

GREENING THE EUROPEAN INVESTMENT BANK

By Cillian Rossi

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Executive Summary

The European Investment Bank (EIB) is an increasingly important actor in the EU's efforts to transition to carbon neutrality by 2050. In response to calls from the European Council and European Commission President Ursula von der Leyen, the EIB has committed to scaling up its climate-related activities in order to become the EU's dedicated climate bank. Guided by broader EU commitments to the Paris Agreement and to the United Nations Sustainable Development Goals, the EIB already has a significant track record upon which to build. Notably, the Bank issued the world's first green bond and has since expanded its bond issuance portfolio into a wide range of sustainable causes.

The EIB has also been working closely with other EU institutions to support the green transition. The Bank has partnered with the European Commission to mobilise private investment in renewable energy and has contributed expertise to the work of the Commission's Technical Expert Group on Sustainable Finance. More contentiously, the EIB has agreed to cease financing fossil fuel projects by the end of 2021, in the face of significant opposition from some Member States. Despite this resistance, the EIB's recent climate action – combined with its growing political support in the EU – suggest that the Bank is well placed to support the EU's pathway to net-zero carbon emissions over the coming decades.

Introduction

The European Investment Bank (EIB) is the long-term lending arm of the EU. Commonly referred to as the EU Bank, the EIB is **owned by the 28 Member States**, meaning its shareholders are the citizens of the EU. However, the EIB does not lend EU taxpayer money. The Bank's lending activities are mainly financed through bond issuance in the

international capital markets. As Andrew McDowell, Vice President of the EIB, noted at the IIEA-ESB Live Electric Conference on 23 September 2019, the EIB has drawn capital contributions from the EU taxpayer on only two occasions: when the Bank was first established in 1958, and at the height of the eurozone crisis in 2012.¹

The EIB has a dual function. Firstly, it is an investment bank that leverages its AAA credit rating to offer long-term loans with attractive pricing terms. Secondly, it is an EU institution tasked with implementing wider EU policy objectives. As such, each project that the Bank finances must include an assessment of potential **environmental and social impacts**. A key distinction between the EIB and private lenders is the concept of 'additionality'. This means that the EIB seeks to complement – rather than displace – commercial sources of finance in order to deliver EU policy objectives.

Since its foundation, the EIB has financed close to **12,000 projects** in more than **160 countries**.² Approximately 90% of EIB loans are made within the EU, with extra-EU activities accounting for the remaining 10% of its annual disbursements. The size of the EIB's balance sheet – nearly €556 billion at the end of 2018³ – is more than double that of the World Bank, making it the largest multilateral financial institution in the world. Despite its size and global reach, however, the activities of the Luxembourg-based bank are little-known to most EU citizens. As Werner Hoyer, President of the EIB, said: "This bank has been growing more or less undetected in the woods of Luxembourg over the last 60 [or] 61 years – **to an unknown dimension and firepower**."⁴

This could all be about to change. In response to calls from the European Council⁵ and European Commission President Ursula von der Leyen⁶, the EIB is set to scale up its green activities with a view to becoming the EU's dedicated **climate bank**. But is this a realistic objective? To assess this question, this briefing examines the EIB's recent activities in support of climate action and considers the Bank's capacity to finance what President Hoyer has called the "green transition" in the EU.⁷

1. Speech by Andrew McDonnell to the IIEA-ESB Live Electric Conference, 23 September 2019: https://www.youtube.com/watch?v=z_oAXng-aQ0
2. European Investment Bank: 'The EU bank at a glance': <https://www.eib.org/attachments/60-anniversary-eib-infographic-en.pdf>
3. European Investment Bank, EIB Financial Report 2018: https://www.eib.org/attachments/general/reports/eib_financial_report_2018_en.pdf
4. 'European Investment Bank: the EU's hidden giant', *Financial Times*, 15 July 2019: <https://www.ft.com/content/940b71f2-a3c2-11e9-a282-2df48f366f7d>
5. European Council meeting (20 June 2019) – Conclusions: <https://www.consilium.europa.eu/media/39922/20-21-euco-final-conclusions-en.pdf>
6. European Commission, Political Guidelines for the Next European Commission 2019-2024: https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf
7. Werner Hoyer, 'How to Finance the Green Transition', *Project Syndicate*, 24 September 2019: <https://www.project-syndicate.org/commentary/financing-the-green-transition-by-werner-hoyer-2019-09>

Strategy for Climate Action and Environmental Sustainability

Sustainability underpins the EIB's lending strategy across its **four priority areas**: (i) innovation and skills; (ii) small and medium enterprises; (iii) infrastructure; (iv) climate and environment. Indeed, the EIB Group – which comprises the EIB and the European Investment Fund, the EU agency responsible for the provision of finance to SMEs, of which the EIB is the majority shareholder⁸ – is **the largest multilateral investor in climate action in the world**. In 2018, the EIB exceeded its target for the ninth successive year with climate-related investments of €16.2 billion, representing almost 30% of its total lending.

