

Leveraging private-sector finance and promoting financial innovation

Webinar 2 - Monday 23 March 2020 (15h30-17h00)

Summary of discussions

EXECUTIVE SUMMARY

Over 300 participants joined this webinar and exchanged with 9 experts from the European Investment Bank (EIB) Group¹ on the its key objectives of helping unlock **at least €1 trillion of investments dedicated to climate action and environmental sustainability** from public and private partners by 2030.

The Paris Agreement has put finance at the forefront of climate action. It is clear that what the EIB Group and national governments can provide will not be enough – **private capital must also act**. The EIB Group has a **track record of crowding in other sources of finance, particularly from the private sector**. Internal research shows that every euro of our climate action financing mobilises approximately 3.5 to 4 euros from other sources. The question for us is, what kind of financial instruments should we develop to mobilise additional private finance and what should be financed as a priority?

A large spectrum of stakeholders (including NGOs, corporates, and consultants) took the floor to exchange with the panel. Here is a brief summary of the main topics discussed:

- **Lowering the cost of capital for renewable energy** projects by offering subsidised equity or equity with a cap return was proposed. The European Investment Fund (EIF) explained that it can provide layered finance on a transaction-specific basis.
- Support for **early adopters of innovative energy solutions**, such as large-scale renewable energy plants, district heating or solar energy storage.
- The EIB Group's support to **small-scale investments, notably in nature-based solutions** raised quite some interest.
- The **simplification of access to capital** in order for sufficient funding to become available quickly for the low-carbon and climate-resilient transition.
- The launch of an (even more) ambitious **green bonds** issuance programme to help finance, scale up and accelerate the transition to a low-carbon and climate-resilient economy.
- **Monetary and fiscal policy** initiatives, such as stimulus packages, could be channelled towards green projects.

¹ The EIB Group is composed of the European Investment Bank (EIB) and the European Investment Fund (EIF).

The EIB Group invited stakeholders, in their formal contributions to this process, to, for example, indicate how the Group can:

- best support their **climate-friendly innovations, products and processes**;
- **devise an appropriate and scalable methodology** that can also be linked to the right incentives structure, for intermediated lending;
- **encourage private investors** to make investments that they would not have made otherwise, for example by providing credit enhancements, and how to increase the scale of them;
- **develop products that discourage certain activities**, and not just use the internal carbon price to screen them out.

The EIB Group would like to thank all participants for their active participation and their continued support on this important topic.

FULL REPORT

The European Investment Bank (EIB) Group welcomed the over 300 webinar participants and informed them that the slides, videos and a summary of the webinar will be uploaded on the dedicated stakeholder engagement web page.² Statements made during the webinar will not be attributed to individuals unless they expressly requested so.

EIB **Vice-President Emma Navarro** delivered a **welcome address**.³ She thanked participants for joining the webinar and explained that the coronavirus crisis prevented the EIB from holding an even in person as planned. While we are focusing on the immediate actions to respond to the current health crisis, we do not forget the climate crisis. A healthy environment is the basis for a healthy and resilient society. Vice-President Navarro recalled the EIB's environmental and climate commitments.⁴ The EIB is working with the European Commission to sustain the transition to a low-carbon, climate neutral economy by 2050. We want to discuss with you the key questions that we face as we pursue this goal. The purpose of our stakeholder engagement is to listen to stakeholders and receive their written contributions to the EIB Climate Bank Roadmap (CBR).⁵

Following Vice-President Navarro's address, the EIB reiterated that today's coronavirus crisis reinforced our conviction that we **need to act quickly and decisively** to address tomorrow's climate crisis.

Why does the EIB have a special role to play in tackling the climate crisis? For several reasons. Significant capital stock must be replaced. The enormous amount of capital needed to address climate change requires cooperation among financiers. We

² <https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement>

³ <https://twitter.com/EIB/status/1242067408510226434?s=20>

⁴ <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy>

⁵ You can find the key questions and submit your contribution on the dedicated stakeholder engagement web page: <https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement>

must support innovation. We are leaders in climate action and are determined to uphold a high level of ambition in this area.

The EIB Energy Lending Policy demonstrated that **cooperation with stakeholders** delivers great results. We look forward to effective cooperation on the CBR too.

One of the key objectives of the EIB Group is to help unlock **at least €1 trillion of investments dedicated to climate action and environmental sustainability** from public and private partners by 2030. We must cooperate with other sources of public and private capital to achieve this ambitious target.

The EIB Group is a strategic partner of the European Commission, which has also set targets for climate investment. The specific features of our €1 trillion target are that it involves our **own resources**, it applies to our activities both **inside and outside of the European Union (EU)** and it concerns **both climate and environmental sustainability**.

The Paris Agreement has put finance at the forefront of climate action. It is clear that what the EIB Group and national governments can provide will not be enough – **private capital must also act**. The question for us is, what kind of financial instruments should we develop to mobilise private finance?

