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The European Investment Bank – powering a sustainable future?

For more information

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With a lending portfolio of EUR 72 billion (2010), the European Investment Bank (EIB) - the European Union's house bank - exists to support the implementation of EU policy. In 2010, roughly 24 percent of the bank's lending or more than EUR 17 billion was devoted to the energy sector[1], making energy the bank's second largest lending sector after transport and representing a significant increase in its importance in the bank's lending over the four years since 2007.[2]

Member States have endorsed the Europe 2020 Strategy that envisages the mobilization of EU resources for reaching climate and energy targets for 2020, namely reducing carbon emissions by 20 or 30 percent, improving energy efficiency by 20 percent and increasing the use of renewable energies by 20 percent. With climate change this high on the European political agenda, it is appropriate to ask where this EUR 17 billion has gone and whether it has indeed been used to support European policy objectives?

This is all the more so since European energy and climate policy is advancing rapidly. The EIB is not yet in step with the most recent long–term policy developments that require 80-95 percent cuts in EU greenhouse gas emissions and almost total decarbonisation of the energy sector by 2050.

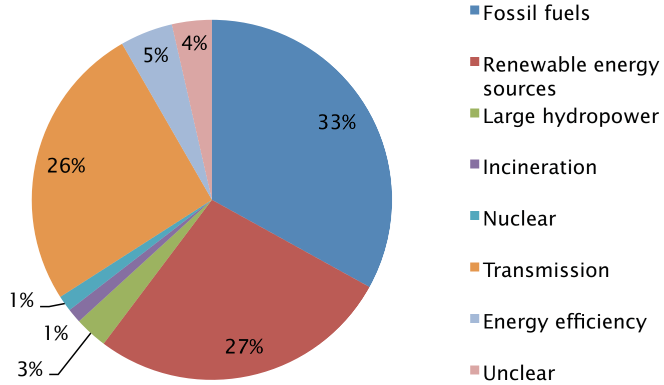
Bringing in the 2050 perspective casts a new light on the EIB lending. The European Commission estimates that the transition to a low-carbon economy will require an increase in investments of EUR 270 billion annually over the next 40 years.[3] Some of these investments require public support, e.g from public banks, in order to be economically viable.[4] In this situation it is justified to ask whether we can afford to spend EIB resources on fossil fuels that impede the transformation to energy efficient, renewables-based economies.

The EIB's addiction to fossil fuels

The dominant type of EIB loans in the sector was lending to fossil fuels. In the years 2007-2010 this made up 33 percent (EUR 16 billion). In the same period renewable energy was supported with over 13 billion EUR.

Both lending to renewables and fossil fuels are on the rise. EIB support for renewables in 2010 reached EUR 5.8 billion, with EUR 5 billion for fossil fuels. The bank managed to increase its lending to renewables, but failed to stop increasing its lending to fossil fuels (compared to 2007 lending for fossil fuels had doubled by 2010).

EIB energy lending by category 2007-2010



CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

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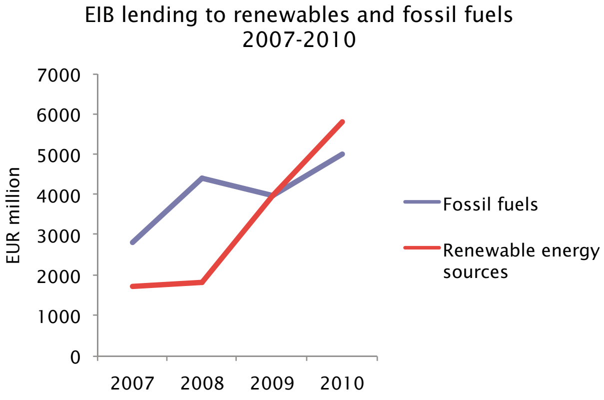
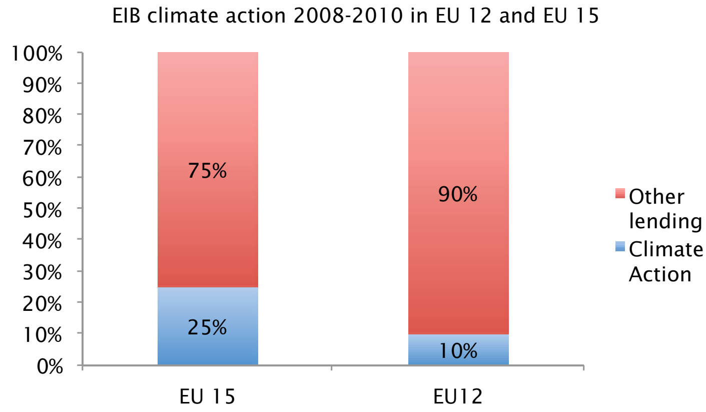