On 14 November 2019, the EIB Board of Directors approved an ambitious new **Strategy for Climate Action and Environmental Sustainability**.⁹ The Strategy centres on three elements:

- Align all the EIB's financing activities with the principles and goals of the Paris Agreement by the end of 2020;
- Support €1 trillion worth of investments in climate action and environmental sustainability from 2021 to 2030;
- Increase the share of the EIB's financing dedicated to climate action and environmental sustainability to 50% by 2025.

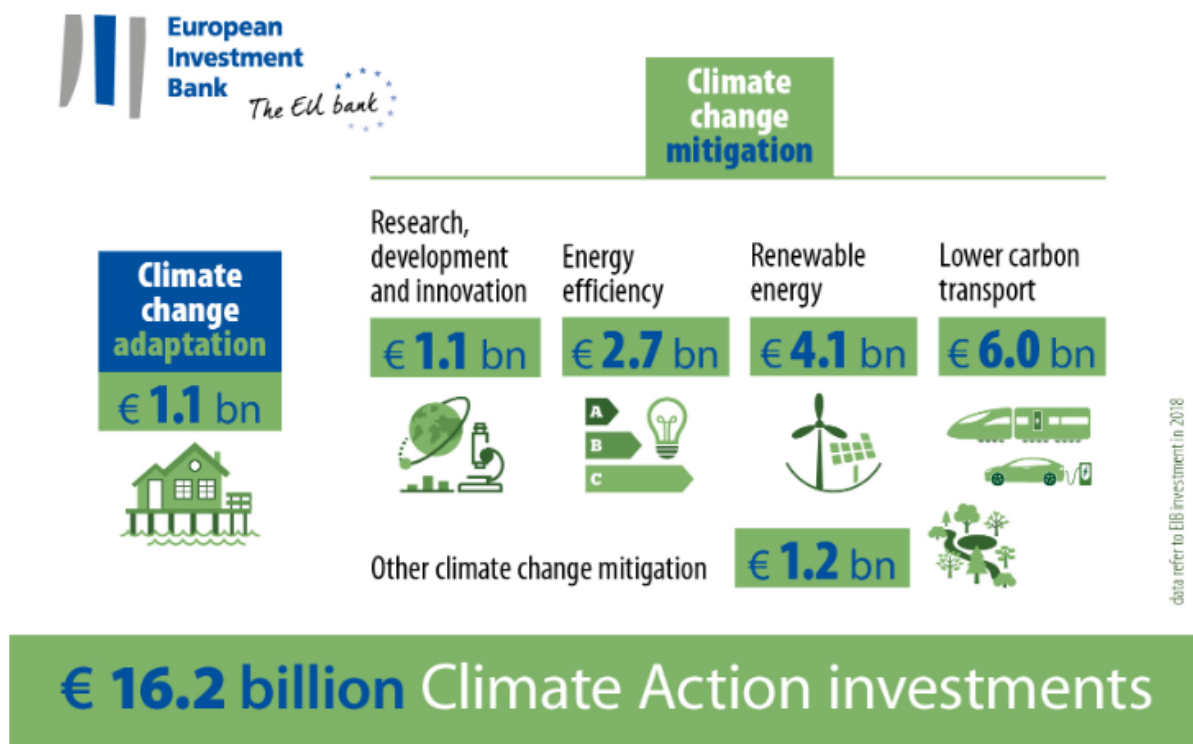


Figure 1: EIB Group investment in climate action in 2018. Source: EIB.

