

The European Investment Bank and climate action 2013-2015

The European Investment Bank's lending for climate action between 2013 and 2015 shows that further structural changes are needed to align the bank's portfolio with the objectives of the Paris agreement.

Last month EIB President Werner Hoyer welcomed the signature of the Paris agreement, announcing that the bank would work to mobilise finance and expertise for climate action both within Europe and beyond. To this end, he referred to the bank's newly adopted climate strategy as a robust guide for making low-carbon and climate-resilient investments¹.

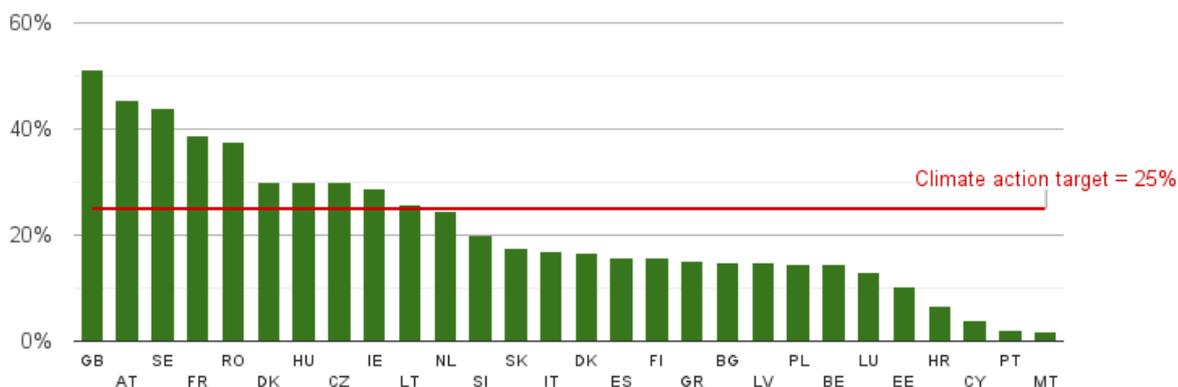
The Paris agreement aims to strengthen the global response to the threat of climate change by making financial flows consistent with lowering greenhouse gas emissions and providing for climate-resilient development. In pursuing this, financial institutions were invited to provide information on how their development assistance and climate finance programmes incorporate climate-proofing and climate resilience measures. The agreement also calls on developed countries to lead in mobilising climate finance from a wide variety of sources.

In this context, the EIB announced that it expects to invest USD 100 billion over the next five years for projects under its climate action programme heading. Although this announcement may seem, the sum in fact does not go beyond its previous climate financing, which in the last five years reached over EUR 90 billion. In its 2015 climate strategy, the bank sustained a climate action volume target at the 25 per cent of its annual portfolio in the EU, while outside the EU this amount increased to 35 per cent of total bank lending outside the bloc.

However within the EU, the bank's climate financing is disproportionate to the needs of Member States (see graph 1).

¹ <http://www.eib.org/infocentre/publications/all/eib-climate-strategy.htm>

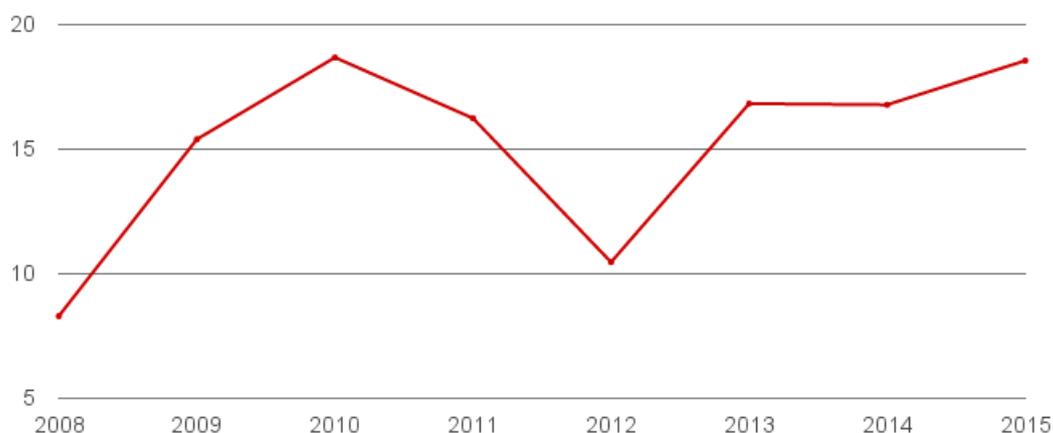
Graph 1: Climate action as share of overall EIB lending in EU Member States (2013-2015)



