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REPORT JULY 2020

THE EUROPEAN INVESTMENT BANK: BECOMING THE EU CLIMATE BANK

ISKANDER ERZINI VERNOIT, SONIA DUNLOP, JAMES HAWKINS & DILEIMY OROZCO

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E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.
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Acknowledgements

E3G would particularly like to acknowledge the efforts of the various EIB staff and affiliates who kindly took the time to review all or part of this paper. In addition, we would like to thank the following E3G staff who were kindly involved in the drafting or review of this paper: Shane Tomlinson, Lisa Fischer, Johanna Lehne, Artur Patuleia and Rebekka Popp.

Any errors in this paper, however, are the authors' own.

E3G would like to thank the European Climate Foundation and the KR Foundation for their support for E3G's work in this area.

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THE EUROPEAN INVESTMENT BANK: BECOMING THE EU CLIMATE BANK

HOW THE EU BANK CAN TRANSFORM ITSELF TO SUPPORT A TRANSFORMATIONAL AGENDA

ISKANDER ERZINI VERNOIT, SONIA DUNLOP, JAMES HAWKINS & DILEIMY OROZCO

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EXECUTIVE SUMMARY

At a time of converging economic, health, climate and environmental crises, the European Union has committed to strong public investment to transform its economy. In parallel, the EIB is in the process of setting out its "roadmap" for becoming the EU Climate Bank. The EU's goal is to deliver climate neutrality and climate resilience, while seeking transformative change abroad, with the aim of achieving a fair and prosperous society for its citizens. Whether the European Investment Bank (EIB) can fulfil the role of EU climate bank will depend on whether it can evolve institutionally to help deliver on each of these bold agendas.

This report provides an overview of how the EIB can deliver transformative change across different climate-related areas of activity, in order to fulfil its role as the EU climate bank. It is intended as a contribution to the ongoing consultation on the EIB Climate Bank Roadmap 2021-2025. It also examines the resulting implications for how the EIB must evolve as an institution in order to deliver these responsibilities.

The report begins by introducing what is meant by a "climate bank", concluding that a climate bank must be focused on driving transformational change toward a climate-safe world. As a mission-driven institution, a climate bank can bridge the gap between finance and policy, providing a credible commitment from government to create new markets that other investors can pursue; in so doing, a climate bank can fast-track the transition, whilst serving as a repository of expertise in climate finance. The introduction offers a brief history of the "EU climate bank" idea, before presenting the policy context and the EIB's responsibility in helping deliver the European Green Deal, and then reviews the current status of EIB climate change efforts.

In the main sections, the report provides recommendations for four key dimensions[1] of EU climate policy in which the EIB should deliver transformational change.

1. **Delivering climate neutrality –** the EIB should develop internal roadmaps for transformational activities in different sectors, including in such areas as:
    - Early retirement of high-carbon assets and their replacement with cheaper alternatives
    - In terms of transportation and mobility, enabling climate-neutral systems by focusing on no-regrets options and taking an integrated systems approach

[1] These should be seen as overarching dimensions that can be overlayed over **E3G's 16 detailed metrics of Paris Agreement alignment** shown in Figures 13 and 14 in the Annex below.

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2. **Delivering adaptation and resilience –** the EIB should develop a strategic framework on adaptation, to ensure its resilience work is of the highest impact, including:
    - Transformational investment in system-level (e.g. health system or food system) resilience, identifying systemic priorities and originating project pipelines
    - An ambitious plan to scale adaptation finance, set adaptation targets for EIB finance and leveraging public and private investment
3. **Delivering a fair and prosperous society –** the EIB should pursue economic recovery from COVID-19, just transition and climate objectives with a single strategy, applying the social paradigm of the Green Deal and advancing learnings and best practice, by:
    - Stimulating an economic recovery that is green and inclusive, playing a countercyclical role, supporting climate-themed jobs and infrastructure
    - Assuring that the transition is just and fair, leaving no one behind, using key just transition principles and disseminating best practice
4. **Supporting Green Deal Diplomacy and Engagement –** the EIB should support the Green Deal's global aims, via engagements with other financial actors and contributing to Green Deal diplomacy in developing countries, by:
    - Serving as the EU's global climate bank**,** helping key regions/countries reach Paris-aligned and climate-safe development pathways
    - Promoting EU and EIB sustainable finance norms with other MDBs and financial actors worldwide (e.g. the climate bank model, fossil phaseout, financing strategies)

The report then examines the wide-reaching, cross-cutting implications of the above for the EIB, concluding that the EIB can only deliver its responsibilities as a climate bank if it transforms itself as an institution. This should be one of the deliverables of the EIB Climate Bank Roadmap 2021-2025. The necessary institutional changes include:

- **Mainstreaming the climate bank status to be reflected across the EIB:** looking to sectoral strategies; transparency policy; financial intermediary standards; and client engagement strategies; project (e.g. financial/economic) appraisal guidelines; and carbon accounting methodologies.
- **Building essential capacities** required of a climate bank to become a **knowledge bank:** by expanding **technical advisory capacity,** notably for originating a pipeline of more transformational projects, and **engagement capacity** for engaging with country governments, financial institutions, and others.
- **Seeking a capitalisation increase from the Member States commensurate with the scale of the challenge and investments required:** Member States should consider giving the EIB a climate-specific capitalisation in order to fulfil its role as the EU Climate Bank, and as a signal to other MDBs that climate ambition is rewarded by progressive shareholders.

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This report is written in the context of the EIB developing its "Climate Bank Roadmap 2021-2025", and it is possible that many of the recommendations are being actioned within that process already. The report aims to inform and encourage a constructive conversation among the EIB's staff, national shareholders, and broader stakeholders. In addition, it is hoped this report will serve as a resource for other public banks worldwide, including multilateral and other public banks that seek to become a climate bank for their own respective geographies.

As the world's largest multilateral bank, and the first multilateral bank to pursue a formal process for consolidating its position as a climate bank (or green bank), the EIB has a responsibility to build on its track record of positive achievements by setting an example of a high-ambition interpretation—and successful delivery—of its duties as a climate bank.

INTRODUCTION

Exploring the climate bank concept

What is a climate bank and why would one be needed? The concept of a climate bank is not necessarily new, but it is coming of age. The term "climate bank" has been used for at least ten years and it is essentially analogous to the concept of a "green bank", which are public financial institutions with a clear mandate to close the gap between climate (or green) policy and climate finance. Historical examples of green banks include the former Green Investment Bank in the UK, established in 2012 and credited as being the world's first standalone national green investment bank.[2] [3] Since that date, the green bank model has been replicated in various jurisdictions worldwide.

According to an E3G synthesis of learning from direct experience building green banks[4], green banks provide a basis for the public sector to drive innovative approaches to financing the transition to scale. Above all, this is done by pursuing mission-driven goals. Mission-driven goals serve both as a credible sign of commitment from the institution and its government backing, whilst also giving the bank the mandate to serve as a repository of best practice for climate finance.[5] Innovation is required to deliver climate investments at the necessary scale and speed, because of the challenge of meeting three principal needs:

- **Front-loaded finance**: in many cases large upfront investments are required for both mitigation and adaptation projects to deploy high capex technologies and combat long-term climate risks.
- **Risk management**: decarbonisation or resilience projects often have higher political, technology, and novelty risks. Investor experience and perceptions amplify risks to novel (e.g. low-carbon) approaches and downplay risks to incumbents (e.g. high-carbon firms).
- **Integration with policy**: regulatory reforms are needed to integrate climate resilience and decarbonisation into on-going infrastructure investment at different levels, including cities, industrial clusters and regions affected by the transition.

Often, private sector finance will not flow to necessary investments without direct public finance intervention and regulatory and market reforms to reduce risks. Green banks can be viewed as "investors of first resort",[6] creating new markets and proving new opportunities, in which the private sector can subsequently invest.

Given the potential leverage that such banks would wield, the concept of a climate bank has increasingly become a reference point for today's climate politics. In the United

[2] See: **https://www.e3g.org/showcase/green-investment-bank/**

[3] See: **https://www.bbc.co.uk/news/uk-politics-35138659**

[4] Orozco, D. (2019). A Synthesis of the Learning from Building Green Banks

[5] Ibid.

[6] Mazzucato, M. and MacFarlane, L. (2018). **Patient Finance for Innovation-Driven Growth**

States, for example, lawmakers have proposed to establish a National Climate Bank.[7] In China, the China Development Bank (CDB) is the world's largest public bank, investing large sums in clean energy but many times as much in coal—resulting in calls for it to reform to become a climate bank.[8] In some countries, there is also considerable precedent for climate banks at subnational level, mobilising finance toward climate policy outcomes at the level of cities and regions.[9] [10] To date, however, we are not aware of any international or multilateral public banks that have pursued a semi-formal process to becoming a "climate bank", therefore making the EIB potentially the first to go through this process.

Therefore, as with public banks in general, a climate bank can be multilateral, national, or subnational. A climate bank may simultaneously be a development bank or an infrastructure bank, as these objectives can be complementary. With this said, how might climate banks come into existence? Generally speaking, a climate bank can be formed by:

- *creation of a new institution*
- *reform of an existing institution*
- *combining an ecosystem or assemblage of multiple institutions*

Given that economic transformation is required to deliver the Paris Agreement, becoming a climate bank implies focusing on activities with transformational potential. This is an area that E3G has explored in prior research,[11] including on specific indicators for transformation by development finance,[12] and, in addition to this report, will continue to in more depth in forthcoming publications.[13] A conceptual framework is presented below:

[7] See: **https://www.congress.gov/bill/116th-congress/senate-bill/2057**

[8] Orozco (2020) **China Development Bank could be a climate bank**

[9] See: **https://www.eib.org/en/press/all/2019-281-eib-provides-eur-100m-to-boost-climate-action-investments-in-minas-gerais-brazil**

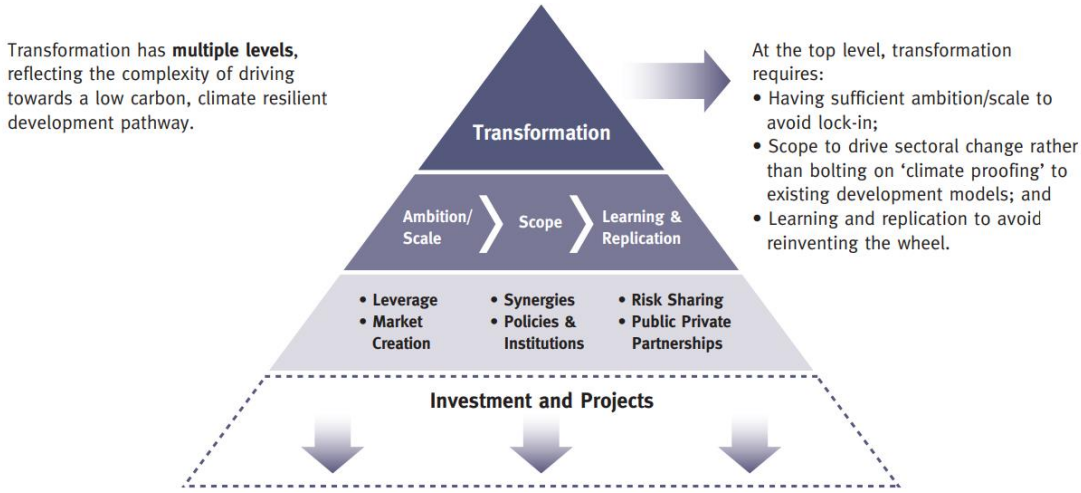
[10] See: **https://ctgreenbank.com/about-us-2019/**

[11] E3G (2014) **Designing smart green finance incentive schemes: The role of the public sector and development banks**

[12] E3G (2018) **Banking on Reform: Aligning Development Banks with the Paris Climate Agreement**

[13] Forthcoming E3G research on development finance, transformation and aligning with the Paris Agreement.

Figure 1: E3G conceptual framework for transformational change by public finance [14]



Source: E3G (2014)

We therefore propose the following framework for becoming a climate bank:

- must be aligned with (and not counter) the Paris Agreement, including its aim to hold warming to well below 2°C and pursuing efforts to limit warming to 1.5°C
- must play a transformational role in moving its given geography toward the delivery of the Paris Agreement, key climate policy outcomes and a climate-safe world[15]

A brief history of the idea of an "EU climate bank"

The history of the "EU climate bank" idea can be traced to French scientists who proposed a "banque européenne du climat" some years ago.[16] However, it was the French President, Emmanuel Macron, who catapulted the idea into prominence with an open letter on the future of Europe written ahead of the 2019 European Parliament elections, dated March 4, 2019. "The European Union needs to set its target," he wrote, "…and adapt its policies accordingly with such measures as a European Climate Bank to finance the ecological transition."[17]

[14] E3G (2014) **Designing smart green finance incentive schemes: The role of the public sector and development banks**, derived from E3G (2009)

[15] In terms of criteria for playing transformational role, E3G has previously developed and published a set of 16 specific metrics for measuring alignment with and transformational work toward the Paris Agreement, in the context of multilateral development banks (MDBs). See the Appendix (Figure 15 and 16) for a diagram of this.

[16] See: **https://www.liberation.fr/planete/2019/05/07/bientot-une-banque-europeenne-pour-le-climat_1725116**

[17] Macron (2019) **For European Renewal.** It is understood that he was influenced by French academia and civil society in proposing this concept.

This statement, perhaps, obliged the EIB to step up to the mark. Several weeks later, implicitly rebutting the need for creating a new and rival institution, the EIB sought to affirm its role as the EU climate bank. The EIB was "the EU climate bank, and the largest single multilateral financier of climate action projects worldwide," stated EIB President Werner Hoyer on March 21, 2019.[18]

Figure 2: The evolution of the EU climate bank idea

Source: Liberation (2019), Macron (2019), Hoyer (2019), von der Leyen (2019), Commission (2020)

Hoyer's claim appeared to resonate with the then nominee for president of the European Commission, Ursula von der Leyen. Whilst von der Leyen endorsed Macron's call for an EU climate bank, she called for obtaining one by enhancing the existing EIB. Arguing in favour of European green leadership in areas such as finance and technology, von der Leyen said: "if we're the front-runner there, if we transform our European Investment Bank into a European climate bank, a green bank, we will be role models worldwide."[19]

Indeed, as the European Green Deal emerged as the growth strategy and flagship policy of the next Commission, an evolved EIB was cast in a central role. In her mission letter to Valdis Dombrovskis in September 2019, von der Leyen tasked him with coordinating work on the Sustainable Europe Investment Plan, to unlock €1 trillion of climate-related investment over the next decade. "To support this," she wrote, "you will be in charge of relations with the European Investment Bank, helping to turn parts of it into Europe's climate bank."[20]

By the following year in February 2020, however, the EIB as a whole was cast as being in the process of becoming the EU climate bank, in the Commission Communication on the European Green Deal Investment Plan. "The role of the EIB in financing the sustainable transition will grow as it becomes the EU climate bank."[21] This is notable for implying that the EIB is not yet fully the EU climate bank, which stands in slight contrast to the EIB's claim to have "been Europe's climate bank for many years."[22]

[18] Hoyer (2019) **How to channel private capital towards sustainable investments**

[19] See: **https://www.bloomberg.com/news/articles/2019-07-12/macron-s-dream-of-a-climate-bank-gets-boost-from-new-eu-leader**

[20] Von der Leyen (2019) **Mission letter: Valdis Dombrovskis.** It was not made clear which "parts" of the EIB this letter was referring to however.