8. European Investment Fund, Shareholders: https://www.eif.org/who_we_are/shareholder/index.htm

9. European Investment Bank, 'EU Bank launches ambitious new climate strategy and Energy Lending Policy': <https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy>

The EIB's broader climate agenda is set out in its **Climate Strategy**, adopted in September 2015.¹⁰ Each project that benefits from EIB financing must comply with the relevant EU and national legal requirements related to climate policy and adhere to the EIB's **Environmental and Social Principles and Standards**.¹¹ The Climate Strategy defines the EIB's "mission" as follows:

To play a leading role, amongst financial institutions, in mobilising the finance needed to achieve the worldwide commitment to keep global warming below 2°C and to adapt to the impacts of climate change.

To meet this objective, the EIB identifies **three strategic action areas** which steer its climate action. These are:

- Reinforce the impact of EIB climate financing;
- Increase resilience to climate change;
- Further integrate climate change considerations across all of the Bank's standards, methods and processes.

Climate considerations are mainstreamed throughout the assessment and monitoring stages of all EIB-financed projects. The impact on climate change mitigation and/or adaptation of each project is assessed early in the cycle.¹² The Bank also calculates the carbon footprint of directly financed projects in absolute and relative terms, and the economic price of carbon is incorporated into the accounting for environmental externalities.

In practical terms, the EIB supports climate action by financing projects with direct loans or through credit lines to local banks and other financial intermediaries. Depending on the scope and definition of the project, EIB financing may also be combined with separate EU grants.¹³ The EIB complements its traditional loan offerings with innovative financing instruments, stakeholder

engagement and disclosure, the development of standards and methodologies, and the issuance of **Green Bonds** to the market.

Green Bonds

The EIB is a pioneer in the green bond market. The Bank issued the world's first green bond in 2007, known as a **Climate Awareness Bond (CAB)**. CAB issues are 'use of proceeds' bonds, meaning the capital raised can only be invested in projects that support energy efficiency and renewable energy. CABs are aligned with the **Green Bond Principles**, best practice guidelines developed by a coalition of banks, issuers and investors to promote transparency and market discipline. President Werner Hoyer has described the EIB as the "main driver" behind the Green Bond Principles.¹⁴

Since 2007, the EIB has completed over 90 green bond transactions, issuing more than €23.5 billion in green-labelled debt across 11 currencies, with maturities ranging from two to 30 years.¹⁵ As of the end of 2018, CABs have supported 265 projects in 52 countries, both inside (87%) and outside (13%) the EU.¹⁶ In 2018 alone, the EIB issued over €4 billion in CABs through 13 transactions. CAB funds were allocated to 76 projects in 29 countries across the world last year, with 68% of proceeds assigned to renewable energy projects.

The EIB views the green bond market as having significant scope for expansion. According to Aldo Romani, Head of Sustainability Funding in the EIB: "There is an enormous potential for market growth, as more and more areas of the balance sheet can be covered by green and social bond issuance".¹⁷ Global sales of green bonds are more than 60% higher so far this year than in 2018¹⁸ and the EIB could have a decisive role to play in further leveraging this growth over the coming decades.

10. European Investment Bank, Climate Strategy: https://www.eib.org/attachments/strategies/eib_climate_strategy_en.pdf

11. European Investment Bank, Environmental and Social Standards: https://www.eib.org/attachments/strategies/environmental_and_social_overview_en.pdf

12. European Investment Bank, The EIB Group Operating Framework and Operational Plan 2018: https://www.eib.org/attachments/strategies/operational_plan_2018_en.pdf

13. European Investment Bank, 'Finance for climate action': https://www.eib.org/attachments/thematic/climate_action_en.pdf

14. EIB's Werner Hoyer: 'We aim for climate in everything we do', *EURACTIV*, 24 September 2019: <https://www.euractiv.com/section/energy-environment/interview/eibs-werner-hoyer-we-aim-for-climate-in-everything-we-do/>

15. European Investment Bank, Sustainability Report 2018: https://www.eib.org/attachments/general/reports/sustainability_report_2018_en.pdf

16. European Investment Bank, Climate Awareness Bonds: https://www.eib.org/en/investor_relations/cab/index.htm

17. Interview with Aldo Romani, 'Bringing clarity to sustainability', *Environmental Finance*, 22 February 2019: <https://www.environmental-finance.com/content/the-green-bond-hub/bringing-clarity-to-sustainability.html>

18. 'As Green Bonds Boom, So Do 'Greenwashing' Worries', *The Washington Post*, 15 October 2019: https://www.washingtonpost.com/business/energy/as-green-bonds-boom-so-do-greenwashing-worries/2019/10/14/3f1135b0-eeef-11e9-bb7e-d2026ee0c199_story.html

Development of CAB issuance and disbursements, 2014-2018

in € billion

	2014	2015	2016	2017	2018
EIB Climate Awareness Bonds issuance	4.27	3.96	3.86	4.29	4.02
Disbursements to CAB-eligible projects	3.28	3.62	4.16	4.40	3.23

Figure 2: Development of CAB issuance and disbursements 2014-2018 in EUR billion.