In spite of the EIB having developed criteria restricting **the bank's support for coal projects**, this has not prevented the EIB from financing coal power plants, e.g. large installations in Slovenia and Germany. In the years analysed, the EIB loaned EUR 1.8 billion or 11 percent of its fossil fuel lending for coal power plants.

At the same time the most socially and environmentally beneficial type of energy investment – **energy efficiency – has been largely neglected by the bank**. The fact that a mere 5 percent of all energy investments have been spent on real energy efficiency is the largest shortcoming of the bank in the energy sector.

EIB lending in the EU New Member States

The EIB's energy lending in the central and eastern EU States has predominantly supported high-carbon types of energy, thus petrifying the current unsustainable energy system in the eastern part of the EU, and locking the New Member States (NMS) into an unsustainable energy future.

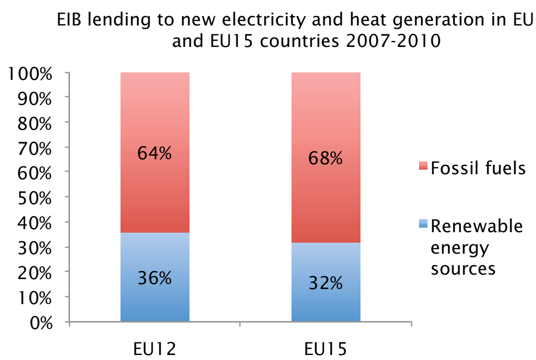
A very small portion of EIB lending to renewables (6 percent) and energy efficiency (16 percent) was allocated in the New Member States. The share of renewable energy sources in the electricity and heat generation lending in NMS is also twice as small as that in the EU-15 and reached only 36 percent.

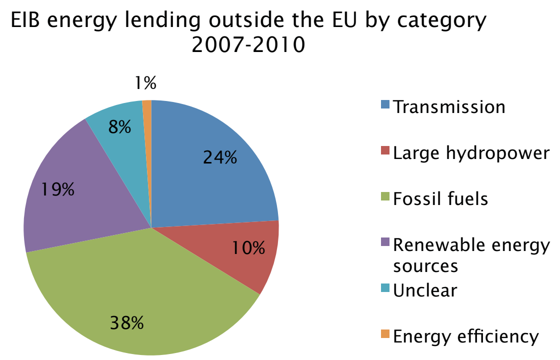
The EIB's Climate Action programme was also not sufficiently ambitious in pursuing its climate change objectives in the region. A mere 10 percent of EIB lending in New Member States in between 2008 and 2010 could be classified under Climate Action. This is two and a half time less than in other Member States. The majority of EIB Climate Action financing is thus taking place in the EU's most developed countries. Much more emphasis should be put on ensuring that EIB funds support EU economic, social and territorial cohesion in terms of the development of renewable energy, sustainable transport initiatives and energy efficiency across the European Union.

The EIB did not manage to implement any of its commitments and targets related to the EU 2020 targets for the financing of renewable energy sources and climate protection in the New Member States. Therefore it should develop a policy-based well-tailored approach to countries where a market sector for energy efficiency and new renewables investments still needs to be established. This would require a proactive approach in seeking clients and providing technical assistance, as well as closer cooperation with local financial institutions.

EIB lending outside the EU

The most heavily supported type of energy outside of the EU was fossil fuels (almost 40 percent). The share of renewables in the overall energy lending outside of the EU was only 19 percent. Hardly any loans went to the least developed countries of ACP (Africa, Caribbean and Pacific). It seems that the EIB,





which outside of the EU works under a development mandate,[5] is at the moment not well equipped to finance clean energy projects in the least developed countries. Thus the EIB should urgently develop a strategy for increasing support for projects contributing to reduction of CO2 emissions and for phasing out financing for projects detrimental to the climate as stipulated in the Council and Parliament Decision on granting the EIB guarantee for financing outside of the EU.[6]

EIB energy and climate policies – weak targets preserve business as usual.

