

EIB Climate Strategy

November 2020

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Revision history

Version number	Date	Nature of revision
1.0	22 September 2015	-
1.1	20 June 2016	This document was amended to correct a typographical error in the description of Figure 1 of Annex 2.
1.2	20 December 2017	This document was amended to extract Annex 1 and create a separate document for the list of eligible sectors and eligibility criteria for climate action lending.
1.3	11 November 2020	This document was amended to take account of the European Investment Bank Group's new commitments towards climate action and environmental sustainability adopted by its governing bodies on 14 November 2019, the ratification of the Paris Agreement, the latest developments in European and international climate policy, and the latest scientific evidence on climate change.

Glossary

CAB	Climate Awareness Bond
CBA	Cost-benefit analysis
CHP	Combined heat and power
CSP	Concentrated solar power
EIB	European Investment Bank
EIB OP	EIB Operational Plan
ELM	External Lending Mandate
EMS	Environmental Management System
ETS	Emissions Trading System
EU	European Union
EUFIWACC	EU Financing Institutions Working Group on Climate Change Adaptation
GCF	Green Climate Fund
GHG	Greenhouse gas
IFI	International Financial Institution
IPCC	Intergovernmental Panel on Climate Change
LTS	Long-Term Strategy
MDB	Multilateral Development Bank
NAMA	Nationally Appropriate Mitigation Action
NAP	National Adaptation Plan
NAPA	National Adaptation Programme of Action
NDC	Nationally Determined Contribution
RDI	Research, Development and Innovation
SAB	Sustainability Awareness Bond
SLCPs	Short-Lived Climate Pollutants
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change

Executive summary

Climate change is arguably the greatest global challenge of our time. Climate risks are very real and undermine efforts made to improve welfare, notably in the world's poorest regions, and to ensure steady economic growth across the globe. The far-reaching impact of climate change on development and growth is at the heart of international discussions. 2015 marked a milestone on the path towards a more sustainable economy worldwide, with the adoption of the Sustainable Development Goals and the Paris Agreement on climate change. Recent years were also crucial from European and global perspectives. In 2018 and 2019, the European Commission announced two important action plans, the Action Plan on Financing Sustainable Growth and the European Green Deal. The first includes a proposal for an EU Taxonomy Regulation, to reorient capital flows towards a more sustainable economy, and the second is a roadmap for making the European Union (EU) economy sustainable and includes a proposal for a European Climate Law, to incorporate the 2050 long-term climate neutrality target into law. During the same years, the Intergovernmental Panel on Climate Change (IPCC) published a series of reports¹ showing that financing decisions made in this decade provide the last chance to meet the Paris Agreement temperature and climate-resilience goals and emphasising the risk of inaction for livelihoods, biodiversity, ecosystems and ecosystem services, human health, infrastructure and food systems.

Immediate and coordinated action is crucial to overcome the challenges posed by climate change. Climate action ranks among the top objectives of the European Union.

As the EU bank, the European Investment Bank (EIB) has made climate action one of its top priorities and developed a leading position among international finance institutions in this area.

As well as fighting climate change and its negative impacts, promoting the transition to a low-carbon and climate-resilient economy offers a real opportunity to successfully address other pressing challenges:

- Investing in climate action and environmental sustainability has an important role to play in creating jobs, particularly in regions and industries that are negatively affected by the transition to a low-carbon and climate-resilient economy or by the negative impacts of climate change.
- In parallel, investments in energy efficiency, networks and renewable energy will contribute to diversifying and securing Europe's energy supply and making vulnerable regions less dependent on unstable energy sources.
- Moreover, promoting research and innovation is key to maintaining Europe's position as a global leader in developing green technologies and bringing them to markets around the world.
- Mitigating and adapting to climate change will also have an overwhelmingly positive impact on living conditions – improving air quality, helping to ensure global access to food, clean and affordable energy and water over the long term, making infrastructure more sustainable and reducing environmental degradation.

One of the key hurdles in the fight against climate change is to enable the investments required in this transition. Significant additional finance, estimated in the trillions of euros, must be mobilised for climate action.

¹ In particular, IPCC (2018), *Special Report on Global Warming of 1.5°C* (available at: <https://www.ipcc.ch/sr15/>); IPCC (2019), *Special Report on Climate Change and Land* (available at: <https://www.ipcc.ch/srccl/>); and IPCC (2019), *Special Report on Climate Change and the Ocean and Cryosphere* (available at: <https://www.ipcc.ch/srocc/>).

It is in this area of mobilising finance that the EIB is best placed to make a valuable contribution.

As a long-term financier and as an institution which has developed significant experience and expertise in financing climate action across Europe and globally, the EIB is uniquely positioned to provide investment for high quality low-carbon and climate-resilient projects, and to catalyse further finance.

In particular, we have the capacity to mobilise additional private sector funding through financial leverage and innovative financial products. We have therefore set ourselves the mission to play a leading role amongst financial institutions in supporting the finance needed to achieve the worldwide commitments to limit global warming to 1.5°C, to increase the ability to adapt to the adverse impacts of climate change, and for the EU to become climate neutral by 2050.

More specifically, the EIB Group committed in 2019:

- To support investment in climate action and environmental sustainability to the tune of €1 trillion in the critical decade from 2021 to 2030;
- To gradually increase the share of EIB financing dedicated to climate action and environmental sustainability to reach 50% by 2025 and beyond;
- To align all its financing activities with the principles and goals of the Paris Agreement by the end of 2020.

The EIB Group also committed to provide a proposal regarding a just transition to a low-carbon and climate-resilient economy.