Source: European Investment Bank.

The EIB has begun to expand its bond issuance portfolio into a wider range of sustainable causes. In September 2018, the EIB issued a new **Sustainability Awareness Bond (SAB)**, raising €500 million from a seven-and-a-half-year bond and attracting order books of €1.1 billion.¹⁹ The SAB is the first bond that links allocations to both activities and objectives. Proceeds of SABs must be allocated to lending activities in areas of environmental and social sustainability such as water supply, sanitation and flood protection. SABs have been built according to a “modular approach”, meaning the eligibility criteria will gradually expand into sectors such as healthcare and education.²⁰

The EIB has also contributed to the work of the European Commission’s Technical Expert Group on Sustainable Finance (TEG).²¹ The TEG is developing a common **Taxonomy** of environmentally sustainable economic activities and a **Green Bond Standard** which will build on current best practice guidelines such as the Green Bond Principles to provide issuers with certainty about green compliance. The EIB has supported the TEG by providing project evaluation and capital markets expertise. The TEG’s work is already impacting the EIB’s balance sheet. In June 2019, the EIB issued the first bond linked to the new Taxonomy, a DKK 3 billion CAB due in 2031.²²

European Fund for Strategic Investments

Beyond its participation in the work of the European Commission’s Technical Expert Group on Sustainable Finance, the EIB has contributed to other Commission-led initiatives that support the green transition. The **European Fund for Strategic Investments (EFSI)** is one of the three pillars of the Investment Plan for Europe – the Juncker Plan – and is managed by the EIB Group. The EFSI aims to address market gaps by mobilising private investment in areas such as renewable energy and energy efficiency. Each EFSI-supported project is subject to the standard EIB project and governance cycles.

Following the conclusion of the first phase of the EFSI in 2018, the initiative was extended until 2020. Having surpassed its initial objective of mobilising €315 billion worth of investment by mid-2018, EFSI’s 2020 target was revised upwards to €500 billion. EFSI 2.0 will place even greater emphasis on sustainability, with at least 40% of its financing for infrastructure and innovation investments dedicated to climate action.²³ Since the EFSI’s launch, more than 500 EIB projects have been signed or approved, underlining the appeal of sustainable finance to investors. The EIB Group will remain the Commission’s main financial partner over the next lifecycle of the EFSI.

Energy Lending Policy

The EIB’s Board of Directors adopted a new **energy lending policy** on 14 November 2019.²⁴ In a move described as “a quantum leap in its ambition” by President Werner Hoyer,²⁵ the Bank agreed to phase out lending for unabated fossil fuel projects from the end of 2021. This is the first time a major multilateral lender has committed to ending financial support for oil, gas and coal infrastructure, a significant departure for an institution that has provided €13.4 billion in financing to fossil fuel projects since 2013.²⁶

19. European Investment Bank, ‘EIB issues first Sustainability Awareness Bond’:

<https://www.eib.org/en/press/all/2018-223-eib-issues-first-sustainability-awareness-bond>

20. European Investment Bank, Sustainability Awareness Bonds – Capital Market Presentation, September 2019:

https://www.eib.org/attachments/fi/O_sab_website.pdf

21. European Commission, Technical Expert Group on Sustainable Finance (TEG):

https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en

22. European Investment Bank, ‘First DKK CAB highlights relevance of EU Sustainability Taxonomy’:

https://www.eib.org/en/investor_relations/press/2019/fi-2019-12-eib-2031-dkk-cab.htm

23. European Commission, The European Fund for Strategic Development:

https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/europe-an-fund-strategic-investments-efsi_en

24. European Investment Bank, EIB energy lending policy:

https://www.eib.org/attachments/strategies/eib_energy_lending_policy_en.pdf

25. European Investment Bank, ‘EU Bank launches ambitious new climate strategy and Energy Lending Policy’:

<https://www.eib.org/en/press/all/2019-313-eu-bank-launches-ambitious-new-climate-strategy-and-energy-lending-policy.htm>

