European Investment Bank
The EU bank

Measuring the long-term effect of the EIB Group's operations

Webinar 3 - Thursday 26 March 2020 (13h30-15h00)

Summary of discussions

EXECUTIVE SUMMARY

Over 250 participants joined this webinar and exchanged with 9 experts from the European Investment Bank (EIB) Group[1] on 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.

Measuring the effects of our operations enables us **to show the EIB Group's contribution to the policy objectives** of the European Union (EU). We measure these effects under three pillars: (1) contribution to EU policy, (2) quality and soundness and (3) additionality. We call this the 3 Pillar Assessment (3PA). We have a similar approach to assess, measure and report on the effects of our operations outside the EU, using the Results Measurement framework (ReM).

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

- alignment of the **EIB's project eligibility criteria** to the EU taxonomy, which the EIB will indeed demand in order for the investment to qualify as climate action;
- monitoring the **impact of intermediated lending** and linking financial incentives to specific key performance indicators (KPIs), which was linked to the expected update of our environmental and social sustainability framework, and will include **new rules for financial intermediaries**. Data collection however remains an issue;
- the **difficulty of measuring** the impacts of, for example, cost-effective solutions in the transport sector;
- the **limitations in linking financial incentives to performance data**, for example in the building sectors, where energy efficiency improvements are easier to monitor;
- the importance of **carbon sequestration** technologies that will be necessary to achieve carbon neutrality and role of the **bioeconomy** in climate change mitigation.
- recommendations to **calculate relative emissions compared to relevant baselines**.

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

The EIB invited stakeholders, in their formal contributions to this process, to, for example:

- indicate how the EIB Group can **measure and track the carbon footprint of operations financed through intermediated lending**. Data availability is challenging and reliable standard values (e.g. emission factors per sector or per region) are not readily available, would lead to very uncertain results and would not allow the EIB to track progress over time.
- provide advice and underpinning scientific evidence about the **values used for the internal cost of carbon**, to appraise projects. With the Energy Lending Policy, the associated value will increase from €30-35/tCO2e today to €100-150/tCO2e by 2050. Are these values adequate?
- provide examples of innovative data technologies that could be used for reporting purposes, on **alignment with the Paris Agreement and the EU taxonomy at portfolio level.**

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 250 webinar participants and informed them that the slides, videos and 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 expressly requested.

EIB **Vice-President Emma Navarro** delivered a **welcome address**. She thanked participants for joining the webinar and explained that the coronavirus crisis prevented the EIB from holding an in person event as planned. However, and while we are focusing on the immediate actions to respond to the current health crisis, the EIB does 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[3] and the collaboration with the European Commission to sustain the transition to a low-carbon, climate neutral economy by 2050. The purpose of this stakeholder engagement is to listen to our stakeholders, discuss the key questions that we face as we pursue this goal, and receive their written contributions to the EIB Group's Climate Bank Roadmap (CBR).

Following Vice-President Navarro's address, the EIB outlined the practical arrangements for the stakeholder engagement, notably the **key milestones** of 24 April – first deadline for contributions, end-May – stakeholder engagement event, and 12 June – final deadline for contributions.[4] The expectation is that the CBR will be submitted to the EIB Board of Directors in September-October with a view to being presented at the COP26 in Glasgow in November 2020.

[2] https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement
[3] https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy
[4] You can find an overview of the process on the dedicated stakeholder engagement web page: https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement

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 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.

Measuring the effects of our operations enables us **to show the EIB Group's contribution to the policy objectives** of the European Union (EU). We measure these effects under three pillars: (1) contribution to EU policy, (2) quality and soundness and (3) additionality. We call this the 3 Pillar Assessment.

We monitor the physical **impacts of our operations**, not only the financial ones. Regular reporting takes place during the project implementation phase. After project completion, we produce and publish a project completion report showing if the intended outcomes were achieved. Our **methodology** is made available on our website. We also publish **annual reports on the impacts of our operations inside and outside the EU**.

