CEE bankwatch network

Briefing May 2017

The winners and losers of climate action at the European Investment Bank

The European Investment Bank has committed to support the EU's transition to a low-carbon and climate-resilient economy. Since 2008 it committed to at least 25 per cent of its annual commitments for "climate action" – projects that address climate change mitigation and adaptation . By 2020 the bank will also increase its climate action lending outside the EU to 35 per cent of its total annual lending. These targets were approved by the bank's board of directors, which represent all 28 EU Member States and the European Commission.

The bank reiterated its commitment to support the implementation of the Paris Agreement with dedicated contributions to the UN climate change conferences. In November 2016 in Marrakesh, during the COP 22 Conference, EIB Vice President Jonathan Taylor defined the role of public financial institutions "in making the Paris agreement a reality" which is to develop products and instruments that encourage and maintain private capital flows to climate-friendly projects[1]. This approach has been outlined in the new EIB Group Operational Plan for 2017-2019 which anticipates an increase in climate finance, in particular outside the EU where the bank will prioritise advisory services for COP 21-related projects[2].

Following the publication of the EIB's first Climate Strategy in 2015, it developed an internal action plan to detail progress in the following strategic areas: increasing mitigation and adaptation gains, increasing adaptation operations, developing climate risk and vulnerability assessments and improving the assessment and management of climate change risks to its portfolio. Other climate related initiatives in 2016 the bank contributed to were the Green Bonds Principles and the Climate and Clean Air Coalition to Reduce Short-Lived Climate Pollutants.

Within the EU, the EIB focuses its attention on the Investment Plan for Europe, in particular the European Fund for Strategic Investments (EFSI), where the bank together with the Commission plas a leading role. The EFSI should be aligned in the fight against climate change and for environmental protection through support for projects that support the Union's energy, climate and efficiency targets outlined in the Europe 2020 strategy and in the 2030 and 2050 frameworks for climate and energy. Despite claims by the EIB that the EFSI is a strong contributor to the fight against climate change[3], our analysis of the EFSI's real commitments finds this contribution disappointing.

[1] The key role of public banks in making the Paris Agreement a reality http://www.eib.org/infocentre/press/releases/all/2016/2016-280-the-key-role-of-public-banks-in-making-the-paris-agreement-a-reality-eibs-jonathan-taylor-at-cop22.htm
[2] EIB Group Operational Plan 2017-2019 http://www.eib.org/attachments/strategies/operational_plan_2017_2019_en.pdf
[3] http://www.eib.org/infocentre/press/releases/all/2016/2016-277-european-investment-bank-confirms-commitment-to-support-climate-related-investment-and-strengthened-efforts-since-paris.htm

The analysis of the bank's climate action is based on the climate action database disclosed by the EIB. The database includes projects which were signed in 2016 and classified in line with the methodology approved by the bank in its Climate Strategy.

Findings

Loans concentrated in the EU's most advanced economies

Although the bank has managed to reach its overall target of 25 per cent for climate action each year, it has struggled to finance projects in a number of EU countries. In 2016 more than 26 per cent (EUR 17.5 billion) of EIB lending in the EU supported climate change mitigation and adaptation. Despite the significant amounts invested, which EU states received the money remains a key issue. In as many as 12 states climate financing was below 10 per cent of the bank's total lending, with Latvia not receiving any money earmarked as climate action. Climate action in 2016 was predominantly located in the EU's stronger economies, and this seems to be the rule rather than the exception.

EFSI scores low on climate action

The EFSI lent little in support of climate action. Only 20 per cent (EUR 2.5 billion) on EFSI guaranteed financing supported projects contributing to climate change mitigation and adaptation. In "cohesion countries" EFSI climate action is even more disappointing, with less than 10 per cent of the entire volume for that region earmarked for such purposes. Moreover, 70 per cent of EFSI support for renewable energy was concentrated in just one country – Belgium – while 80 per cent of energy efficiency within the EFSI was allocated to France, Finland and Germany.

The dominance of the transport sector

While in 2016 the bank managed to diversify climate action projects, the transport sector still received the lion's share at 38 per cent within the EU. In "cohesion countries," the predominance of the transport sector as climate action is even more significant (51 per cent), while energy efficiency and renewable energy projects – which have the largest climate change mitigation potential – constitute just a quarter of the bank's action in the region.