[21] European Commission (2020) **Commission Communication on the European Green Deal Investment Plan**

[22] See: **https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy**

The EIB has particularly strong potential to succeed as a climate bank, given the EU policy environment, which includes the European Green Deal and wider sustainable finance policy. Based on E3G research, the success of any policy bank is dependent on the wider policy environment.[23] As the potential for public spending increases in the wake of the coronavirus pandemic, the EIB as a climate bank has the potential to shape government responses beyond the EIB's own investments. Through dialogue, shaping policy interventions and providing rapid 'proof of concept' financing, the EIB can pave the way for broader government and private sector participation in new sectors of the economy that necessary for broader climate policy objectives.

The policy context: A Green Bank for the European Green Deal

As the flagship policy of the European Union, the European Green Deal is simultaneously a climate project as well as a social project, economic project, a European project, and an international project.[24] As the EU bank, the EIB should help deliver the Green Deal in each of its key dimensions. Notably, in the current context of socioeconomic crisis induced by COVID-19, addressing social and economic needs through a "Green Deal recovery" becomes increasingly vital.

In terms of financial contributions to the Deal, the European Green Deal Investment Plan (EGDIP), also known as the Sustainable Europe Investment Plan, accords the EIB a central role in financing the EU's flagship policy. The European Green Deal presently aims to mobilise at least €1 trillion in investments over the course of the decade—of the trillion, the EIB's contribution is expected to amount to around to €250 billion in mobilised investments under EU mandates. As an Implementing Partner of InvestEU, the EIB will receive an EU budget guarantee, enabling the Bank to invest in more and higher-risk projects than it otherwise might.[25] In terms of the Just Transition Mechanism within the Deal, the EIB has the option of contributing to Pillar 1 through co-financing, and the EIB will help finance the Mechanism's "second pillar", a dedicated just transition scheme under InvestEU. At the same time, the EIB will also house and finance the Mechanism's "third pillar", a public sector loan facility to support national and regional authorities.[26] This is illustrated in the following diagram.

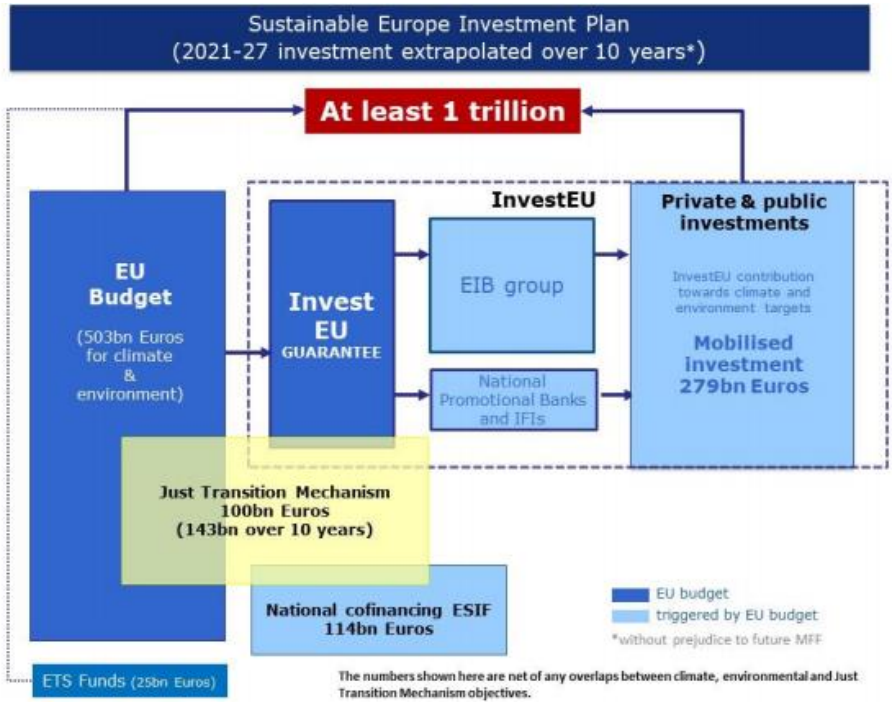
[23] Orozco, D. (2019). A Synthesis of the Learning from Building Green Banks

[24] E3G (2019) **How the European green deal will succeed or fail**

[25] Ibid.

[26] Ibid.

Figure 3: The EIB's role in financing the European Green Deal [27]



Source: European Commission (2020)

Nevertheless, as the EIB has itself noted, "effective climate action… is about more than just finance volumes"[28]. Likewise, the EIB contribution to European Green Deal, it should be stressed, is about the quantitative amount of lending. Crucially, it is also a matter of how impactful, or transformative, that EIB finance is. Equally important, however, are the EIB's non-financial contributions to the European Green Deal. The EIB has a pivotal role to play in terms of its non-financial activities and engagements, such as standards-raising and knowledge dissemination, technical assistance and capacity building, and multi-track diplomacy with a range of actors across Europe and around the world.

The current status of the EIB's climate change efforts

The EIB has a strong track record of accomplishments on climate finance, which includes being the issuer of the world's first climate-themed bond in 2007.[29] In September 2015, prior to the adoption of the Paris Agreement, the EIB adopted its current Climate Strategy.[30] This strategy includes two notable aims:

- In terms of quantity, "dedicate a minimum of 25% of … lending to specific climate action projects"

[27] See: **https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24**

[28] EIB (2015) **EIB Climate Strategy**

[29] See: **https://ec.europa.eu/commission/presscorner/detail/en/BEI_13_109**

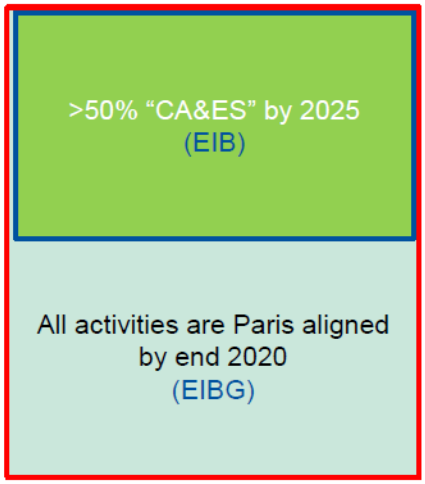
[30] EIB (2015) **EIB Climate Strategy**

- In terms of quality, asserting a focus on "more than just finance volumes" and that it is necessary to "steer… activities and financing towards those initiatives and projects which have the highest impact."

In late 2019, the EIB launched a series of new climate change commitments, alongside a new Energy Lending Policy which committed to end financing for fossil fuel energy projects by the end of 2021.[31] These included:

- aiming to "align all its financing activities with the principles and goals of the Paris agreement by the end of 2020" (albeit before the 2021 fossil phaseout date)
- committing to "measures to ensure EIB financing contributes to a just transition for those regions or countries more affected"
- increasing "the share of its financing dedicated to climate action and environmental sustainability to reach 50% of its operations in 2025 and from then on" [32]
- aiming "to support EUR 1 trillion of investments in climate action and environmental sustainability in the critical decade from 2021 to 2030"

Figure 4: Percentage of EIB operations dedicated to climate and environment



Source: EIB Presentation, Technical Exchange on Climate Action

These commitments arguably made the EIB the most progressive of the major Multilateral Development Banks in terms of commitment around energy transition, fossil fuel finance phaseout, and investment in climate action.

The EIB has since then begun a process of consulting on and drafting an EIB Climate Bank Roadmap 2021-2025, and has published a Position Paper [33] within that process. The position paper has come towards the end of the drafting process of this report, but appears to be striving for greater ambition in a number of areas.

Furthermore, the EIB and a number of other Multilateral Development Banks have committed to "supporting the outcomes of COP21 in Paris"[34] and to "align financial flows with the objectives of the Paris Agreement"[35]. In order to operationalise them, nine leading MDBs have been working together to establish a joint framework for how this can be implemented in practice in their work. This has led to a framework built up of six building blocks of mitigation, adaptation, climate finance, policy support, reporting and

[31] See: **https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy**

[32] EIB (2019) Presentation, Technical Exchange on Climate Action, Brussels 25/10/2019.

[33] EIB (2020) **EIB Climate Bank Roadmap 2021-2025 Position Paper**

[34] MDBs (2015) Joint statement by the MDBs at COP21 Paris

[35] MDBs (2018) MDB alignment approach to the objectives of the Paris Agreement

internal activities. An associated 'decision-tree' framework is currently being road-tested or piloted for direct lending activities.

It would be beneficial if as part of the piloting of this framework within the EIB, and as part of the EIB Climate Bank Roadmap, the EIB should officially and publicly commit to not financing any projects that have been classified as non-aligned with the Paris Agreement as per the future Joint MDB Paris Agreement Alignment Framework[36] (which should be taken as an obvious conclusion of Paris alignment). Furthermore, the EIB should commit to "pausing" any project that it finds to be either aligned or unclassified if another MDB has found it to be non-aligned, and the EIB and the other MDB should seek to find a common view of the status of that particular project. The EIB should also commit to publishing the positive and negative lists that it is understood will be used classify projects in this framework.

[36] This framework is in the process of being drafted by the Joint MDB Paris Agreement Alignment Working Group made up of World Bank Group, Inter-American Development Bank, European Investment Bank, European Bank for Reconstruction and Development, African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Islamic Development Bank and New Development Bank.

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DELIVERING CLIMATE NEUTRALITY

As a public bank, the EIB should align its own activities and portfolio with the Paris Agreement, aiming for 1.5°C. However, to be a climate bank, the EIB must go further, driving economy-wide alignment with the Paris Agreement. The EIB has committed to Paris alignment by the end of 2020, but has yet to develop sector-specific roadmaps for how it will drive economy-wide alignment. This is in large part what the EIB Climate Bank Roadmap process is for.

Accelerated decarbonisation efforts across sectors will be needed to deliver EU and global climate neutrality on Paris-aligned timeframes. Best available science indicates that to limit warming to 1.5°C, the world must not only peak emissions as soon as possible but must approximately halve emissions by 2030, to reach climate neutrality around 2050.[37] Under the Paris Agreement, the EU is committed to "pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels", and its current goal is attaining climate neutrality by 2050. It should be borne in mind, of course, that the ambition cycle under the Paris Agreement creates space for future enhancement of Nationally Determined Contributions (NDCs), and the UNFCCC principle of "common but differentiated responsibility" implies that if the world were to become climate-neutral by 2050, then the EU should attain climate neutrality before 2050,[38] which studies have shown is feasible.[39]

It also important to note that the EIB's existing Climate Strategy (2015), which pre-dates the Paris Agreement, states that:

> "*The development of new sector policies, or updating of existing ones when triggered by material changes in economic conditions, policy or regulation, will of course be underpinned by the state of EU policy at the time. It will also refer to the longer-term horizon of transition pathways towards a maximum 2°C global temperature rise* ***and will take into account the most recent scientific knowledge and available best practice****."*

This should be borne in mind in all reviews of EIB sector lending policies, as the most recent scientific knowledge around climate change has evolved significantly in the years since the adoption of this strategy. This also means that the process of becoming and being the EU Climate Bank will not end in January 2021 – the target date for full Paris alignment at EIB – or in 2025 when the roadmap ends. The EIB needs to be continually reviewing how it in mainstreaming climate within its operations in the light of the latest scientific knowledge and best practice in

[37] IPCC (2018) **Special Report on Global Warming of 1.5°C**

[38] UNFCCC (2015) **Paris Agreement**

[39] See: **https://www.solarpowereurope.org/europe-can-achieve-climate-neutrality-before-2050-with-100-renewable-energy-system/**

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the area. A process for doing this should be set out in the EIB Climate Bank Roadmap 2021-2025.

Accelerating decarbonisation and retiring high-carbon assets

Across sectors, if technology and markets permit the early retirement of high-carbon infrastructure, then the EIB as the EU climate bank should facilitate this.

One example of such an opportunity arising is in the context of the power generation sector, where the plummeting costs of renewables is creating tipping points.

Increasingly, as illustrated below, EU markets will see it become more expensive to obtain power by operating *existing* gas- and coal-fired generation assets than by building new renewable capacity. This suggests that many existing fossil-fired power plants in the EU and abroad could be retired ahead of the end of their expected economic lifetimes. These could be replaced by solar or wind projects, benefiting both rate-payers and climate, following recommendations of the European Environment Agency.[40]

As part of being a climate bank, the EIB should consider new financial instruments and technical assistance to retire high-carbon assets such as coal power plants and mines. It should be noted that other MDBs are also looking into this area, and of coupling these retirements with just transition and policy support. The regulatory context is extremely important here, and so policy advisory work and just transition investments would have to accompany coal retirement projects. EIB could even consider retiring some of the coal infrastructure it itself invested in during the 1950s and 1960s. It is understood that the EIB's first ever investment in coal, in the Reuter Combined Heat and Power plant in West Berlin[41] the 1960s, has now been retired and the owner Vattenfall is looking at options to re-purpose the site[42]. EIB could consider, if it is not already doing so, financing the conversion of this site to renewables or storage, as part of coming full circle within its energy policy journey.

Likewise, as the cost of electric vehicles drops further, an investment and climate policy case could be made for the EIB to finance the early retirement of fleets of Internal Combustion Engine (ICE) vehicles and their replacement with cost-saving electric alternatives.[43]

More research is need as to how this approach could apply to other areas, such as perhaps the retirement and replacement of highly energy inefficient buildings[44].

Figure 5: When new-build renewables are cheaper than operating existing fossil assets[45]

[40] European Environment Agency (2016) **Transforming the EU power sector: avoiding a carbon lock-in**

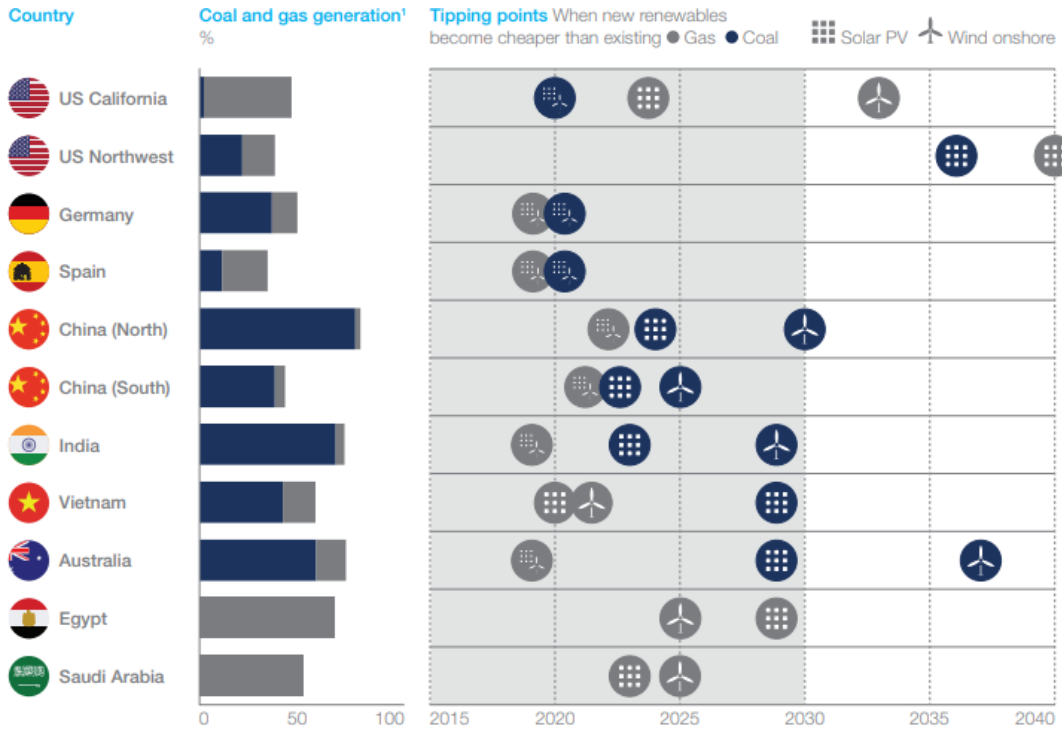
[41] **https://www.eib.org/en/press/speeches/financing-the-energy-transition-atlantic-council-hoyer**

[42] **https://powerplants.vattenfall.com/reuter**

[43] See: **https://www.fleeteurope.com/en/new-energies/europe/features/electric-reaching-tco-parity**

[44] Of course buildings that are "listed" or have historical value in any way would be exempt from this.

