of environmental impacts from its lending portfolio would help encourage other investors to follow suit and think strategically about how investments might be optimized for the maximum positive environmental effect. The catalytic role of the Bank’s investments is important, and an expansion of the Bank’s investments in other vehicles, such as responsible investment and infrastructure funds, could leverage a considerable shift in private finance.

5. **What role should technical assistance and increased channelling of EU grants through the EIB play?**

Technical assistance is very important in ensuring that investment is making the maximum climate impact. Currently most funding goes to a few MS with low credit risk and high project capacity, other MS and external countries should be better represented in the EIB portfolio but realistically this will require support.

\(^1\) [http://www.climatebonds.net/standards/taxonomy](http://www.climatebonds.net/standards/taxonomy)
Theme 3:
6. 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?

The EIB could potentially play an important role in bridging the ‘valley of death’ for emerging technologies. The learning from current activity around CCS and renewables is likely to be very helpful in this regard, but a much wider set of technology solutions could be contemplated (and calls for market innovation could be made, rather than a lock-down list being decided centrally.)

7. How can energy-intensive industries that invest in innovation addressing lower carbon industrial processes be best supported?

These innovation projects should be assessed, alongside others, for impact and cost-effectiveness using a consistent assessment framework.

Incumbent industries are likely to be major employers, and new innovation projects may be framed as being likely to create or preserve jobs in Europe. This will of course be a very important criterion for EIB given its wider mission. However it is important that this focus does not crowd out opportunities for EIB to fund technologies which may be disruptive to incumbents, or may will not be rolled out at scale in the near future. Therefore it may be useful to ring-fence some funding streams for non-incumbent industries/technologies.

Theme 4:
8. How can the Bank most effectively support additional private sector investment in low carbon, resource-efficient, climate resilient technologies?

EIB can best do this through measures which promote long-term certainty and reduce private sector risk. There are various ways to do this, e.g.

- Set long-term targets;
- Create financial products which reduce investment risk for private investors in climate action projects (cf the approach taken to CDM by the World Bank in the past);
- Provide co-financing facilities.
- Launch climate bonds and/or become the seed financier of more climate bonds.
- Set lower hurdle rates for investments in low carbon, resource-efficient, climate resilient technologies? Encourage other investors to do the same.
- Invest more in low carbon, resource-efficient, climate resilient technologies itself, or only invest in low carbon, resource-efficient, climate resilient technologies?

9. What sort of financing structures should be supported to best catalyse private sector finance?

No response.

10. Is the current EIB product portfolio appropriate to meet climate finance needs?

The EIB product portfolio contains many diverse and impactful activities, but it has grown organically rather than being strategically designed. This consultation provides an opportunity to review activity and work out which activities should be the key focus for EIB
and where there may be any gaps. This review could be conducted by external consultants who are not invested in the history of how EIB has got to its current portfolio.

11. How can the Bank best employ the joint Commission-EIB blending facilities, innovative financial instruments and advisory services in support of climate action projects?

No response.

Theme 5:

12. How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process?

EIB should make a consistent assessment of what the future emissions (locked-in emissions) of a project will be during its life-time, using conservative estimates of both duration and activity of the asset. These need to be assessed against what are future needs for emission reductions. If needed the estimated contribution of the asset to climate change expressed in degrees Celsius increase should be estimated to better frame the impacts at stake. The bank should not assess the projects against a “baseline scenario” (which is typically not conservative) which will frequently lead to the justification of any project, even ones that absolutely should not be financed. If anything, the project should be assessed against the appropriate range of technologies that need to be implemented in order to contain emissions within 2 degree global carbon budget.

In all cases, the Bank should have clear requirements for the project owner or its operators to regularly monitor and report their GHG emissions in accordance to established GHG accounting and reporting standards.

13. 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?

CDP strongly supports the use of internal carbon pricing. We work with the World Bank, UN Global Compact and others to push for this alongside regulatory carbon pricing, and we encourage companies to set an internal price on carbon both through the CDP climate questionnaire and through our Road to Paris campaign seeking corporate commitments of ambition in the lead-up to the COP21 negotiations in December 2015.

However, avoiding carbon lock-in requires an additional economy-wide perspective. EIB has a moral responsibility to include an economy-wide review of this kind as part of project appraisal, given its disproportionate impact on the path of EU infrastructure development. EIB’s carbon pricing should be augmented with this economy-wide perspective, as well as additional approaches (e.g. an overall emissions cap, “can’t do” or “should-do” projects, that are suggested in our responses to other questions.

14. How can the Bank further improve the energy efficiency (EE) and climate resilience of the projects it supports?

EIB can address these elements by making them preconditions of financing, by following up and enforcing those requirements, and by working with others to increase the general level

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2 Considerable work has been done in order to establish relationships between emissions and temperature increase. Further scientific work is currently being developed in order to establish causality between increases in temperature and specific damages due to climate change.
of knowledge and ambition in these areas (e.g. providing training to prospective applicants for finance.)

**Theme 6:**
15. **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?**

EIB already engages widely among different types of stakeholders. However it should ask itself whether it speaks in a way that all of these groups understand, given the different concerns and sometimes also terminology that are specific to the different groups mentioned above.

CDP, with direct relationships with over 5,000 companies in 80 countries and 822 investors with combined assets of US$95 trillion, is happy to discuss further with EIB how messaging might be made most relevant to these groups.

**Theme 7:**
16. **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?**

CDP, like other stakeholders, is keen to see co-operation and alignment between the different banks and institutions in order to maximise efficiency and effectiveness. We support anything that the EIB can do to this end.

17. **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?**

To the greatest extent possible we would urge EIB to work through existing forums and partnerships, rather than create any new ones in an area that is already very complex. The exception would be instances where the EIB has an opportunity to reduce the level of complexity by taking a leadership role and bringing other actors together towards joint action.

There is a present a general trend in this area to try to bring actors and workstreams together – for example to integrate environmental and development policy, to form NGO coalitions, to channel funding through the Green Climate Fund. This trend is to be welcomed and we urge the EIB to embrace it.