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THE ROAD LESS TRAVELLED:

HOW THE EUROPEAN INVESTMENT
BANK'S CLIMATE ROADMAP 2021-2025
CAN LEAD IT TO BECOME THE CLIMATE BANK

CEE

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INTRODUCTION

Climate change considerations have been present at the EIB for over ten years now. Initially, the Bank's climate action was centered on the energy sector, for which the Bank set a loan volume target for renewable energy. Then, a climate action target for financing climate change mitigation and adaptation projects was set at 25% of the EIB's entire portfolio, and eventually, in 2015, the EIB adopted its first Climate Strategy, with the aim of being aligned with the Paris Agreement by 2020. Simultaneously, the EIB continued financing projects that were manifestly detrimental to the climate, such as gas pipelines, LNG terminals and several airport expansions.

The idea to create a European Climate Bank was first put forward by France's President Macron and then picked up in 2019 by Ursula von der Leyen, the freshly nominated president of the European Commission, who wanted to transform the EIB into a European climate bank as a part of the European Green Deal, a strategy for turning the EU into a modern, resource-efficient, decarbonised and competitive economy. A response came immediately from the chief of EIB, who announced the Bank had already become 'a global Climate Bank, a global Green Bank, and a global Oceans Bank'.¹ Following this proclamation, the Bank committed to turn into a 'climate bank' and expand the share of climate-related activities in its portfolio to 50% over the next few years.

In order to deliver on this promise, the EIB is currently working on developing the Climate Bank Roadmap 2021 – 2025. Now, while the COVID-19 pandemic is ongoing, there are voices that question the value and meaning of the EU's decarbonisation agenda and call for the suspension of the European Green Deal. The EIB's plan for an ambitious Climate Bank Roadmap may also be at risk.

However, keeping climate action and environmental sustainability at the heart of economic recovery is the only way we can prevent further economic and financial burdens from being added on top of the huge debt with which we will finance our recovery. As there is no doubt that climate change will unfortunately progress, we must not charge future generations twice by leaving them environmental degradation issues to deal with.

This report summarises the EIB's undertakings on the road towards becoming the EU's Climate Bank. It presents our findings on the implementation of the EIB's 2015 Climate Strategy and looks at the results of the Bank's climate action in the EU and enlargement countries. It also puts forward recommendations to the Bank which will be presented as Bankwatch's contribution to the development of a new climate strategy. The research undertaken for this publication was based on climate action data disclosed by the EIB on the basis of requests for information.

¹ EIB President Werner Hoyer, 'The EU Climate Bank: Channeling private capital into sustainable finance' (speech, Conference: A global approach to sustainable finance, Brussels, 21 March 2019), <https://www.eib.org/en/press/news/the-eu-climate-bank-channeling-private-capital-into-sustainable-finance>.

1. TOWARDS THE EUROPEAN UNION'S CLIMATE BANK

Reinforcing the <u>impact</u> of climate financing	1	Climate Awareness & High Impact Climate Action
	2	Proactive development of a climate action pipeline of projects
	3	Financial innovation for climate action
	4	Targeting capital markets: Spur growth of Green Bond market
Building <u>resilience</u> to climate change	5	Rolling out climate risk screening for all EIB operations
	6	Increasing the portfolio of adaptation operations
Mainstreaming <u>climate change</u> across the Bank	7	Continuous improvement of mainstreaming tools
	8	New revised sector policies incorporating climate considerations
	9	Managing EIB portfolio: Value at Risk from Climate Change
	10	EIB Environmental management system

Source: EIB

1.1 From the EIB Climate Strategy 2015 to the EIB Climate Bank Roadmap 2021-2025

The EIB's Climate Strategy was first adopted in September 2015 by its Board of Directors following an internal evaluation of the Bank's Climate Action by the Operations Evaluation unit and public consultations. The aim of the Strategy – 'Mobilising finance for the transition to a low-carbon and climate-resilient economy' – was to describe the Bank's future direction and development of its climate action. Although the Bank had already been carrying out its climate action programme to finance climate change mitigation and adaptation for years, it had become evident and expected that a more comprehensive approach for mainstreaming climate considerations across all bank operations should be developed to adequately respond to the climate change challenge. With this

Strategy, the EIB aimed to be aligned with the Paris Agreement by 2020.

Alongside the climate action target for financing climate change mitigation and adaptation projects, set at 25% of the EIB's entire portfolio, it had also developed other technical tools for climate proofing such as a carbon footprint assessment, Emission Performance Standard for electricity production and shadow carbon price.

In the adopted Strategy, the EIB focused on three strategic areas for which several action plans were developed to strengthen the implementation of the strategy by the end of 2020 and address the foregoing weaknesses of its climate action (*see the figure*).

Unfortunately, the EIB did not offer an evaluation of the Climate Strategy and the Action Plans to allow for the better informed development of a new Climate Bank Roadmap 2021-2025. A publicly available evaluation could have given more insight into the internal achievements, updated processes, climate mainstreaming and climate proofing tools, as well as indicated the areas which still require improvements. Only some Action Plans could be observed from outside, as many of them aimed at improving internal processes, due diligence and analysis.

Under the Action Plans, efforts have been made to improve internal coordination in the Bank, cooperation with other multilateral development banks, identification of market opportunities for climate action, development of climate action pipelines in new sectors, enhancement of advisory services and many other initiatives. The Bank could have reported on the progress in the implementation of the Action Plans and the impact of this work on its Climate Action performance to allow for identification of areas where the Bank made the biggest contribution to member states' climate and energy targets.

Several actions have not been implemented. With the notable exception of the Bank's progressive Energy Lending Policy,

the Bank failed to review sectoral policies and the environmental and social framework, leaving it for 2020 or later. Despite announcements about the development of lending guidance to mainstream climate change considerations in sectors like tourism, water, circular economy and others, there is no evidence that this was completed. Although a climate risk assessment system for the project cycle, processes and procedures was to be in place by mid-2018 and cover all new EIB operations, it is not clear whether this tool for ensuring adaptation and climate resilient operations is functional.