[45] McKinsey (2019) **Global Energy Perspective 2019**



Source: McKinsey (2019)

Driving transformation for climate neutrality in key sectors

Driving transformation at pace with the Paris Agreement will require the EIB to operationalise the commitment in its climate strategy to "steer…activities and financing towards those initiatives and projects which have the highest impact." Operationalising this is not a straightforward exercise, of course, as it requires the EIB to have specificity on which initiatives and projects can play the highest-impact role in different sectors. This section provides an indicative, non-exhaustive overview of transformation in key sectors.

Energy

The EIB's new Energy Lending Policy, adopted in 2019, outlines some of the necessary elements of Paris-aligned energy transformation. Most notably, it identifies fossil phaseout as essential—and was acclaimed as the first decision by a major multilateral bank to broadly speaking end investments in fossil fuels.[46] [47] Commendably, the policy also signposted demand-side efficiency projects as strategic priorities.[48]

Putting energy efficiency first is a cost-effective no-regrets approach and should be a clear priority for the EU climate bank in driving the energy transition.[49] The Energy Efficiency First principle is difficult to operationalise in practice, at all levels of policy-making and

[46] See: **https://www.bbc.co.uk/news/business-50427873**

[47] Erzini Vernoit (2019) **What the development community can learn from the EIB's fossil phaseout**

[48] EIB (2019) **EIB Energy Lending Policy**

[49] Official Journal of the European Union (2018) **Directive (EU) 2018/2002 of the European Parliament and of the Council**

financial decision making. However, for a bank like the EIB unaccustomed to evaluating supply-side projects against potential efficiency alternatives, the principle can be especially challenging to operationalise in practice.[50] In order to operationalise the EU commitment to the Energy Efficiency First principle (and enhance the ability of other investors to do the same), the EU climate bank must work to significantly expand the pipeline of efficiency projects. The EIB is already working on this through programmes such as ELENA[51], providing technical assistance for efficiency and other energy projects. There remains, however, a project gap that must be bridged, either via new initiatives or strengthening existing ones. The recent EIB commitment to a new European Initiative for Building Renovation (EIB-R) is a welcome development, but it has yet to show how effective or well-resourced it will be.[52]

The ambitious temperature goals of the Paris Agreement also provide some clarity on necessary energy systems changes which the EU climate bank can enable. As discussed above, studies of carbon budgets show that the Paris temperature goals will likely require early retirement of fossil-fired power generation assets,[53] which increasingly are more expensive to operate than building new renewable generation.[54] Such decommissioning, with climate and economic benefits, is a new area that the EIB should pioneer this decade.

To fully realise the EU climate bank's potential to drive energy transformation, however, more information and analytical capacity may be required. While (as per the above), some clarity is provided by no regrets strategies and carbon budgets, there remains uncertainty and divergence around the optimal decarbonisation pathway for European energy systems.[55] To avoid questionable, sub-optimal pathways or low-impact spending of public money, infrastructure investment should be targeted more rigorously, based on informed analysis. We understand that the EIB is financing a climate chair at the European University Institute, and we encourage it to explore how the European Commission and its agencies and external consultants can help in this regard.

Heating and cooling

Advances in heating and cooling systems will be crucial to delivering the Paris Agreement, and the EU climate bank must help drive transformation in these sectors. The recent energy policy, however, does not go far enough on heating and cooling, and the EIB should develop more detailed plans for high-impact approaches in these sectors.

[50] EIB (2013) **The Economic Appraisal of Investment Projects at the EIB**

[51] European Local Energy Assistance. See: **https://www.eib.org/en/products/advising/elena/index.htm**

[52] EIB (2019) **EIB Energy Lending Policy**

[53] Tong et al. (2019) **Committed emissions from existing energy infrastructure jeopardize 1.5 °C climate target**

[54] McKinsey (2019) **Global Energy Perspective 2019**

[55] E3G (2019) **EU Energy System Decarbonisation Policy: Breaking the Logjam**

In Europe, space heating has been estimated to account for 27% of EU total final energy demand—indicating a clear need to prioritise emissions reductions from this sector.[56] The new EIB energy lending policy, however, failed to rule out support for gas boilers, when climate-neutral alternatives do exist and need investment—to fulfil its commitment to align its activities with the Paris Agreement post-2020, the EIB should at least stipulate that any support for gas boilers must entail installation of hybrid gas-electric heating systems. As the climate bank, EIB must have an ambitious roadmap for increasing investment in the electrification of heat, heat pumps, solar thermal and (if sustainably sourced) biomass boilers as well as in efficiency measures to reduce heat demand.

Cooling is another crucial area in which the EIB should drive transformation, both across the EU and world-wide. Cooling already accounts for 17% of all global electricity consumption,[57] and, if unchecked, this could triple by mid-century to 6,200 TWh, equivalent to over a quarter of today's global power consumption.[58] Cooling is essential to health and productivity outcomes, as well as being one of the first things people invest in as incomes rise. As heat extremes become more common as an impact of climate change, the EIB will need to contribute to expanding sustainable and efficient cooling systems in Europe and abroad, as a matter of climate mitigation and resilience. EIB should join other banks working on this agenda as part of global alliances such as the Cool Coalition and Kigali Cooling Efficiency Program.[59] As a climate bank, EIB should establish a roadmap on how it is going to incorporate sustainable and efficient cooling considerations in all of its operations including buildings, cities, urban planning, logistics, smart grids and decentralised and district energy projects.

Transportation and mobility

Transportation is another vital sector in which the EU climate bank must have a plan for identifying and prioritising those activities with the highest impact in transforming the sector. In recent years, transportation has produced about 27% of the EU's total greenhouse gas emissions (excluding land use, land use change, and forestry), and its emissions are growing while those of many other sectors are in decline.[60] [61]

Before exploring the highest impact activities that the EIB might undertake to transform the sector, it is worth exploring which activities the EIB might phase out support for—this could have a transformational effect by setting a precedent for other investors. Similar to the EIB's approach in its revised Energy Lending Policy, the EIB could choose to phase out certain activities in the transportation sector simply on the basis that they are not a wise use of the EIB's limited public resources. For instance, the aviation sector is one of the fastest growing sources of GHG emissions, globally and within the EU, and its growth has

[56] Heat Roadmap Europe (2017) **Profile of heating and cooling demand in 2015**

[57] See: **https://www.birmingham.ac.uk/Documents/college-eps/energy/Publications/2018-clean-cold-report.pdf**

[58] See: **https://www.e3g.org/library/action-on-cooling-heats-up**

[59] See: **https://coolcoalition.org/**

[60] See: **https://www.europarl.europa.eu/news/en/headlines/society/20191129STO67756/emissions-from-planes-and-ships-facts-and-figures-infographic**

[61] EU TEG on Sustainable Finance (2020) **Technical annex to the TEG final report on the EU taxonomy**

been explicitly identified by the Commission as undermining the Paris Agreement.[62] This means that some aviation-related EIB activities (e.g. airport expansion) would be non-Paris-aligned and should therefore be phased out, per the EIB's commitment to align all its financing activities with the Paris agreement by the end of 2020. The EIB is considering several options in this regard as part of its Climate Bank Roadmap process, as set out in its Position Paper. The options include continuing economic appraisal tests with externalities, a limiting of support to the improvement of existing airport capacity and an approach based on expected GHG emissions of investments. It is likely that the second of these options will be most impactful in this area.

To be a climate bank and most effectively drive GHG reductions from transportation, the EIB needs to adopt a much more systemic approach: developing choice hierarchies with a focus on high-impact priority activities, inside and outside the transportation system. As rightly noted in the *EIB Investment Report 2019/2020*, transition in the transportation sector can follow an "avoid-shift-improve" (A-S-I) approach:[63] [64]

1. First, *avoiding* need for new transportation altogether if possible, by supporting digitalisation, communication technology, public planning, and efficiencies;
2. Second, *shifting* away from high-carbon options such as cars or aviation, toward zero-emissions public transit such as rail, by adding new infrastructure or making existing infrastructure more accessible and affordable;
3. Last, *improving* vehicle fleets to be lower-carbon, more efficient, electric/hybrid.

For the EIB to become the climate bank, it should focus on transformational activities, particularly *avoiding* and *shifting*. Yet as with Energy Efficiency First, operationalising an A-S-I choice hierarchy is difficult in general and will be challenging for a bank generally unaccustomed to weighing projects across sectors. Operationalisation requires a pipeline of *avoid* and *shift* projects, so EIB must engage governments on originating high-ambition zero-emissions public transit projects (e.g. long-distance rail projects) where none come forward (having ruled out some activities in high-carbon transport entirely). A systemic approach requires recognising the activities outside the sector that are crucial to reducing transport emissions, as well as the interplay between modes of transport, and how, in the spirit of the Green Deal, affordability and equitable access enable decarbonisation.

As part of being the EU Climate Bank, the EIB should also consider the idea of a portfolio emissions approach within the transport sector, and applying Emissions Performance Standards to road vehicles (and should consider using the standard in the taxonomy of 50gCO2/km). A portfolio emissions approach could set a ceiling for absolute GHG emissions across all projects over a period of time – 1 year or 5 years – in order to ensure that the absolute GHG emissions of projects do not go above a certain threshold.

The EIB should focus on prioritising investments in transport infrastructure such as public transport, cycling, pedestrian and green infrastructure. The EIB Position Paper on its EIB Climate Bank Roadmap is not entirely clear as to its approach to road infrastructure, and

[62] European Commission (2017) **Staff Working Document**.

[63] EIB (2019) **EIB Investment Report 2019/2020**

[64] TUMI/GIZ (2019) **Sustainable Urban Transport: Avoid-Shift-Improve (A-S-I)**

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suggests that investments in road infrastructure would have to be accompanied with a national or regional plan for "alternative fuel provision". Secondary roads would be subject to a similar test, and investments in rural roads would continue given that rural populations have few alternatives. The EIB should clarify this position in its final EIB Climate Bank Roadmap, and consider much stricter restrictions on its road infrastructure investments given the wider need for modal shift to meet our decarbonisation goals.

The EIB should also consider carefully how it applies its carbon footprinting methodology, carbon price and economic appraisal to transport projects (and indeed all projects across the EIB). It is important to clarify *how* the EIB uses carbon pricing in its economic analysis of projects, especially in roads and airports, and what baselines it is using when doing carbon footprinting in order to produce an emissions saving. It should be noted too that EIB is planning to review its carbon price[65], and that a higher carbon price would make this potential effect more pronounced.

Some EIB transport projects – including road projects – appear to show a GHG emissions *saving* in their carbon footprint assessment in their Environmental and Social Data Sheet. It is important that EIB does not apply its carbon price to that emissions saving in a way that makes the project more attractive in the EIB economic appraisal.
Examples include a road modernization project in Poland[66] where EIB reports "forecast emission savings are 28,000 tonnes of CO2 equivalent per year".
Although the standard carbon footprinting methodology excludes carbon offsets, when included to show the impact for Helsinki Airport[67], it states that "should the effects of these two [carbon offsetting] schemes be taken into account, the relative carbon footprint of the project would be -3,357 t CO2e/year". More research is needed to understand how aviation carbon offsetting schemes are incorporated into EIB carbon footprinting, and clarification from the EIB on this and the points above would be welcome. It would also be welcome if EIB could publish the full GHG footprint calculation for all projects that are subject to carbon footprinting, in order to bring more transparency to this process.

Industrial sector

Energy-intensive industries (such as steel, cement, chemicals, aluminium) represent roughly 17% of EU emissions, representing some of the most challenging areas to abate.[68] As the EU climate bank, the EIB has an essential role to play in speeding their decarbonisation to climate neutrality. Numerous studies have shown that climate neutrality of heavy industry is feasible, laying out what changes will be required in order

[65] **https://www.eib.org/attachments/consultations/eib-group-climate-bank-roadmap-2021-2025-position-paper.pdf**

[66] https://www.eib.org/attachments/registers/123939939.pdf

[67] https://www.eib.org/attachments/registers/91449561.pdf

[68] E3G (2020) **Fostering Climate-Neutral, Energy-Intensive Industries in Europe**

to achieve it.[69] [70] [71] [72] If the EU bank is working for transformation of the sector, this analysis can help to signpost the ways it can contribute most effectively.

The EIB should aim to work with Member States to co-develop and implement national strategies for industrial decarbonisation via specific investment plans. One example worth noting is the "Low-Carbon Roadmap for the Egyptian Cement Industry" funded by the European Bank for Reconstruction and Development (EBRD).[73] With one of the key requirements for decarbonisation of energy-intensive industry being changes in industrial processes, the EIB can help to facilitate the rebuild or retrofit of industrial facilities through concessional financing.[74] In investments outside the industrial sector, the EIB should help to drive the creation of the requisite enabling infrastructure, in terms of electricity grid expansion, green hydrogen supply, and complementary digitalisation. In its activities downstream of the industrial sector, the EIB could play a valuable role in building the market for 100% carbon-neutral industrial products such as green cement or aluminium, by promoting or requiring their use in EIB projects and seeking ambitious material requirements.[75] Last but not least, the EIB, notably via the European Investment Fund (EIF), also has a role to play in driving industrial decarbonisation by focusing on innovation priorities, both in terms of new technologies and barriers to scaling the deployment of existing technologies.[76]

Innovation

In addition to climate and environment, innovation is one of the EIB's main priority areas[77]—but, to function as the EU climate bank, the EIB should ensure that its climate-related innovation support maximises its potential to deliver EU climate policy objectives and the Paris Agreement. Indeed, the European Green Deal holds that "new technologies, sustainable solutions and disruptive innovation" will be critical to delivering its objectives,[78] and it explicitly examines research and innovation as a key area of EU policy within which climate and sustainability goals should be mainstreamed.[79] Currently, EU spending on research and development (R&D), generally speaking, lags behind that of peer economies like China and the USA, as a percentage of GDP.[80] In terms of climate-related R&D expenditure in particular, the EU is also behind, with the United States in the

[69] Ibid.

[70] Climate Strategies et al. (2019) **Building blocks for a climate-neutral European industrial sector**

[71] CISL and CLG (2019) **Forging a carbon-neutral heavy industry by 2050: How Europe can seize the opportunity**

[72] McKinsey (2018) **Decarbonization of industrial sectors: the next frontier**

[73] E3G (2020) **Fostering Climate-Neutral, Energy-Intensive Industries in Europe**

[74] McKinsey (2018) **Decarbonization of industrial sectors: the next frontier**.