Renewables and energy efficiency for only few countries

Last year the bank committed almost EUR 3.5 billion to renewable energy in the EU, up from EUR 2.7 billion in 2015. However in many EU states the EIB's contribution was negligible or even non-existing. Over 80 per cent of renewable energy financing in 2016 was allocated to just five EU states. In Bulgaria, Latvia and Luxembourg the bank has not financed a renewable energy project since 2013.

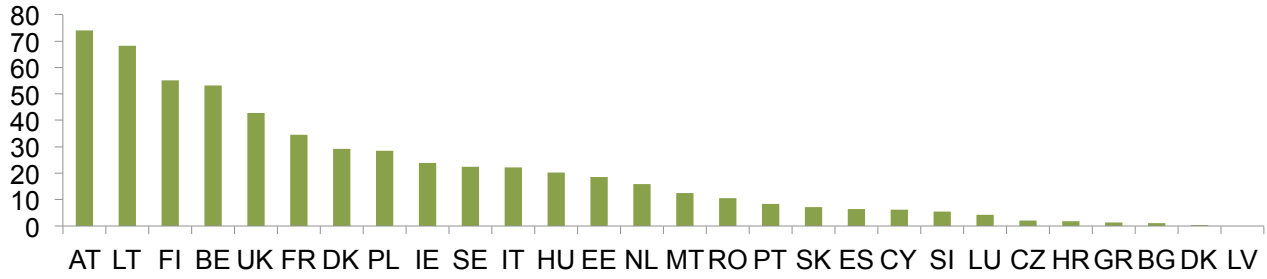
The EIB has increased financing for energy efficiency within the EU, from less than EUR 2 billion in 2013 to EUR 3.4 billion in 2016. However, this analysis shows that the discrepancies are significant among EIB investments in energy efficiency projects across EU Member States. As many as nine countries received no such investments in 2016.

EIB Climate Action in 2016

In 2016 the bank just met its 25 per cent target for climate action, with EUR 17.5 billion (26 per cent of its total portfolio) allocated in support of climate change mitigation and adaptation. Despite the significant amounts invested, discrepancies about how much EU states receive

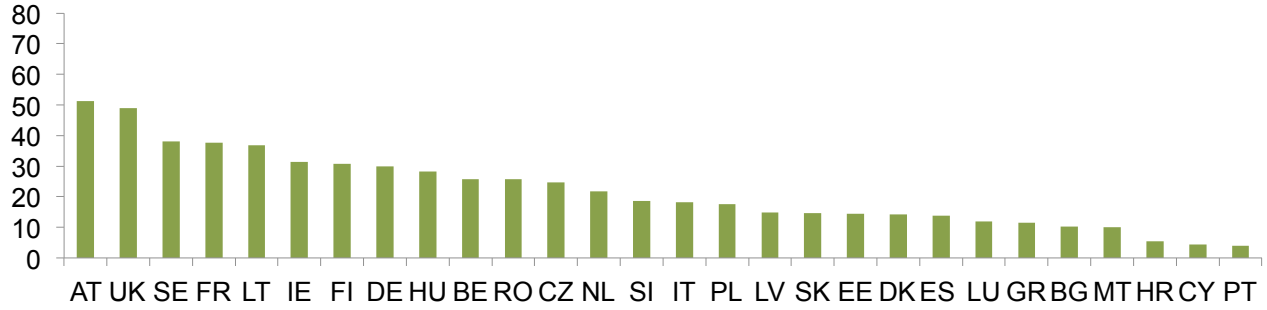
remain a major issue. In 16 EU Member States, EIB support for climate action did not reach even the level of 20 per cent.

Graph one: share of climate action by country in 2016, per cent



In 15 "cohesion countries"[4] , EIB support to climate projects reached on average 16 per cent of EIB total lending in these countries, and in eleven of these countries climate action was below that level. The EIB pursues climate action in just few counties, predominantly in the EU's stronger economies, which seems to be the rule rather than the exception.

Graph two: share of climate action between 2013 and 2016, per cent



Between 2013 and 2016, in 11 "cohesion countries" the level of support to projects mitigating or adapting to climate change did not reach even 20 per cent. The EIB does not seem to prioritise climate action equally across the EU. Lithuania, Hungary, Czech and Romania were examples where EIB financing for climate action was in that period at least on the level of its established target.

Similar to 2015, in "cohesion countries" state-owned entities and co-financing for national EU funds Operational Programmes prevailed among climate action beneficiaries, accounting for 41 per cent of the total climate financing in the region. Municipalities and regional governments also received almost 30 per cent of the climate action funds. Private companies

[4] Countries where Gross National Income (GNI) per inhabitant is less than 90 per cent of the EU average: Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia

and financial intermediaries consumed just over 8 per cent of the bank's climate finance in "cohesion countries".

