There is much to applaud in the European Investment Bank’s (EIB’s) current approach to Climate Action. Climate Action is already viewed by the European Investment Bank (EIB) as an integral part of how it does business, assesses projects and carries out activities. The Bank has committed to allocate at least 25% of its portfolio to climate action and in the past 5 years EUR 88bn have been allocated and in some years has exceeded that total. The Bank does factor in climate impacts notably flooding risk - but this does not appear to be done in a systematic way currently. Finally, the Bank works to build resilience to a changing climate through waste resource management and reforestation programmes.

This consultation response sets out how the landscape of climate-related risk is changing and provides thoughts on how the Climate Action Review could be used as a lever to catalyse a step change in both the EIB’s and Member State’s action on climate change. Key points are:

1. **The EIB needs to fully understand its exposure and data gaps on climate risk**

   - **Solvency:** To properly risk-manage its solvency and reputation in the face of increasing climate risk the Bank needs a formal view on the potential for asset stranding. As such there is a strong case for developing for internal use scenarios for a 2,4,6 degree C global temperature increase in order to stress test portfolio to get a snapshot of weaknesses and indicators for strategy going forward.

   - **Strategy:** Ad hoc technology-driven expertise in the Bank has helped it make good investment decisions thus far. But a more strategic country-level view is needed given infrastructure in particular may be connected across several regions or Member States and climate risks are wider than just a single project. The next step for the EIB should be to consider the potential to replicate the model of multilateral development banks (MDBs) operating in developing countries and provide country level advice on development pathways. By working in a variety of ways to ensure Member State adaptation and mitigation plans are in place, the EIB can assist with developing financing pathways – this

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1 http://www.eib.org/attachments/thematic/climate_action_en.pdf
in turn will also assist with strengthening the low carbon investment pipeline and help increase overall volumes of climate action finance by the Bank.

- **Safeguards:** At the project level - the screening criteria currently used need to be updated in line with best practice. The Bank could consider closer collaboration with public banks based in developing countries, where weather-related and sea level rise risks generally higher, to develop new methodologies to manage climate risk over a range of temperature increase scenarios. For example the Central Bank of Bangladesh acknowledges that climate change represents a risk for the financial sector and has incorporated measures related to cyclones, storms, floods and droughts as part of the Environment and Social Safeguards which all financial institutions need to comply with. The UK’s central bank – the Bank of England – is also working with insurers to understand their exposure to climate risk – both physical and policy-related. Stronger safeguards could include assessing:
  - The likelihood that adverse impacts will occur during life of project financed asset;
  - Project site susceptibility to raised sea levels;
  - Operational impacts of climate change e.g. unplanned outage due to water unavailability;
  - Likelihood of increased frequency of adverse weather events;
  - Likelihood of political conditions for legislation/new climate-related legislation impacting on project costs/value;
  - Whether best-alternative low carbon options have been considered.

**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 target evolve over time to reflect global policy development?**

Experience with volume-based lending targets to date shows it is hostage to fortune based on two key criteria: first the volume of overall lending and second the pipeline of climate action projects coming through. As an example in 2012 the volume of climate action lending reached 30%; in 2013 it was back down to 25% - although the absolute amount of financing had actually increased over that time. That said, the EIB having a public target for climate action lending sends an important signal to Governments and other stakeholders about the seriousness of its commitment to climate action. For example the Inter-American Development Bank (IDB) set up a 25% lending target for specific climate change related initiatives from a 5% baseline in 2006-2009.

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3 [http://www.bankofengland.co.uk/prasupervision/activities/climatechange.aspx](http://www.bankofengland.co.uk/prasupervision/activities/climatechange.aspx)

4 IDB 9 Agreement lending target of 25% of its total lending to be reached by the end of 2015 up from an estimated baseline of 5% in 2006-2009. [http://publications.iadb.org/bitstream/handle/11319/6692/CC_EnglishBRIK.pdf?sequence=1](http://publications.iadb.org/bitstream/handle/11319/6692/CC_EnglishBRIK.pdf?sequence=1)
Despite uncertainty over the current pipeline of climate action investments, there have been calls for the EIB to increase its volume of lending to this space – including from E3G – and the case is stronger than ever to do this.