[75] E3G (2020) **Fostering Climate-Neutral, Energy-Intensive Industries in Europe**

[76] IES – VUB et al. (2019) **Industrial Transformation 2050 – Towards an Industrial Strategy for a Climate Neutral Europe**

[77] See: **https://www.eib.org/en/about/priorities/index.htm**

[78] European Commission (2019) **Communication: The European Green Deal**

[79] Ibid.

[80] EIB (2019) **EIB Investment Report 2019/2020**

lead, followed by China, which has recently quadrupled this spending.[81] This points to a need for an increase as well as more targeted spending of EU innovation funds.

In order for the EU climate bank's innovation activities to be at their most effective in supporting climate policy, the EIB should develop a tailored mission-based innovation strategy focused on delivering climate neutrality. This should be in line with the EU's Green Deal mission areas under the Horizon Europe programme, which has adopted the mission-oriented approach in order to increase the effectiveness of funding.[82] The mission-oriented approach is important because there is a real risk of innovation spending being misdirected toward less strategic innovation priorities. As a recent E3G paper, "Mission-Based Innovation for Climate and Energy" notes, much of the technology required for climate neutrality already exists. Rather than technological innovation, what is often missing is innovation in governance, markets and regulation, to ensure that deployment of existing technologies is more predictable, appeals to markets, and occurs at Paris-aligned pace and scale.[83]

For the EU and its bank, therefore, innovation activities relating to decarbonisation should be recontextualised in light of the mission to deliver climate neutrality by mid-century and focused to target real and specific barriers to achieving this mission.[84] Within the EIB Group, the European Investment Fund (EIF) contains dedicated innovation programmes—these should reflect the most salient innovation needs for delivering climate neutrality, according to a proper learning governance process.[85]

Circular economy and bioeconomy

The circular economy and bioeconomy is an important part of the climate agenda and the European Green Deal will involve a new action plan with a focus on resource intense sectors such as textiles, construction, electronics and plastics and zero-carbon steel making[86]. In May 2020 the EIB released an updated Circular Economy Guide[87] and its European Circular Bioeconomy Fund[88] will also soon go into the fundraising stage. We recommend the EIB shifts further to focusing on promoting recycling in countries where recycling rates remain low and even more importantly on investments in the upstream part of the circular economy including product design, material efficiency, material re-processing and re-use.

[81] (In absolute terms.) Ibid.

[82] See: **https://ec.europa.eu/info/horizon-europe-next-research-and-innovation-framework-programme_en**

[83] E3G (2019) **Mission-Based Innovation for Climate and Energy**

[84] See: **https://sciencebusiness.net/viewpoint/viewpoint-legal-move-climate-must-be-backed-game-plan-carbon-neutrality**

[85] See: **https://www.euractiv.com/section/climate-strategy-2050/opinion/what-eu-innovation-policy-can-learn-from-professional-cycling/**

[86] European Commission (2019) **Annex to the Communication on the European Green Deal: Roadmap – Key Actions**

[87] EIB (2020) **Circular economy guide**

[88] EIB (2019) **A new circular bioeconomy fund for Europe**

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Other areas

This report does not purport to be exhaustive, and there is also potential to deliver climate neutrality and mitigation goals in other EIB investment areas such as agriculture, regional development and cohesion and urban development. All are areas that also need to be reviewed in the light of the goal of becoming the EU Climate Bank.

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DELIVERING ADAPTATION AND RESILIENCE

To become the EU climate bank, the EIB will need to strengthen its work on adaptation and resilience. While a cornerstone of the Paris Agreement, this area has historically been less of a focus for the EIB than mitigation. Amid growing climate change impacts, however, adaptation and resilience are becoming a bigger priority for the EU. Already, for EU Member States, disasters resulting from weather and climate-related extremes accounted for approximately 83% of monetary losses between 1980 and 2017, amounting to approximately half a trillion euros.[89] The incidence of such extremes is projected to worsen in future[90]—augmenting the need for resilience to reduce future losses.

Under the European Green Deal, the Commission has committed to adopt a new, more ambitious EU strategy on adaptation to climate change.[91] The European Commission should work with the EIB to develop a financing strategy or investment plan which is coordinated with the national capital-raising plans and resilience strategies of Member States and third countries.

The EIB may face technical or financial barriers to investing in climate resilience which require action from other institutions. For example, inside the EU, policymakers must review regulations such as building codes and engineering standards in order to deliver further climate resilience; outside the EU robust weather and climate data may be limited. In such cases, the EIB as the climate bank should proactively work with governments, banks, and other partners to collaborate and address these barriers to investment, and the EIB should seek to use and set gold standards in its own building and engineering standards for projects (e.g. BREEAM standards on climate adaptation[92]).

As the EU climate bank, the EIB's aim must be to enhance both the quality and quantity of financial flows for adaptation and resilience, in Europe and worldwide. On quantity, the EIB should plan to scale the overall volume of finance, by increasing the EIB's footprint, bringing in more public finance, and leveraging private capital. On quality, the EIB should ensure that finance is not merely enhancing the resilience of projects at asset-level, but that limited public resources are used strategically for transformational impact—financing projects designed to add to resilience at a higher systems level. Steps should also be taken to prioritise the use of green infrastructure and nature-based solutions in order to ensure genuinely long-term resilience. We note that the EIB has and uses a Climate Risk Assessment tool in assessing projects, and encourage it to look at incorporating these recommendations within this tool.

[89] See: **https://www.eea.europa.eu/data-and-maps/indicators/direct-losses-from-weather-disasters-3/assessment-2**

[90] See: **https://www.europarl.europa.eu/news/en/headlines/society/20180905STO11945/infographic-how-climate-change-is-affecting-europe**

[91] European Commission (2019) **Communication: The European Green Deal**

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https://www.breeam.com/ndrefurb2014manual/content/10_waste/wst05.htm

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Investing strategically to enhance resilience at systems-level

Given the enormity of the challenge and the limited nature of EIB resources, the EU climate bank must be highly strategic and deliberate in how its resources are deployed. Although the EIB has a climate strategy, which commits to steer EIB resources toward the initiatives and projects with the highest impact, it appears to lack an adaptation policy or a strategic framework for ensuring that it pursues systems-level resilience.[93] As part of the roadmap to becoming a climate bank, the EIB should develop a policy or strategic framework for adaptation, which would offer a structured approach for how the EIB can improve its focus on, and originate, higher-impact resilience activities. This strategic framework should address the issue of how to change internal incentives within the EIB in order to incentivise the Operations Department to originate and sign projects with high (or 100%) contribution to resilience. With such a framework, the EIB should aim to address itself to resilience priorities at systems-level, based on needs or vulnerabilities identified through comprehensive engagement of relevant government bodies.

Figure 6: The World Bank's systemic view of infrastructure and resilience

Source: World Bank (2019)

A systems-level approach for maximising contributions to resilience

A systems-level approach implies delivering resilience not just in projects but through projects. In a 2019 joint discussion paper, the EIB, six other multilateral development banks, and the International Development Finance Club (IDFC) outline a framework and principles for climate resilience metrics in financing operations.[94] The paper identifies various approaches to assessing projects on the basis of their outcomes for resilience at the level of the systems they are embedded in. One such systemic conceptualisation of infrastructure is illustrated in Figure 6.[95] It acknowledges how climate change impacts threaten not only the viability of individual infrastructure assets (e.g. a highway), but, by extension, threaten key infrastructure systems (e.g. road networks) or services (e.g. supply of medical equipment)—which in turn threaten people and human systems (e.g. towns or economies). To maximise impact where possible, the EU climate bank should seek to solve higher-order gaps in climate resilience at a systems level.

It is worth noting that focusing on project contribution to system-level resilience does not mean overlooking the importance of project-level resilience. On the contrary, building resilience into individual projects is key; in the case of developing countries, it is estimated

[93] EIB (2015) **EIB Climate Strategy**

[94] IADB et al. (2019). **A Framework and Principles for Climate Resilience Metrics in Financing Operations**

[95] World Bank (2019). **Lifelines: The Resilient Infrastructure Opportunity**

that $1 invested in resilience normally yields several times as many in benefits.[96] This, however, should be done for all projects as a matter of course. Indeed, the EIB rightly estimates and reports on the residual physical climate risk for each of its investment loans, which encourages clients to build resilience into their projects.[97] Nevertheless, the EIB may wish to learn from the World Bank Group's recent "Action Plan on Climate Change Adaptation and Resilience", which aims to develop a hybrid rating system integrating both project resilience and contribution to systems-level systems.[98] Focusing on contributions to system-level resilience remains key as a way to operationalise the EIB's commitment to maximise the impact of its climate finance.

In light of the COVID-19 crisis it is also important to approach climate resilience as part of wider socioeconomic resilience. The COVID-19 crisis has exposed a profound lack of resilience in modern societies and economies, and a lack of preparedness for major shocks. The risk of similar-scale climate shocks is arguably rising. Our economies are dependent on complex and interconnected global supply chains and financial systems which are highly vulnerable. Resilience – in production and trade, finance and public services – needs to become a much stronger objective of public policy and therefore of public development banks such as the EIB.[99]

Engagement to identify and originate projects addressing systems-level vulnerabilities

In order to solve gaps in systems-level climate resilience, the EU climate bank will need to enhance its ability to diagnose and encourage origination of projects addressing system vulnerabilities, via extensive engagement with a range of relevant actors. As with climate change mitigation in the previous chapter, for adaptation it is not always clear which interventions are the highest priority. In the same vein, given that the EIB (as a comparatively lean institution) may not have the capacity to evaluate resilience priorities in-house, the EIB should work with relevant EU, national, and local/regional actors that can conduct these diagnostics. The EIB could seek an expanded role for the European Investment Advisory Hub or other similar institution with a mandate that includes independent assessment of vulnerabilities and resilience priorities.[100]

The EU climate bank should engage comprehensively with key public bodies—such as the European Commission, individual Member States, and local/regional authorities—on the formulation of investment plans for their adaptation strategies. For instance, both the forthcoming EU adaptation strategy and the adaptation components of National Energy and Climate Plans (NECPs) should be underpinned by robust investment plans, [101] whereby objectives are costed and allocated against the EIB and other public investors leveraging private capital. These could build on the European Green Deal Investment Plan and make linkages with national budgets and capital-raising plans. If the EU adaptation

[96] Ibid.

[97] IADB et al. (2019). **A Framework and Principles for Climate Resilience Metrics in Financing Operations**

[98] World Bank Group (2019) **World Bank Group Action Plan on Climate Change Adaptation and Resilience**

[99] For further thinking in this area please see European Climate Foundation, the Economic Change Unit and E3G (2020) "Recovering better: a green, equitable and resilient recovery from coronavirus".

[100] E3G (2019) **Managing Climate Risk for A Safer Future A New Resilience Agenda for Europe**

[101] UN DRR and E3G (2019) **Opportunities to integrate disaster risk reduction and climate resilience into sustainable finance**

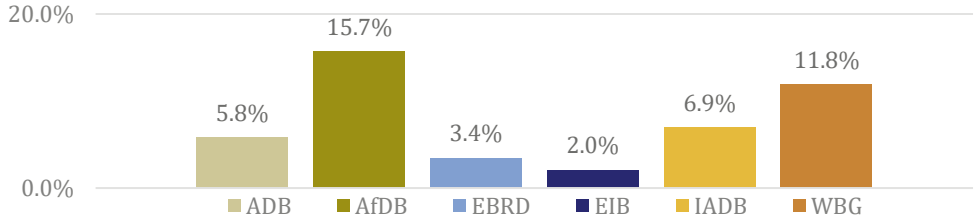
strategy and national plans for resilience do not include financing strategies, there is a risk that these will not originate a pipeline of high-impact resilience projects or raise the necessary capital at adequate scope or scale.

Scaling finance flows for adaptation and resilience

In addition to the effectiveness and impact of adaptation finance, a general area of fundamental concern is its general insufficient volume. According to the UNEP "Adaptation Finance Gap Report", the world faces costs of adaptation on the order of hundreds of billions USD per annum.[102] As part of its roadmap to becoming a climate bank, the EIB should develop an ambitious plan for scaling finance for adaptation and resilience in Europe and worldwide. This should include setting specific targets for higher levels of EIB adaptation finance as well as for finance mobilised from public and private sources.

The scale of EIB finance for adaptation and resilience, historically, has been lagging, indicating ample room for improvement. In 2018, for example, the EIB's adaptation finance represented only 2% of its total operations.[103]

Figure 7: Adaptation finance as a percentage of total operations



Source: E3G analysis of EIB and MDB figures

As illustrated, EIB levels of finance for adaptation are the lowest, proportionally speaking, among the six main multilateral banks.[104] Of course, this low figure may be partly explained as being due to the fact that Europe is the key geography in which the EIB operates, compared with others, such as the African Development Bank or the World Bank Group, which focus more on comparatively vulnerable countries. This difference could also be partly explained by differences in reporting across the MDBs, and differences in how definitions[105] of mitigation and adaptation are applied internally. However, this cannot be used to waive the need for ambition in increasing investment in resilience in Europe and abroad. As the EIB is now delivering 30% of operations in support of climate action and environmental sustainability, and targeting 50%, it should set new targets and internal incentives for adaptation.

[102] UNEP (2016) **The Adaptation Finance Gap Report**

[103] EIB (2019) **Sustainability Report 2018**

[104] MDBs (2019) **2018 Joint Report on Multilateral Development Banks' Climate Finance**

[105] We understand that the joint MDB climate finance definitions are currently being reviewed in 2020, and it is essential that in that review attention is paid to the robustness of climate adaptation definitions as this is an area where there is a lot of scope for interpretation.

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In the context of adaptation, public capital has a central role to play, because private capital is often not well-suited for certain profiles of investments. Relative to multilateral banks and other public investors, private investors tend to seek higher returns and shorter payback periods. A recent report from the Global Commission on Adaptation and UNEP-FI identifies insufficient public support as the first barrier to scaling up financing for adaptation and resilience.[106] For this reason, increasing finance from public investors such as the EIB, especially when strategically targeted, should be understood as essential to the scaling of overall capital flows toward enhancing resilience.

As part of its roadmap to becoming the EU climate bank, the EIB should establish an adaptation strategy to help scale finance for resilience, including:

- *Specific targets for higher levels of EIB adaptation finance*. These targets, within the overall 50% goal, should be combined with a strategic framework for focusing resources on higher-impact projects that deliver outcomes at systems level. This should also be accompanied by other internal incentives for its Operations Department to pursue projects with a high contribution to resilience.
- *Goals for catalysing broader public finance interventions for resilience*. The EIB should unlock further public capital by comprehensive engagement with the European Commission, countries and national promotional banks, and local/ regional authorities, notably on adaptation financing strategies and project origination. The EIB should grow resilience efforts in its public sector lending programs, while backing issuance of resilience bonds, and expand technical assistance to the public sector for resilience.
- *Goals for crowding in private investors and pioneering new markets.* By further expanding its de-risking of adaptation projects, the EIB can leverage increased amounts of private capital—including through credit enhancement of resilience bonds. By prioritising resilience with its financial intermediaries such as banks, the EIB can also promote adaptation interventions throughout the broader economy.

