EIB Approach to Supporting Climate Action

Mott MacDonald's consultation response

March 2015

European Investment Bank
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Executive Summary

This document has been prepared by Mott MacDonald's Climate Resilience and Power portfolio in response to the European Investment Bank's call to submit contributions to its consultation paper on the EIB approach to supporting climate action. ([http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm](http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm))

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

A volume-based lending target is important in allocation of the banks funds, but the target does not quantify the impacts of the Bank’s funds on the climate or the effectiveness of building climate resilience. As such the volume based target does not promote investments in the most climate friendly technologies, nor does it ensure that climate resilience investments occur where they are most needed and most effective. The volume-based target should therefore be further broken down with specific targets for mitigation and adaptation.

For mitigation, an overarching target should be established for all financing activities of the Bank measured in tCO2e with a view to creating a portfolio that is carbon neutral in the longer term and that is consistent with global targets and ambitions to mitigate climate change in the short and medium term. It is recognised that the Bank’s ability to meet this target will depend on the quality of projects submitted for finance, but such a target will ensure a focus on the climate impacts of all projects and this builds on the work that the Bank already does to integrate climate impacts into the economic assessment of projects.

The Bank should also broaden the use of Emission Performance Standards to screen out projects. These are being applied for power and heat generation and the EU ETS product benchmarks are being used to assess projects in energy intensive industries. These product benchmarks should be routinely applied to screen out investments in all sectors covered by the benchmarks.

For adaptation and as with mitigation projects, there needs to be a set of clear objectives about what is to be achieved with investment into adaptation. The current EU target of 20% spend, whilst laudable, needs to be implemented in a way that provides maximum multisector benefits. For example, approach adaptation at a landscape scale rather than solely focussing on specific projects.

Accompanying the individual investments there needs to be a rigorous monitoring and evaluation framework to accompany climate mitigation and adaptation projects to ensure that they are serving the purpose, providing measurable benefits and not adversely impacting other sectors (i.e. biodiversity).

As such, a volume-based target is a key indicator of performance in the sector, but there needs to be a strong “quality” assessment in determining the effectiveness of the Bank’s contribution.
The Bank should also consider how to deal with the issue that climate resilience is often a longer-term issue than the loan period of a project. For example, in the case of a hydropower plant the lifetime of the project will far exceed the lifetime of the Bank’s involvement. Therefore the Bank should consider how it might try to ensure long-term benefits and longer-term resilience of projects. Integrating climate resilience into the ex-post evaluation of projects would help to manage the risk going forward once the loan has been repaid.

Figure 1.1: Cover image: Nurek Reservoir on the Vakhsh River, Tajikistan is vital for hydropower generation and irrigation and is also a popular amenity. The volume of water in storage depends mainly on melt water and is highly variable from year to year. Photo taken as part of Mott MacDonald’s Climate Resilience for Natural Resources Investments project, Tajikistan, ADB, 2010-2011

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

Low carbon climate resilient investments face multiple challenges. The EIB plays an important role in wrapping the investment risk within projects, but there remain the two challenges of attracting private sector investment in infrastructure projects susceptible to climate change and addressing the market failures associated with climate change mitigation and adaptation (where the cost of greenhouse gas emissions is not priced into investments and the returns on adaptation investments can be entirely subjective).

Technical assistance should be used to address these market failures and support countries to develop enabling policies, regulations and instruments to attract the private sector and create new markets. Development of policies should be underpinned by sound technical input to understand the effect of those policies on the climate change. The Global Calculator developed by the UK Department of Energy & Climate Change (DECC) in collaboration with international academic institutions, NGOs and Mott MacDonald can provide this assessment on a global, national or regional level. Low carbon climate resilient (LCCR) innovation may then be further supported through research, development and innovation (RDI), capacity building and awareness raising programmes.

EIB should identify areas of support that complement activities undertaken by other bilateral and multilateral programs and that share European experience in climate resilient low carbon growth.

Specific activities that the Bank could undertake are:

- Funding studies into the economics of climate resilience;
- Coupling wider UNFCCC aims with economic development;
- Aligning policies regarding infrastructure development and biodiversity conservation;
- Supporting climate resilient approaches that tackle migratory pressures and livelihood development.

1 In January 2015, the UK DECC and Mott MacDonald launched the Global Calculator, which models the world’s energy, land and food systems. The model was developed in collaboration with international academic institutions and NGOs and is freely available. The Calculator has been designed to inform the strategic thinking of businesses, governments, NGOs and private individuals, and encourage them to take action to mitigate climate change. It is an evidence-based model that illustrates the climatic, economic and social impacts of different planning, lifestyle and technological decisions. http://www.globalcalculator.org, http://2050-calculator-tool.decc.gov.uk/, https://www.gov.uk/international-outreach-work-of-the-2050-calculator
3 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?

EIB should be looking to invest in RDI projects and business start ups that are developing low carbon technologies and approaches – there will be a key role for the EIB in ‘enabling’ the market to encourage commercial investors.