Although the bank has managed to reach its target for climate finance every year, it has struggled to finance relevant projects in some countries, and these differences are indeed significant. For the ten EU Member States where between 2013-2015 EIB financing exceeded the EU target of 25 per cent, real lending for climate action reached almost 39 per cent of total lending, whereas for those below the target (18 Member States), climate action reached just 18 per cent on average. In the ten EU countries where climate action made up the smallest amount, the level achieved was only 14 per cent. While there may be different reasons for the low volume of climate action in particular Member States, EIB should take the opportunity to increase climate financing in these countries.

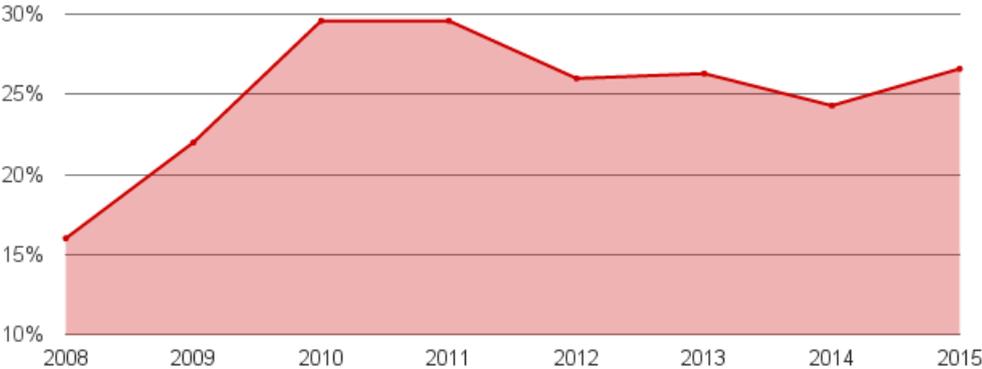
In absolute terms, EIB climate lending in the EU has increased since 2012, and in 2015 it reached similar absolute volumes as in 2010 at over EUR 18 billion (see graph 2).

Graph 2: EIB climate action lending in the EU 2008-2015 (billion EUR)



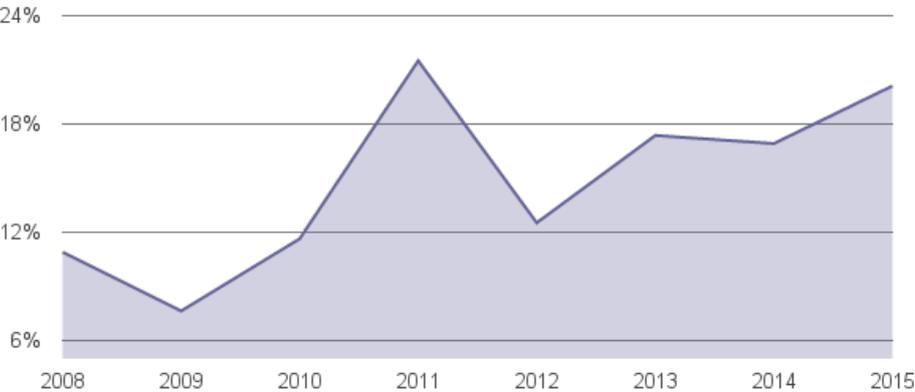
Climate action lending reached its highest levels after a significant capital increase for the bank in 2009. In the following two years, climate action totalled almost 30 per cent of the bank's portfolio (see graph 3).