As the EU climate bank, the EIB should aim to lead capital markets to better support governments' long-term strategies for adaptation and resilience. Efforts to pioneer and scale adaptation and resilience finance in Europe as a mature market can be instrumental to the growth of investor appetite for adaptation and resilience projects worldwide.

[106] UNEP-FI (2019) **Driving Finance Today for the Climate Resilient Society of Tomorrow**

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DELIVERING A FAIR AND PROSPEROUS SOCIETY

The European Green Deal is based on the principle of delivering growth and prosperity for citizens via the transition to a sustainable economy, whilst ensuring that the transition leaves no one behind. This model gains newfound importance amid the unprecedented socioeconomic crisis that Europe faces due to the coronavirus (COVID-19) pandemic. In keeping with the European Green Deal, recovery efforts must be green and inclusive. Such recovery efforts, of course, can be hastened by large-scale investments in decarbonisation and resilience, which the EIB can help enable. In the recovery and beyond, however, given the uneven social impacts of the transition toward climate goals, it is imperative that the EIB deploy its resources as strategically as possible, for maximum effect. This element of becoming a Climate Bank is particularly relevant for the EIB's investments in education and training and regional development and cohesion.

As part of its roadmap to becoming a climate bank, the EIB is developing a just transition strategy. This should consolidate and enhance existing approaches to supporting regions, communities, and groups disadvantaged by the transition, including a commitment to collect and share learnings and best practices. In the context of the recovery, the EIB should develop a framework for how it will actively promote recovery efforts that move economies toward climate neutrality and resilience.

Stimulating an economic recovery that is green and inclusive

With COVID-19 causing a socioeconomic crisis that could prove worse for the EU than the recession in 2009,[107] the EU faces a historic challenge. Fittingly, the European Green Deal, the flagship EU policy, is of course inspired by the public investment programmes of the New Deal, the US response to the Great Depression of the 1930s. Indeed, the EU has formally committed to integrating the green transition in its recovery plans.[108] Consistent with the paradigm of the Green Deal, the EU climate bank must seek to make its recovery efforts as transformational for social inclusion and climate policy outcomes as possible.

In the short-term, the EIB will play a role in immediate crisis relief and easing the impacts of the pandemic. Indeed, the EIB was quick to propose an "immediate" plan for bridging the short-term needs of small or medium enterprises (SMEs) and mid-caps.[109] The EIB has rightly sought to design its response with a view to social considerations. The EIB's focus on small and medium-sized enterprises reflects the fact that these employ the majority of private sector workers in the EU, whilst being particularly vulnerable in this crisis.[110]

Over the medium term, however, the EIB is set to play a key part in driving economic recovery; as a public investment bank, the EIB can play a countercyclical role in addressing flagging investment and investor uncertainty. Such effects of the crisis, of course, can

[107] See: **https://www.euractiv.com/section/economy-jobs/news/eu-commission-expects-deeper-recession-than-in-2009/**

[108] European Council (2020) **Joint statement of the Members of the European Council**

[109] See: **https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19**

[110] EIB (2020) **The European Investment Bank's response to Covid-19: Fact sheet**

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have adverse consequences for climate policy as well. Notably, commissioned renewable energy projects worldwide are expected to stall in 2020, due to increasing capital costs from COVID-19.[111] Public development banks have a vital countercyclical role to play in mitigating investment slowdown. This point, however, is made specifically with regard to safeguarding climate-related investment in a recent paper by the Asian Infrastructure Investment Bank (AIIB) on the implications of COVID-19.[112] The AIIB notes that "key project developments, especially those mitigating climate change, should receive continued or even enhanced financing support in order to not put long term economic or environmental sustainability at risk".[113] Similar reflections from the World Bank have noted that the response to the current crisis of COVID-19 may be used to prevent future crises, especially the climate crisis.[114]

To drive recovery as the EU climate bank, the EIB should develop a framework for how it can ensure—including via engagement with governments and project promoters—that priority is given to those investments that maximise socioeconomic benefits while delivering long-term climate policy objectives. This would require expanding the current remit of the EIB. As World Bank experts note, Nationally Determined Contributions under the Paris Agreement offer a set of infrastructure programmes as prime candidates for prioritisation in public stimulus packages.[115] Decision-makers, they observe, can ensure that the right projects are "shovel-ready" when the time comes for stimulus. For sorting amongst projects, the World Bank has proposed a multi-dimensional framework that includes both socioeconomic factors, such local job creation, and climate change considerations.[116] On socioeconomic benefits, the World Resources Institute notes that various forms of decarbonisation projects also outperform in terms of job creation for every $1 million invested.[117] In addition, from an climate policy integrity perspective, this is also a chance to broaden usage of the EU sustainable finance taxonomy, ensuring that recovery planning is consistent with long-term policy aims.

Assuring a fair and just transition to climate goals

Over the next decades, transitioning to climate neutrality and climate resilience will bring exceptional socioeconomic benefits and is therefore central to the EU's new growth strategy, but it will also bring considerable disruption to some workers, communities, and regions. Consistent with the Green Deal approach, the EU bank and other sources of public finance must help ensure that no one is left behind. To this end, the European Green Deal Investment Plan (EGDIP) offers the Just Transition Mechanism—of which the EIB is supporting two out of three pillars (a dedicated just transition scheme under InvestEU and a public sector loan facility to support national and regional authorities). EIB

[111] See: **https://renews.biz/59372/covid-19-wind-and-pv-growth-wiped-out-in-2020/**

[112] AIIB (2020) **Impact of the Coronavirus (COVID-19) and Its Implications for Infrastructure Priorities**

[113] Ibid.

[114] See: **https://blogs.worldbank.org/governance/pandemic-unexpected-opportunity-climate-action**

[115] See: **https://blogs.worldbank.org/climatechange/thinking-ahead-sustainable-recovery-covid-19-coronavirus**

[116] World Bank (2020) **Proposed Sustainability Checklist for Assessing Economic Recovery Interventions April 2020**

[117] See: **https://www.wri.org/blog/2020/03/coronavirus-rebooting-US-economy**

contributions under the EGDIP, however, are only a starting point, and as the EU bank the EIB contribution to securing a just transition will inevitably be much broader than this.

As part of its roadmap to becoming the EU climate bank, the EIB should develop a just transition strategy to guide its efforts, helping to ensure that EIB project-level activities are as effective as possible. A sound EIB strategy for assuring a just transition to a climate-neutral and climate-resilient economy should include the following elements:

- *Identification of basic principles of the just transition, for promoting best practice*
- *Strategic cohesion efforts to overcome regional difficulties and disparities*
- *Strategic approach to ensure just and fair delivery of adaptation and resilience*

This should also be developed in parallel with the report on just transition being prepared by the Joint MDB Paris Agreement Alignment Working Group[118].

Identification of basic principles of the just transition, for promoting best practice

EIB activity should be guided by a just transition strategy that is based on basic principles for a successful transition. One of the fundamentally essential ingredients of a successful just transition strategy is that it be designed and implemented by stakeholders from an affected region—as people from a given region best understand its strength and weaknesses and best know what they want its future to look like. The EIB must recognise this and specifically design this principle into its own approach; as a supranational bank attempting to cover all of the EU and indeed operate worldwide, it will not have all the answers for just transitions in every region.

As has been noted elsewhere, there is no single exhaustive blueprint for a just transition that can be applied uniformly across groups, communities, and regions.[119] Nevertheless, there are recurring lessons to draw from historical examples.[120] Indeed, in a research project drawing upon diverse experts on German and Czech transitions[121], E3G identified several commonly agreed conditions for a successful transition:

1. a clear and stable political framework
2. bottom-up processes with all stakeholders
3. use of the community's existing strengths and infrastructure
4. integrated approaches for neighbouring or related communities
5. a joint effort to create a shared vision of the community's future

As the EIB transitions to become a Climate Bank, it will need to engage more deeply upstream in the project process, to fulfil the need for it to be transformational. This could entail opportunities to integrate these learnings into project origination processes, such as engagements with municipalities or member state governments in workshops. In general, the EIB should more actively share learnings on the just transition and EU

[118] **http://www.ebrd.com/joint-mdb-statement-climate-finance**

[119] E3G (2018) **A Just Transition for All or Just a Transition?**

[120] Ibid.

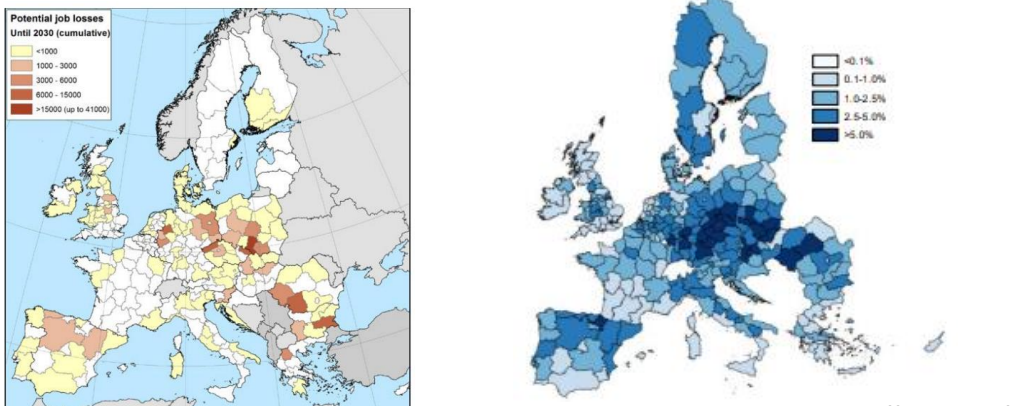
[121] Heinrich Boell Foundation/E3G/DUH (2018) **Europäische Braunkohleregionen im Wandel** (in German)

cohesion policy experience, with national promotional banks and peer multilateral development banks.

Strategic cohesion efforts to overcome regional disparities and difficulties

Europe faces significant regional disparities within and between Member States—disparities which could be exacerbated by the transition, in turn rendering the transition more difficult. In terms of disparities within countries, the latest *EIB Investment Report* notes how economic and technological change results in "spatial income inequality" and a "concentration of economic activity" in large cities, putting "pressure on social cohesion" at country-level.[122] In terms of disparities between countries, the same report notes that Central, Eastern, and South-Eastern (CESE) Member States face particular challenges with the transition, are more at risk of losing employment and require higher levels of investment to maintain cohesion. See the risk of job losses illustrated below:

Figure 8: Regional disparities in transition risks to employment in coal (left) and intensive industry (right)



Source: European Commission (2018), left[123] and right[124]

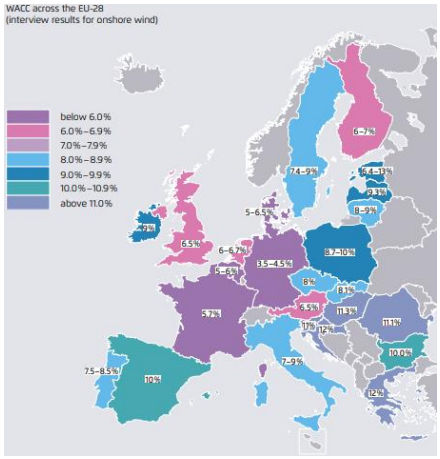
[122] EIB (2019) **EIB Investment Report 2019/2020**

[123] European Commission (2018) **EU coal regions: opportunities and challenges ahead**

[124] European Commission (2018) **In-Depth Analysis in Support of the Commission Communication COM (2018) 773 A Clean Planet for all**

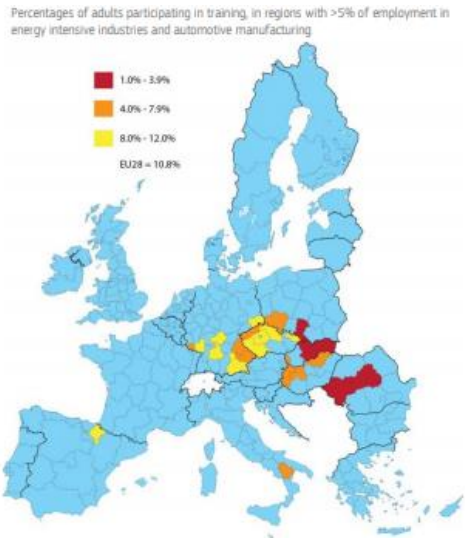
With the right incentives, however, investing in the transition can be a force for resolving regional disparities. The EU climate bank should help ensure that CESE countries benefit from decarbonisation, helping them to overcome their relatively high cost of capital (see Figure 9), which inhibits investment in infrastructure.[125] There is considerable potential in CESE countries for projects with dual benefits, supporting disadvantaged communities as well as climate policy outcomes, such as investment in critical infrastructure, digitalisation, renewables, climate-neutral transport systems, an d industrial facilities for emerging low-carbon supply chains. Another dual-benefit priority is energy efficiency, especially the renovation of buildings. With approximately 50 million EU citizens living in energy poverty, there is a clear social case for cutting the bills of deprived households, and CEE countries are particularly energy-intensive compared to the rest of the EU.[126] Moreover, the retirement of coal power plants in some CEE countries is being delayed due to the stranded assets exposure of utilities. The EIB could promote processes to help the utilities recycle coal plant asset value into clean energy investments, potentially involving securitisation. Proceeds from this can be used to finance a just transition program in the local community.

Figure 9: Higher costs of capital



Source: Agora Energiewende (2018)

Figure 10: Lack of adult training



Source: European Commission (2019) [113]

In regions disadvantaged by the transition, there is also a strong case for the EIB to prioritise investment in educational institutions, research efforts, and training programmes, as part of place-based transition plans. Historically, educational institutions have played key roles in ensuring that industrial change causes less disruption and results in jobs and permanent increases in welfare and living standards locally.[127] Indeed, the EIB notes that investment in educational institutions and human capital, including skills and training needed for the transition, is key.[128] However, some of Europe's regions that will experience the highest job losses as a result of the transition are also those with the

[125] Agora Energiewende (2018) **Reducing the cost of financing renewables in Europe**

[126] E3G (2020) **The Political Economy of Energy in Central and Eastern Europe: Supporting the net zero transition**

[127] EIB (2019) **EIB Investment Report 2019/2020**

[128] Ibid.

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lowest levels of adult training, as illustrated in Figure 10.[129] In tandem, while supporting universities and educational institutions, the EIB can support low-carbon innovation and research in associated industrial clusters. Low-carbon industrial clusters have for some years been recognised for their potential to incentivise local innovation, and SMEs, and contribution to low-carbon supply chains.[130] [131] In this, the EIB could replicate past successes in supporting biomedical innovation and commercialisation via a cluster approach, building ecosystems around universities, translating academic research into SMEs via venture capital, advisory support, and funding for early stage companies.

Strategic approach to ensure just and fair delivery of adaptation and resilience

The EIB must also promote just adaptation, or, in other words, that the transition to resilience is just and fair. As noted in a recent E3G briefing, the impacts of climate change on Europe are not equally felt, with certain geographical areas and the less affluent being more vulnerable; neither, moreover, is there equal access to measures delivering adaptation or enhanced resilience; these inequalities should be addressed by policy efforts such as the European Green Deal, as well as policy-driven banks such the EIB.[132] The EIB climate strategy (adopted in 2015) notes that taking the social dimension of adaptation into account will help to protect the most vulnerable groups, while avoiding adaptation activities that exacerbate inequalities. However, as part of its roadmap to becoming a climate bank, the EIB should go further in ensuring this, actively pursuing more systemic approaches rather than working reactively project-level. This will require close engagement with Member States, clients, and relevant government bodies to identify project origination opportunities and programmes to address inequalities in resilience. By investing in projects that deliver climate resilience to regions facing barriers to investment, the EIB can play a countercyclical role in overcoming a vicious circle of capital flight worsened by climate shocks.