Despite the unknown results of the 2015 Climate Strategy, in November 2019 the Bank announced it would accelerate and step up its climate finance, end financing for fossil fuel energy projects starting in 2022 and align all financing activities with the goals of the Paris Agreement from the end of 2020. A new strategy for climate action and environmental sustainability adopted by the Board of Directors included a new Energy Lending Policy and a commitment to gradually increase the share of its financing dedicated to climate action and environmental sustainability to reach 50% of its operations in 2025. This announcement was followed by the opening of the stakeholders consultation process for the EIB Climate Bank Roadmap 2021-2025.

Recommendation 1

The Bank needs to establish or review sectoral policies and lending guidance to mainstream climate considerations for tourism, water, circular economy, industry and agriculture as well as review the current environmental and social policy framework to ensure sustainability of its climate and environmental lending.

Recommendation 2

The Bank should disclose an evaluation of the 2015 Climate Strategy and the Action Plans, if internally available, to allow for better informed development of the new Climate Bank Roadmap 2021-2025.

2. THE EUROPEAN INVESTMENT BANK – NOT YET THE EU CLIMATE BANK

The development of a new Climate Bank Roadmap is necessary if the EIB is to contribute successfully to the EU Green Deal. Despite having Climate Action for financing energy efficiency, renewables, sustainable transport and climate change adaptation projects, covering roughly 25% of its operations, the Bank must still mainstream climate considerations across its remaining portfolio to ensure it does not exacerbate climate change through a significant part of its portfolio. All EIB operations must comply more broadly with the Sustainable Development Goals, Paris Agreement and the EU Climate Neutrality goal, which would redirect the emphasis from merely a quarter to the whole of the Bank's financing. The impact of the entire EIB portfolio on climate and the environment, rather than the amount of funds spent on Climate Action, should be the cornerstone of climate mainstreaming.

The volume of the EIB's financial commitments is not the only measure of the importance of its climate safeguards. It is also measured by its ability to leverage private finance, direct the public authorities' investment decisions and inspire redirection of other financial flows to low carbon and sustainable investments. Therefore, the EIB's alignment with climate objectives on the global and the EU level is important for the Bank's operations and well beyond.

Although the adoption of the new Energy Lending Policy was a real milestone in the EIB's approach to the sector, setting a new 'best standard' among its peer institutions, there are still loopholes and uncertainties

in the Bank's climate safeguards that need to be identified and closed by a new Climate Bank Roadmap for the EIB to meet the Paris alignment criteria.² The Bank's remaining sectoral policies have not been aligned with the Paris Agreement, and thus it continues to finance unsustainable infrastructure, particularly in the transport sector.

There is no single methodology for how to measure alignment; however, there are certain criteria and ideas developed and under discussion, including at the EIB.³

2.1 Ending finance for fossil fuels, high carbon and polluting projects

The concept of 'brown taxonomy' was proposed by the Technical Expert Group on sustainable finance. This group is responsible for developing the EU classification system for sustainable activities, often referred to as the 'sustainable finance taxonomy' or 'EU taxonomy'. The brown taxonomy would serve as an additional dimension of the EU taxonomy in order to address a situation commonly known as 'greenwashing': *'Identifying an environmentally harmful economic activity as partially green carries significant risks, such as leading the market to believe that any performance improvement is good enough even if the underlying activity and its potential performance is ultimately inconsistent with environmental goals over the medium to long term.'*⁴ The Group called for the establishment of this brown taxonomy in order to complete the sustainable one.

2

These are, for example, shadow carbon prices that the EIB applies for projects, Carbon Footprint Methodologies or Emission Performance Standards for electricity and heat projects.

3

See for example: *Climate Mainstreaming and Climate Proofing. The horizontal integration of climate action in the EU budget*, CAN Europe [2018]; *Definitions of levels of Paris alignment*, E3G [2019]; *Aligning EU budget expenditures with the objectives of the Paris Agreement*, Navigant for European Climate Foundation [May 2019].

4

EU Technical Expert Group on Sustainable Finance, *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance* [March 2020], https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf.

Recommendation 3

The EIB should develop its own 'brown taxonomy' for operations which will not be covered under its climate and environmental sustainability lending – at least as long as the EU does not develop an EU brown taxonomy. The Climate Roadmap should exclude the activities in high-carbon sectors that are identified as 'brown' according to the taxonomy, and such a taxonomy should also serve as a basis for the review of relevant EIB sectoral policies.

The Energy Lending Policy virtually excluded EIB financing for fossil fuel projects starting from 2022. This also includes lending through financial intermediaries. The EIB has also established an Emission Performance Standard for heat and power generation projects at the level of 250g CO₂ per kWh. However, the policy still allows the EIB to approve, by the end of 2021, fossil fuel projects from the fourth EU list of 'Projects of Common Interest' (PCIs). If approved by the EIB Board by the end of 2021, the Bank will be able to continue financing them even beyond 2021. Like the rest of the list, none of the gas projects on the PCIs list have been subject to a climate impact assessment affirming their compliance with the EU's energy policy and climate objectives. The European Ombudsman has just opened an inquiry into the alleged failure to carry out a sustainability and climate assessment for the fossil fuel PCI projects chosen so far and approached the European Commission for further clarifications.⁵

An assessment of PCI projects' climate impact is generally missing and their impact on climate ignored. A study by CEE Bankwatch Network and ODG showed a high risk that the gas from the Southern Gas Corridor, a PCI project, would be as climate-damaging as coal. It also shows that the Southern Gas Corridor, already in its first stage, will cause annual carbon dioxide emissions of at least 55 000 ktCO_{2eq}, which is comparable to the annual emissions of Bulgaria.⁶ In 2018, the EIB signed loans for the Trans Adriatic Pipeline (TAP) and Trans-Anatolian Natural Gas Pipeline (TANAP), important sections of the Southern Gas Corridor. This project was not subjected to a climate impact

assessment or a cumulative impact assessment on the level of the corridor or in connection with other existing and planned gas transport routes. Nevertheless, the EIB claims the project will not be a source of additional greenhouse gas emissions, and thus will not cause negative climate impacts. It maintains that the project is fully in line with the EU's decarbonisation objectives.