The EIB's approach to climate action has evolved over time and has progressively been embedded into the Bank's activities and actions globally. It is from the thorough analysis of achievements and challenges encountered so far that this strategy is built. The Climate Strategy will now guide our medium to long-term actions within and outside the EU to reinforce EIB finance for projects which bear a positive climate impact. We have identified three strategic areas where, moving forward, we will focus our climate action:

- **Reinforcing the impact of climate financing**

We commit to dedicating a minimum of 50% of our lending to specific climate action and environmental sustainability projects, and will continue to do so beyond that date. However, climate action and environmental sustainability are about more than volumes alone. Seeking maximum effectiveness means focusing our support on those activities with the highest impact. To enable this increase in impact we will take action to expand the pipeline of climate action and environmental sustainability projects. We will further develop innovative climate financing solutions, addressing market failure and seizing opportunities to attract private finance, including through the capital market. We will build on the solid success to date of our Climate and Sustainability Awareness Bonds to spur further sustainable growth of the Green Bond market.

- **Building resilience to climate change**

Even with the current levels of carbon in the atmosphere, changes in the climate are likely to have serious consequences for many sectors of the economy. Adaptive action is necessary regardless of the efforts made to mitigate climate change. The EIB is committed to best practice in adaptation, which includes risk screening to enhance the resilience of its projects. We will strengthen our support to investments in specific adaptation activities. To build resilience to climate change impacts we will act to increase access to financing of adaptation

projects and to increase our own portfolio of these projects. One of the barriers currently is the lack of knowledge and experience inside and outside the Bank and therefore we will invest in knowledge building and awareness raising. We will also identify ways to prioritise the implementation of urgent or no-regret adaptation actions, to tackle those risks identified through a climate risk and vulnerability assessment for climate-sensitive projects.

- **Integrating climate change considerations across all EIB standards, methods and processes**

Climate considerations must be examined across all activities to ensure that gains are made whenever possible and feasible. Given our significant lending volumes and the broad sectoral spread of the projects which we support, this is an area where we can further strengthen our effectiveness. To ensure our standards, processes and methodologies remain at the forefront of best practice, we will make continuous improvements to mainstreaming tools. In particular, we will extend coverage of sector policies and develop the assessment of climate risk and vulnerability. We will also continue to play a leading role in setting and harmonising standards among bilateral and multilateral finance institutions, and more broadly in the financial community.

Introduction and mission

The European Investment Bank (EIB) is the European Union's (EU) bank and supports its policies through a wide spectrum of activities. The EU takes a global lead in addressing climate change. The EIB recognised this challenge early on and developed a leading position among international finance institutions in the field of climate action. The EIB's approach to climate action has evolved over time and has progressively been embedded into the Bank's activities and actions within and outside the EU.

Building on past achievements and challenges encountered, this updated climate strategy will now guide the EIB's medium to long-term actions to help channel finance into projects with a positive climate impact, in all regions of operation.

The coming years will be decisive in preventing severe impacts of climate change and in limiting global warming to 1.5°C compared to temperatures in pre-industrial times. There is an overwhelming scientific consensus underpinned by the conclusions of the Intergovernmental Panel on Climate Change (IPCC) that our climate is changing due to anthropogenic influence. Successive IPCC reports have also shown that the impacts of climate change such as more frequent and severe weather events, increasing water shortages, flooding, rising sea levels and ocean acidification are already being felt on a global scale today. As a consequence, these impacts are affecting our economies, displacing people and contributing to the very significant loss in biodiversity and ecosystem services globally.

To meet the challenges posed by climate change in the transition to a low-carbon and climate-resilient economy, a series of actions have to be undertaken. Many of those actions have significant co-benefits attached to them, not least in terms of economic growth and job creation, to facilitate a "just transition" for workers and communities that are affected by the world economy's response to climate change. Other actions, however, to help regions and communities particularly vulnerable to the negative impacts of a changing climate, are more difficult to incentivise. One of the key hurdles is to mobilise the finance required for this transition. Significant additional finance, estimated in the trillions of euros, must be mobilised for climate action. It is in this crucial respect that the EIB is best placed to make a valuable contribution. As a complement to its financing activities, the EIB also contributes by providing advisory services, including the sharing of substantial technical and financial expertise. We therefore set ourselves the mission to play a leading role amongst financial institutions in supporting the finance needed to achieve the worldwide commitments to limit global warming to 1.5°C, to increase the ability to adapt to the adverse impacts of climate change, and for the EU to become climate neutral by 2050.

Against the background of the aforementioned challenges, the Bank's role is to help deliver the EU Member States' climate policy objectives and take action vis-à-vis future generations and societies already affected by climate change. Being committed to leading the fight against climate change and its damaging effects, we have the responsibility to support this ambition through all of our activities. As a long-term financier and an institution which has developed significant experience and expertise in financing climate action, we are uniquely positioned to provide investment in high-quality, low-carbon, climate-resilient projects and to develop innovative finance instruments with the goal of catalysing and mobilising further finance. The actions of the EU are not limited to policies implemented within the EU but are embedded in international processes such as the UNFCCC. In that context, the EIB considers this strategy to be part of the EU's proposal to the international community.

Promoting the transition to a low-carbon and climate-resilient economy offers a real opportunity to successfully address other pressing challenges, including environmental degradation and biodiversity loss. The recent years of economic and financial crises have led to rising unemployment and economic

growth has stagnated. The EIB works to stimulate jobs and growth, particularly in Europe. Investing in the low-carbon and climate-resilient economy has an important role to play in this mission, creating new jobs in key industries that have been hit hard by the crises, notably the renewables industry, the construction sector and manufacturing industry. In parallel, investments in energy efficiency, networks and renewable energy will contribute to diversifying and securing Europe's energy supply and making vulnerable regions less dependent on unstable sources of energy. Promoting research and innovation is key to maintaining Europe's position as a global leader in developing green technologies and bringing them to the markets around the world.

Mitigating and adapting to climate change will have an overwhelmingly positive impact on living conditions – improving air quality, helping to ensure access to food, clean and affordable energy and water over the long term, making infrastructure more sustainable and reducing environmental degradation.