26. ‘EIB to phase out lending to fossil fuel projects by 2021’, *Financial Times*, 14 November 2019:

<https://www.ft.com/content/cc78d838-0720-11ea-a984-fbbacad9e7dd>

The new policy details five principles which will govern future EIB activities in the energy sector. They are as follows:

- Prioritise energy efficiency in order to meet the obligations of the Energy Efficiency Directive;
- Facilitate energy decarbonisation through increased support for low or zero carbon technology, aiming to meet a 32% renewable energy share throughout the EU by 2030;
- Increase financing for decentralised energy production, innovative energy storage and electric mobility;
- Promote investment in wind and solar energy grids and strengthen cross-border interconnections;
- Enhance the extra-EU impact of investment to support energy transformation outside the EU.

The EIB was expected to adopt the new policy in October 2019, but the decision was postponed by one month as Member States such as Germany and Italy lobbied for natural gas to be categorised as a transition fuel. The EIB made a number of concessions to these countries in order to ensure that the implementation process was “just and fair”.²⁷ The Bank’s initial proposal to remove fossil fuel projects from its loan books by 2020 was postponed by one year and the EIB agreed to continue approving projects already under appraisal until the end of 2021. Gas projects which could have a significant impact on **energy market integration** in at least two EU countries will also remain eligible for funding until 2021.

By adopting its new energy lending policy, the EIB’s activities in the energy sector will become fully aligned with the Paris Agreement. Even though EU finance ministers jointly adopted a statement encouraging multilateral development banks to “phase out financing of fossil fuel projects” on 8 November 2019,²⁸ however, the EIB did not secure unanimous support for its policy. Hungary, Poland and Romania all voted against it, which President Werner Hoyer said was “understandable” given the specific energy challenges that these countries face.²⁹

Indeed, the EIB recognises that carbon-intensive assets are important sources of economic activity and constitute a significant part of the energy mix in many EU countries. For example, coal accounts for nearly one quarter of total electricity production in the EU and provides employment to approximately 240,000 people in 12 Member States.³⁰ As such, the new energy lending policy commits the EIB to working closely with the European Commission to support these regions through a **Just Transition Fund**. The EIB will increase the upper limit of project financing for these regions from 50% to 75% and support projects such as the reconversion of coal mines.

Private Finance for Energy Efficiency

To transition to a carbon neutral economy by 2050, the EU must increase total investment in its energy system from the current level of around 2% to more than 3% of GDP on average.³¹ The EIB’s new energy lending policy acknowledges that delivering on this target will require significant private sector investment. To overcome scarce public resources and the relatively limited availability of commercial financing for energy efficiency investment, the EIB and the European Commission have jointly developed the **Private Finance for Energy Efficiency** (PF4EE) instrument.

The PF4EE instrument aims to make energy efficiency lending a more sustainable and attractive activity across the EU by incentivising financial institutions to address the energy efficiency sector as a **distinct market segment**. The PF4EE instrument offers portfolio-based credit risk protection by means of cash-collateral, together with long-term financing and expert support from the EIB. The instrument also aims to increase the availability of debt financing for eligible energy efficiency investments. To reach “optimal diversification” across the EU, only one PF4EE operation can be implemented per Member State. To date, the EIB has signed PF4EE operations in nine Member States.

27. Werner Hoyer, ‘The Power of Green Public Finance’, *Project Syndicate*, 27 November 2019: <https://www.project-syndicate.org/commentary/eib-green-new-deal-by-werner-hoyer-2019-11>

28. Council of the European Union, Council Conclusions on Climate Finance (8 November 2019): <https://data.consilium.europa.eu/doc/document/ST-13871-2019-INIT/en/pdf>

29. ‘EU must help regions hit by cost of going green, EIB chief warns’, *Financial Times*, 20 November 2019: <https://www.ft.com/content/6c0f9e70-0ab1-11ea-bb52-34c8d9dc6d84>

30. European Commission: Coal regions in transition: <https://ec.europa.eu/energy/en/topics/oil-gas-and-coal/EU-coal-regions/coal-regions-transition>

31. European Investment Bank, Investment Report 2019/2020: https://www.eib.org/attachments/efs/economic_investment_report_2019_en.pdf