Recommendation 4

In the interim period, before the complete phase-out of fossil fuel lending, the new Climate Bank Roadmap should require all fossil fuels infrastructure projects, including PCIs, to be subject to publicly available, sound climate impact assessments and be part of strategic environmental assessments giving due consideration to climate impacts.

Moreover, the policy allows financing for gas infrastructure that could potentially transport non-fossil gas, without specifying any conditions. This could allow financing for new, highly-polluting fossil gas infrastructure, on the basis of a vague promise that it will transport so-called 'green gas' in the future. Specific technical sustainability criteria for such retrofits have been developed in the EU Taxonomy, which require that the main purpose of the retrofit is the integration of hydrogen and other low-carbon gases. The repair of existing gas pipelines for the reduction of methane leakage is eligible only if the pipelines are hydrogen-ready and/or other low carbon gases-ready.

5
A complaint lodged by Food & Water Europe. Letter from the European Ombudsman to the European Commission opening the inquiry into the alleged failure to carry out a sustainability/climate assessment for all existing fossil fuel projects on the list of Projects of Common Interest [10 February 2020], https://www.ombudsman.europa.eu/en/correspondence/en/124432#_ftn1.

6
Smoke and mirrors. Why the climate promises of Southern Gas Corridor don't add up, CEE Bankwatch Network [January 2018], <https://bankwatch.org/publication/smoke-and-mirrors-why-the-climate-promises-of-the-southern-gas-corridor-don-t-add-up>.

Recommendation 5

The EIB needs to adopt sustainability criteria for the retrofit of gas transmission and distribution networks in line with the EU taxonomy, and critically analyse the actual availability of non-fossil gas fuels for the infrastructure in question.

Another sector where the EIB should restrict finance for high carbon projects is transport. The Bank continues supporting highways and the car industry, as well as the development of new airports and their expansion. While rail and public transportation indeed remain the most supported by the EIB, in the last four years the Bank has granted EUR 11.5 billion in loans to motorways and aviation. Given that aviation is by far the most carbon-intensive sector and that it is already heavily subsidised via tax exemptions and other benefits, the EIB needs to significantly revise its lending approach.

The EIB's generous support for the automotive sector during the last economic crisis remained largely without scrutiny over the stated environmental goals of the loans, namely cutting carbon emissions from cars. An extreme example was the EIB loan used by Volkswagen to develop diesel cars with installed emission defeat-devices to rig emission tests, resulting in some models emitting up to 40% less pollutants in emissions tests than they did on the street.

Recommendation 6

A review of the Transport Lending Policy, shifting the Bank's lending toward measures to significantly reduce demand for unsustainable transport modes and to reduce the sector's overall climate impact, will be conducted in 2020. In this sector the EIB should eliminate financing for high carbon projects such as highways and aviation and focus on supporting zero-carbon transport infrastructure, urban public transport and trains, and zero-emission multimodal transport services.

2.2 Greenhouse gas accounting methodology

The EIB counts greenhouse gas emissions from project it finances, both absolute and relative emissions, and reports these emissions in projects' information notes and in its annual Sustainability Report on an aggregated level.⁷

It is crucial for the Bank to periodically review its methodology for counting such emissions, in order to be in line with the latest scientific developments regarding emissions calculations from different sectors and properly track the impacts of financed projects. For the EIB, the EU's financial arm, it is a matter of policy compliance to prevent the lock-in of carbon intensive technologies, if the EU is going to meet its commitments under the Paris Agreement to pursue efforts to limit the global temperature rise to 1.5°C. From 2016 to 2018, the EIB updated its methodologies several times. The changes included, among others, the introduction of methodologies for ports, airports and forestry, and updated emission factors. The Bank estimates carbon emissions to take into account in the Bank's economic assessment when it calculates the cost of projects' environmental externalities and their economic rate of return. However, it has not established any target to reduce portfolio emissions, either from its projects globally or by sector. Bankwatch has identified two issues with how baselines are set for calculating relative carbon emissions and on the treatment of scope 3 emissions.

First, for the baseline, the Bank uses the most likely alternative option for the financed projects. The major criticism of this solution is that it assesses new projects against business-as-usual, usually the technology of the past, instead of the best socially, environmentally and economically feasible and acceptable option or the best option in terms of reaching the 2030 and 2050 emissions reduction targets.

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The EIB estimates the greenhouse gas emissions of projects where emissions are expected to be significant, in line with the established threshold. See EIB Carbon Footprint Methodologies (December 2018), https://www.eib.org/attachments/strategies/eib_project_carbon_footprint_methodologies_en.pdf.

Recommendation 7

The EIB needs to take a more holistic view and weigh a number of factors against each other to find a baseline that encapsulates best practices and provides real added policy value to the Bank's financing. The Bank must develop criteria to identify the best option from the social, environmental and economic perspectives, rather than the business-as-usual baseline option.

Second, the EIB does not currently account for scope 3 emissions in the majority of cases. Thus, in gas extraction, gas pipeline and LNG terminal projects, no emissions are counted from the later combustion of the gas in homes, industry or power stations. However, where a project's overall impact shows GHG improvements, scope 3 calculations are included, but when they worsen the emissions picture of the project, they are not included. This approach is hardly justifiable.

Recommendation 8

In order to carry out well-informed decision-making and prevent underestimation of projects' climate impacts, the Bank needs to take into account all direct and indirect emissions related to projects.