Although the bank has managed to reach its target for climate finance every year, it has struggled to finance relevant projects in several countries, and these discrepancies are significant. The EIB should look for ways to support climate action more equally across the EU, in particular through enhanced technical assistance available via the European Investment Advisory Hub and the European Fund for Strategic Investment guarantees for more risky projects.

Climate action

EIB climate action covered projects in renewable energy, energy efficiency, transport, research and development, afforestation and climate change adaptation. The EIB applies a climate finance tracking methodology approved as a part of its climate strategy and in line with common principles for climate mitigation finance tracking agreed by major multilateral development banks[5].

The EIB's evaluation of climate action within the EU for 2010 through 2014 pointed out that not every type of project contributes the same to climate change mitigation, and it recommended that the bank enhance the impact of its climate lending by diversifying its project portfolio[6]. Following this recommendation, the new climate strategy initiated a process with the hopes of steering climate action towards the most impactful activities in order to bring about significant mitigation or adaptation gains.

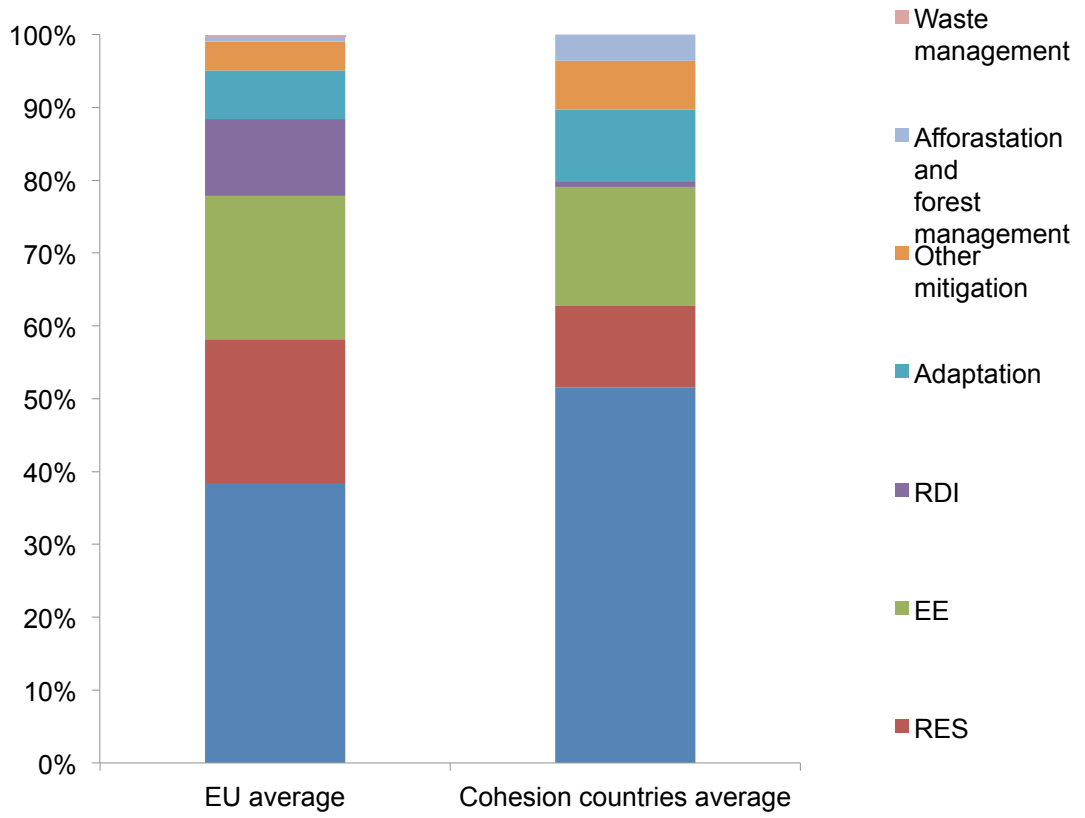
The European Commission uses a methodology based on the OECD DAC climate markers for tracking and monitoring climate expenditures from the European Structural and Investment Funds (2014-2020)[7] which weights different types of projects depending on if climate protection is a primary, significant or insignificant project objective. Therefore projects in renewable energy and energy efficiency receive the highest markers, and hence the entire EU funds contribution is reported as climate action, while public transport projects, buses or railways, receive lower markers and only 40 per cent of EU contributions in this case are reported as climate action.