- The EU has recently introduced a set of climate and energy targets of at least 40% GHG reductions; 27% renewables and 27% energy efficiency that DIW Berlin estimates will require investment in the region of EUR2.5trillion to 2030. This level of financing is beyond the capacity of banks and corporate balance sheets – and the capital markets will need to increase its finance provision to low carbon infrastructure and the supply chains that support its deployment. While some of this investment will encompass financing of well understood technologies and business models, it will also require deployment of new technologies and business models that carry risk. As such the EIB along with other public banks will be more important than ever in risk sharing to bring in new sources of capital markets funding to meet the scale of the investment challenge.

- The EU has major infrastructure renewal needs. The assets will last anywhere from 35 or more years. To avoid retiring these assets before the end of their productive life there is a need for investors to have a view on whether they will be consistent with meeting EU 2030 and 2050 GHG reduction targets. In the UK alone for example it is estimated that 70% of the infrastructure pipeline (amounting to £288bn to 2020) will be need to be low carbon (such as renewable energy and superefficient housing) or low carbon enabling technology (such as ICT and grids). Again, as climate legislation in the EU tightens the volumes of projects coming through will increase.

- Over the past three decades, Europe has seen a 60% increase in extreme weather events including flooding, drought and heat waves. In early 2014, flooding and winter storms caused an estimated £14bn in economic damages in the UK alone. Estimates suggest the climate-related damages in the EU may be more than €190bn per year by 2070. With the impacts of climate change becoming more visible in the EU and elsewhere there is likely to be increasing demand for financing for infrastructure that is climate-resilient.

These three drivers indicate the likelihood of increased volumes of climate action financing by the EIB and indicate there is a strong case for revising the current target of 25% upward. We think a minimum of 50% in 2030 should be considered on the basis that the EIB is the currently biggest lender to renewable energy projects in the EU, is looking to scale up energy efficiency investments and that the fundamental market drivers – policy and climate impacts - indicate demand is likely to go up not down in the next 15 years.

In terms of whether the EIB’s eligible projects/sectors targeted for climate action are fit for purpose, some review is needed. For example, while in the short-term energy efficiency or cogeneration investments that prolong the life of high carbon assets may reduce GHG emissions, they also displace investment in cleaner alternative technology that would arguably...

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6 http://www.green-alliance.org.uk/resources/Infrastructure%20Investment.pdf
have a bigger impact on GHG emissions. While some energy efficiency investments to improve the emissions from coal-fired plant may have a role to play in helping countries transition from a high to a low carbon energy sector this needs to be examined to a case by case basis in the context of the low carbon transition pathway of the client country. Similarly consideration should be given to whether the list should be expanded to include smart grid and storage solutions that will help support demand flexibility and full integration of renewable energy onto the energy system.

This highlights information gaps for the EIB on what a sustainable transition pathway for each country it operates in actually is. With the Energy Union in the EU now under development there is a ‘live’ venue of debate on these issues in the context of economically and environmentally sustainable energy infrastructure investment choices. These issues play out more widely in discussions on how the project pipeline in the Juncker Investment Plan should be developed.

There are also very significant gaps around the EU’s exposure to climate risks, which also needs to be addressed. Member States are required to develop Adaptation Plans that assess risk, that can then be audited by the European Environment Agency to develop an EU-wide view—these are currently incomplete. The EIB should consider its role – as a good steward of public capital – in highlighting these information gaps to the European Commission and to ECOFIN and consider how the institutional capacity to develop/assess resilience of sustainable development pathways can be resourced inside or outside the Bank.

In terms of how this target should further evolve over time, this will require the EIB to have a view both on the trajectory of global climate policy-making; future volumes of its own lending; the potential pipeline of projects coming through; and the balance to be struck between investing in climate mitigation and adaptation projects. With extreme weather events increasing, there is a strong case for the EIB to set targets for climate action investment to assist with adaptation but at the same time to ensure that projects focused on climate mitigation contribute to this aim but are also robust to the impacts of a changing climate.