Bankwatch's own analysis also found that the EIB's estimates may underrate the real amount of greenhouse gases from projects. For the Southern Gas Corridor, the amount of greenhouse gases calculated in the Environmental and Social Impact Assessments (ESIA) for TAP is 3.5 times higher, and for TANAP 2.5 higher, than estimations made by the EIB's carbon footprint assessment.

Recommendation 9

In cases where the ESIA provides more detailed and accurate data on a project's carbon footprint, the EIB should take these calculations into account in the project's economic appraisal.

2.3 Support to corporations in high carbon sectors and financial intermediaries

The Bank could also maximise potential emissions reductions gains if its loans to companies operating in high carbon sectors (such as industry or energy) that have a high share of fossil fuels in their power and heat generation portfolio were conditioned on the company adopting a decarbonisation plan aligned with the Paris Agreement prior to loan approval.

Between 2013 and 2019, the EIB provided **EUR 4.7 billion to a number of companies with a high share of coal in their power and heat generation portfolios or companies which plan to develop new coal power capacities.** The EIB must not invest in the projects of companies that have not committed to mitigate their climate impacts. The Bank, on one hand, must ensure that the projects it finances do not contribute in any way, currently and in the future, to an increase in greenhouse gas emissions, and on the other, that the projects it finances are part of a plan for emissions reduction and not merely a greenwashing exercise.

Recommendation 10

The Bank should not provide loans for companies operating in high carbon sectors which do not have decarbonisation strategies. The Bank should offer technical assistance for the preparation of companies' decarbonisation strategies, including realistic financial plans for their implementation. The EIB must also require that companies receiving its loans purchase electricity from renewable energy resources.

Lending through financial intermediaries remains a significant part of the EIB's portfolio. In 2019, out of the EIB's entire lending of EUR 60 billion, one third went to financial intermediaries for on-lending, mostly to SMEs and Mid-Caps. EIB lending policies also apply to intermediated lending; however, given financial intermediaries' limited capacity for conducting relevant due-diligence as well as the EIB's limited capacity to ensure intermediaries comply with the Bank's policies, stringent precautionary measures need to be developed by the EIB. This would mean that certain types of projects would be explicitly restricted, such as those involving fossil fuels or hydropower energy.

An example of the EIB's insufficient leverage over its environmental standards in intermediated operations is the Marguerite II Fund's involvement in development of a waste incinerator in Belgrade.⁸ In 2019, the EU's bank pulled out of funding a controversial waste incinerator in Serbia citing clashes with EU waste policies, after the European Commission warned it could threaten environmental targets. Despite the criticism by EU institutions and revelations of breaches of EU policies and legislation, the project is being continued with support from an EIB financial intermediary.

Recommendation 11

The EIB and the European Investment Fund (EIF) need to exclude lending through financial intermediaries to energy companies with a high share of coal in their power and heat generation portfolios and exclude other types of high-risk projects such as fossil fuels and hydropower energy.

In addition, the EIB needs to require that a part of its lending through financial intermediaries be directed to projects that significantly contribute to climate change mitigation and adaptation and meet the technical criteria of EU's sustainable finance taxonomy. Now when the EIB's climate action lending in the EU has reached

well above 28% of its total lending, only roughly 10% of the EIB's loans to financial intermediaries have contributed to climate change mitigation and adaptation.⁹ As the EIB's intermediary lending usually targets smaller scale projects by SMEs, mid-cap companies and local authorities, the Bank must ensure that on one hand they have access to climate action finance, and on the other that financial intermediaries actively seek to support transformative projects and develop their internal capacities in doing so.

Recommendation 12

The EIB and EIF must set a climate action target for each standard financial intermediary operation (except for those which specifically aim at climate action). Financial intermediaries should be obliged to apply the EU taxonomy for tracking their climate and environmental sustainability investments.

2.4 Ensure environmental and social sustainability of EIB loans

Even projects that contribute significantly to climate change mitigation and adaptation may cause substantial harm to the environment and communities. Bankwatch has revealed how the EIB's hydropower financing has affected Balkan endemic and endangered species, and violated national laws and international financial institutions' standards.¹⁰ The EIB has also committed to finance the Nenskra Hydropower Plant in Georgia, a 280 MW project that, if built, would irreparably destroy the unique biodiversity of the Caucasus mountains and the economic livelihoods of the indigenous Svan people that have lived for generations in the region.¹¹ Such projects must not be supported with the EIB's loans.

A comprehensive approach on how to manage the sustainability of climate change mitigation and adaptation projects was presented in March 2020 by the

8

The Marguerite Fund is the European Fund for Energy Climate Change and Infrastructure in which the EIB is a core sponsor alongside five National Promotional Banks. EUR 100 million from European Fund for Strategic Investments has also been committed to the Fund.

9

Bankwatch's own calculations covering the period 2016-2019 based on the EIB's climate action reports.

10

CEE Bankwatch Network, Broken Rivers: *The impacts of European-financed small hydropower plants on pristine Balkan landscapes* (December 2017), <https://bankwatch.org/publication/broken-rivers-impacts-european-financed-small-hydropower-plants-pristine-balkan-landscapes>.

11

See for example: Rusudan Panozishvili, 'Nenskra: new players, new risks', CEE Bankwatch Network, 4 December 2019, <https://bankwatch.org/blog/nenskra-new-players-new-risks>.

Technical Expert Group on the EU Taxonomy. In this approach, a project's significant contribution to climate objectives must be accompanied by the 'Do no significant harm' (to remaining environmental objectives) principle and minimum standards, including on human rights. The Bank's environmental and social safeguards framework currently does not ensure that environmentally and socially detrimental projects are eliminated from the EIB's portfolio. This framework lacks clear requirements for project promoters, due-diligence guidance for the EIB management, enforcement mechanisms, an effective monitoring system and sanctions.

to scale up climate and environmental sustainability financing to 50% of its portfolio by 2025.