If such an approach were applied by the EIB, it would significantly impact the results of the bank's climate action, which to a large extent has been dominated by transport projects.

Between 2013 and 2016 the transport sector's share of climate action across the EU exceeded 40 per cent, while in the EU-13[8], this amount exceeded 60 per cent. In 2016, the transport sector decreased to 38 per cent of EU climate action, while in "cohesion countries" it exceeded 51 per cent.

[5] http://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf
[6] http://www.eib.org/infocentre/publications/all/evaluation-eib-financing-of-climate-action-within-the-eu-2010-2014.htm
[7] *Tracking climate expenditures*, European Commission, https://ec.europa.eu/clima/sites/clima/files/docs/tracking_climate_expenditure_en.pdf
[8] Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia

Graph three: EIB climate action in the EU by sector in 2016, per cent of total climate action



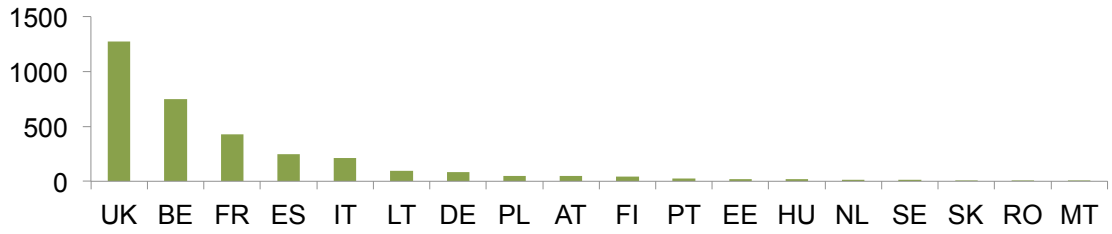
As in previous years in "cohesion countries", the share of renewable energy, energy efficiency and research and development projects in climate action is lower than the EU average, albeit growing. In 2016 the bank diversified its climate action portfolio in "cohesion countries" so that the share of renewable energy increased by three per cent and five per cent for energy efficiency, when compared with the 2013-2015 period[9]. Nevertheless the transport sector still dominates climate action in "cohesion countries", while energy efficiency and renewables constitute just a quarter of bank's climate action for the region.

Renewable energy in climate action

Last year the bank committed almost EUR 3.5 billion to renewable energy in the EU, an impressive increase compared to the EUR 2.7 billion in 2015. Between 2013 and 2016, the bank allocated an impressive EUR 16 billion in support of the EU's renewable energy target. However in many EU states the EIB's contribution was negligible or even non-existing.

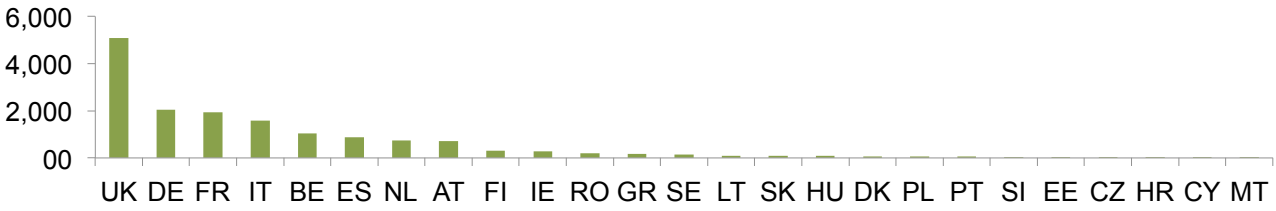
[9] Detailed analysis of the EIB climate action between 2013 and 2015 can be found in CEE Bankwatch Network briefing http://bankwatch.org/publications/european-investment-bank-and-climate-action-2013-2015

Graph four: EIB renewable energy lending in 2016, million EUR



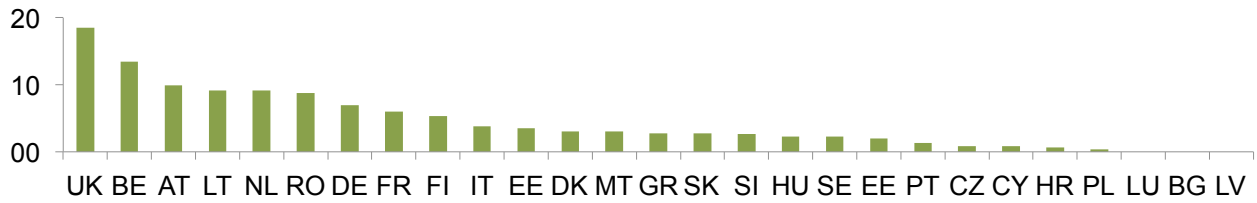
Well over 80 per cent of renewable energy financing in 2016 was allocated in just five EU states. Graph 5 shows that this is not just a one year result but rather a trend in the bank's climate action. Between 2013 and 2016, almost 80 per cent of renewable energy financing was allocated in the same five states plus Germany. This can partially be explained by the different volumes of EIB lending to a particular country, which can vary significantly.