The Sustainable Development Goals, successors to the Millennium Development Goals (MDGs), encompass many of these sustainability dimensions and provide additional high-level references to anchor climate action in the broader policy sphere. They apply globally, and are therefore of equal relevance to the EIB's activities within and outside the EU despite the vastly different situations of countries around the world.

Outside the EU, the Bank supports sustainable economic growth and job creation, with a particular emphasis on developing the private sector and fostering regional cooperation and integration. In line with the EU Development Consensus, the outcomes of the UN Financing for Development process and the review of the UN MDGs' achievements, the EIB's activities support projects that target the broader policy objectives of delivering sustainable social and economic development and environmental benefits. Formally, in the context of developing countries, the EIB operates within specific mandates and has, to date, established specific regional climate change strategies that are aligned with this Climate Strategy but that include more detail on regional aspects. This was the case for both the External Lending Mandate (ELM) and the Africa, Caribbean, Pacific (ACP) mandate, and updated or new regional strategies will be developed as required for future non-EU mandates.

EIB commitment to climate action to date

Climate action has been a key priority for the EIB and we can take pride in our considerable achievements. The Bank has delivered significant climate finance volumes underpinned by sector policies and priorities, specific screening tools (carbon price, carbon footprint, climate risk assessment tool) and some of the highest standards in the financial world. It has designed innovative and replicable finance solutions for climate action and engaged with its peers worldwide to harmonise standards, tools and methods.

As the EU bank, our mandate consists in supporting EU policy objectives, which include promoting innovation and skills, access to finance for small and medium-sized businesses, strategic infrastructure and climate action. We foster these interlinked objectives by lending, blending (combining EIB finance with other funding sources) and advising. Policy alignment, portfolio quality and the soundness of credit decisions are underpinned by an extensive due diligence process applying to each operation supported by the EIB. We respond to financing requests generated in a dynamic market with products typically characterised by long maturities and cost efficiency. In the area of climate action, EU climate policies and instruments such as the EU Emissions Trading System (EU ETS), the Commission Action Plan on Financing Sustainable Growth, the EU Adaptation Strategy and the 2030 Climate and Energy package are integrated into operationally relevant practices and procedures which guide financing decisions, alongside long-term visions such as the EU's Clean Planet for all² and the IPCC Mitigation Pathways (by which global greenhouse gas emissions need to peak by 2020 at the latest, be reduced by at least 50% by 2030 compared to 1990, and be near or below zero by 2050 in order to limit global warming to 1.5°C).

Lending for mitigation and adaptation

Without appropriate and targeted climate finance we cannot hope to tackle climate change effectively. In 2015, the EIB's climate action lending³ target as announced at the UN climate conference in Paris was to increase the annual share and volume of its own financing in developing countries to 35% and \$100 billion, respectively, by 2020. From 2015 to 2019, the Bank provided more than €96 billion to climate action projects, making the EIB one of the largest climate financiers globally. In 2018 and 2019, the share of climate action lending in developing countries was well above 35%. Therefore, the EIB is well on track to fulfil both commitments by the end of 2020. Moreover, since 2015 the EIB has consistently exceeded its global commitment to dedicate at least 25% of its overall portfolio to climate action annually. The remaining share of EIB lending is checked against stringent standards and safeguards ensuring that the projects are in line with the objectives of the EU's climate policy and the goals and principles of the Paris Agreement, in particular Article 2.1(c), which commits Parties to the Agreement to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". Many projects in that category have low climate impacts. A considerable contribution can be made to reducing emissions by investing in the full spectrum of industries that our societies need, as long as realistic long-term effects and demand forecasts are factored in.

² Communication from the European Commission (2018). A Clean Planet for all – A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy. COM (2018) 773 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0773>.

³ Climate action lending corresponds to projects or components of projects substantially contributing to mitigating climate change or adapting to it.

Consolidating support for climate action lending outside the EU

In terms of catalytic impact our lending activities outside the EU are of significant importance. This ties in with the rationale of the Financing for Development discussion. The success of the Sustainable Development Goals will require moving from billions in Overseas Development Assistance (ODA) to trillions in investments of all kinds, making maximum use of the catalytic effect of the International Finance Institutions (IFIs).

The EIB will continue to work closely with the Green Climate Fund (GCF) Secretariat and GCF Board, as it has since the initiation of the Fund. We are mobilising our financial expertise and capacity for the Fund as an accredited implementing entity.

The Bank will progressively step up its advisory services activities for operations outside the European Union, in collaboration with its partner development finance institutions, building upon our highly successful experience as a technical assistance provider to ACP and Mediterranean, Asian and Latin American countries. The Bank will make use of funding opportunities in this respect, in particular those provided by the European Commission and by the GCF and other donors.

Sector policies

Not all sectors have the same impacts on climate. One way we ensure that our lending portfolio is compatible with EU policies and emissions reduction pathways, and aligned with the objectives and principles of the Paris Agreement, is through the application of climate-sensitive sector screening criteria in major sectors. The most relevant sectors, due to their share in EIB financing and the underlying project typology, are energy and transport, which are both covered by publicly consulted and published EIB sector policies that apply both within and outside the EU. Other sectors will also be subject to relevant screening criteria, which will be revised on a regular basis in accordance with the Paris Agreement's "ratchet mechanism" cycle.

Support to low-carbon research, development and innovation

While in volume terms, the Bank's climate mitigation finance has been directed mostly to mature technologies, such as sustainable transport (e.g. metros, tramways and high-speed rail) and mature renewable power generation projects (onshore wind, hydro), a very significant effort has been made in supporting low-carbon technological development. The deep cuts in emissions required to meet long-term climate targets will require technology breakthroughs that will arise from research, innovation and demonstration projects. The EIB has been a crucial partner of the European Commission in setting up risk-sharing finance facilities to improve access to finance for research and innovation projects.