The EIB's Climate Action is based on the eligibility criteria developed with cooperation with other multilateral development banks. In 2015, they established a set of common principles, definitions and guidelines for climate mitigation finance tracking that allows for joint reporting and comparison.¹³ The eligibility criteria present categories and examples of projects which are considered as climate action; however, they lack clear technical criteria for sustainability, which would prevent the 'greenwashing' that occurs when any performance improvement is counted as climate change mitigation, despite its actual impact. All eligible projects are weighted equally for their contribution to climate mitigation. The Technical Expert Group on the EU's sustainable finance taxonomy has developed comprehensive technical criteria for projects that can substantially contribute to climate change mitigation and adaptation. The Taxonomy can thus be applied in the climate and environmental tracking and sustainability proofing guidelines of the EU's finance, such as the InvestEU Programme, and could also be used by the EIB instead of the existing Common Principles for Climate Mitigation Finance Tracking.

2.6 Insufficient level of disclosure

An external review of the EIB's climate action is seriously limited by the level of disclosure. Although the Bank discloses all climate action operations, on request or annually in the Public Register each May following the reported year, data are only disaggregated into a few categories. It is often not possible to understand the details of climate mitigation or adaptation undertaken with the EIB loan.¹⁴ Project descriptions and Environmental and Social Data Sheets (ESDS) do not state that the activity is classified as climate action and do not explain how it should contribute to climate change mitigation or adaptation.

12

Joint Statement by the Multilateral Development Banks at Paris, COP21: 'Delivering Climate Change Action at Scale: Our Commitment to Implementation' (December 2015), https://www.eib.org/attachments/press/joint-mdb-statement-climate_nov-28_final.pdf.

13

EIB, Common Principles for Climate Mitigation Finance Tracking (15 June 2015), https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf.

14

For example, energy efficiency covers various projects, from buildings to industry to the IT sector. Currently it is not clear how much is going to which sectors. The EIB already records its investments according to the NACE system internally but does not publish this information. This would help to make Climate Action much more transparent and easier to analyse.

Recommendation 13

The EIB needs to replace the existing Common Principles for Climate Mitigation Finance Tracking with the Technical Screening Criteria developed by the EU Technical Expert Group on Sustainable Finance.

2.5 Stepping up Climate Finance

Setting a portfolio target for climate change mitigation and adaptation projects across various sectors of the economy can accelerate the contribution to low-carbon transformation, as long as the criteria for project selection are sufficiently robust to prevent greenwashing. It has been over a decade since the EIB established a target for climate financing at the level of 25% of its total annual portfolio, and by 2020 the Bank will have increased climate action lending outside the EU to 35% of total annual lending. In December 2015, it confirmed its commitment of USD 20 billion a year globally for climate projects for five consecutive years, a total of USD 100 billion.¹² In a November 2019 statement '€1 Trillion for 1.5°C', the EIB made another significant commitment

Recommendation 14

The EIB should improve the transparency of its climate action and environmental sustainability loans by regular reporting and information disclosure in ESDS and describe projects in line with the NACE code system of economic activities.¹⁵

Our previous research covering the EIB's Climate Action 2013-2015 showed that although the Bank has managed to reach its target for climate finance every year, it has struggled to finance relevant projects in several EU countries. Despite the significant volume invested, deep discrepancies in EIB investments between EU states remained a major issue.

In 16 EU member states, the level of climate action was lower than 25% of the Bank's lending in those countries, including 12 countries where it was lower than 15%. Although the average portion of renewables in the Bank's total lending was 5.8%, in 19 countries the portion was below this average, while in Bulgaria, Latvia and Luxembourg the Bank has not financed any renewable energy projects.

Between 2013 and 2016, on average almost 4% of EIB lending in the EU supported energy efficiency measures across many economic sectors; however, in a vast number of countries, energy efficiency has been supported only marginally, and in Bulgaria, which has one of the most energy intensive economies in EU, the bank did not support energy efficiency at all. Additionally, the transport sector dominated in Climate Action and was weighted equally to energy efficiency and renewables for its contribution to climate change mitigation.

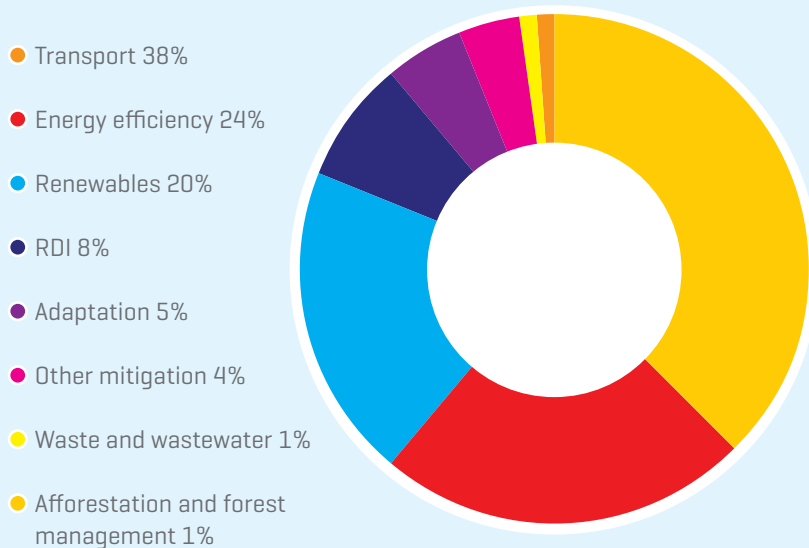


Photo by Martin Adams on Unsplash

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The Statistical Classification
of Economic Activities in the
European Community

3. EIB CLIMATE ACTION IN SELECTED GEOGRAPHIC AREAS, 2016-2019

EIB Climate Action in EU by category, 2016-2019, %



The Bank has also been able to increase its support to climate change mitigation and adaptation projects in almost all countries, except Malta and Estonia, in which climate action was previously also well below the average. A significant drop in climate finance is noticeable in Ireland, Hungary and Slovenia. Deep discrepancies in the EIB's climate investments between EU states still exist, which to some extent can be explained by the limited number of projects in some countries. The EIB should explain how its climate finance takes into account countries' emissions reduction strategies, relevant business opportunities matching relevant climate needs, existing barriers and available technical assistance.