[129] European Commission (2019) **Employment and Social Developments in Europe 2019**

[130] European Commission (2020) **European Panorama of Clusters and Industrial Change**

[131] E3G (2019) **EU Industrial Policy Realising the economic opportunities of a resource scarce, low carbon and climate-changed world**

[132] E3G (2019) **How the European green deal will succeed or fail**

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SUPPORTING GREEN DEAL DIPLOMACY AND ENGAGEMENT

The European Green Deal is more than a vision for Europe—it is also a vision for engaging with the world. As well as being a domestic project, it is an international project of global and comprehensive scope, cutting across countries and sectors, aiming for global action to meet the Paris Agreement and the Sustainable Development Goals.[133] As the EU bank, as a global development bank, as a knowledge bank and as a climate bank, the EIB must aim to support delivery of the European Green Deal's internationalist and systemic ambition. To do this, this section recommends that the EIB expand its efforts to (1) enable Paris-aligned pathways in developing countries, especially key geographies, and (2) spread EIB and EU sustainable finance norms with a wider community of actors worldwide.

Enabling Paris-aligned pathways in developing countries

The world is currently not aligned with the Paris Agreement, and any decarbonisation measures undertaken in the EU, however ambitious, will, on their own, be insufficient to keep global warming below 2°C, let alone 1.5°C.[134] The European Green Deal will fail, and the EIB will fail in its role as the EU climate bank, unless there is a strategic approach to ambitious engagement with the rest of the world and delivering the Paris Agreement. In particular, the EIB should support the development of strategies for enabling Paris-aligned pathways in the key geographies identified under the Green Deal: the EU's immediate neighbours to the south and east, G20 economies, China, and Africa, in addition to others worldwide.

The EIB's special status and unique responsibilities

On the international stage, the EIB has a unique role to play in advancing the Paris Agreement, in raising global ambition, and embodying ambitious EU climate policy in ways which other institutions do not. Unlike, for instance, the World Bank Group (WBG) or the European Bank for Reconstruction & Development (EBRD), of which EU countries are only partial shareholders, the EIB is wholly owned by Member States of the European Union.

Recent years have shown this difference in shareholding resulting in substantive divergences in policy areas relating to climate change, making the EIB more ambitious in aligning with the Paris Agreement; and, while the EIB has committed to broadly-speaking phase out investment in fossil fuels, the WBG and EBRD have not.[135] Indeed, EIB efforts to drive alignment with the Paris Agreement must acknowledge the impact of other financial institutions which continue to finance fossil fuels, often for vested interests or political reasons. Analysis by E3G in 2019 showed how the Japanese International Cooperation Agency (JICA) is perpetuating the demand for fossil fuels in its technical assistance for countries' power sector development planning, effectively upstream of

[133] E3G (2019) **How the European green deal will succeed or fail**

[134] Global Carbon Project (2019) **Global Carbon Budget 2019**

[135] See: **https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy**

projects, based on questionable assumptions about costs and optimal technology mixes.[136]

In order to effectively serve as the EU climate bank, the EIB cannot rely on other international actors and must expand its efforts to offer technical assistance to countries in policy areas relating to climate change. Offering more technical assistance should mean better access to the EU budget as the EU bank. The EIB should also engage beyond environment ministries, this means engaging with ministries of finance and economy as well as ministries of energy, agriculture, and other sectors.

Being more active upstream of the project-level will allow the EIB to do more transformational work on decarbonisation and resilience, assisting countries in adopting long-term strategies and originating projects and investment programmes enabling their aspirations under the Paris Agreement. This would support countries in financing and enhancing their Nationally Determined Contributions (NDCs), whilst raising overall ambition worldwide. The EIB should expand its provision of international assistance through the NDC Partnership, a key mechanism established at COP22 in 2016.[137]

The European Green Deal explicitly calls for engagement with third countries on climate issues and reinforcing existing initiatives.[138] These, the Communication notes, might include "ending global fossil fuel subsidies in line with G20 commitments, phasing-out financing by multilateral institutions of fossil fuel infrastructure, strengthening sustainable financing, phasing out all new coal plant construction, and action to reduce methane emissions." Although this does not name the EIB, delivering some of these ambitions implicitly entails a role for the EU's lending arm—and the Communication elsewhere explicitly names the EIB as "becoming Europe's climate bank". Generally speaking, the European External Action Service (EEAS) will need to develop a Green Deal diplomacy in support of the Paris Agreement, and the EIB should strengthen its existing work with the EEAS in order to advance this, particularly on financial matters.

Engaging with key geographies under the Green Deal

As key geographies, the European Green Deal emphasises the EU's immediate neighbours to the south and east, G20 economies, China, and Africa, in addition to partners in Latin America, the Caribbean, Asia and the Pacific. The EIB should develop tailored strategies for how it should engage and promote Paris-aligned development pathways in each of these geographies.

The Green Deal rightly observes that the G20 countries are responsible for 80% of global greenhouse gas emissions, making them crucial to delivering the Paris Agreement.[139] As a global development bank and climate bank, the EIB should develop specific strategies for how it can best support each of the G20's developing countries in overcoming their barriers to decarbonisation and resilience.

[136] E3G (2019) **Banking on Asia**

[137] See: **https://ndcpartnership.org/about-us**

[138] European Commission (2019) **Communication: The European Green Deal**

[139] Ibid.

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Of the G20, China is critically important, not only as the world's top emitter, but also for its influence on other countries via its international lending and other programmes. The EIB should deepen its partnership with the China Development Bank (CDB), which is the largest public bank worldwide and an important lender internationally. However, as noted by E3G, its heavy investments in coal have outweighed its investments in clean energy in recent years—there is considerable potential for the CDB shift to net-zero alternatives.[140] Any EIB-CDB partnerships and joint projects should be fitted within a broader framework of Green Deal diplomacy.

In terms of immediate neighbours, the Green Deal explicitly calls for developing climate, energy, and environmental partnerships with countries in the Southern Neighbourhood and the Eastern Partnership. In particular, the countries of the Southern Neighbourhood, which refers to North Africa and the Eastern Mediterranean, represent some of the world's most vulnerable countries to climate change, in terms of both physical and social vulnerability.[141] North African countries are already some of the largest recipients of EIB support outside the EU, including channels such as the Neighbourhood Investment Platform (NIP)[142] and the Risk Capital Facility for the Southern Neighbourhood (RCFSN)[143]. However, as noted in a recent E3G briefing, there is a need for more strategic approaches to investment, focusing on addressing the risks of instability.[144] The EIB should engage more broadly with different stakeholders to ensure origination of strategic projects that address key gaps and barriers to systemic resilience in the region.

On Africa more broadly, the Green Deal calls for unlocking Africa's potential to make rapid progress towards a green economy, in terms of energy and efficiency, food systems, smart cities, and nature-based solutions. The more recent Commission communication "Towards a Comprehensive Strategy with Africa" specifically names the green transition and sustainable growth as priorities for partnership.[145] It includes a commitment to support African countries with their NDCs, long-term strategies, and national adaptation plans, which implies a supporting role for the EIB in devising financing strategies for the necessary capital mobilisation. In so doing, the EIB should develop closer partnerships with the African Development Bank (AfDB) and other African public investment institutions, building capacities and sharing best practice on climate-related areas such as energy. Generally speaking, the EIB should aim to focus on investments that deliver transformational outcomes toward sustainable development, decarbonisation, and resilience in Africa, via mechanisms such as the EU-Africa Infrastructure Trust Fund (EU-AITF), which provides grant support for large infrastructure projects.[146]

[140] E3G (2019) **Banking on Asia**

[141] E3G (2013) **Underpinning the MENA Democratic Transition: Delivering Climate, Energy, and Resource Security**

[142] See: **https://www.eib.org/en/products/blending/nip/index.htm**

[143] See: **https://www.eib.org/en/products/blending/rcfsn/index.htm**

[144] E3G (2018) **MENA Stability in a Changing Climate: A Transatlantic Agenda on Preventive Investment**

[145] European Commission (2020) **Towards a comprehensive Strategy with Africa**

[146] See: **https://www.eib.org/en/products/blending/donor-partnerships/trust-funds/eu-africa-infrastructure-trust-fund.htm**

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Spreading EIB and EU sustainable finance norms worldwide

For the EIB to truly become the EU climate bank, it must take a more active role in disseminating EIB and EU sustainable finance norms worldwide. The EU and EIB have been leaders in setting new precedents in sustainable finance[147], but the success of the Green Deal will depend on other actors following suit. Improving others' practices will require EIB engagement with a broad range of financial actors, including but not limited to public banks, finance ministries, financial intermediaries, and private sector and other clients. Green Deal would require a restructure of the economies and the European transition can't happen in isolation.

As the EU climate bank, the EIB has a responsibility to drive alignment of the broader financial system with the Paris Agreement. The financial intermediaries through which the EIB channels its financing represent the EIB's first-line opportunity to influence and improve Paris-alignment in the broader financial system. Over time, the EIB should aim to enhance the policies of the EIB's financial intermediaries to be closer to the EIB's own, shifting their portfolios to become decarbonised and resilient. The EIB should also work with other public banks (notably MDBs/DFIs) operating via financial intermediaries to promote best practice, notably the EIB policy to apply all its safeguards to all financial intermediaries.

Another important venue in the financial system where the EU climate bank should aim to drive Paris-alignment is with finance ministries, central banks, and financial regulators, and the international coalitions that convene these around climate objectives—notably the Coalition of Finance Ministers for Climate Action. To its credit, the EIB is already playing an active role in the Coalition of Finance Ministers as an institutional partner. The Santiago Action Plan for 2020 specifically notes the EIB's numerous activities in support of different Helsinki Principles.[148] With finance ministers, the EIB should aim to share good practices and lessons learned in the EU context—especially regarding the European Green Deal Investment Plan and the EIB's role within it. The practice of setting national financing strategies in support of key national policies, which accord central roles to public investment banks, is essential to securing climate finance at scale and speed. In context of the Paris Agreement, this means creating sound NDC Investment Plans which are properly costed with specific capital mobilisation plans—finance ministries should play a central role in their creation, but this is a practice still requiring mainstreaming worldwide.

Another key norm in EU sustainable finance which the EIB should seek to disseminate broadly in other geographies is the very concept of a "climate bank", or public green financial institutions more generally. As the world's first and largest international climate bank, the EU climate bank should aim to promote the creation of climate banks and green

[147] The EIB worked closely with the China Green Finance Committee which led to the publication of the White Paper on "The Need for a Common Language in Green Finance". The White Paper mapped and compared the project classification used by the China Green Bond Endorsed Project Catalogue and the MDB-IDFC Common Principles for Climate Mitigation Finance Tracking. Also, the EIB was the first issuer to tune the bond documentation of its sustainability funding products, Climate Awareness Bonds ("CAB") and Sustainability Awareness Bonds ("SAB"), to the upcoming EU Susta+inability Taxonomy.

[148] Coalition of Finance Ministers for Climate Action (2019) **Overview of the Santiago Action Plan for 2020**

banks worldwide, or the conversion of existing public financial institutions to become climate banks. This will require articulating a value proposition for the unique contributions that climate banks can make to financing the transition (see the Introduction section). This would also entail a good amount of engagement and capacity building work on the part of the EIB, sharing experience and best practice, but the payoff—in terms of accelerating the transition worldwide—would likely be relatively large. Given that the Bank is already part of the Network on Greening the Financial System this presents an opportunity to take this work forward to transform the financial system, both public and private.

Promoting climate banks, green banks and other green public financial institutions[149]

Permanent, mission-driven institutions such as green banks, climate banks and other green public financial institutions have an important role to play as market-makers. They can help break down the structural barriers which suppress green investment and green job creation, both of which are required to rebuild national economies post-COVID19.

The success of a Green Public Financial Institution (GPFI) will depend on how well it is designed, and on its ability to evolve and adapt to new challenges emerging from the climate transition. Successful institutional design begins with an assessment of what is required to solve the problems faced, rather than what is achievable within the existing institutional and funding landscape. The questions involved in establishing a GPFI and the route to answering them are common across jurisdictions, regardless of the institutional backdrop or a country's level of development.

E3G's framework maps out the iterative process required to set up an ambitious Green Public Financial Institution. Each iteration of the process offers the opportunity to ensure that the institution is better matched to the local circumstances.

Figure 11: The five stages of designing a green financial institution

In each of the phases we break the process down into the what, the who and the why:

> **What** the key decisions are and how they are reached – Decision Making Process.

[149] This section draws on a forthcoming E3G report, "A synthesis of learning from E3G's experience in building green banks".

> **Who** are the key actors and organisations to engage with that will inform the decision-making process and will be making these decisions – Stakeholder Engagement
> **Why** are these policy decisions being made, what analysis is needed to develop the options which in turn informs the ultimate decision – Analytical Support, Standards and Frameworks.

This process can help fast-track the design of institutions as more economies embark on the journey of deep decarbonisation and increasing resilience of their economies. An agile market-maker will be needed to match finance with projects by providing a sophisticated understanding of risks and returns of emerging technology whilst ensuring equitable social outcomes.

The EIB has an especially important role to play in disseminating the emerging EU sustainable finance taxonomy worldwide, working with the International Platform for Sustainable Finance (ISPF) and promoting use of the taxonomy by peer MDBs, other public finance institutions and the wider private finance sector. For example, the EU sustainable finance taxonomy can be the basis the "positive list" in the Joint MDB Paris Agreement Alignment Framework; and the EIB can go beyond this baseline and use the taxonomy to formulate EIB sectoral exclusion lists of non-Paris-aligned activities to phase out. Due to its relative rigour, the EU taxonomy should be considered an important instrument in delivering the Paris Agreement and contributing to standardised processes for genuinely sustainable global finance flows. A good example where this has been put in practice is the Banking and Taxonomy Working Group by the European Banking Federation (EBF) and UN Environment Finance Initiative (UNEP FI), where the EIB is an observer; aiming to assess the extent to which the EU Taxonomy on Sustainable Finance may applicable to core banking products, this group will develop and promote high-level voluntary recommendations.

The EIB should work to promote its fossil investment phaseout policies, encouraging more widespread adoption by articulation of the logic supporting the decision. In its engagements, the EIB should explain the broader energy lending philosophy which justified the phaseout—notably the prioritisation of no-regrets investments across the energy system, including demand-side efficiency measures and other measures to support higher penetrations of renewables. Promoting fossil phaseout is also a matter of larger EU policy. In the context of deliberations over the EIB policy in late 2019, the European Council (ECOFIN) decided to "encourage… MDBs to adopt responsible investment policies and to phase out financing of fossil fuel projects."[150] Additionally, the European Green Deal made explicit mention of fossil investment phaseout by multilateral institutions.

On climate risk, the EIB should encourage full assessment and disclosure of climate-related financial risks, as well as their full integration into investment decision-making.

[150] European Council (2019) **Council Conclusions on Climate Finance (8 November 2019)**

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The EIB should disseminate and promote the best practice of screening all projects for climate risk and for climate-proofing opportunities. In this regard, the EIB's ability to share its experience and learnings, to build the capacities of others, will be key to strengthening risk management practices.