In 2011 the IDB developed its climate change strategy, which included strengthening institutional frameworks as one of its 5 objectives. Since 2009 the IDB has focused on country climate strategies as a main entry point, guided by country demands and priorities, and used its policy-based loans to support countries in designing and implementing national climate change policies. However a recent evaluation shows that 70% of its climate finance portfolio has been focused on mitigation but has not included a focus on ensuring projects are also resilient – potentially putting these assets at risk. As an alternative model, the Pilot Program for Climate Resilience, part of the Climate Investment Funds, has integrated climate risk and

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9 Objectives: 1) Develop instruments to mainstream Climate change bank operations, 2)strengthen the knowledge base for clients and staff, 3) expand leading and technical assistance in key sectors, 4) strengthen institutional frameworks 5) scale up investments addressing financing gaps and leveraging private sector investments. Between 2007 and 2013 the IDB approved 16 climate related policy based loans. http://publications.iadb.org/bitstream/handle/11319/6692/CC_EnglishBRIK.pdf?sequence=1
resilience into core development, planning and implementation, which has resulted in a scaling-up of climate-resilient investment.\textsuperscript{10}

**Theme 2. Based on its existing business model and taking current 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 an increased channelling of EU grants through the EIB play?**

As noted above, the EIB can only finance the projects that come through its doors – and one of the most significant interventions the EIB could play is to highlight the information gaps facing the EU currently in terms of the need to assess climate risk and to develop climate-friendly investment plans and the need to build and develop the capacity at MS level to undertake this planning.

The current technology-driven climate action investment undertaken by the Bank has helped it make good investment decisions thus far. But a more strategic-country level view on what is required to deliver climate-resilient low carbon growth is needed given infrastructure in particular may be connected across several regions or Member States and climate risks are wider than just a single project. Two major focuses are needed.

- **Solvency:** To properly risk-manage its solvency and reputation in the face of increasing climate risk the Bank needs a formal view on the potential for asset stranding. As such there is a strong case for developing for internal use, scenarios for a 2,4,6 degree C global temperature increase in order to stress test portfolio to get a snapshot of weaknesses and indicators for strategy going forward.

- **Strategy:** the ad hoc technology driven expertise in the Bank has helped it make financial sound investment decisions thus far. But a more strategic-country level view is needed given infrastructure in particular may be connected across several regions or Member States and climate risks are wider than just a single project.

It should be emphasised it should not be for the EIB to assess climate risk to Member States – although it has a role to play in calling for this work to be done. A number of Member States do have national adaptation policy frameworks, although quality varies significantly. While national adaptation strategies cover most of Europe, they are not specific enough for regional/city-level planning and it is clear a stronger focus is needed on managing climate impacts. While the European Commission provides some support through the EU adaptation

\textsuperscript{10} http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience
strategy, project funding and advice, but there are significant gaps, including coordinating EU scenario planning and market reforms such as insurance tools.

The Commission has been prevented from taking a more stringent approach by Member States that see this as a national competence. The opens up EIB lending to undisclosed risks and for this reason there is a strong case for the EIB to highlight this and set out how – with the right information and resources in place – the EIB can play a role in helping less well resourced Member States to develop national financing strategies to ensure climate action creates (through ensuring investment in assets that will remain productive over the next 35 or more years) rather than kills growth (through seeing assets that are no longer needed because of a lack of demand or must be retired before the end of their productive life because of climate legislation or weather events).

It will require EU grant money to enable the EIB to provide technical assistance to Member State to create low carbon development financing pathways. But this in turn will also assist with strengthening the low carbon investment pipeline and help increase overall volumes of climate action finance by the Bank.

There is an immediate need for this in the form of national financing plans to meet 2030 and 2050 targets and plans to invest for resilience. The EIB could also play an important role in highlighting opportunities and risks and in doing so add weight for the case for there to be:

- A requirement in the 2030 governance framework for Member States to develop National Energy Action Plans to deliver a climate resilient Energy Union in 2030 – looking at demand and supply side investment needs that could then be used to developing financing frameworks involving private sector investors but also the EIB and national banks.

- A requirement for the EU – working through Member States - to undertake a full assessment of its exposure and planning to address to climate impacts. In a recent survey of European cities, 77% reported rising exposure to climate risks and severe capacity gaps, which made it “extremely unlikely” for them to improve their climate resilience by themselves.\(^\text{11}\)

While the EIB won’t and shouldn’t finance all the potential projects, this type of approach will focus minds on the investment challenge, helping with pipeline development, enabling investor engagement with governments as they develop investment frameworks and enabling the EIB to assess its role in catalyzing this investment – setting climate action targets accordingly.

Through the EU and MS Governments identifying the investment challenges and engaging investors in a dialogue on how to scale up financing through effective PPPs, it will become clearer where the gaps are and how EU grants/public bank finance can be targeted to effectively manage risk increase the scale of capital markets financing. This is one of the core asks by Aviva Investors in their recent paper A Sustainable Capital Markets Union Manifesto.\(^\text{12}\)

\(^{11}\) EC (2013a) ADD REF FROM CITIES REPORT

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?