Carbon pricing and greenhouse gas emissions

The application of carbon pricing to a project has the effect of penalising the economic performance of carbon-intensive projects and sends an important signal to the market. The EIB was the first international financial institution to systematically introduce a cost of carbon into its project appraisal,

exemplifying our cross-cutting commitment to low-carbon solutions throughout our lending portfolio. The carbon pricing approach, reflecting the “shadow” cost of emitting carbon dioxide, as currently applied by the EIB, is explained in the relevant Annex to the EIB Group’s Climate Bank Roadmap. Its level is based on a thorough review of the literature, in particular reports from the IPCC, and is updated regularly to reflect the latest scientific knowledge related to the cost of carbon.

To understand and report on the impact of its activities, and to support the carbon pricing process, the Bank assesses and publishes the greenhouse gas emissions (GHG) of projects with significant emissions. Every year the overall emissions corresponding to the EIB-financed share of projects show a large saving of carbon dioxide equivalent. We are currently the only international finance institution to publish both the absolute (or gross) and relative (or net) emissions for each of these projects, with external auditing.

Advisory services and technical assistance

Not all project developers have the necessary experience and knowledge to carry out the technical and financial preparation needed to attract the funding for climate-positive projects. To address this barrier, the EIB has developed several advisory services programmes which can include for example feasibility and market studies, programme structuring, energy audits, project preparation and implementation support and institutional capacity-building.

Innovative financial tools

With funding requirements estimated in the trillions of euros, private finance is essential to address the challenges of climate change. To attract finance, it is necessary that climate change-related projects can also offer investment opportunities to the private sector. The Bank has therefore developed a number of innovative financial tools and mechanisms which aim at catalysing and mobilising private finance for low-carbon and adaptation projects. Some of these are blending instruments, combining grant and loan finance to improve financing conditions (optimised allocation of risk and/or reduced cost of capital). These products include equity funds, layered risk funds and funds of funds. In addition, the EIB has developed joint instruments with the European Commission and other donors, for example in the area of energy efficiency or for conservation of natural capital and adaptation measures. By developing these products, the EIB seeks to demonstrate to the market that investments in projects addressing climate change are sound, viable and can be replicated on a larger scale.

Green Bonds

Green Bonds have the potential to enhance the accountability of environmental finance. A higher degree of transparency raises awareness, strengthens the monitoring of climate action and environmental sustainability, and favours harmonisation of the assessment of and reporting on the expected environmental impact of projects. This boosts the role of capital markets in climate finance by encouraging investors to shift their focus towards sustainable and socially responsible investments.

The EIB pioneered the Green Bond market in 2007 by issuing its first Climate Awareness Bond (CAB). CABs historically had their proceeds earmarked for EIB lending projects in the fields of renewable energy and energy efficiency and this was widened to include low-carbon transport and innovative

low-carbon technologies. The EIB will continue to extend the scope of its CABs and its newly-launched Sustainability Awareness Bonds (SABs) to cover additional activities, in line with the proposal for an EU Green Bond Standard.

Engagement

Climate change can be thought of as the ultimate challenge of this century. Any meaningful response must necessarily be a coordinated one. The EIB engages with a variety of stakeholders and peers, within the EU and around the world, to achieve progress on the climate finance agenda and share our expertise in developing climate finance solutions. Our core partners are the institutions of the EU and the Member States. The EIB contributed directly to the EU's Action Plan for Sustainable Growth, through the European Commission's High-Level Expert Group (HLEG) and Technical Expert Group (TEG) on Sustainable Finance. On a global scale, the Bank engages with the United Nations (UN) supporting the various programmes where the Bank can add value and expertise, in particular the Green Climate Fund. The EIB collaborates with a significant number of other climate action players at local or global level. In an effort to develop a better understanding of international climate finance streams, a group of multilateral development banks (MDBs) reports jointly on its climate finance and continuously improves its harmonised climate action accounting methodologies.

Taking climate action at the EIB to the next level

This strategy builds on the EIB's track record and commitment to climate action.

To put our mission into operation, we have analysed our achievements and challenges in climate action to date, including extensive consultations with external and internal stakeholders and experts. The Bank will continue to work under the current general framework which has allowed us to achieve significant success. As a result of this analysis, three strategic areas have been identified where the Bank will take action to consolidate and further strengthen its position:

- Reinforcing the impact of our climate financing.
- Building resilience to climate change.
- Further integrating climate change considerations across all of the Bank's standards, methods and processes.

In each of these three strategic action areas, there is a solid foundation on which to build. The following chapters will outline how we will further improve, deepen and fine-tune what we have been doing so far. An implementation plan will lay out specific activities to address these action areas, in line with the evolving European and international agenda, and will be updated on a regular basis.

Strategic action areas

Reinforcing the impact of our climate financing

The EIB will gradually increase the share of its financing dedicated to climate action and environmental sustainability to reach 50% by 2025. In addition, the EIB Group will support investment in climate action and environmental sustainability of €1 trillion in the critical decade from 2021 to 2030.

Effective climate action and environmental sustainability, however, are about more than just finance volumes: this requires us to steer our activities and financing towards those initiatives and projects which have the highest impact. This action area therefore focuses on how we can further increase the impact of our activities.

We see the impact of our climate finance in three main dimensions:

- Investing in projects which bring significant mitigation or adaptation gains.
- Catalysing and mobilising additional climate finance from a range of sources.
- Reducing financial and non-financial barriers to the investments needed for the transition to a low-carbon and climate-resilient economy.

Beyond our current sector-based eligibility approach to climate action, a more refined focus on impact should enhance the EIB's overall contribution. To define the full range of high-impact activities, we need to better understand the characteristics of those activities in the context of the Bank's operations. This will lead to the establishment over time of a basic typology of high-impact operations, in terms of high-impact sectors/projects, and/or structures with high financial impact.