The allocation of NER300 funds has had mixed results and has failed to bring about sufficient support for the demonstration of CCS and RE projects in Europe. The rules of the scheme and the substantial drop in the value of allowances combined with the inherent complexity and scale of CCS projects meant that the first round failed to award funds to any CCS projects and all money was allocated only to renewable energy projects. The second round awarded funds to the UK-based White Rose project. This project will use oxyfuel technology to capture of the CO2 produced by burning coal at a power plant on the Drax site and store it in an offshore storage site in the North Sea. NER300 funds for the project will help to provide transportation and storage infrastructure for future projects that will also benefit the regional economy.

EIB should support, where it can, the future development of European CCS projects through the development of European infrastructure projects (transportation and storage as well as power distribution networks that can provide more flexibility in the system).

Energy intensive industries face conflicting challenges associated with climate change. The main issue that they face is that of international competition, which can be compounded when climate regulations are not introduced in all international markets. On the other hand if they are too slow to adapt they face the risk that they could be left with stranded assets.

A number of energy intensive users (e.g. cement, aluminium) also face a specific challenge in reducing emissions due the fact that a large proportion of emissions are produced by the process (rather than combustion) and the main options to remove these emissions is through process change or adding capture and storage to existing processes, which is yet unproven at commercial scale.

EIB could consider funding innovation prizes, for a number of areas in climate change mitigation and adaptation. This would need to be done in conjunction with the academic and RDI policy community. Mott MacDonald would be keen to be involved if EIB pursued this approach.
4  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?

The bank should support the development of best practice studies, implementation frameworks and capacity building activities. These should promote:

- Implementation of pull factors in domestic policies and regulations in all countries, which help to attract and absorb international climate finance, and ensure effective and accountable use of the finance.
- Implementation of push factors including policies, regulations and instruments which help mobilise climate finance and investments for use in recipient countries. EIB needs to understand the complimentary and conflicting policy frameworks that exist across their target countries and sectors.

To encourage investment in target countries the EIB should help to facilitate and establish predictable, transparent and responsive in-country enabling environments, which could include predictable and stable policy goals; using a range of policy instruments; aligning climate finance interventions with national development goals; monitoring and evaluating the results, and adjusting the intermediate goals and policies aimed at achieving a low-carbon resilient economy in the light of evolving scientific, technological and economic factors.

For private sector investment in low carbon, resource-efficient, climate resilient technologies to occur a price needs to be put on greenhouse gas (GHG) emissions and this should be done in a coherent, stable and sustainable manner with mechanism(s) that increasingly reflect the social costs of GHG emissions. Inefficient subsidies for fossil fuels must also be phased out. Carbon pricing and removal of fossil fuel subsidies are key to the development of enabling environments and should be encouraged by the Bank.
The EIB should: encourage a stable policy environment that is less exposed to individual country-specific economic and political policies; encourage countries to co-ordinate their internal institutions to access, manage and use climate finance in an effective manner; and reduce the fragmentation of international climate finance by improvement of interagency co-ordination.
5 Theme 5: How can the Bank make better use of the project or sector level GHG results to better inform its internal decision-making process? Does the current approach of the Bank, to integrate a price of carbon into the economic appraisal of a project, adequately reflect issues such as carbon lock-in? How can the Bank further improve the EE and climate resilience of the projects it supports?

The Bank is part of the IFI harmonisation group on project GHG accounting, has introduced a consistent measurement framework for reporting GHG emissions from its’ portfolio and allocates the impact of the Bank’s financing in proportion to the overall project cost. The Bank should continue to develop its methodologies and systems and integration of this data into the decision-making process. Integrating a cost of carbon helps to inform decision-making at the project level but at the portfolio level decisions will need to be taken that reflect the contribution of projects to absolute and relative emissions targets, particularly as large investments in emissions intensive industries will skew the performance of the portfolio dramatically. This may require changes to the decision-making process itself. Also, given the variability and sensitivity to the cost of carbon, measuring contributions to targets may be more effective.

Furthermore, whilst the project appraisals currently include the economic cost of carbon, this does not directly drive investment towards lower carbon options. In which case the use of targets and performance standards would be more appropriate to achieve positive reductions in emissions from the portfolio.

The Bank can further improve the climate resilience of the projects it supports by mainstreaming climate risk assessment in investment plans and loan approvals as well as in monitoring and evaluation processes. The Bank can also assess the economic benefits for the incorporation of climate resilience, which should be designed to be flexible to meet different rates of climate change.
6 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 Bank should examine past large scale engagement activities that have delivered meaningful impact and develop a strategy based upon an understanding of the barriers and opportunities that engages with a broad spectrum of stakeholders. The British Council’s climate change programme (2008-2011) provides a suitable transferable high impacting model.

The Bank can also consider using prizes for innovation extras a tool for outreach to civil society, think-tanks, academia and the business community.
7 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 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?

The Bank can 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 by:

1. Facilitating better co-ordination and co-operation amongst institutions financing climate interventions in order to minimise duplication of work and maximise the synergies between different institutions.

2. Streamlining the steps in climate finance allocation processes by the operating entities under the Convention to improve efficiency and effectiveness of managing climate finance. The current process is complex with a whole series of different institutions providing complimentary roles. Enhancing synergies and complementarity between institutional arrangements within the UNFCCC process.

3. Engagement with those reputable private sector organisations that deliver projects and programmes. Utilise their internal resources and evidence base and expertise. Practitioner businesses can provide complimentary evidence to the academic community (see Viner and Howarth, 2014 Nature Climate Change).