We produce **detailed climate-related reports**, covering the carbon footprint of EIB financing and our climate action, as well as an annual sustainability report. We are the only international financial institution whose climate activities are verified by independent third-party auditors. In addition, we publish Environmental and Social Data Sheets (ESDS) for each relevant project that we finance.

We pioneered **Climate Awareness Bonds (CAB)** in 2007, helping establish a new market. Our CAB are aligned to the EU taxonomy for sustainable activities and externally audited. Last year, we started issuing **Sustainability Awareness Bonds (SAB)** to raise finance for environmental and social projects.

The EIB Group works with financial intermediaries to support smaller companies through loans, guarantees and equity. Over time, we have improved our methodology to be able to tailor products for **small- and medium-sized enterprises (SMEs)** and **specific policy goals** (e.g. climate action, social impact, etc.). Financial intermediaries take responsibility for the due diligence of individual allocations, applying our criteria and reporting back. Our expectation is to roll out **additional impact indicators** in the near future (relating e.g. to energy efficiency, energy savings, etc.).

As the floor opens for discussion, a participant from a sustainability consultancy asks if the EIB Group will align its **project eligibility criteria**, for example on carbon and environmental indicators, to the EU taxonomy. A related question is whether the EIB plans to update its environmental and social standards. The EIB clarified that our investments will only qualify as climate action if they are aligned with the EU taxonomy.

Our environmental and social sustainability framework will be updated and will include new rules for financial intermediaries.

Another participant noted that available cost-effective solutions for the **transport** sector are often overlooked because their impacts are **difficult to measure**. The EIB agreed that measuring certain indicators can be problematic. The EIB explained that, when investing in the transport sector, we do not just look at carbon emissions, but also at other aspects, such as road safety and air quality. These matters relate to our Transport Lending Policy,[5] rather than the CBR.

A representative of a development non-governmental organisation (NGO) highlighted the importance of **cooperation with civil society organisations (CSOs)** active on the ground.

A further question concerned **carbon accounting in intermediated lending**. The EIB explained that we already calculate the carbon footprint of our projects and have been exploring the possibilities of carbon footprinting our intermediated loans. One of the challenges is data availability. Reliable standard values (e.g. emission factors per sector or per region) are not readily available. In addition, using these factors would lead to very uncertain results and it would not allow us to track progress over time. We are open to stakeholders' suggestions about how to do this in a practical and meaningful way.

A related question was **how the impact of intermediated lending is monitored**. The EIF explained that key performance indicators (KPIs) are agreed upon upfront with the financial intermediary, which is then required to report on them. We have experimented with linking financial incentives to specific KPIs and would like to develop this approach further. However, it is difficult to collect the relevant data on an intermediated lending portfolio that currently serves over two million companies.

A representative of development and environmental NGOs proposed that the EIB should **include climate considerations in the 3 Pillar Assessment** (see above). The EIB explained that, since the mid-nineties, the cost-benefit analysis of all our projects has included the cost of carbon. With the Energy Lending Policy, the associated value will increase from €30-35/t today to €100-150/t by 2050. We are open to stakeholders' advice and underpinning scientific evidence about the adequacy of these values.

Several participants from environmental NGO suggested that the EIB Group should report on **alignment with the Paris Agreement and the EU taxonomy at portfolio level**. The EIB explained that our approach would be to consider (physical and transition) climate change risks at project and at counterpart level. We would then look at our portfolio as an aggregate of projects and counterparts and create a risk heat map to identify areas for more detailed analysis. To the extent possible, we would use tools that are already available on the marketplace. At the same time, the EIB Group is working to adapt the intermediated lending model to promote climate action by SMEs. The difficulty here is that reporting should be proportional to the size of the investment and of the recipient. It should take into account the form of finance used – whether it is a guarantee, a loan or an equity participation. We would be interested in

[5] https://www.eib.org/en/publications/eib-transport-lending-policy

innovative data technologies that could be used for reporting purposes and welcome stakeholders' suggestions in this regard. A participant noted that the Connect Europe Facility (CEF) programme is working on "building blocks" (e.g. blockchain) that could help the EIB Group track relevant indicators.