Through this strategy, the EIB will identify operation types with a particularly high financial impact and/or high mitigation or adaptation gains. Where justified, we will put processes and systems in place to prioritise them within the climate action and environmental sustainability portfolio. Therefore, to increase the impact of our climate finance we will:

- Improve our methodologies and definitions of impact, which will allow us to better identify and prioritise high-impact projects.
- Seek to further increase our impact through financial innovation targeting higher-impact projects/sectors and mobilisation of private resources.
- Take steps to increase the pipeline of climate action and environmental sustainability projects.
- Support the Green Bond market in quantity and quality.

Key outcomes

Deliver climate action and environmental sustainability both in volume (a minimum of 50% of EIB finance by 2025) and quality. Enhance both financial and non-financial impact of EIB climate interventions, supported by robust reporting.

Financing specific climate action projects

The Bank has been a very active financier in various key sectors addressing climate change. It has been instrumental in getting critical emerging renewable technologies such as offshore wind and concentrated solar power (CSP) off the ground and has made important inroads in difficult sectors such as energy efficiency, low-carbon RDI and adaptation. The EIB can be instrumental in developing other sectors and types of projects that will be critical in enabling the necessary transformation of our societies, for example through significant GHG emissions reduction, investment in innovative technology and support for promising policy initiatives.

The Bank has drawn up a list of eligible sectors under climate action. Our eligibility criteria for the climate action portfolio already recognise the mitigation and adaptation aspects of this impact. To increase the climate effectiveness of projects classified as climate action, the Bank will progressively adjust the list of eligibility criteria, in response to new insights and developments regarding the impacts of projects. The current definition of these eligibility criteria is presented on the EIB's website⁴. These definitions are being brought into line with the EU Sustainable Finance Taxonomy and the updated joint MDB climate finance tracking methodology, in particular the design process criteria for adaptation projects. This list will be updated as necessary to reflect the effectiveness of the Bank's climate action and our improved understanding of climate impact, risks and climate adaptation needs.

Innovating for financial impact

As a financial institution, the Bank is well placed to support operations that are innovative in a financial sense, i.e. that target new sectors/projects and that mobilise private sector finance and/or tap into new sources of capital.

Some high-impact investments will be fragmented, i.e. large numbers of small projects. The Bank will therefore continue to look for ways in which to increase its support to smaller-scale investments. The Bank will seek to innovate and to replicate or build upon existing financial structures and products (e.g. framework loans, multiple beneficiary intermediated loans and other intermediated structures such as funds) developed in recent years that have proven successful in the bundling and/or aggregation of smaller climate projects in suitable sectors and regions, in particular outside the EU. Advisory services could also contribute to developing new financing structures for small projects.

It is likely that increasing financial impact will require assumption of risk levels exceeding the Bank's own risk-bearing capacities. Therefore, there may be a need for additional risk-sharing products and instruments for climate action and environmental sustainability, bearing in mind that markets globally are currently risk-constrained rather than short of liquidity. The suggestions in the section "[Increasing the pipeline of projects](#)" below for dedicated facilities and trust funds, and also greater collaboration with emerging, dedicated climate finance entities, should be understood as key measures in this regard in addition to developing the project pipeline.

The EIB will therefore continue to place itself at the forefront of financial innovation and assess the needs for further product offerings and financial structures addressing market failures, reducing barriers to entry and responding to the needs of emerging business models in climate action areas. This may take different forms inside the EU, where the new Multiannual Financial Framework is likely to shape the process in the immediate future, and outside the EU, where other instruments and policies take precedence. The overall aim of these efforts will be to provide channels for private sector

⁴ See link provided in [Annex 1 – Climate action lending – eligibility list](#).

investment in climate action on a scale more in line with the needs linked to climate change and environmental sustainability. A particular, but not exclusive, target for these efforts will be institutional investors such as pension funds and asset managers, in addition to the banking system.

Defining high-impact projects and sectors

To accelerate the low-carbon transition and build climate resilience, focus will be placed on transformative high-impact projects per sector, with the following as guidelines:

- The importance of projects for the transition to a global 1.5°C target will to a large extent be linked to sector and technology considerations. This can be assessed in different ways, for example by looking at available sectoral decarbonisation roadmaps or carbon intensities. Different levels of priority will be developed by comparing the existing portfolio of projects with these roadmaps, taking into consideration investment needs but also keeping in mind that not all projects will be bankable for a variety of technical, economic and credit reasons. This work was to a large extent carried out when the existing sector policies for energy and transport were developed.
- Policy developments will be key in shaping those roadmaps. Inside the European Union, EU and Member State policies, including for example the EU long-term vision of a low-carbon and climate-resilient society, or National Renewable Energy Action Plans and Adaptation Programmes are likely to be crucial references. Outside the EU, the reference should be to national legislation and policies, including Nationally Appropriate Mitigation Actions (NAMAs), National Adaptation Programmes of Action (NAPAs), National Adaptation Plans (NAPs), Nationally Determined Contributions (NDCs) and Long-Term Strategies (LTSs).
- Horizontal policy linkages associated with significant co-benefits such as economic growth and competitiveness, biodiversity or resource efficiency, for example, in particular as they relate to EU policy and the Bank's overall strategic goals as expressed in its Operational Plan (EIB OP).
- Ability to reduce technical and institutional barriers to investments in adaptation and mitigation in line with the mission, e.g. small size and weak counterparty profile, and to address market failures.
- The characteristics of projects which are particularly successful in crowding in additional external finance.
- The specific role of Short-Lived Climate Pollutants (SLCPs), based on their climate-forcing properties and their relevance to EIB-financed operations, which was explored in a dedicated analysis of SLCP emissions in the EIB portfolio.

