Frequently Asked Questions (FAQs) on the EIB Energy Lending Criteria

Q1 Why does the EIB have specific criteria for the energy sector?

As the EU’s financing institution, these criteria are designed to ensure that the Bank’s activities in the energy sector are consistent with and supportive of EU policies and focussed on areas with the greatest investments needs or where EIB can have the highest value added or which have the highest policy priority.

The criteria inform EIB’s stakeholders – shareholders, borrowers, promoters, partners and civil society organisations – as well as the wider public on:

(i) what types of energy projects are consistent with the Bank’s objectives and eligible for financing;
(ii) how energy projects will be assessed and prioritised by the Bank and
(iii) how the Bank supports EU energy policy.

Q2 How does the EIB determine its criteria for the energy sector?

The Bank’s activity in the energy sector is guided by EU policies in energy, climate change, and external affairs and development. In addition, certain areas of energy policy, e.g. the composition of the energy mix, are decided by individual Member States. The EIB takes all these into account together with the other objectives in the Bank’s business plan in defining its screening and assessment criteria for energy projects.

The criteria thus reflect a balanced approach which recognises the important role that the Bank plays in financing sustainable growth and

- are fully aligned with EU policy priorities to deliver economic growth, energy security and sustainable development,
- prioritize energy efficiency, renewable energy, energy networks and energy RDI, and
- support the EU’s climate objectives.

The criteria will be periodically updated in response to major developments in EU policies, energy and financial markets.

Q3 To which EIB activities do the energy lending criteria apply?

They apply to all EIB financing in the energy sector. This includes operations inside and outside the EU and both direct EIB investment loans to projects and intermediary financing.
Q4  What is the Emission Performance Standard (EPS) and why is it important for future power generation investment?

The criteria introduce an emission performance standard (EPS) that will work to ensure that all fossil fuel power generation projects financed by the EIB are in line with member states commitments to EU climate policy.

The EPS is set at a level (550 gCO2/kWh) which reflects the EU's and EU Member States’ existing commitments to limit EU carbon emissions as established currently in the European Emissions Trading System (ETS). Applying the EPS will screen out projects from EIB financing that are not consistent with the EU's climate action targets, thus constituting a “no-regrets” approach to the sector.

Q5  Will the level of the Emission Performance Standard be reviewed?

Yes. When adopting the revised criteria, the Bank’s Board decided that the EPS be kept under review and that more restrictive commitments could be considered in the future in line with the development of EU policy. It was agreed that the EPS will undergo a first review at the end of 2014.

Q6  What are the changes compared to the previous lending criteria?

The revised criteria largely confirm the EIB’s previous lending priorities. A number of adjustments were made, however, including:

- A streamlined co-financing of national energy efficiency programmes that aim at financing small investments (e.g. loft insulation) that would otherwise be too costly to assess on a project-by-project basis. The EIB will develop “white lists” of acceptable projects on an ex-ante basis that will significantly streamline the assessment and allocation process for energy efficiency framework loans.
- An increased financing for near-zero energy buildings to support the objectives of the Energy Performance of Buildings Directive. For these investments, EIB financing can be up to 50% of the project cost.
- The support to the roll out of emerging energy efficiency technologies in particular by financing RDI, e.g. for LED lighting.
- A fine-tuned assessment for mature renewables to ensure that EIB financing supports economically justified mature renewable generation projects.
- The introduction of an Emissions Performance Standard that will be applied to all power generation projects and that will screen out investments whose carbon footprint benchmark is above a threshold level.

Q7  Are there other criteria that apply to EIB financing to the energy sector?

Yes, there are several general screening and assessment criteria which apply to all EIB financed projects:

- The Bank’s borrowers must be capable of repaying the loan and must provide adequate financial security, satisfy the Bank’s due diligence and documentation standards and all projects must be formally approved by EIB’s decision making bodies
- Projects must comply with the Bank’s other policies particularly on procurement, Environmental and Social Principles and Standards and anti-fraud
• The Bank does not lend to certain excluded sectors (e.g. munitions)
• The Bank also examines the GHG impact of all projects above a threshold using EIB’s Carbon Footprint methodology.

In addition, the Bank undertakes a cost benefit analysis (CBA) applying methods drawing on international best practice, as described in the handbook “The Economic Appraisal of Investment Projects at the EIB”. The CBA includes, wherever quantifiable, expected environmental externalities, namely the cost of carbon emissions and other non-greenhouse gas pollutants, as well as other externalities such as the costs/benefits of security of energy supply.

Q8 How do the criteria reconcile the three pillars of EU energy policy (sustainability, security and competitiveness of energy supply)?

The promotion of sustainable, competitive and secure sources of energy is a key EU policy objective. As a policy driven bank, the EIB seeks to support EU policy along all three axis. Europe’s citizens and economy need a secure supply of energy at affordable prices. At the same time, energy production has to be sustainable and to reduce negative environmental effects. Therefore the criteria put particular emphasis on developing renewables, diversifying supply, reducing energy consumption by improving efficiency, and supporting crucial energy networks. At a project level, the EIB addresses the balance between the three pillars through its economic analysis and the introduction of an Emission Performance Standard for fossil fuel generation. Each project is assessed on its economic merit (which addresses sustainability, security of supply, competitiveness, and externalities), adopting a neutral approach towards different technologies.

Q9 Why prioritise energy efficiency, renewable energy and energy networks?

These are the sectors with the highest investment needs, estimated to account for around 90% EU needs over the coming years and are all sectors which strongly support EU policy objectives.

Q10 What role will fossil-fuel power generation play in EIB financing to the energy sector?

Fossil fuel based electricity and heat generation plants represent a decreasing but still important part of the EU electricity (and heating) system, providing secure and dispatchable energy complementing intermittent energy sources such as renewables. EU energy policy leaves the choice about the best mix of technologies to meet the EU’s climate and energy objectives to Member States. The Bank also takes the same “technology neutral” approach to the financing of fossil fuel electricity generation projects but adopts a “no regrets” approach to the financing of carbon-intensive electricity generation and requires such projects to meet an Emissions Performance Standard (EPS). Only on rare occasions where projects contribute to the security of supply of isolated energy systems such as small islands with no feasible mainland energy connection and only if in cases where there is no economically viable alternative, or in the context of operations in the poorest countries outside the EU where the project makes a substantial contribution to poverty alleviation and economic development could projects in excess of the EPS be financed. In addition all projects would have to comply with the principles of EU legislation, including the Carbon Capture and Storage Directive, the large combustion plant Directive, the industrial emissions Directive, and the Emissions Trading System Directive, and make use of best available technology.
Q11 How will EIB financing support the achievement of the EU’s long term climate objectives?

By continuing to prioritise investments in energy efficiency, renewable energy and the needed network infrastructure. In 2011 and 2012, renewables made up the lion’s share of the EIB’s energy generation lending reaching more than 80% of EIB lending to power generation. This trend will be continued and further strengthened under the revised criteria with the introduction of the EPS. The EIB’s support to the EU’s climate targets is also reflected in the fact that EIB financing for climate action remains amongst the largest of all financial institutions. Climate action considerations are further mainstreamed in all EIB sectoral strategies and integrated into all operational activities. In addition, the Bank’s Corporate Operational Plan (COP) specifies a clear target namely that 25% of the EIB’s overall lending has to be in support of climate action activities. Eventually, the EIB regularly issues Climate Awareness Bonds that are used to finance climate action projects.