Under the current EIB energy policy, adopted in 2007, "Clean Energy for Europe: A reinforced EIB contribution", the bank continued supporting the fossil fuels industry. Fossil fuels remained the most heavily supported compared to other energy sources while energy efficiency measures remain a marginal part of EIB energy lending.

The EIB is reluctant to make commitments which would dramatically change its lending practices. In 2002 it obliged itself to allocate 15 percent of energy lending for renewables. 6 years later this target was raised to only 20 percent. Its new Climate Action indicator showing which projects contribute to EU climate objectives has also been set at only 25% in 2012.[7] Much more would be expected from a policy-oriented institution. Otherwise not only will the EIB not contribute to achieving the EU's core objectives for 2020 and beyond but it will also prevent them from being achieved due to locking the energy sector into long-lasting fossil fuel infrastructure.

Selected recommendations

Bearing in mind that energy infrastructure constructed today will often be in use even beyond 2050, Bankwatch recommends the EIB to make forward-looking decisions now and revise its energy policy in line with climate science as well as with the Europe 2020 Strategy, EU 2050 objectives and Roadmaps. In order to make a clear commitment for mobilizing its resources for support for low-carbon development in Europe and outside, the EIB needs to:

- immediately cease support for the most carbon intensive types of energy generation, starting from coal.
- develop and implement a plan to phase out lending for other fossil fuels prioritise energy efficiency as the most important area of intervention.
- in cases where there is a shortage of viable energy efficiency or new renewable energy projects, the EIB should apply the „no harm" principle and refrain from financing climate-damaging and unsustainable energy projects. A lack of viable renewables or energy efficiency projects cannot be an excuse for continuing to finance fossil fuels.
- mainstream climate change considerations into its lending policies through establishing more ambitious targets for its Climate Action - at least 50% of its lending in 2015.
- increase significantly its efficiency in pursuing its climate change objectives in New Member States and outside of the EU and ensure that its Climate Action target is also met in these regions.

In the EU New Member States and outside of the EU the EIB should:

- introduce regional targets for financing renewables and energy efficiency in order to avoid the continuation of uneven distribution of clean energy lending.
- develop targeted instruments and policies, including technical assistance support, in order to overcome the current situation, where the share of clean energy lending in these countries is substantially lower than in the EU-15. These instruments should be focused on supporting smaller scale renewable energy investments.

In developing countries

If the EIB is to continue its energy lending outside of the EU, it should:

- Finance only projects, whose underlying goal is poverty eradication and to ensure access to energy for the project stakeholders (the population of the relevant country). Furthermore EIB projects should contribute to increased democracy through enhancing public participation in its decision-making process.
- Finance only those clients, who have committed to observe environmental and social standards not weaker than those in the EU. The integration of environmental considerations into the project appraisal process should be on the same level as in the EU, without exceptions.
- Develop a strategy for increasing financial support for projects significantly contributing to reduction of CO2 emissions and for phasing out financing for projects detrimental to climate as stipulated in the Council and Parliament Decision No 1080/2011/EU of 25 October 2011.[8]

End notes

1. CEE Bankwatch Network's own calculations. See the methodology for these calculations in the full study http://bankwatch.org/publications/carbon-rising-european-investment-bank-energy-lending-2007-2010
2. According to Bankwatch's calculations, the proportion of energy lending in the EIB's total portfolio between 2007 and 2010 increased from over 15 percent to over 24 percent. For the EIB's own figures look at: http://www.eib.org/attachments/general/reports/st2010en.pdf
3. EC communication: "A Roadmap for moving to a competitive low carbon economy in 2050, March 2011, COM(2011) 112 final
4. According to the EC investments in electricity and gas networks worth EUR 200 billion are needed until 2020. Half of it is at risk of not being delivered by the market alone. COM(2011) 665
5. Article 208 of the Treaty on the Functioning of the European Union.
6. Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC
7. Climate Action indicator shows how much of EIB lending goes to projects aiming at green house gasses reduction in the following sectors: renewable energy, energy efficiency, sustainable transport, research and development, forestry.
8. Decision No 1080/2011/EU of the European Parliament and of the Council of 25 October 2011 granting an EU guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Union and repealing Decision No 633/2009/EC