Increasing the pipeline of projects

To be able to prioritise high-impact bankable projects within the same volume target, the pipeline of climate action projects needs to be expanded. There are several activities that will contribute to increasing the pipeline:

- Strengthening origination processes to increase lending to specific climate action and environmental sustainability projects.
- Enhancing technical and financial advisory services, particularly in project preparation and implementation support, to help realise more bankable projects. The Bank will reinforce its advisory activities offer in support of climate action to facilitate better design and preparation, ultimately leading to more effective implementation and access to finance. As

part of this effort, the Bank also aims at broadening the range of potential beneficiaries supported, including those with less developed in-house capacity, and at promoting smaller-scale and/or more complex projects. The Bank's technical and financial advisory activities also include support for decentralised financial instruments within the EU in the low-carbon area and access to finance for relevant research and innovative technologies.

- Assessing the need for and availability of new funding sources in support of high-impact climate action and environmental sustainability operations, including advisory and blending activities. While the EIB does benefit from external funding, it will be necessary to create a more efficient stable architecture for future funding needs. This is due to the fact that current sources of funding are fragmented, generally carry a high transaction cost, and may not be sufficient to fully implement this strategy. Two main avenues will be explored to address this challenge:
 - Establishing a trust fund open to a wide range of contributions, or
 - Creating a climate finance facility from its own resources.

The feasibility, structure and conditions of such sources of funding will be worked out. Different compartments may apply to different types of operations or be regionally targeted.

- Developing operations with dedicated Green Investment Banks: in response to the specialised issues posed by climate finance, a number of dedicated financial entities or mechanisms are being established by national and regional authorities, e.g. the United Kingdom's Green Investment Bank, with which the EIB has already concluded some initial operations. In general, these entities are original and innovative, thus making interesting counterparts for the EIB, especially when they face a scarcity of low-cost capital in their early years. The Bank will therefore prioritise the development of relationships with these entities.

Supporting the Green Bond market in quantity and quality

Capital market investors, seeking to orient their portfolios towards sustainable and socially responsible investments, have increasingly been focusing on project impacts. In response to this, the EIB, together with several other MDBs, has developed a framework for reporting on the expected impact of projects associated with its Green Bonds.

The Bank has a successful trajectory of Green Bond issuance. Until now, the proceeds from these bonds have been allocated to renewable energy and energy efficiency projects. This clearly focused scope has enabled the establishment of a framework of minimum requirements and governance that enjoys broad market support and is attracting increasing attention from policymakers. We will continue engaging with capital market participants in the establishment of best market practices for the Green Bond segment, e.g. through the Green Bond Principles. In addition, the EIB will continue its work on the jointly developed (together with several other MDBs) format for Green Bond Impact Reporting, and pursue the harmonisation of impact reporting standards in the MDB/MFI/IFI community to promote the transparency and accountability of climate finance.

In recognition of the value of this market segment, the EIB remains committed to maintaining its developmental role, to spur further sustainable growth of the Green Bond market⁵.

⁵ As per the 'Joint statement by Multilateral Development Banks (MDB) on climate finance' of September 2014: <http://www.eib.org/attachments/press/joint-mdb-statement-on-climate-finance.pdf>.

Building resilience to climate change

Even if the average temperature increase globally remains under 1.5°C, changes in the climate are likely to have serious consequences for many sectors of the economy, with implications for critical issues such as water, food and energy security and human health. The transitions ahead are likely to jeopardise growth and development gains in some regions and sectors, with significant social implications. Adaptive action is therefore necessary regardless of the efforts made to mitigate climate change.

The EIB is committed to applying best practice in risk assessment, which includes the risk screening element to enhance the resilience of its investments, but also to investing in specific adaptation activities, such as in land and water resource management. This is a fast-moving field, in which expertise must continuously be developed, both within and outside the EIB.

The social dimension of adaptation issues, including gender issues, should also be clearly identified and considered where relevant in all adaptation work to enhance the effectiveness of implementation on the ground. Taking these dimensions into account, in line with the EIB's Environmental and Social Standards, will in particular avoid adaptation activities exacerbating inequalities and other vulnerabilities, and help to protect the most vulnerable groups.

All of the above-mentioned adaptation-related activities of the EIB will be closely coordinated with the related work on disaster risk management.

To build resilience to climate change impacts we will:

- Increase the portfolio of adaptation operations.
- Develop the use of climate risk and vulnerability assessment.
- Make operations more resilient to climate impacts.

Key outcomes

An increase in adaptation finance supported by robust and transparent accounting and reporting.

Increasing the portfolio of adaptation operations

Climate change is already having a significant impact on ecosystems, economies and communities today. There are more frequent and severe weather events such as flooding, droughts or storms. In particular, the impact on our water resources and increasing water scarcity might pose one of the biggest challenges ahead.

Despite the fact that we are already witnessing the impacts of climate change, action to adapt to this changing environment is only slowly gaining momentum. There are several reasons for the slow uptake of adaptation measures. Firstly, adaptation is frequently perceived as a responsibility that has to be assumed by the public sector. As adaptation to future impacts is often a preventive action, which is ultimately cost-saving but in most cases not directly revenue-generating, there is no real market for adaptation activities yet. The beneficiaries are often multiple, and it is therefore difficult to identify individual contributions for their financing. In addition, there are regulatory barriers, because regulations, standards and codes that address adaptive action still need to be developed. One of the

most important barriers, however, is the information and knowledge gap. Adaptation is a new field of action, and knowledge and information are only slowly being developed. A general lack of understanding of the issue often leads decision-makers to underestimate the risks. As a result, capacity and expertise in the field of adaptation are currently sparse and insufficient.

The EIB aims to address these barriers in order to step up investment in adaptation activities. Firstly, we will tackle the information barrier by further building up knowledge and expertise in our institution and thus lay the foundations for creating a solid pipeline of adaptation projects, including those under multi-scheme operations. This knowledge and expertise will inform planning decisions, systems resilience, technology selection and project design. In addition, the Bank will develop the capacity of those who are tasked with strengthening resilience on the ground. The Bank has already embarked on this process by holding capacity-building sessions in the framework of the EU Financing Institutions Working Group on Climate Change Adaptation (EUFIWACC) and, together with other MDBs, developing metrics for climate resilience. Further outreach with other networks and initiatives will continue supporting the process of exchanging knowledge and experience and building capacity.