Over the analysed period, climate action lending within the EU was overwhelmingly dedicated for transport (38%), followed by energy efficiency (24%) and renewable energy sources (20%).

3.1 EIB Climate Action in the EU

EIB climate action in the EU has been increasing systematically since 2003. Between 2016 and 2019, it reached an average of 28.7% of the EIB's total lending in the EU. In comparison, between 2013 and 2016, climate action reached an average of 25.8% of the EIB total lending in the EU.

In the transport sector, the Bank financed many low carbon solutions, such as rail and urban transportation systems; however, the lack of clear technical criteria allowed for unsustainable projects or projects with dubious climate mitigation contributions to be labelled as climate action. An example

Comparison of EIB Climate Action in EU Member States, % of total lending



of such unsustainable transport operations is the EIB's loans for the automobile industry to develop more efficient traditional fuel engines, including the aforementioned loan for Volkswagen used to develop cars with installed emission defeat-devices in its diesel cars to rig emission tests.

According to the estimates of the European Environment Agency (EEA), in order to meet the 2030 target for energy consumption, reductions of at least 32.5%, annual reductions in EU energy consumption over the next decade will have to be more than double the average rate of reductions observed between 2005 and 2017.¹⁶ In this context, the EIB's significant increase in energy efficiency lending, from 3.6% to 6.2% of its entire portfolio, is worth noting.

However, as many countries struggled with achieving the national 2020 energy efficiency targets and furthermore are not on track towards achieving their respective 2030 targets, the Bank needs to develop better assistance strategies for supporting energy efficiency in the countries with the most needs. Our research shows that despite a noticeable increase in the EIB's support to the sector, huge discrepancies between the countries exist.

In 22 countries, the EIB's energy efficiency lending was below the EU average, and in several countries where energy efficiency 2020 targets were at risk of not being met, such as Malta, Bulgaria, Slovakia, Hungary or Poland, the EIB's presence in the energy efficiency sector was rather low. The EIB needs to give more attention to regions that are energy efficiency laggards and develop financial strategies to help those countries to meet their climate targets.

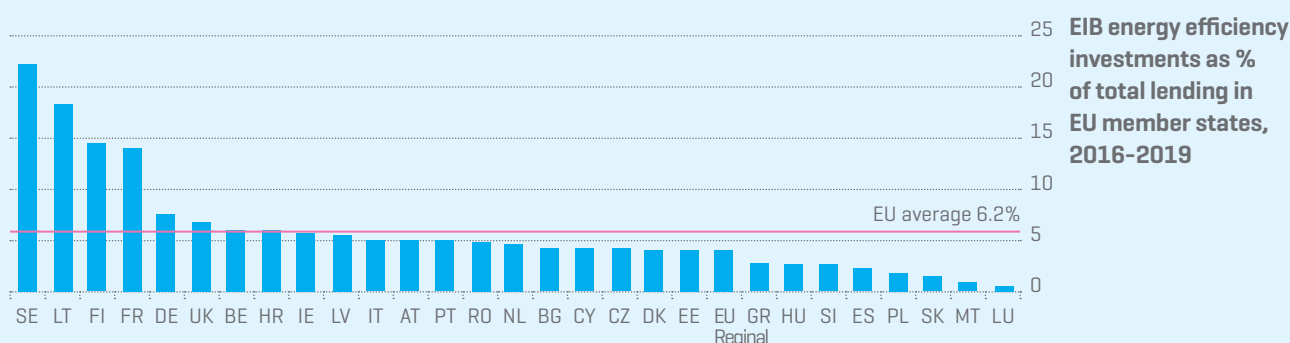
These strategies must also identify the areas where enhanced technical assistance is needed in addition to the Bank's standard technical support.

Renewable energy is the third most supported sector in the EIB's climate action, making a large contribution to climate change mitigation. Renewable energy has a very significant positive impact on the reduction of the amount of fossil fuels used and their associated greenhouse gas emissions. The use of energy from renewable sources enabled the EU to reduce its demand for fossil fuels by more than 12% and reduce greenhouse gas emissions by 10% more than if renewable energy sources had remained at the same level as in 2005.¹⁷ But this sector is also associated with detrimental environmental and social impacts, such as biodiversity loss, land grabbing or increased emissions of air pollutants and is also mineral intensive, and thus requires stronger sustainability safeguards, including for the supply chain, than what has been so far proposed by the EIB.

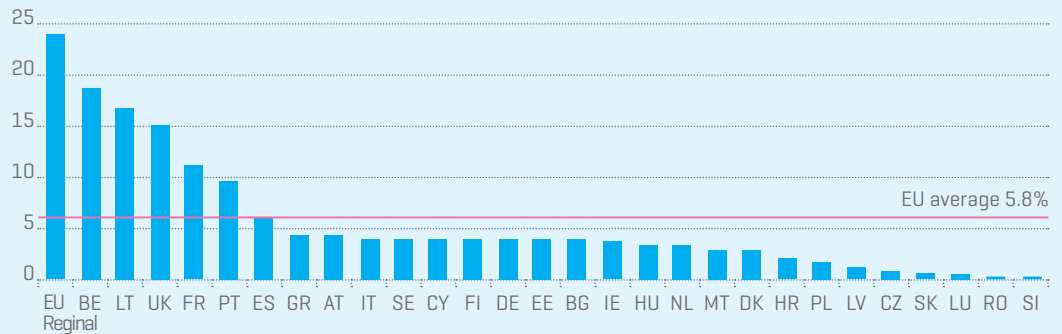
Renewable energy reached on average almost 6% of the EIB's entire lending portfolio between 2016 and 2019. This means that the bank has supported this sector with more than EUR 13 billion over the last four years. Despite the rapid growth of renewables markets, the EEA warns that 'the current average pace of renewable energy deployment across Europe would not enable the EU to achieve the new RES target, of 32% by 2030. Meeting the more ambitious EU-level RES (and climate mitigation) targets for 2030 and 2050 calls for steeper deployment rates of RES across all sectors and especially in heating and cooling, and in transport'.¹⁸

16 European Environment Agency, *Trends and projections in Europe*, EEA Report No 15/2019 (31 October 2019), 11, <https://www.eea.europa.eu/publications/trends-and-projections-in-europe-1>.