Graph five: EIB renewable energy lending between 2013-2016, million EUR



Graph 6 shows the volume of support for renewables as a portion of the bank's total lending in EU countries between 2013 and 2016, proving that this trend does indeed exist, especially in those countries where renewables financing is negligible. During that period, the average amount of renewables as a per cent of total bank lending was 5.8 per cent, while in 19 countries the portion was below the average. In Bulgaria, Latvia and Luxembourg the bank has not financed any renewable energy project since 2013. In six countries, support for renewables exceeded the EU average, whereas in the UK, Belgium, Germany and France, this was the highest volume of financing.

Graph six: share of renewable energy lending as a per cent of total lending, 2013-2016



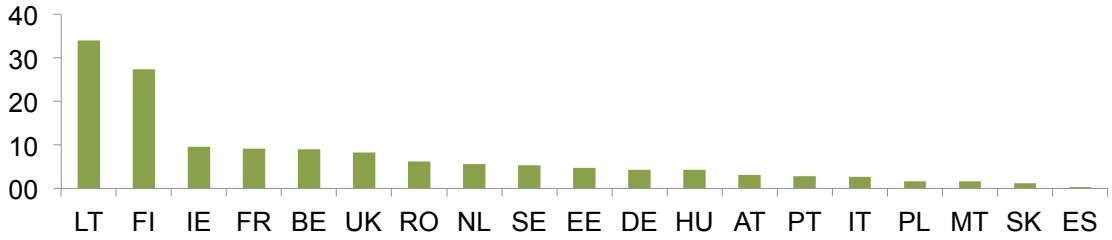
Efficiency first, just for few?

The EIB considers energy efficiency as the most cost-effective and rational way of reducing emissions and improving the security of energy supply[10]. In 2016, the bank increased finance

[10] Finance for climate action, EIB, 2016, http://www.eib.org/attachments/thematic/climate_action_en.pdf

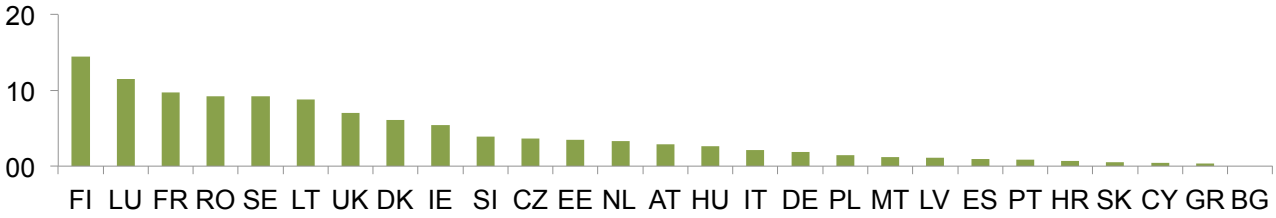
for energy efficiency in the EU from less than EUR 2 billion in 2013 to EUR 3.4 billion. However, this analysis reveals that the geographic distribution varies significantly across the EU's Member States[11]. In 2016, cross-sector energy efficiency exceeded on average 5.1 per cent of total EIB lending in EU, but in as many as nineteen countries, energy efficiency financing was below this average, and in nine countries no such investments were made.

Graph seven: Share of energy efficiency as a per cent of total lending EIB in 2016 by country



As with financing for renewables, this is rather the rule than an exception. Between 2013 and 2016, on average almost four per cent of EIB lending in the EU supported energy efficiency measures for all sectors, however in a number of countries energy efficiency measures have been supported in name only and in Bulgaria, with one of the most energy intense economies in the EU, the bank did not finance a single energy efficiency project.

Graph eight: share of energy efficiency as a per cent of total EIB total, 2013-2016



Climate action in European Fund for Strategic Investments: is there more climate in EFSI?