By raising awareness of the risks and building knowledge on best practice for adaptation, we can increase the number of projects into which resilience is built and identify more adaptation projects. Most importantly, however, we will continue to proactively identify projects that have adaptation as a core objective. This action is very closely linked to the ambition described in the section “[Increasing the pipeline of projects](#)”, i.e. to support projects with a considerable positive impact. As was suggested in this section, we will explore whether this can be done through scaling up the blending of our own resources with EU funding or through another financial vehicle, such as a dedicated trust fund or facility. Supporting adaptation projects through the GCF, of which the EIB is an implementing entity, or through other mandates, will form the core of our efforts in this context in non-EU countries. In building the pipeline, the Bank will also enhance its technical and financial advisory services, particularly in project preparation and implementation support, broadening the range of potential beneficiaries supported, including those with less developed in-house capacity.

Developing the use of climate risk and vulnerability assessment

It is important for the Bank and its project promoters to understand climate risks for the most vulnerable projects. To identify the most vulnerable projects, the EIB has developed, piloted and rolled out a Climate Risk Assessment tool, enabling assessment of the direct risks to Bank-supported activities linked to climate change. The use of this tool will be mainstreamed, and the tool will be further refined as experience is gained in its application. The EIB commits to screening all operations for direct risks from impacts from current and/or future climate change.

Once vulnerable projects are identified, a full-fledged climate risk and vulnerability assessment can be carried out. A process for climate risk and vulnerability assessment has been developed and piloted for all sectors. When justified by the screening results described above, an assessment of climate risk and vulnerability is required of the project promoters. When needed, EIB clients can also receive support based on an approach developed by EIB sector and climate experts.

This process helps project promoters consider in a comprehensive way how the project and the system it pertains to are vulnerable to climate variability and change, quantify climate risks to the viability of the project, and identify relevant adaptation options to increase climate resilience. In extreme cases, the process may indicate that project feasibility is at stake and result in the definition of a different, more resilient project scope. Stakeholder engagement at key stages of the climate risk assessment has proven crucial for its success. The process considers the direct physical dimension as well as the

economic and environmental dimension of risk and vulnerability, e.g. including the vulnerability of project supply chains or dependence on ecosystem services or other critical networks that may also be exposed to climate risk.

This pioneering practice has been progressively extended to other sectors which are likely to have specific sectoral or regional features. Guidance will be developed for promoters on how to carry out vulnerability assessment and identify adaptive actions.

Work on the climate risk and vulnerability framework will be closely coordinated with work on disaster risk management.

Making operations more resilient to climate impacts

As described in the section “[Developing the use of climate risk and vulnerability assessment](#)” above, a more in-depth risk and vulnerability assessment will be carried out for operations identified as presenting a high risk profile. Based on that analysis, physical or soft measures at the planning, design and implementation stages should be established to reduce these risks. Some measures may be necessary to protect assets against the effects of climate change, but many of the most effective adaptation measures need to be taken at the planning and design stages, and are not necessarily very costly. The EIB will therefore identify ways of giving priority to the implementation of urgent or no-regret adaptation actions, on a sector-specific basis as relevant.

Further integrating climate change considerations across all of the Bank’s standards, methods and processes

Climate action is not only a matter of channelling finance into mitigation and adaptation. Climate considerations must be given due attention across all activities to ensure that gains are made at every possible opportunity. This presents significant opportunities for the EIB given our substantial lending volumes and the broad sectoral spread of the projects which we support.

The integration of climate throughout our activities relies on the progressive introduction and periodic revision of good practices, to ensure standards, processes and methodologies remain at the forefront.

To integrate climate change considerations consistently we will:

- Implement a framework to ensure that all the EIB’s financing activities are aligned with the principles and objectives of the Paris Agreement.
- Make continuous improvements to mainstreaming tools.
- Extend the coverage of sector policies and regularly update existing policies.
- Assess and manage portfolio climate change risks.
- Manage the EIB’s internal footprint.

Key outcomes

Wide use of a Paris alignment framework and a broader range of climate mitigation and adaptation tools and methodologies for all EIB investments, contributing to the quality of the portfolio, the integrity of its policy alignment, and transparent reporting.

Continuously improving mainstreaming tools

The Bank has developed a number of tools to integrate climate considerations into the investment decision-making process.

With a focus on GHG emissions mitigation and due to the EIB's strong reliance on cost-benefit analysis (CBA) in its assessment of projects, the Bank has been incorporating a cost of carbon into its projects since 2007, thus allowing the due diligence process to factor in the likely damage associated with GHG emissions, alongside other external costs of emissions. This is part of a wider systematic effort to integrate relevant external costs, on a consistent basis, into the analyses performed internally, as explained in the EIB Guide to Economic Appraisal of Investment Projects. The cost scenarios for carbon have been updated and are presented in an Annex to the Climate Bank Roadmap. They extend further into the future than those currently used, thus contributing to the integration of long-term perspectives into the analysis. They will be periodically updated in line with the emerging research and evidence.

GHG assessment is critical to this effort, as the project and baseline emissions are needed for the CBA calculation chain. The assessment is also currently used to screen projects for emissions performance in power generation, and to verify the climate impact of hydropower and bio-energy projects. The accuracy, consistency and comparability of these assessments are thus important features of the due diligence process. GHG assessments are also used for overall portfolio reporting, and they could be integrated into further refinements of sector approaches in the future. It is therefore important to continuously review and, where necessary, improve the methodology's quality and coverage. In particular, an approach will be developed to provide an approximate assessment of the overall footprint of financially intermediated lending and equity operations. Further consideration will also be given to life-cycle and so-called "Scope 3" considerations, within the remit of the EIB's due diligence process.