17 European Topic Centre on Climate Change Mitigation and Energy (ETC/CME), *Renewable energy in Europe 2019 - Recent growth and knock-on effects*, European Environment Agency, [December 2019], 13, <https://www.eionet.europa.eu/etcs/etc-cme/products/etc-cme-reports/renewable-energy-in-europe-2019-recent-growth-and-knock-on-effects>.



EIB RES investments as % of total lending in EU member states, 2016-2019



As the EIB's contribution varies significantly across member states, it would be useful for the Bank to conduct an evaluation of the extent to which its lending contributed to achieving national 2020 targets and also identify the areas where its financial contribution would bring the most value. In 2019, the majority of EU countries were on track with the established trajectory for renewables shares, with the exception of Poland, the Netherlands and Ireland. The bank's renewable lending in these countries was far below the average. National contributions to the EU's 2030 targets for renewable energy consumption, which will be established in the National Climate and Energy Plans, are still not finalised; nevertheless, more efforts in deploying renewable technologies will be required from every country if the EU is to meet its long term decarbonisation commitments.

The new Renewable Energy Directive with the updated, EU-wide binding target of 32% RES has also prioritized certain actions that the EIB could further explore: renewable self-consumption and renewable energy communities; cross-border cooperation projects; improvements in the sustainability of biofuels, bioliquids and biomass; and increasing the share of renewable energy in the heating and cooling sector. Under the new Energy Lending Policy, the heating and cooling sector for buildings, as well as SMEs, may still benefit from EIB loans even if an investment continues using fossil fuels. The EIB needs to expand its technical assistance for renewable heating/cooling projects,

including for district heating networks, to provide comprehensive advice on the possible alternative renewable solutions, the development of fourth and fifth generation district heating and available finance, such as EU funds and national schemes.

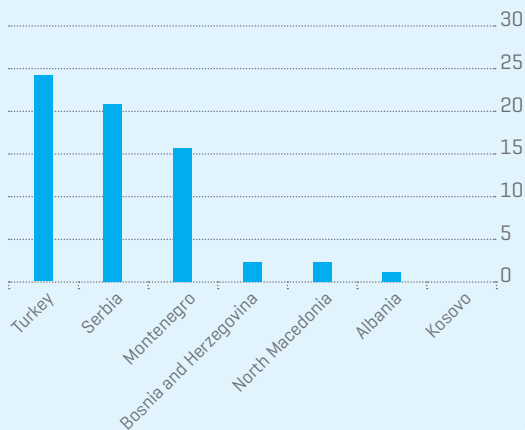
Recommendation 15

The EIB needs to develop country-specific climate and environmental sustainability finance strategies and strengthened technical assistance instruments, in cooperation with member states and on the basis of their National Energy and Climate Plans and the Territorial Just Transition Plans, which would explain the EIB's financial role in achieving national climate and energy targets. These strategies would identify the areas of biggest climate mitigation opportunities and needs in adaptation, existing legal, economic and regulatory frameworks and barriers, as well as adjusted technical assistance.

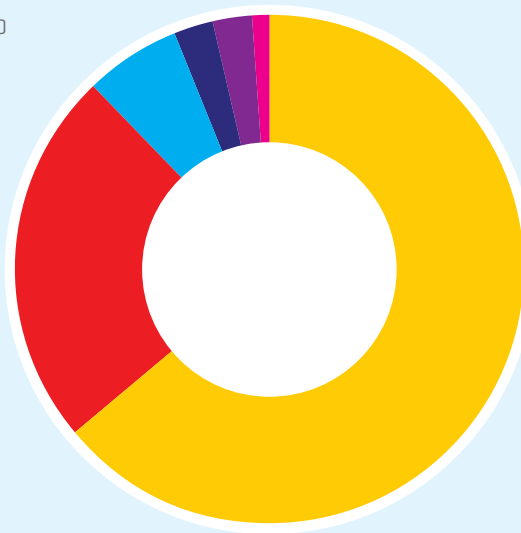
3.2 EIB Climate Action in enlargement countries

The enlargement region covers Turkey, Albania, North Macedonia, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo. The EIB operates in the region on the basis of the External Lending Mandate, a guar-

18 European Topic Centre on Climate Change Mitigation and Energy (ETC/CME), Renewable energy in Europe 2019 - Recent growth and knock-on effects, 13.



Climate Action in enlargement countries, 2016-2019, % of total lending



Climate Action in enlargement countries by sectors, 2016-2019, %

- Transport 64%
- Renewables 24%
- Other 6%
- Waste and Wastewater GHG reduction 2,5%
- Energy Efficiency 2,5%
- Adaptation 1%
- RDI 0%
- Afforestation and Fores Management 0%

antee fund securing the Bank's operations, and also using its own resources. Technical operational guidelines established by the European Commission give more detailed directions for the EIB's lending policies in the regions covered by the ELM. The Mandate has a strong climate objective, requiring the EIB to establish a Climate Strategy for the operations covered by the Mandate, and sets a target of at least 25% funding supporting climate action. We can therefore expect a high contribution of ELM covered operations to the EIB's overall climate performance in the region.

Technical guidelines for Turkey indicate that renewable energy and energy efficiency should remain a priority sector for further EIB support, also through a widening network of financial intermediaries to strengthen the EIB's support in favour of small and medium-sized investments. In the Western Balkans, the EIB is expected to grow its support for climate related activities, specifically in upgrading the energy efficiency standards of public buildings, including schools and hospitals.