Graph 3: Share of the EIB climate action lending in EU lending



In the New Member States that joined the EU in 2004 and later (the so-called EU 13), the share of EIB climate action has increased since 2012, although remaining below the 25 per cent target. In 2015 this level slightly exceeded 20 per cent (see graph 4).

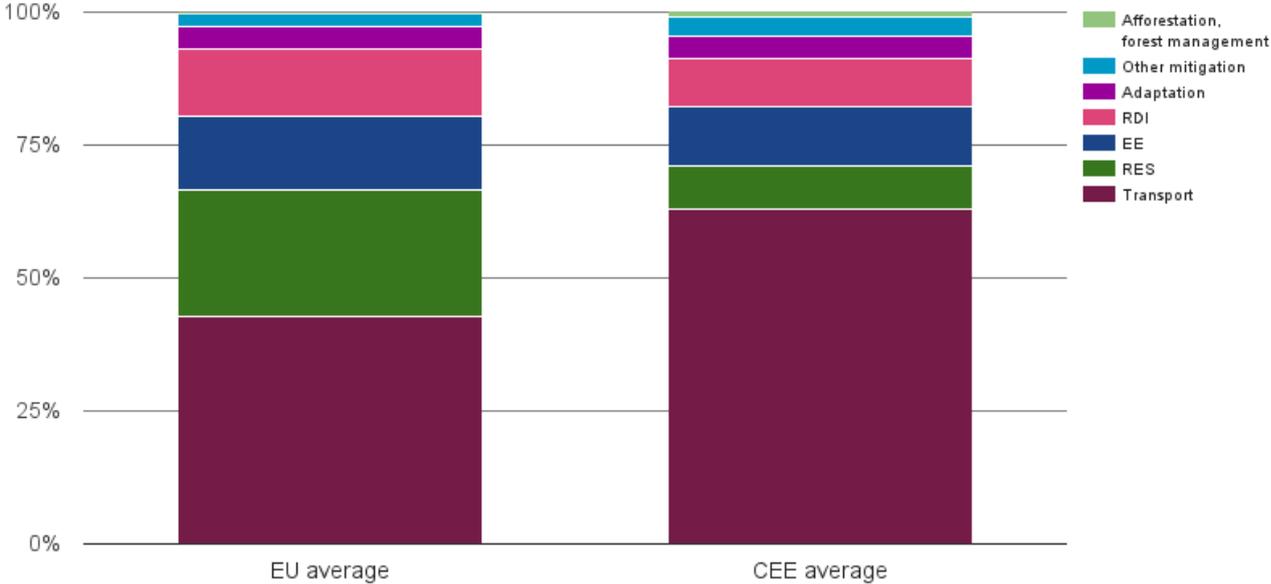
Graph 4: EIB climate action lending in new EU Member States (EU 13) as share of total lending



EIB climate financing in this region has been dominated by co-financing for EU Funds operational programmes (41.5 per cent of climate action in the EU 13), which is intended to finance municipality needs and other state-owned entities (27.4 and 26 per cent, respectively). Only five per cent of climate investments have been channelled through private promoters, mostly in the form of financial intermediaries (4.9 per cent). This seems to be a challenging area for the bank – to make its products accessible for private promoters in the EU13 – especially in such sectors like renewable energy and energy efficiency.

EIB climate action projects include mainly renewable energy, energy efficiency, transport, research and development and afforestation. An evaluation of climate action within the EU between 2010 and 2014 points out that not every type of project contributes the same to climate change mitigation, recommending that the bank emphasise the climate impact of its portfolio by diversifying its project portfolio². Our analysis confirms this assessment. Between 2013 and 2015, climate action lending within the EU was overwhelmingly dedicated for transport (almost 43 per cent), with the percentage of transport projects in the EU 13 reaching 63 per cent (see graph 5). This is related to a number of costly rail projects, especially in Poland, and investments in public transport in urban areas promoted by municipalities and regional authorities.