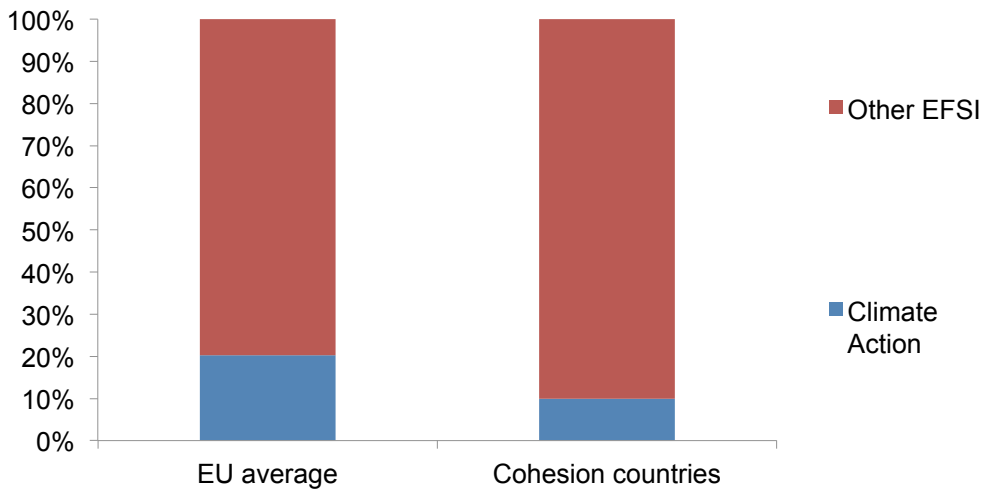
The European Fund for Strategic Investment was created to address private investors' lack of willingness to take on more risk and thus open financing opportunities for projects that would otherwise struggle to find it. For these reasons, it is expected that the EFSI should be an ideal tool to reverse the negative trends noted above. For instance, energy efficiency is specifically mentioned as an area that the EFSI should support[12].

In 2016, the bank allocated[13] EUR 12.5 billion for projects covered by an EFSI guarantee. Surprisingly, only 20 per cent or EUR 2.5 billion of EFSI financing guaranteed projects that contribute to climate change mitigation and adaptation. This result is lower than EIB's standard lending. In "cohesion countries" the EFSI guaranteed EUR 2.7 billion in financing but less than 10 per cent for investments into climate change mitigation or adaptation projects.

[11] http://bankwatch.org/publications/european-investment-bank-and-climate-action-2013-2015
[12] Commission Delegated Regulation (EU) 2015/1558 of 22 July 2015 supplementing Regulation (EU) 2015/1017 of the European Parliament and of the Council by the establishment of a scoreboard of indicators for the application of the EU guarantee
http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1558&from=EN
[13] The number refers to signed loans in 2016

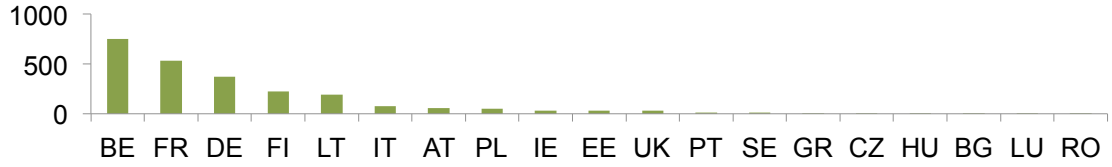
This is significantly less than the bank achieved with its standard portfolio and far from any expectation that one could have towards this innovative risk instrument created to finance the sustainable development of the EU.

Graph nine: share of climate action measures within the EFSI in 2016, million EUR



Moreover, the analysis shows that EFSI support for climate action projects in 2016 was concentrated in just a few EU states, while in as many as eight countries it was simply non-existing.

Graph ten: EFSI climate action in 2016 in EU states, million EUR



The feature that distinguishes the EFSI from normal EIB climate action is the structure that prioritised renewable energy sources and energy efficiency over the sustainable transport sector. These two sectors constitute over 75 per cent of EFSI climate action, while transport less than 8 per cent. However 70 per cent of EFSI support for renewable energy in 2016 was concentrated in just one country – Belgium – while 80 per cent of EFSI energy efficiency financing was located in France, Finland and Germany. Investment Platforms and innovative financial structuring were considered as a means to facilitate funds for smaller-scale projects such as energy efficiency. But in 2016 only one platform in France allocated funds for energy efficiency. Not only was the EFSI climate action in 2016 at a rather disappointing level, but also it was channelled to a limited number of countries. Both issues require urgent attention from the EFSI's governing bodies.

For more information

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