The EIB's climate action in enlargement countries reached an average of almost 21% of the overall volume of the EIB's loans over the period 2016-2019; however, most of the climate action operations were located in Turkey. In Bosnia and Herzegovina, North Macedonia, Albania and Kosovo climate finance was almost non-existent. Hence, the ELM expectations that the Climate Strategy will help the gradual growth of the EIB's climate related activities in Western Balkan has not materialised.¹⁹

Recommendation 16

The EIB must expand technical assistance for heating and cooling projects, including for district heating networks, to provide comprehensive advice on the possible alternative renewable solutions, development of fourth and fifth generation district heating and available finance, such as EU funds and national schemes.

It was neither renewable energy nor energy efficiency that dominated climate action in enlargement countries. The transport sector received the bulk of loans, which went towards six projects in Albania, Turkey and Serbia. Although costly rail investments in Istanbul are needed for improving the quality of public transportation in a big city, they should not be the sole offer of the EU Climate Bank in the enlargement region. Also, all the EIB's renewable projects in enlargement countries were located in Turkey, as were the overwhelming majority of energy efficiency investments.

19 Technical Regional Operational Guidelines for EIB financing operations under Decision 466/2014/EU, 26 May 2015.

Recommendation 17

The EIB should develop dedicated climate action and environmental sustainability strategies for the enlargement region and strengthened technical assistance instruments in cooperation with the candidate countries and on the basis of their National Energy and Climate Plans once they are developed, which would explain the EIB's financial role in achieving national climate and energy targets. These strategies would identify the areas of biggest climate mitigation opportunities and needs in adaptation, existing legal, economic and regulatory frameworks and barriers as well as adjusted technical assistance.

The lack of EIB investments in sustainable energy infrastructure in the Western Balkans needs to be addressed as a matter of priority. In Serbia and Bosnia and Herzegovina, new lignite power plants are still being planned. These plans starkly conflict with the Paris Agreement's aim of limiting climate change to 1.5 degrees Celsius. All the projects have serious economic, environmental and legal weaknesses, which would burden electricity consumers and taxpayers for years to come. In addition, existing Balkan coal plants breach air pollution laws. A study by the Health and Environment Alliance, Bankwatch and others, showed that in 2016, 16 existing coal plants emitted as much sulphur dioxide and dust as 250 plants from the EU. As a result, it is estimated that they are responsible for around 3 900 premature deaths annually, spread between the region and nearby EU countries.²⁰ Consequently, the EIB's current Climate Strategy for External Lending Mandate does not adequately address climate-related issues in enlargement countries and does not form a solid basis for a systematic increase of EIB involvement in promoting sustainable solutions to displace coal and other fossil fuels in the region. It would certainly need to go deeper if it is to justify the idea that the EIB is a Climate Bank.

Recommendation 18

Dedicated EIB climate action and environmental sustainability strategies for enlargement countries should explain the Bank's role in supporting sustainable energy infrastructure in the Western Balkans.

The region has a massive need for energy efficiency investments, such as for the insulation of buildings and the reduction of distribution network losses. Decarbonisation of the electricity and heat sectors also has the immense potential to reduce air and water pollution if sustainable solutions are used. Given the high share of existing hydropower in the region, and the relatively good interconnections between most of the countries, the region is in a strong position to balance variable renewables and should not be distracted by unsustainable solutions such as gas.

Particular support is needed for household energy efficiency measures, heat pumps, prosumers and energy communities. These may not be simple operations for the EIB due to their dispersed nature, but they are very much needed and certainly will not happen without the EU and EIB's support. EIB staff have on some occasions mentioned that the Bank would like to do more on energy efficiency in the region and that it has difficulty finding energy projects which meet its standards. We agree that this is a real problem and support the EIB's commitment to ensuring its standards are maintained. Nevertheless, this problem calls for additional analysis and is not sufficiently explored in the EIB ELM Climate Strategy.

Recommendation 19

EIB support for energy infrastructure in enlargement countries should prioritise investments in energy efficiency of buildings and small scale renewable projects for prosumers and energy communities in order to support existing energy infrastructure and prevent development of fossil fuel based infrastructure.

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CEE Bankwatch Network, *Comply or close. How Western Balkan coal plants breach air pollution laws and what governments must do about it* (December 2019), <https://bankwatch.org/publication/comply-or-close-how-western-balkan-coal-plants-breach-air-pollution-laws-and-what-governments-must-do-about-it>.

The region's transport system is currently too reliant on roads and motorways, and short-haul flights have become common due to the poor public transport connections between countries. These trends are putting the region on an unnecessarily carbon-intensive trajectory. Sustainable transport needs to be made more prominent in the EIB's investments in the region, and railways and urban mobility put at the fore. Electrification of urban public transport and pedestrian/cycling infrastructure need to be prioritised and local authorities assisted to ensure public participation and investment into these modes.

Recommendation 20

The Bank should reprioritise its investments in the transport sector in enlargement countries from roads and motorways to public transportations solutions in order to avoid putting the region on an unnecessarily carbon-intensive trajectory.

The circular economy, too, needs the EIB's support in the region. EU financing sources, including those of the EIB, must be used only for measures which contribute to the circular economy, especially waste prevention, recycling, and composting. They must not be used for waste incineration, which locks in cities, financially and materially, for decades and competes with recycling and prevention initiatives.²¹

Recommendation 21

The circular economy should become one of the pillars of the EIB's climate action and environmental sustainability strategies for enlargement countries, focusing especially on waste prevention, recycling, and composting.

21 This section draws on Joint NGO proposals on the Green Agenda for the Western Balkans, 3 April 2020, <https://bankwatch.org/wp-content/uploads/2020/04/NGO-paper-on-the-Green-Agenda-for-the-Western-Balkans.pdf>.



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