Graph 5: EIB climate action in the EU by sectors 2013-2015 (share of total climate action)



² <http://www.eib.org/infocentre/publications/all/evaluation-eib-financing-of-climate-action-within-the-eu-2010-2014.htm>

Renewable energy in climate action

Renewable energy, which has a greater contribution to climate change mitigation, was hardly supported by the EIB in the EU 13 (8.1 per cent of climate action).

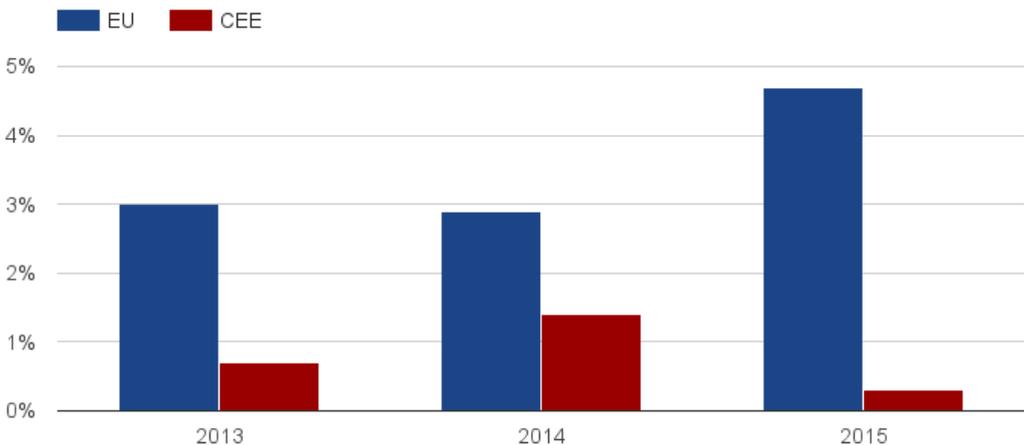
In 2015 this share was even lower, reaching just 5.8 per cent, compared to the EU average of 14.6 per cent. This discrepancy is due in part to the nature of the final beneficiary in the EU 13, which is overwhelmingly public entities (such as state, public companies, municipalities and regional authorities) and their specific investment needs. It is doubtful that the lack of renewable energy projects in the climate action portfolio is the result of a general lack of projects to be financed.

For example, in 2015 Poland ranked second in the EU in installed wind capacity in the same year (over 1.2 GW) and seventh in terms of total installed capacity in wind turbines (5.1 GW)³. However the EIB did not finance any renewable energy project in Poland in 2015, and since 2013, it has only financed a negligible amount of EUR 20 million renewable energy sources. More emphasis on making climate finance accessible for promoters of renewable energy projects should be a priority in the climate strategy action plans that the EIB promised to develop under its new climate strategy, adopted in September 2015.

Energy efficiency

Energy efficiency is another area where the bank needs to do more. While on average, the share of energy efficiency investments across sectors has risen since 2013 within the EU, reaching almost five per cent in 2015, in the EU 13 this amount has decreased considerably, totalling just 0.3 per cent of total lending in the region.