Targeted use of venture capital for small entrepreneurs along with grants and subsidies are the most appropriate support for early stage, high value but high risk, technologies that would not otherwise gain funding. For SMEs and larger companies investing in equity or near equity (first loss debt for example) is most suited for early stage ventures. The EIB should continue to support start ups and first-of-a-kind technology deployment including through using blended grant/loans13.

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?

Capital markets remain the key source of capital to unlock. Interest in investing in well established low carbon resource-efficient technologies and infrastructure remains high – returns are attractive and the long-dated yield matches liabilities well. As example, in 2014 Allianz raised and closed a $200m renewable energy equity fund in a single year14 and now has $2.5bn in renewable energy assets under management; and the climate bonds market is booming – by the end of 2014 the market was estimated to be worth $503bn15. However the focus in mainly on acquiring operational assets – and the notion of mainstreaming low carbon investment into portfolios is far from the norm for many investors. As such public banks such as EIB will need to continue to play a key role in catalyzing private sector investment into the low carbon economy. Instruments such as the Project Bonds will continue to be important. However, they will only serve the low carbon sector properly if the case is made the European Commission to re-focus the Connecting Europe Facility/Projects of Common Interest list onto

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15 http://www.climatebonds.net/bonds-climate-change-2014
climate resilient investments that are in line with projected demand and meet 2030 climate and energy targets. This is currently not the case\textsuperscript{16}.

Further initiatives focusing on connecting capital markets to projects using blended finance should be considered – focusing in particular on bringing investors in at construction stage and recycling capital through asset-backed securitisation.

In addition to this, as noted above, technical assistance to help Member States develop national financing strategies/capital raising plans around which dialogue between investors, the EIB, Commission and Member State Government can be generated to develop best value PPP structures and instruments to connect capital to the climate resilient investments that need it.

**Theme 5. How can the Bank make better use of 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?

The EIB’s decision to integrate a price of carbon that reflect social and environmental (not current market) cost was a very significant step forward in beginning to screen projects wrt carbon lock-in impact. The introduction of an Emissions Performance Standard (EPS) was a further major step forward in managing carbon lock-in risk. However, these project-based screening tools need to be tightened and complemented with a more systems-integrated view of carbon lock-in risks and avoid asset stranding.

The issue is that – as set out in the previous point – for some countries there will potentially be a case for investing in gas or fossil fuel plant energy efficiency improvements as part of a cost-effective transition to a low carbon economy. But without a country and regional view of how this can be achieved and looking more widely a view on future levels of demand – in energy, water, transport etc – it is impossible for the EIB to be sure it is lending to projects that are in the medium and long-term economic and environmental interests of the countries they serve.

This argues for increased caution when assessing the case for investment in assets that risk high carbon lock-in through:

- having an internal view on future energy, water, road transport demand – to help assess the economic viability of supply side, gas infrastructure and road investment;
- tightening the EPS at least in line with 2030 climate and energy targets;

\textsuperscript{16} J. Gaventa (2014) Energy Security and the Connecting Europe Facility
http://www.e3g.org/docs/E3G_Energy_Security_and_the_Connecting_Europe_Facility_110914.pdf
presuming against investment in coal-based energy efficiency retrofits that extend the operating life of assets.

Greater visibility of and planning to manage climate risk exposure for the EIB.

**Theme 6. 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**

The EIB is a long-term lender to infrastructure within the EU and without. Its remit as a Bank has changed substantially since it was first created. Responding to changing market and political conditions the Bank has moved to an expanded portfolio that includes:

- lending to smaller more complex projects such as city-based renewable/energy efficiency projects;
- financial innovation to catalyse new sources of investment into the different sectors of the EU economy such as Project Bonds to encourage institutional investor into infrastructure investment and bank lending to energy efficiency (through the Private Finance for Energy Efficiency);
- a bigger focus on supporting the SME sector through initiatives such InnovFin SME Guarantee Facility.