The Road Ahead

Meeting the estimated **annual investment gap of €180 billion** needed to achieve the EU's energy and climate goals by 2030³² will require significant political will at EU level. European Commission President von der Leyen has underlined her commitment to “tap into private investment by putting green and sustainable financing at the heart of our investment chain and financial system”. To achieve this, Ms von der Leyen has proposed a **Sustainable Europe Investment Plan** to mobilise €1 trillion worth of sustainable investment over the next decade. Speaking to the European Parliament, President Werner Hoyer said the EIB will be a “key partner” in the implementation of this initiative.³³

At the Member State level, the Council of the EU mandated a **Wise Persons Group** (WPG) to assess options for a more efficient and sustainable European financial architecture for development. The WPG was formed in response to a proposal from the German and French Governments.³⁴ The WPG published its final report in October 2019, calling for a more efficient approach to the EU's development activities. To achieve this, the WPG proposed streamlining the external climate and development finance activities of the EIB and the European Bank for Reconstruction and Development (EBRD) – a London-based financial institution with a predominantly EU shareholder base – into a single entity, the **European Climate and Sustainable Development Bank**.³⁵

The WPG report considers three potential options for consolidating the EIB and EBRD's climate and development finance activities, each of which would require significant institutional overhaul and investment. They are as follows:

- Transfer the extra-EU activities of the EIB to the EBRD;
- Create a new mixed-ownership bank with the EIB, the EBRD, Member States and the European Commission as shareholders; or
- Task the EIB with creating a subsidiary for its extra-EU activities.

President Werner Hoyer welcomed the publication of the report and suggested that creating a development subsidiary at the EIB – similar to the

Bank's proposed **European Bank for Sustainable Development** – would be “politically and financially the most feasible option”.³⁶ EU development ministers, President Hoyer and EBRD President Sir Suma Chakrabarti exchanged views on the WPG report at the Foreign Affairs Council on 25 November 2019.³⁷ The Finnish Presidency of the Council of the EU aims to adopt Council conclusions on the report by December 2019, taking into account the guidance provided by the development ministers.

Conclusion

Critics of the EIB have argued that the Bank disproportionately finances projects which serve to increase the size of its balance sheet without contributing significant added value to the pursuit of EU policy objectives. It is certainly true that the EIB's lending practices have been conservative since its foundation. Indeed, the Bank has written off just €330 million of the roughly €1.39 billion worth of loans granted since its launch, representing a loss rate of just 0.02%.

However, to suggest that the EIB's historically conservative lending strategy will hinder its capacity to address climate change ignores the fact that the bank is also fundamentally a **political actor**, deeply embedded within the broader institutional architecture of the EU. As President Hoyer observed: “I am sometimes surprised that political leaders are not aware what kind of instrument they have in their hands.” The Bank's recent activities in support of climate action – coupled with the growing political support to transform the EIB into the EU's climate bank – suggest that the Bank is well positioned to play a leading role in financing the green transition in the EU over the coming decades.

According to Eurobarometer data, **93% of EU citizens** view climate change as a “serious problem”.³⁸ In order to act on citizens' concerns, EU leaders must approach the challenge of building climate resilience with creativity and ambition. Leveraging the full potential of the EIB to act as an incubator for climate finance will be decisive in helping the EU transition to a net-zero emissions economy. As President Werner Hoyer underlined, the EIB has the “firepower”. It appears that EU leaders are finally prepared to use it.

32. European Commission, ‘Financing Sustainable Growth’: https://ec.europa.eu/info/sites/info/files/business_economy_eur_banking_and_finance/documents/finance-events-190321-factsheet_en_0.pdf

33. Speech by President Hoyer during the plenary session of the European Parliament, 9 October 2019: <https://www.eib.org/en/press/speeches/greening-eib-hoyer-ep>

34. Bundesregierung, ‘Meseberg Declaration’, 19 June 2018: <https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806>

35. Council of the European Union, ‘Europe in the world: The future of the European financial architecture for development’, October 2019: https://www.consilium.europa.eu/media/40967/efad-report_final.pdf

36. Speech by President Werner Hoyer to the Ecofin meeting on the report of the Wise Persons' Group, 10 October 2019: <https://www.eib.org/en/press/speeches/ecofin-wise-persons-group-report-hoyer>

37. Council of the European Union, Foreign Affairs Council (Development), 25 November 2019: <https://www.consilium.europa.eu/en/meetings/fac/2019/11/25/>

38. European Commission, ‘Citizen support for climate action’: https://ec.europa.eu/clima/citizens/support_en

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