Graph 6: Share of energy efficiency loans in total EIB lending inside the EU

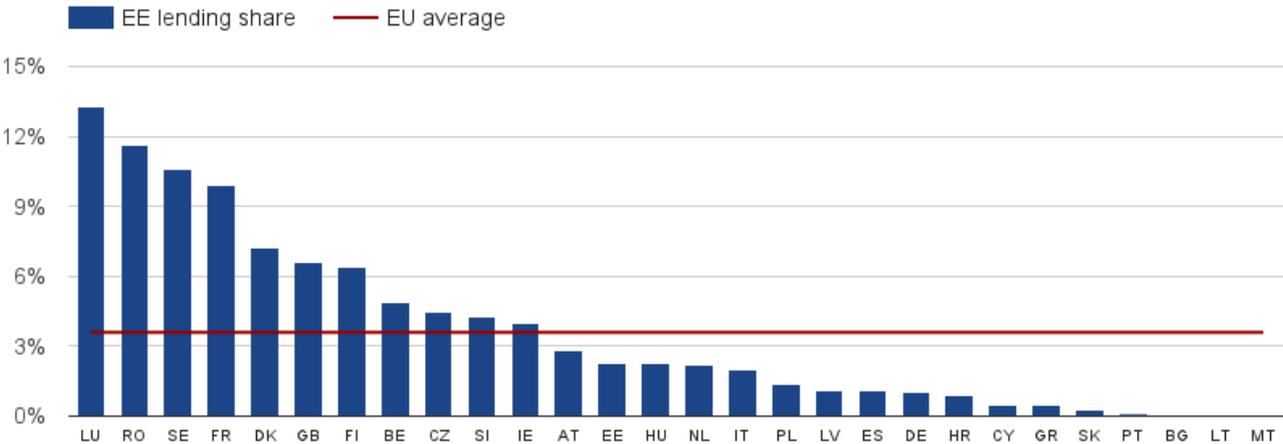


³ <http://ieo.pl/en/aktualnosci/807-polski-rynek-energetyki-wiatrowej-drugim-w-europie>

In recent years, the EIB has developed a number of instruments for energy efficiency investments like the Private Finance for Energy Efficiency (PF4EE), the Green Initiative, the Debt for Energy Efficiency Projects Green (DEEP Green) to make EIB loans more accessible for energy efficiency initiatives.

However the discrepancies between EIB energy efficiency investments across EU Member States remains significant (see graph 7).

Graph 7: EIB energy efficiency lending as share of total lending (by country, 2013-2015)



The average level of efficiency investments between 2013 and 2015 reached 3.6 per cent of total EIB lending within the EU. In three countries, the EIB did not invest in any energy efficiency project, while in 14 others, the level of energy efficiency investments was far below the EU average. On average, in those seventeen countries energy efficiency investments reached just 1.4 per cent of total EIB lending, while in the remaining countries the total was almost 8 per cent.

The EIB should devote more resources to energy efficiency in countries where its contribution has so far been below the EU average (of 3.6 per cent) and where economies are relatively more energy-intensive, like Estonia, Bulgaria, Slovakia, the Netherlands and Poland. An evaluation by the bank of its climate action lending confirms that although energy efficiency is becoming more prominent in Europe, the EIB’s contribution here remains limited⁴.

As an EU policy-driven institution, the EIB should be more ambitious and embrace the energy efficiency first principle in its lending. The EIB should address its bias towards energy supply investments and allow stakeholders such as energy users and service providers to benefit from a growing energy efficiency market⁵.

⁴ <http://www.eib.org/infocentre/publications/all/evaluation-eib-financing-of-climate-action-within-the-eu-2010-2014.htm>

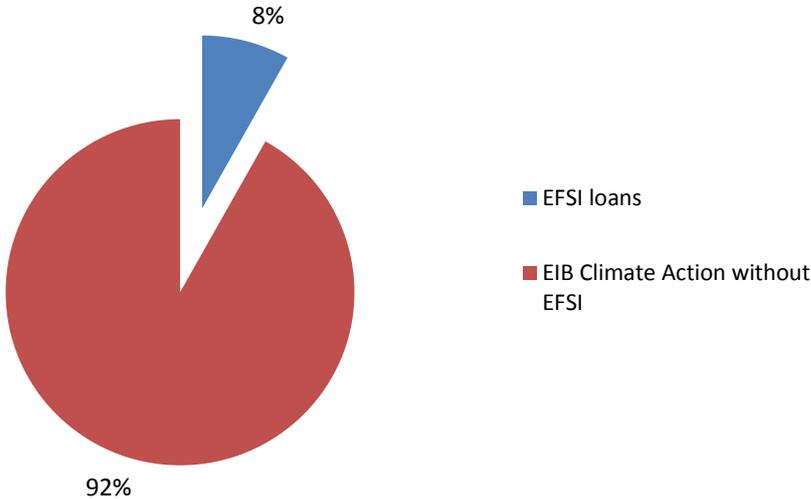
⁵ <http://bankwatch.org/publications/putting-energy-efficiency-first-reframing-european-investment-banks-action-times-transi>