This has been done in dialogue and with the financial support of the European Commission and supporting financial innovation to fund businesses and infrastructure that has more difficulty accessing capital. As climate-related risks become more and more material the EIB, there is a need to evolve the operational model again. This should begin a dialogue with the European Commission over un-identified risks, how the information gaps can be closed and information used to inform EU climate adaptation/mitigation policies and the EIB’s response in terms of adjusting its portfolio focus. There are two key arguments for the EIB to undertake this work:

- The increasing frequency of extreme weather event means the EIB needs to have a well-informed view of its potential exposure to losses resulting from physical infrastructure damage and asset-stranding as climate policies tighten.
- The EIB is the EU’s policy Bank and a global leader in climate action. With current pledges from the EU, China and the US set to take us to an estimated outcome of 3 degrees C by 2100 if fully implemented, this is well into the realm of dangerous climate change. There is a need for leaders of climate issues to speak out on the risks to not taking further urgent collective action to reduce GHG and ensure infrastructure is constructed to be resilient in a more unstable climate.

The EIB can begin this process by engaging in dialogue with the Commission to understand barriers. In parallel it should use its institutional position to convene a dialogue between the business community (including investors) – who are increasingly aware of value at risk and...
exposure - and with civil society and think-tanks who have expertise in indentifying gaps in information and institutional capacity – to develop broad consensus on solutions.

It is proposed that the EIB set up by end of H1 2015 a multi-stakeholder task group to establish if there are significant information gaps that pose a risk to its portfolio. From here the EIB can establish if there is a case for further action by the European Commission and Member States to identify these risks and how the Commission should respond, informing in the process final decisions on a 2030 climate and energy targets and decisions on how to prioritise projects in the Juncker Investment Plan. This would be a substantive and transformation contribution to the debate and a fitting contribution from the EIB in the run up to Paris and COP21.

Issues to consider are:

- What are the EU-wide risks from a changing climate? If the data are not available where do they need to come from to reduce EIB exposure and aid planning.
- With the privatisation of infrastructure (water, energy, rail) across swathes of the EU, no single entity within Member States in charge of resilience. Many projects are cross-border. How can this lack of oversight on exposure be managed to reduce EIB exposure?
- How might unquantified climate risks affect achievement of the EIB business plan, protection of shareholder capital, soundness of future operation?
- Where do more data need to be provided to enable EIB to undertake sound assessments of climate risk exposure?

Theme 7. 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 mobilizing the UN-pledges USD 100bn annually by 2020 to support technical assistance and funding for mitigation and adaptation projects in low and middle income countries?

The impact of the EIB’s contribution in mobilizing the UN-pledges USD 100bn annually by 2020 will depend on how targeted, strategic and collaborative it is. Currently the international climate finance ecosystem is very fragmented and lacking in any strategic activity focus. This means low and middle income countries face challenges in accessing suitable finance that is caused a lack of coordination between financial donors, duplication of technical assistance, finance not being directed where it is needed and so on. The needs to be a change in focus from MDBs making technical assistance and financing offers to seeing this become more recipient-led and focused on areas of greatest need/highest value.
The Paris agreement and submission of countries’ Intended Nationally Determined Contributions (INDCs) provides a good opportunity to start to target climate finance to meet INDCs’ objectives in a more strategic way. The Green Climate Fund (GCF) provides a good vehicle to ensure country ownership of country-led finance development pathways. The EIB should start to coordinate with regional MDBs and with European national development banks that provide technical assistance and finance to low and middle income countries to focusing on addressing financing gaps in a coordinated way to help achieve INDC objectives in low and middle income countries.

The EIB’s contribution to leverage climate change investments via the GCF – which is likely to have a core focus on this type of activity - could be through:

- accessing GCF resources via the international access track to ensure project pipelines are aligned with country priorities and are ready when intermediating with local institutions that don’t meet GCF’s criteria to have direct access;
- using part of EIB’s own resources to provide additional leveraged support to projects accessing GCF funding through providing finance to target funding gaps, in coordination with other MDBs and regional/international organizations;
- providing financial or other resources directly to the GCF.

Through this type of approach the EIB can have a more strategic country focus for its external climate action lending, targeting the development of project pipelines that are critical to mobilize public and private financial resources at scale.

About E3G

E3G is a not-for-profit public interest organisation with offices in London, Brussels, Berlin, Washington DC and Beijing. E3G’s mission is to accelerate the global transition to sustainable development. E3G’s main focus is on helping deliver a low-carbon and climate resilient future, but we also work on a range of related resource, security and economic issues.

Submitted to the EIB on 16th March 2015. For more information on the points raised in this consultation, please contact Ingrid Holmes: Ingrid.Holmes@e3g.org