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CROSS-CUTTING INSTITUTIONAL IMPLICATIONS

To become EU climate bank, the EIB must go further than simply delivering on the various climate agendas mentioned above. This will require a quantitative scaling of operations, but also a qualitative step change, prioritising higher-impact activities whose full outcomes cannot always be easily measured.

At a high level, the EIB should be open to acknowledging some of the areas in which it should grow in order to become a climate bank. Becoming a climate bank will necessitate the EIB undergoing some institutional change—expanding certain activities and also building out new capabilities, whilst ensuring that climate is reflected to a greater extent across the organisation. This section proposes and outlines three main areas in which the EIB must transform as an institution:

- *Mainstreaming the climate bank status across the EIB*
- *Building essential climate bank capacities*
- *Increasing the climate bank capitalisation*

As part of its roadmap to becoming a climate bank, the EIB should lay out the institutional changes that it will pursue as an organisation over the coming years.

Mainstreaming the climate bank status across the EIB

Becoming a climate bank requires ensuring that the climate bank status is properly reflected across all EIB policies, priorities, staff and departments. This is not a project that can be completed in 2020 alone, and thus the roadmap should set out a long-term agenda for institutional mainstreaming that integrates the climate bank status.

In terms of the EIB's human resources, every single member of EIB staff should be informed that "climate" is now part of their mission. Wherever possible, climate should be reflected in Key Performance Indicators (KPIs), staff incentives, remuneration, or assessment criteria. This should be more than simply a box-checking exercise, looking at more than just simple exposure to climate-related activity. Occasionally, pressures on staff to "get money out the door" can inhibit prioritisation of transformational work. The EIB should ensure that relevant staff are incentivised to look beyond leverage at projects which may be more difficult but include more first-of-kind demonstration effects, resulting in market creation.[151]

In terms of EIB as an organisational structure, the table below indicates which parts of the EIB will be especially affected by which parts of the climate bank agenda, and by extension which parts of this report are most relevant to them.[152] This is an indicative exercise, and more research is needed to deepen this analysis, but gives a first impression of the kind of internal change management needed to deliver the EU Climate Bank vision.

[151] Orozco, D. (2019). A Synthesis of the Learning from Building Green Banks

[152] Here departments and directorates have been adjusted for clarity, with the Environment and Sustainable Territorial Development department has been broken down into its component parts.

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Figure 12: EIB organisational structures most impacted by EU Climate Bank process

Requirements for becoming a climate bank	Parts of the EIB organisational structure
Delivering climate neutrality	Energy & Mobility; Innovation & Competitiveness; Urban development and regional development; Operations Directorate (investment operations and banking); Advisory
Delivering adaptation and resilience	Risk management; Agribusiness and rural development; Water management and water security and resilience; Urban development and regional development; Operations Directorate (investment operations and banking); Advisory
Delivering a fair and prosperous society (incl. just transition)	Agribusiness and rural development; Urban development and regional development; Innovation & Competitiveness; Energy & Mobility; Advisory
Supporting Green Deal diplomacy and engagement	Operations Directorate (investment operations and banking); EIB representations outside EU; Advisory; representatives on joint MDB working groups and committees.
Cross-cutting institutional implications for the EIB	Bank-wide projects and change management coordination Unit; Secretariat-general; personnel; Advisory

It should be stressed this is only an indicative exercise, mainly intended to help signpost how teams within the Bank need to be engaged as part of the change management process. Of course, adaptation and resilience relate to almost all sectors of EIB investment, as do climate neutrality, and social equity and economic considerations.

To achieve transformational outcomes, EIB should be mission-driven, based on strong understanding of specific risks, and financial needs including the local policy and market context, whilst ensuring that risks are priced correctly to avoid crowding out the private sector or subsidising excess profits to the private sector.

Aligning all bank policies, standards, and strategies

All relevant bank policies, standards, and strategies should be revisited, in light of the commitment to become a climate bank. This should include, but not be limited to, sectoral strategies, the transparency policy, financial intermediary standards, and client engagement strategies, project appraisal guidelines (economic, financial, and otherwise), and carbon accounting methodologies.

Becoming a climate bank may additionally require creation of new strategic frameworks and policies which do not exist (not merely adjustment of existing ones), notably for areas such as the just transition, or adaptation and resilience. This is particularly important, as

noted in previous sections, for assuring that the bank delivers on its commitment to engage in activities with the highest levels of impact.[153]

The EIB's Roadmap to becoming the EU Climate Bank should put forward sectoral mapping to reflect the need to effectively deliver (a) climate neutrality, (b) adaptation and resilience, and (c) a fair and prosperous society across different sectors of the economy. This should explicitly name the areas of activity within different sectors with the highest degree of transformational potential, as well as identifying any activities which may be non-aligned with the Paris Agreement for exclusion. This should also embrace and more explicitly acknowledge the interlinkages between sectors (e.g. how approaches urban development may deliver climate policy outcomes for transportation and mobility). Based on these conclusions, the EIB should aim for readjustment of the actual sectoral policies in the coming years. The preceding sections of this report provide input to this effort.

The EIB should revisit its transparency policy in terms of areas which could complement its Climate Bank efforts. The EIB should demonstrate the highest standard of transparency and predictability—institutional arrangements and governance will have an impact on how the private sector views climate-related policies and whether they are credible. Moreover, increased transparency increases the EIB's power to influence the rest of the financial system, both public and private.

The EIB's status as climate bank will also have to extend to its engagements with financial intermediaries, SMEs and other clients—otherwise the EIB will not fulfil its mission as a climate bank to drive change in the broader economy. This means going beyond a baseline of respecting EIB environmental and social standards, to driving climate policy outcomes. The EIB should play a key enabling role in supporting these actors to undertake steps toward their own climate neutrality and climate resilience; where possible, the EIB should enhance its climate-related reporting requirements. The EIB should consider following the example of the WBG's International Finance Corporation (IFC), which has eliminated general purpose loans and ringfenced 95 percent of its lending to financial intermediaries so that the financing only supports targeted areas—such as projects promoting energy efficiency, renewables, or social projects—and not harmful activities such as coal.[154] It is also in the process of ensuring that its equity investments in financial intermediaries come with conditions around the decarbonisation and coal phase out within intermediary portfolios. With financial intermediaries, SMEs, and other clients which are able to themselves drive transformational climate outcomes, the EIB should develop frameworks to encourage them to do so, including systems of climate-related KPIs.

Aligning the project appraisal process

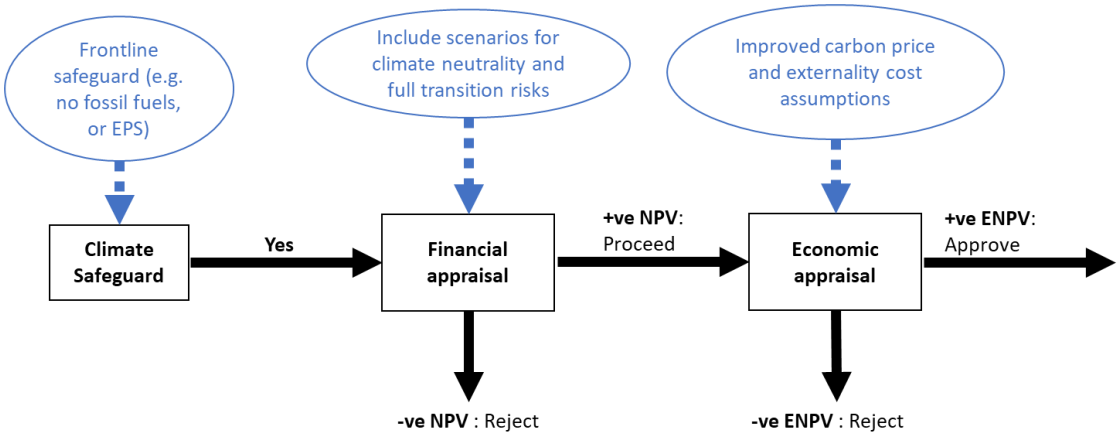
As part of its journey to becoming a climate bank, the EIB should not shy away from undertaking any necessary adjustments to align its project appraisal process with the climate bank status. Indeed, the EIB's commitment to "align all its financing activities with the principles and goals of the Paris agreement by the end of 2020" would necessarily

[153] EIB (2015) **EIB Climate Strategy**

[154] See: **https://www.devex.com/news/opinion-a-new-ifc-vision-for-greening-banks-in-emerging-markets-93599**

imply the introduction of frontline safeguards to assure this.[155] This is illustrated in the diagram below.[156] (This would parallel the frontline criteria excluding fossil projects which might otherwise pass EIB financial or economic appraisal, effectively intended to assure Paris-alignment of the EIB's energy lending policy.)

Figure 13: The EIB project appraisal process



Source: E3G (2019)

In terms of the EIB's financial appraisal process, the EIB already considers some climate-related financial risks in assessing projects but this must be expanded. The EIB's current financial appraisal process for energy, for example, includes some scenarios (base, high, and low) for, inter alia, estimates concerning future penetration of renewables, technology/fuel costs, efficiency gains, load/utilisation factors, overall power demand, overall energy demand, and demand for fossil fuels such as natural gas.[157] All these specific market characteristics are material to the financial viability of investments projects using non-climate-neutral (i.e. fossil-related) technologies.

The EIB's present assumptions of what scenarios are base, high, and low may chronically overlook the climate-related financial risks associated with a transition to climate neutrality by 2050. For a correct understanding of market risks, financial appraisal should include among its scenarios one or more scenarios delivering climate-neutrality by 2050 based on European Commission analyses. Moreover, such a Paris-aligned scenario should be the EIB's "base" scenario if indeed the EIB does expect EU policy to be successful. Using a non-Paris-aligned scenario as a base scenario for market assumptions implies the EIB does not believe that the EU will deliver upon its policy targets, which is likely not the EIB's desire or intent. Moreover, it is important to recall that the current iterations of the EU National Energy and Climate Plans (NECPs) do not collectively represent policy in line with the Paris Agreement or climate neutrality by 2050. Market analysis should therefore

[155] See: **https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy**

[156] Unpublished E3G research (2019), shared with the EIB in the context of the energy lending policy.

[157] EIB (2013) **The Economic Appraisal of Investment Projects at the EIB**

anticipate more ambitious decarbonisation if the EIB expects the EU will meet its policy goals.

In terms of the EIB's economic appraisal process, the EIB should aim to better ensure that these capture the true climate change externalities of projects, both positive and negative. Assessing and pricing a project's externalities, including via shadow carbon pricing, depends on robust greenhouse gas (GHG) accounting. However, analysis of recent EIB exercises in carbon footprinting indicates issues with both scope and methodology.

In terms of methodology, although the EIB may be intending to raise its carbon price to 250 EUR, the EIB should be guided by the IPCC 1.5°C report values for carbon pricing estimates, or, at the very least, apply a range of estimates to take into account a 1.5°C-compatible pathway. The IPCC Special Report on 1.5°C concluded that estimates of carbon prices delivering a <1.5°C pathway range from $135–6050 tCO2eq−1 in 2030, $245–14300 in 2050, and $420–19300 in 2070, which are considerably higher.[158] Relatedly, in terms of the Global Warming Potential used for methane, from a policy perspective, the 20-year timeframe is more appropriate than the 100-year timeframe, given that under current rates, the Paris Agreement thresholds of 1.5°C and 2°C will be surpassed in approximately 15 and 35 years, respectively.

In terms of scope, of the 20 largest lending projects in 2017, only seven initially included a carbon footprint in their environmental and social data sheets.[159] The EIB carbon footprinting methodologies should be enhanced to better include Scope 3 and capture lifecycle emissions, including from cement and building materials. While exact footprinting might be challenging for the EIB's intermediated financing or innovation finance, it is nevertheless vital that better economic analysis of climate externalities is undertaken to avoid high-carbon activities and to strategically identify the activities with higher positive externalities which the EIB might focus on.

Furthermore, in the EIB carbon footprinting methodology, relative emissions are often calculated against a baseline which is project-specific; this calculation depends, therefore, on assumptions regarding the baseline in ways that may present issues. For example, the EIB's carbon footprinting of the Trans-Adriatic Pipeline (TAP) used a counterfactual which assumed the need for additional imports of additional gas via a leakier Ukrainian pipeline instead of taking into account falling gas consumption in Europe—and consequently, the relative emissions of the Project compared to the baseline were considered zero or negative.[160] Moreover, for its analysis of the Trans-Adriatic Pipeline, the EIB did not consider climate-neutral alternatives to achieve the same goal, e.g. demand-side measures, renewable energy, or interconnection, in evaluating relative emissions.[161] In its carbon footprinting, we recommend that the EIB consider a range of climate-neutral options for a baseline that presumes EU climate

[158] IPCC (2018) **Special Report on Global Warming of 1.5°C: Chapter 2**

[159] Unpublished E3G research (2019).

[160] EIB (2017) **Environmental and Social Data Sheet, Trans-Adriatic Pipeline.**

[161] Ibid.

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policy success in the economic assessment, instead of policy failure or questionable business-as-usual.

In general, however, in order to become a climate bank, the EIB must shift away from being an appraiser of project proposals, as it has historically been relatively focused on the project level, and pivot toward becoming more involved in promoting origination of projects with transformational potential. This will permit the EIB to be more strategic in its investments and have the highest impact possible, but requires building EIB capacities.

Building essential climate bank capacities

A consistently recurring theme in prior sections of the report was that, in order to become a climate bank, the EIB must better operationalise the commitment made in its Climate Strategy (2015) to "steer… activities and financing towards those initiatives and projects which have the highest impact."[162] However, this, of course, is not easily done—it requires the EIB to, in operational terms, do processes differently; in some cases this means the EIB will have to expand its operational capacity for particular forms of high-impact work.

For this reason, for the EIB to become a climate bank, it must develop its capacities as a knowledge bank, by expanding its technical advisory capacity, notably for originating a pipeline of more transformational projects, as well as its engagement capacity for engaging with country governments, financial institutions, and others. Such work, upstream of the project level, can be hugely transformational, but is also expensive and so requires additional capitalisations and access to the EU budget. According to the EIB's *Investment Report 2019/2020*, "the large-scale public investment needed to support infrastructure digitalisation and the zero-carbon transition will require comprehensive and detailed medium-term planning". While of course this is not the EIB's sole responsibility, the EIB must clearly step up to play its due supporting role.

The EIB should undertake efforts to ensure it is fully integrated in the EU policy context at different levels—the effective mobilisation of private finance will be determined by how the institution fits within the wider policy landscape, and how the institution can contribute to breaking down the non-financial barriers to green investments. Policy contexts are unique and determined largely by the political economy of a country.[163] The EIB should therefore not merely be seen as a policy-taker but should have a two-way channel of communication with the various departments in the European Commission (Energy, Development Cooperation, Transport, Agriculture, European External Action Service, etc) feeding back on the ground experience from markets on what works and what does not in trying to deliver EU climate policy goals.[164] This also holds true of the EIB's relationship with national and subnational government bodies.