EFSI contribution to climate action in 2015

The European Fund for Strategic Investment, as a de-risking instrument, can provide access to projects that could not have otherwise been financed by standard EUB operations. 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, the EFSI should be the ideal tool to reverse the negative trends noted above. For instance, energy efficiency is specifically mentioned as an area that the EFSI should support⁶. It is too early however to say whether the EFSI will become a solid catalyst for sustainable investments and climate action in addition to the EIB's regular operations in these areas.

In 2015 there were only 13 EFSI projects totalling EUR 1.5 billion that were part of EIB climate action (or 8 per cent of EIB climate action within the EU).

Graph 8: EFSI contribution to EIB climate action in 2015 (loan volumes)

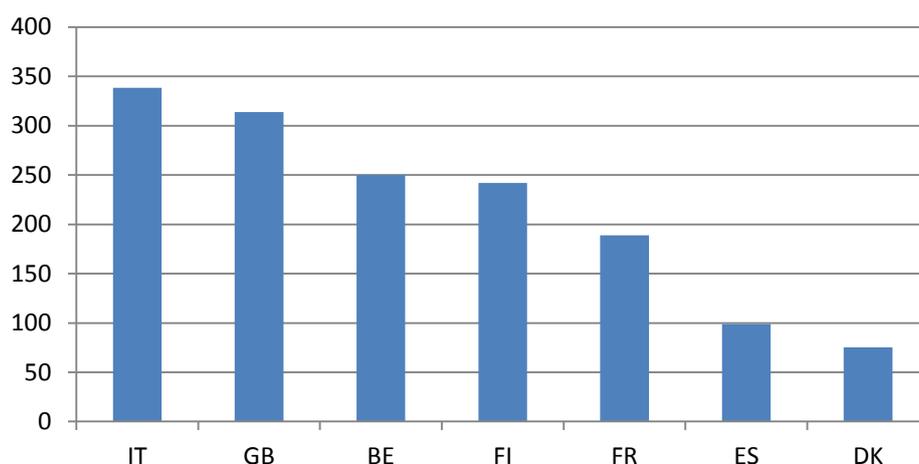


Without the EFSI, the EIB would slightly exceed its climate target at 25.4 per cent and with it, 26.6 per cent. Therefore, the EFSI so far only minimally increased the bank's overall climate action lending. However, the structure of EFSI climate financing looks different than the standard EIB climate portfolio, with renewable energy being the dominant sector (almost 62 per cent of EFSI climate action), followed by transport (26.5 per cent) and energy efficiency (10 per cent).

In 2015 EFSI climate action was limited to a few Member States, where with some exceptions (in Belgium and Denmark) it followed the location trend of EIB climate action (concentrated in France, Spain, UK and Italy).

⁶ 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>

Graph 9: EFSI Climate Action loans 2015 in EU states, million EUR



Recommendations

We recommend that the EIB:

- Help those EU Member States where climate action is usually below the EU average by increasing its share of lending for climate action;
- Develop country-specific approaches in support of national climate action plans in line with the Paris agreement and the EU roadmap for a competitive, low-carbon economy in 2015;
- Further consider how to make its products more accessible to a wider range of clients, especially in the EU13 and in sectors like renewable energy and energy efficiency;
- Enhance the impact of its climate action by prioritising energy efficiency and renewable energy projects;
- Focus on energy efficiency lending in EU Member States with the most energy-intense economies and where the EIB contribution has so far been below the EU average, like in Estonia, Bulgaria, Slovakia, Netherlands and Poland;
- Ensure that the EFSI becomes a solid catalyst of sustainable investments and climate action, by providing additionality to the bank's standard operations in these areas.

For more information:

Anna Roggenbuck
EIB policy officer, CEE Bankwatch Network
annar@bankwatch.org