Another participant expressed the view that, at least in the **buildings sectors**, energy efficiency improvements are easier to monitor and that performance data could be Linked to financial incentives. The EIB agreed that it is important to measure observed energy savings and emissions reductions. However, eligibility is appraised before the project is financed and executed, when observed results are not yet available.

A representative of a development and environmental NGO asked if the EIB's alignment to the EU taxonomy reflects a different approach from that of **multilateral development banks (MDBs)**. The EIB is in continuous dialogue with MDBs and noted high interest in the EU taxonomy. While not all MDBs will necessarily adopt the EU taxonomy in full, the EIB will seek to coordinate with them as much as possible.

A participant from a Member State public authority asked – **will all EIB investments have to be aligned to the EU taxonomy?** The EIB explained that all of our lending will have to be aligned to the Paris Agreement. The EU taxonomy will determine which activities qualify as climate action.

A participant from the banking sector asked if the EIB will implement **negative screening of projects financed through financial intermediaries**. The EIB explained that our criteria for intermediated lending determine what projects can be financed. They can include arrangements to promote certain investments. We expect to increasingly agree with financial intermediaries on negative lists based on a do-no-harm approach.

A representative of development and environmental NGOs highlighted the importance of considering **indirect emissions** in project appraisal. The EIB explained that indirect emissions are taken into due account when relevant. For example, our appraisals of road projects include the emissions of the vehicles that will use the road. We are also aware of the increasing relevance of indirect emissions from e.g. fuels and materials as buildings and vehicles are becoming more energy efficient and when comparing different fuel sources. We are cooperating with MDBs to develop appropriate methodologies to account for these emissions, but difficulties persist, for example linked to data quality.

A participant working for a national development bank asked how project-level indicators can be translated to portfolio level, for example in order to **map activities against Sustainable Development Goals (SDGs)**. The EIB acknowledged that SDGs are not sufficiently granular for project selection. We are currently discussing with MDBs how to best map activities against SDGs.

A representative of universities highlighted that **carbon fixation** technologies will be necessary to achieve carbon neutrality and that the **bioeconomy** can play a role in climate change mitigation. The EIB agreed that carbon fixation solutions are part of the bioeconomy and are very important, particularly in industry, agriculture and forestry. We already calculate and report (separately from absolute and relative emissions) on the carbon sequestered by our projects, e.g. in the forestry sector.

A representative of a development CSO asked how the EIB can **help smaller companies and local producers in developing countries to reduce their greenhouse gas emissions**. The EIB recalled that about 10% of our investments are outside the EU – a sizeable amount. In the energy sector, our recent Energy Lending Policy is clear that we will no longer finance unabated fossil fuel projects. That applies to all our investments, both within and outside the EU. We take the view that our limited resources are better used financing renewable energy sources. The question is, what other investments should the EIB prioritise to more effectively support Paris alignment, climate resilience and sustainable development outside the EU?

A participant representing the farming sector suggested using the environmental requirements and indicators of the EU **Common Agricultural Policy (CAP)** to reduce administrative burden in agricultural projects. The EIB explained that funding for agricultural projects must comply with EU CAP requirements. As these projects are generally of a smaller size, they are mainly financed through financial intermediaries.

A representative of environmental NGOs recommended **calculating relative emissions compared to the most environmentally friendly option**. The EIB recalled that, under our methodology, the "no project" scenario represents the expected alternative means to deliver the outputs of the proposed project. For the calculation to be sound, the baseline must be credible in economic and regulatory terms. In our view, our methodology provides the most reliable assessment of the climate impacts of EIB financing.

Looking at the bigger picture beyond methodological issues, the EIB recalled that the key question is – **how do we best channel the ~€30bn that the EIB Group will make available for climate and environmental sustainability?** We would like to hear stakeholders' answers to this question.

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 and dialogue with stakeholders. We therefore **look forward to receiving written contributions** to this stakeholder engagement initiative.[6]

[6] 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