Efforts to mainstream energy and broader resource efficiency considerations across sectors will be pursued in line with the EIB's long-standing commitment to support energy efficiency as a matter of priority.

Mainstreaming of risk screening for direct climate change impacts on projects is described in the section "[Developing the use of climate risk and vulnerability assessment](#)" above.

As a longer-term endeavour, the Bank will work on the development of tools to account for project impacts on biodiversity, ecosystem services and biodiversity-based livelihoods.

In terms of broader mainstreaming, the Bank will continue to play a leading role in harmonisation and standard-setting within the MDB/MFI/IFI community and more broadly in the financial community. The Bank recognises the value of common positions, principles, standards and methodologies reached among financial institutions in the fast-moving area of climate finance. Current priorities are to close remaining gaps in the practice of climate finance tracking, and to pursue the harmonisation of GHG assessment methodologies.

Extending coverage of sector policies and regularly updating existing policies

The Bank will extend the coverage of sector lending policies in key areas of relevance. Relevance refers here to both the climate sensitivity of the sector, and the volume of EIB activities in that sector, which determines the Bank's ability to effect change.

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 climate-resilient development and a maximum global temperature rise of 1.5°C, and will take into account the most recent scientific knowledge and available best practice, in accordance with the goals and principles of the Paris Agreement. It will draw on methods of prioritising certain types of project based on existing criteria such as performance standards, economic performance, or others to be developed. In this context, energy efficiency and, more generally, resource efficiency considerations will be taken into account, as will the Do No Significant Harm thresholds of the EU Taxonomy, and will be regularly reviewed.

Reliance on sector policies or criteria is grounded in the EIB's successful experience in improving project outcomes through sector-specific tools and methods. Overall, extended coverage will be an effective means to align the portfolio even more closely with climate policy within each sector. It is also a way to capture inter-sectoral issues, including co-benefits, and assess overall lending priorities in the longer term.

Assessing and managing portfolio climate change risks

There is a growing body of knowledge pointing to potential systemic risks to the financial system linked to the direct and indirect effects of climate change. It is likely that many of those risks would be covered by the insurance and reinsurance industry. The extent and speed of the transition may generate not only physical threats to the integrity of assets, but indirect threats resulting from significant shifts in technological trends and business models. Some asset managers, for example, have come to the conclusion that their holdings in carbon-intensive industries are creating a long-term liability under likely scenarios of climate change, due to the restrictive policies and regulations that will need to be put in place to limit global warming.

The EIB is a long-term lending institution that applies strict sustainability standards during due diligence and our indirect equity holdings form a relatively modest share of the balance sheet. Nevertheless, the EIB has debt positions on a number of counterparts with activities in various sectors that could theoretically be affected by the kind of transitions described above. The extent to which systemic risks linked to climate change might affect the Bank's financial position in the future has not yet been clearly mapped out.

The Bank recognises that all types of climate change-related investment risks need to be fully taken into consideration and incorporated into its portfolio risk management. As a first step the EIB will assess the state-of-the-art approaches, product offerings and examples applied by financial institutions regarding inclusion of climate change-related risks and opportunities, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, requirements related to the relevant EU legislation, and European Commission guidelines on climate disclosures. The EIB will then undertake a preliminary scoping exercise on its existing assets, to assess the level of relevance of systemic climate risk to its financial standing. If necessary, it will develop a more comprehensive climate change risk assessment framework, based on the conclusions of that scoping exercise, to make screening of its complete portfolio possible.

Managing the EIB's internal footprint

The Bank has been measuring and managing its carbon footprint annually since 2007. Since then, a number of measures to reduce the footprint of the Bank's premises have been introduced, among which the use of renewable electricity and combined heat and power (CHP), the replacement of the EIB car fleet and taxi service with lower-emissions vehicles and the replacement of the old printer fleet by fewer multifunctional print/scan/copy devices. The Bank has improved the energy performance of its physical office facilities services by actively managing the lighting and heating of unoccupied workplaces and out-of-hours energy consumption, in addition to already using low-energy lighting. Additional steps will support curbing the Bank's internal footprint, to contribute to a low-carbon and climate-resilient economy.

The Bank intends to broaden the scope of its current environmental management processes to better understand and manage its direct environmental impacts (estates and operations). Furthermore, it will, where possible, seek to reinforce systematic environmental review processes to better determine its environmental impacts (energy, waste generation, water use, etc.) and develop carbon reduction objectives and targets for further environmental improvement within the Paris-aligned framework of the Environmental Management System (EMS).

Compensation through high-quality, certified mechanisms will remain a feature in respect of the residual carbon emissions.

Monitoring, reporting and outreach

This strategy will be implemented primarily by delivering financial support to investment, by providing technical assistance and by developing and sharing good practice to increase the Bank's climate action impact and effectiveness. The Bank will develop internal action plans, or roadmaps, that will detail the steps to be taken to develop these three strategic areas. The plans will include the necessary monitoring and reporting requirements to evaluate the Bank's achieved output on a regular basis within a five-year cycle.

The EIB will uphold the principles of accountability and transparency in all of these processes.

The Bank will proactively work on maintaining a varied network of partnerships and contributions. It will also strengthen its role in sharing experiences and improving the knowledge base and tools in general.

Annexes

Annex 1 – Climate action lending – eligibility list

This list has been revised to bring the definitions of the eligibility criteria into line with the joint MDB climate finance tracking methodology, as stipulated in the second paragraph of the section “[Financing specific climate action projects](#)” above.

It is published separately on the EIB’s website, on the following webpage:
<https://www.eib.org/en/publications/climate-action-lending-eligibility-list>.

Annex 2 – Carbon pricing

The EIB’s carbon pricing approach is presented in an Annex to the Climate Bank Roadmap:
<https://www.eib.org/en/publications/the-eib-group-climate-bank-roadmap>.

EIB Climate Strategy

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