In various respects, becoming a climate bank means the EIB will require further dedicated staff for climate-related technical advisory services and engagement. Indeed, the EIB has

[162] EIB (2015) **EIB Climate Strategy**

[163] Tomlinson, S. et al. (2018). **The political economy of climate-related financial disclosure;** see **The political economy of the low-carbon transition: climate and energy snapshot: Bulgaria**

[164] Orozco, D. (2019). A Synthesis of the Learning from Building Green Banks

made strides in this regard in recent years with the European Technical Advisory Hub (ETIAH), allowing the EIB to be more open to capacity-building activities.[165] To the extent that the EIB is concerned about maintaining its image as a lean bank, the EIB can "offshore" capacity, by working with the Commission and others to create the necessary capacity outside the EIB where this is more appropriate, using an ecosystem approach. However, as recent multilateral experience demonstrates, the EIB cannot necessarily rely on non-EU partners (e.g. the World Bank Group, which specialises as a knowledge bank) in terms of contributions to climate policy work.

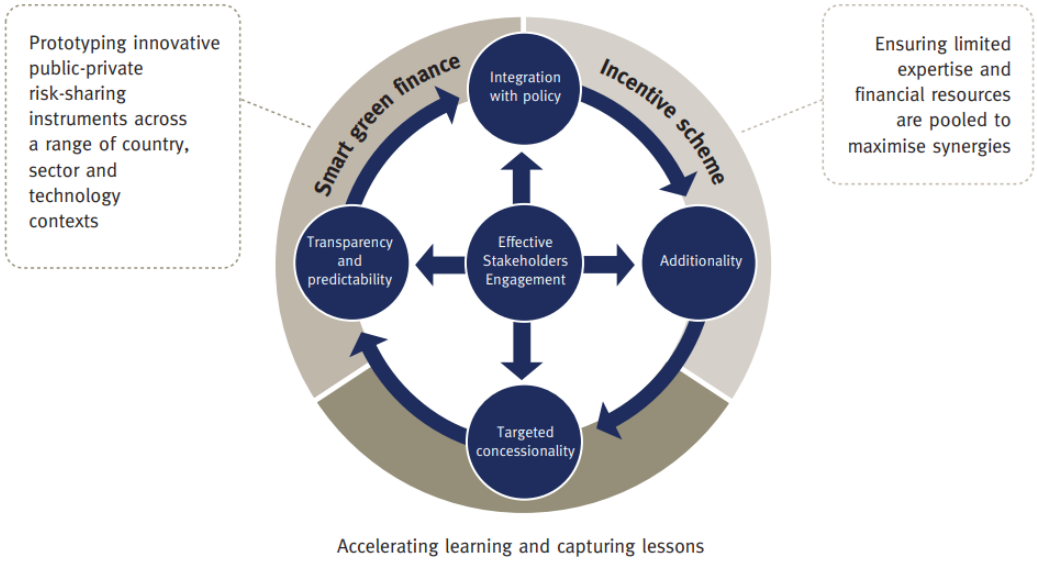
In order to serve as a climate bank, the EIB must be a knowledge bank that has the capacity to consistently innovate for impact, integrating learnings in developing new financial instruments and investing in new sectors to provide "proof of concept" and build track records. In turn, this process can help guide the future design of new instruments and policies. Previous E3G work has defined some key criteria and principles that should shape the design of smart problem-solving institutions such as climate banks. The EIB should promote effective stakeholder engagement amongst all its clients and partners, for on-going consultation of public and private stakeholders during the design process. This could also minimise incumbents having a disproportionate influence. The EIB should aim to collaborate and share learnings across and between national banks, development finance institutions, and other multilateral banks, in-country and at the international level.[166]

Figure 14: How the EIB as a knowledge bank can engage in learning, toward smart and higher-impact use of capital[167]

[165] See: **https://eiah.eib.org/about/partners.htm**

[166] Orozco, D. (2019). A Synthesis of the Learning from Building Green Banks

[167] E3G (2014) **Designing smart green finance incentive schemes: The role of the public sector and development banks**



Source: E3G (2014)

Increasing the climate bank capitalisation

Lastly, the EU climate bank project also necessarily requires a conversation about the need for additional capitalisations of all or part of the EIB in order for it to be possess the financial means with which to deliver on its climate bank mandate. In view of the scale of the climate investments required, the Member States should consider providing the EIB with a capitalisation increase commensurate with the climate challenge. Consideration should also be given to providing the EIB with a climate-specific tranche of capital, and further access to the EU budget guarantee in the context of InvestEU and the Neighbourhood, Development and International Cooperation Instrument. Access to the EU budget is also important for the EIB to be able to provide more technical assistance and advisory services, which is essential for playing a leadership role in the climate transformation.

In parallel, the crisis caused by the COVID-19 pandemic has also triggered EU-level discussions about the need for an increased capitalisation of the EIB in order for it to deliver on its key countercyclical role. As noted in previous sections of this report, the multiple crises can be tackled together through complementary efforts.

A proposal to re-capitalise the EIB to the tune of €100 billion, of which €10 billion would be paid-in capital, was already mooted in February 2020, during negotiations on the Multiannual Financial Framework, or the EU budget.[168] This would have allowed the leveraging of €500 billion of additional EIB investment. Although this proposal did not appear to gain significant traction at the time, it is understood to have been revived as part of the EU's response to the COVID-19 crisis.[169]

[168] See: **https://www.irishtimes.com/news/world/europe/charles-michel-proposes-eu-budget-compromise-ahead-of-summit-1.4174226**

[169] Information correct at the time of writing in late April 2020.

The French government, which initially put forward the EU Climate Bank concept, have also led the way in calling for a climate-specific capitalisation to accompany the climate bank status. In January 2020, the French Finance Minister issued a call for a €10 billion re-capitalisation of the EIB[170] within 2020, in order to allow it to invest more in green and climate-related projects.

All of these calls for EIB re-capitalisations are historically significant because, if realised, they would represent only the third capitalisation of the EIB since it was created in 1958 under the Treaty of Rome. The EIB received an initial capital injection at its creation and the only re-capitalisation since then occurred during the 2007-09 financial crisis, where Member States provided an additional €67 billion (with 5% of this being paid-in capital).[171] Notably, this increase in capital was also targeted at climate outcomes and small businesses.

In addition to direct capital increases, there are also many other mechanisms and tools which can be implemented in order to try and increase the mobilisation of private finance and to ensure the most efficient use of existing capital. These include budget guarantees such as the InvestEU Fund proposal, faster capital recycling and synthetic securitisation,[172] where mezzanine risk is shifted to private investors, releasing capital for new lending.[173] These should be considered in addition to direct re-capitalisations, in light of the multiple emergencies of the COVID-19 crisis and climate crisis.

[170] See: **https://www.latribune.fr/economie/france/bruno-le-maire-appelle-les-entreprises-a-augmenter-les-salaires-836567.html**

[171] See: **https://www.eib.org/en/press/all/2008-159-eib-directors-approve-anti-crisis-measures-for-2009-2010**

[172] PRI (2019) **PRI Awards 2019 case study: Room2Run**

[173] E3G aims to publish a paper with more detail on a set of such instruments in the near future.

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CONCLUSION

The EIB has made an ambitious commitment to become a climate bank – a green bank – and to take on the role as the "EU Climate Bank". This will involve a real mainstreaming of climate ambition and the goals of the Paris Agreement in every part of the EIB's operations, lending and advisory. This report aims to contribute to this process, by stepping back, seeing the big picture and looking at what it might mean for the EIB – or any other public bank – to transform itself and deliver on the various facets of the transition to a climate-safe world, including mitigation, adaptation, just transition and global action. It should also be read in conjunction with our detailed responses to the two phases of the EIB Climate Bank Roadmap 2021-2025 consultation[174]. We look forward to continuing this conversation with the EIB, its shareholders and stakeholders, and hope that this is also a useful contribution to the internal climate mainstreaming processes of other Multilateral Development Banks and Development Finance Institutions around the world.

[174] **https://www.eib.org/en/about/partners/cso/consultations/item/cb-roadmap-stakeholder-engagement.htm**

APPENDIX

In this appendix we have included E3G's overall framework for Paris Agreement alignment at MDBs, which should be used as background and in conjunction with the analysis above on the process of becoming a "climate bank".

Figure 15: E3G metrics for Paris alignment and driving Paris-aligned transformation, for development finance institutions (MDBs and DFIs) [175] [176]

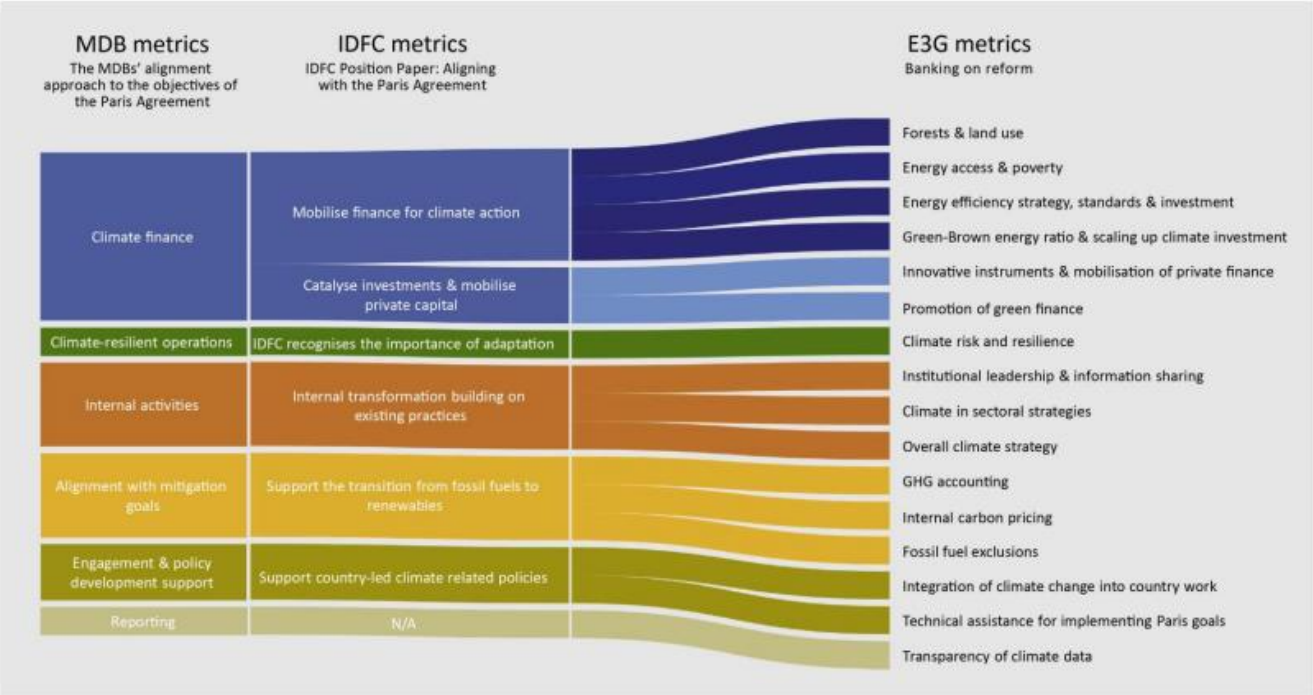

Figure 16: Definitions of levels of Paris Agreement alignment at MDBs[177]

[175] E3G (2018) **Banking on Reform: Aligning Development Banks with the Paris Climate Agreement**

[176] E3G (2019) **Banking on Asia**

[177] E3G (2019) **Definitions of levels of Paris Agreement alignment**

MDB Paris alignment blocks	E3G criteria	Benchmarks			
		Not aligned	**Some progress**	**Paris-Aligned**	**Transformational**
Alignment with mitigation goals	**Greenhouse gas accounting at project and portfolio level**	No GHG accounting at project or portfolio level	Tracking emissions only in certain sectors; or full tracking but no target to reduce emissions	Ambitious target to peak and reduce portfolio GHG emissions	Science-based target to reduce portfolio emissions (or better), covering both direct and indirect lending and Scopes 1, 2 and 3.
	Policies to restrict finance to fossil fuels	No fossil fuel exclusions or evidence of recent fossil fuel investments	Exclusions on either coal or upstream oil and gas	Commitment to ending all fossil fuel finance by 2020; already implemented exclusions on coal and upstream oil and gas	Total exclusion of fossil fuels and related infrastructure with official policy and full implementation, direct and indirect lending
Adaptation and climate-resilient operations	**Climate risk**	No project-level climate risk management, very little adaptation finance.	Basic project-level climate risk management, lack of systemic approach to resilience.	Comprehensive project-level climate risk management, enhancing client resilience, and scaling adaptation finance.	Promoting project-level climate risk management, leading identification of structural needs, and catalysing broader adaptation finance flows.
Accelerated contribution to the transition through climate finance	**Green-Brown energy ratio and scaling up climate investment in all sectors**	Fossil fuel investment outweighs climate-related energy investment	Climate investment increasing but low green–brown ratio	Scaling up climate investment in the energy sector and 'brown' lending at zero.	Scaling up climate investment in all sectors. 'Brown' lending at zero.

MDB Paris alignment blocks	E3G criteria	Benchmarks			
		Not aligned	**Some progress**	**Paris-Aligned**	**Transformational**
	Energy efficiency strategy, standards and investment	Lack of integration of basic efficiency standards, low investment in efficiency	Incremental changes to improve energy productivity, some investment in efficiency	Energy efficiency standards across all sectors promote best available technology and identify investment needs; no carbon lock-in effects.	An energy efficiency first principle drives innovative approaches to delivery of efficient infrastructure. Demand side reduction prioritised over new infrastructure where possible; new infrastructure only built to highest energy efficiency standards
	Promotion of green finance	Lack of support for green finance	Limited promotion of green finance and green fiscal and tax reform	Emerging promotion of green finance in banks, local and national institutions, insurers and regulators.	Driving systemic change across all financial actors including banks, local and national institutions, insurers, central banks and regulators
Engagement and policy development support	**Technical assistance for implementing Paris goals and national transitions**	No evidence of technical assistance to help implement Paris Agreement goals; or evidence of technical assistance misaligned to Paris.	Limited standalone technical assistance on Paris goals, or technical assistance not fully aligned with Paris goals	Evidence of technical assistance programmes to implement existing NDCs, not necessarily consistent with 1.5°C	Programme to help implement Paris Agreement goals and raise ambition of NDCs, consistent with 1.5°C. Supporting countries with ambitious regulatory and market reforms
Reporting	**Level of transparency of climate related information**	Lack of transparency on any climate related projects	Limited transparency and disclosure. Project level information available	Full project level information available including detailed descriptions. Sub-projects of financial intermediaries are disclosed	Institutions to report to a joint MDB-IDFC project level database using the same reporting format as OECD

MDB Paris alignment blocks	E3G criteria	Benchmarks			
		Not aligned	**Some progress**	**Paris-Aligned**	**Transformational**
Align internal activities	**Standalone climate strategy & integration of climate in overarching strategy**	Lack of climate strategy. No integration into overarching bank strategy	Limited climate strategy or no indicators to monitor progress. Limited integration of mitigation or resilience	Comprehensive climate strategy, integration of mitigation *and* resilience in overarching bank strategy	Integration of both deep decarbonisation and resilience in strategy, roadmap for alignment with 1.5°C and strong evidence of implementation. Principle of "do no harm" to Paris goals.
	Integration of climate mitigation and resilience in key sectoral strategies	No integration in key sectoral strategies	Limited integration in some sectors	Strong evidence of integration of both mitigation and resilience in key sectors (transport, energy, water and cities)	Integration of deep decarbonisation and systemic resilience in key sector strategies

About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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