The EIB Group has a **track record of crowding in public and public sector finance**. For example, under the European Fund for Strategic Investments (EFSI),⁶ the European Commission and the EIB mobilised €500bn of investments on the ground. Research shows that every euro of our climate action financing mobilises four euros from other sources. Through intermediated loans we reach smaller clients and projects. Our equity products support innovation and plug investment gaps. Under risk-sharing and blending facilities, we cooperate with EU institutions to invest in higher risk projects. Our advisory services and technical assistance build capacity to make projects bankable. We are therefore convinced that **we can achieve our €1tn target**.

We work on several fronts to **promote sustainable finance**. As part of our off-balance sheet activities, we seek to create enabling environments in which sustainable investments are recognised and capital flows towards them. We also advise and actively participate in the High-level expert group on sustainable finance (HLEG). On the liability side of our balance sheet, we have pioneered Climate Awareness Bonds⁷ and Sustainability Awareness Bonds⁸ that channel investment to climate friendly and sustainable projects. The asset side of our balance sheet includes loans, guarantees and equity – it is on this side that aim to reach our €1tn target. A key question for stakeholders is – **what do we finance under the €1tn target?**

As the floor opened for discussion, a participant working for a sustainability company remarked that recent **monetary and fiscal policy** initiatives, such as stimulus packages, can have unintended effects on climate change by supporting companies that rely heavily on fossil fuels. He proposed that the EIB could help channel this

⁶ <https://www.eib.org/en/efsi/index.htm>

⁷ https://www.eib.org/en/investor_relations/disclaimer.htm

⁸ https://www.eib.org/en/investor_relations/sab/index.htm

money towards green projects. A participant from an environmental non-governmental organisation (NGO) suggested that the EIB could launch an ambitious **green bonds** issuance programme to help finance the transition to a low-carbon economy in this critical decade.

The EIB agreed that it is important to connect with the broad investor community, including banks and asset managers. Through our **advisory** work, we share our experience with lending criteria, circular economy approaches, renewable energy projects, etc. As pioneers of green bonds, we are pleased to see that this market grew by 40% last year. We remain the largest supranational issuer of **green bonds**, but it is our mission to contribute to the further development of this market by offering our expertise on the EU Green Bond Standard and providing technical assistance to other organisations interested in issuing green bonds.

Another participant asked how we assess the sustainability of **infrastructure projects, such as fibre-optic networks**, that are necessary prerequisites for digital technologies. The EIB has financed many network and broadband projects. Given its energy use, this type of infrastructure offers significant opportunities for energy efficiency improvements. While these projects do not generally count towards our climate action, they may if they feature innovative, smart solutions that reduce greenhouse gas (GHG) emissions.

A participant representing companies that provide digital and decentralised energy solutions highlighted the role of **demand response** in improving the flexibility and efficiency of the electricity system and in integrating renewable energy sources.

Another participant suggested that the EIB could **lower the cost of capital for renewable energy** projects by offering subsidised equity or equity with a cap return. Such instruments would help crowd private-sector investors into renewable energy projects. The EIF explained that we can provide layered finance on a transaction-specific basis, taking into account our corporate objective of promoting viable projects that do not rely on subsidies.

A further question concerned support for **early adopters of innovative energy solutions**, such as large-scale renewable energy plants, district heating or solar energy storage. The EIB cooperates with the European Commission in several initiatives promoting innovation in the energy sector, such as the NER300,⁹ the InnovFin,¹⁰ and the InnovFin Energy Demonstration Projects.¹¹

A participant from a climate change consultancy shared an analysis indicating that, in the EU, the private and the public sectors should invest about €200bn and €100bn respectively in research and innovation every year. Against this background, and considering that we know fairly well what industries need changing and how, **will the EIB Group passively wait for promoters to come forward with projects or will it push financial intermediaries and clients towards the necessary investments?**

⁹ <https://www.eib.org/en/products/advising/ner-300/index.htm>

¹⁰ <https://www.eib.org/en/products/blending/innovfin/index.htm>

¹¹ <https://www.eib.org/en/products/blending/innovfin/products/energy-demo-projects.htm>

The EIB Group will welcome proposals. At the same time, it will also actively engage on the market. We conduct market research to **identify promising companies and market trends and attract them towards the EIB Group**. We work to create **ecosystems that accompany a great idea from university through start-up to global company**. Our work on life sciences provides a blueprint for how to do this – the EIF focuses on technology transfer, venture capital and private equity, while the EIB provides venture debt. We now need to apply this experience to the climate and environment fields – it will take some time to develop the needed ecosystems, but we have shown that they work. At the same time, **we want to hear from our clients how best we can support their climate friendly innovations, products and processes**.

A participant from a development NGO asked if the EIB engages in **international carbon markets** and, if so, what safeguards it applies. The EIB explained that we follow the conversation around carbon markets, but the Paris Agreement is not conducive to a liquid international carbon market in the short term. We rather focus on financing individual projects, either directly or through intermediaries, of which we can ensure the environmental and social integrity.

A participant from an environmental NGO proposed that the EIB should engage with clients and financial intermediaries to ensure that loan recipients that rely heavily on fossil fuels adopt credible **decarbonisation plans** aligned to the objectives of the Paris Agreement. He further asked how we will assess the Paris alignment of the **EIB Group intermediated loans portfolio**. The EIB confirmed that financial intermediaries and clients receiving our loans will also have to comply with our Paris alignment criteria.

The EIB further explained that it would not be possible or appropriate to apply the same **carbon footprint methodology to direct and intermediated loans**. One of the difficulties is that carbon dioxide (CO₂) emissions are not always an appropriate **key performance indicator (KPI)**. For example, innovation is a more relevant KPI for a research project than CO₂ emissions. Another challenge arises when our intermediated lending is not earmarked to specific projects but more generically aims to help companies grow. It is also important to ensure that monitoring and reporting requirements are proportionate to the amount of funding provided and the size of the recipient and that they do not needlessly duplicate the various approaches used by intermediary banks. Through the EIF's work on the European Commission's Programme for Employment and Social Innovation (EaSI),¹² we have gained experience in designing, applying and monitoring KPIs of the social impacts of intermediated loans. We are looking to expand this approach through climate and environmental KPIs. This is an area where we need to do additional work to devise an appropriate and scalable methodology that can also be linked to the right incentives structure. We would very much welcome stakeholders' ideas.

Another participant asked how the EIB Group supports **small-scale investments, notably in nature-based solutions**. It was acknowledged that it is difficult for us to lend directly to small projects, so we have a host of dedicated channels to reach smaller companies and projects. For example, the EIB and the European Commission established the Natural Capital Financing Facility (NCFF)¹³ to specifically target

¹² https://www.eif.org/what_we_do/microfinance/easi/

¹³ <https://www.eib.org/en/products/blending/ncff/index.htm>

biodiversity and nature-based adaptation to climate change. The EIB has partnered with European asset manager Amundi to launch the Green Credit Continuum programme¹⁴ that helps smaller companies access green capital by issuing green bonds. We provide intermediated loans to our private- and public-sector clients, many of which support climate and environmentally friendly projects. For example, we are working with a Dutch bank on a project combining flood protection and climate change adaptation. Together with the European Commission, we offer programmes such as ELENA¹⁵ and URBIS¹⁶ that provide SMEs and local authorities with the technical advice and financial support they need to implement sustainable projects.

A representative of green political parties recalled that **soil** has a significant **carbon absorption capacity** and should not be underestimated as a nature-based solution. While the EIB is aware of current research on this topic, the question is what type of regulations and financial instruments are needed to seize this opportunity.

A participant suggested that the EIB could work with financial institutions to provide **credit enhancements** that facilitate the financing of projects with specific climate or environmental benefits. Starting a few years ago, the EIB Group helped create aggregation platforms within which public-sector participants take on some risk and credit enhancements are provided. We also have experience in blended finance with public first loss capital, which encourages private investors to make investments that they would not have made otherwise. These initiatives focus on specific sectors. The challenge is how to increase scale to €1bn or more. We would welcome stakeholders' suggestions in this regard.

The question was also asked of how the EIB Group can **simplify capital markets** (for example by clarifying the applicable standards and streamlining access to finance) **in order for sufficient funding to become available quickly for the low-carbon transition**. The EIB recalled its several contributions to standardising the capital market, for example by producing templates for reporting and for issuing green bonds, and by contributing to the work on the EU Green Bond Standard.

A participant active **in the transport sector** cautioned against relying on the **carbon price to change behaviours** if broader incentives are not consistent (for example, taxation of jet versus train fuel, tolls imposed on motorways versus rural roads). Another participant suggested that the EIB should **develop products that discourage certain activities**. The EIB agreed that the carbon price is not the only indicator that must be taken into account. For example, urban areas should be designed so that people need to travel less. The challenge is how to finance behavioural changes and avoided activities. We are piloting some ideas under the NCFE¹⁷ but remain open to suggestions from stakeholders.

In closing the webinar, the EIB thanked attendees for their participation and constructive comments. The fact that we are holding these webinars despite the challenging circumstances shows our commitment to climate objectives, transparency

¹⁴ <https://www.eib.org/en/press/all/2019-175-amundi-and-eib-launch-the-green-credit-continuum-programme-to-provide-eur-1bn-for-the-development-of-green-debt-in-europe>

¹⁵ <https://www.eib.org/en/products/advising/elena/index.htm>

¹⁶ <https://eiah.eib.org/about/initiative-urbis.htm>

¹⁷ <https://www.eib.org/en/products/blending/ncff/index.htm>

and dialogue with stakeholders. We therefore **look forward to receiving written contributions** to this stakeholder engagement initiative.¹⁸

¹⁸ You can find the key questions and submit your contribution on the dedicated stakeholder engagement web page: <https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement>