Stakeholder engagement on the EIB Group’s Climate Bank Roadmap 2021-2025: Turning ambition into reality

Key questions

To structure and guide this engagement, the EIB Group is proposing several key questions, which are built around four topics:

- Aligning the EIB Group's activities with the goals and principles of the Paris Agreement;
- Increasing environmental sustainability investments and leaving no one behind;
- Leveraging private-sector finance and promoting financial innovation; and
- Measuring the long-term effect of the EIB Group's operations.

The topics and the key questions highlight the crucial issues that the EIB would like feedback on.

The development of the Climate Bank Roadmap 2021-2025 will be an iterative process.

Stakeholder contributions will inform this process over two key periods:

- Comments received by **24 April 2020** will inform the EIB's internal discussions and the presentation that will be made at the second stakeholder event at the end of May;

- Contributions received between 25 April 2020 and **12 June 2020** will inform the final stages of the internal discussions, before the Climate Bank Roadmap 2021-2025 is submitted to the EIB's governing bodies.

The questions should preferably be completed directly online, via the SmartSurvey available here or can be emailed to cbr2025@eib.org.

All contributions will be published on the EIB's website.

COUNTER BALANCE is a European coalition of development and environmental non-governmental organisations (NGOs) with extensive experience working on development finance and the international financial institutions as well as campaigning to prevent negative impacts resulting from major infrastructure projects. Since 2007 and together with our 9 member groups and partners, we have monitored the operations of the EIB in the field of climate action, and paid particular attention to EIB's investments in the energy sector. As part of this work, Counter Balance provided numerous inputs to public consultation processes organised by the EIB, including around the creation of its Climate Strategy or the revisions of its energy policies and environmental and social handbook. This collective contribution of our coalition builds on this previous work.

We welcome the news that the EIB commits to align all its operations with the objectives of the Paris Agreement by the end of 2020 and plans to step up its climate and environmental sustainability lending to become the 'EU Climate Bank'.

Following substantial progress with the adoption of the Energy Lending Policy in November 2019, the EIB has gained significant credit across the EU for its efforts to be a leader in the fight against climate change. In particular, the priority given to energy efficiency and renewable energy, together with the planned phase out of lending to fossil fuels, are important steps forward for the Bank.

As a result, expectations for the EIB to effectively align its operations with the Paris Agreement are high. This is especially true since the transformation of the EIB into the 'EU Climate Bank' should run in parallel to the Bank playing a pivotal role in the European Green Deal. This transformation needs to ensure that the EIB delivers on its multiple objectives such as combating climate change, promoting a just transition across Europe and beyond, and fully contributing to Europe's decarbonisation agenda while leaving no one behind.

This transformation into the 'EU Climate Bank' is all the more important that the EIB will play a flagship role under the EU economic recovery package following the Covid19 crisis. Given the long-term orientation of EIB loans and operations, it is crucial that this necessary economic response to the Covid19 crisis is complementary to the efforts to steer the European economy into a more sustainable and fair path.

In this context, we encourage the EIB to adopt a clear strategy and pathways for Paris alignment under this Climate Bank Roadmap. The Roadmap must spell out solid milestones and action plans to achieve the Bank's commitments. A starting point should be the objective to align EIB operations with a 1.5°C scenario and the transition towards climate-neutral economies. Based on the most recent UN Emissions Gap report countries would need to reduce emissions by 7.6%

a year (for the EU this would equal to emission reductions of more than 65% by 2030) to meet the 1.5°C target.

Please find below our inputs to the four questions put forward by the EIB, and a summary of our recommendations.

Summary of key recommendations:

1. **The EIB needs to base its Climate Roadmap on the objective to align all its operations with a 1.5°C scenario** (not 2°C like in the current strategy). **There is no contradiction between this objective and the role that the EIB is to play in economic recovery plans following the Covid19 crisis.** The Roadmap should spell out under solid action plans the concrete steps needed to align EIB operations with the Paris Agreement and raise its climate and sustainable investments to at least 50% by 2025.

2. In the **energy sector**, the EIB should deliver on its **fossil fuels ban** and eliminate in practice all financing to fossil fuels. In addition, the bank should **close the existing loopholes** in its newly adopted energy policy. For example, the Emissions Performance Standard for power generation set at a level of 250 gCO2 per kWh should be lowered to a threshold of 100 gCO2 per kWh - in line with the EU sustainable taxonomy. The EIB should also make ineligible all support to nuclear projects.

3. The EIB must **review its sectoral policies** to ensure that its financing does not impede the achievements of the EU's climate and energy objectives. The Bank should eliminate financing high carbon projects in waste management and heavy industry sectors where the EIB is active (like cement, aluminium, steel, etc). There are serious reputational and legal risks associated with the high emitting and non-Paris aligned investments of the EIB, and as for fossil fuels, **the EIB should set targets to phase out all 'brown' lending**.

4. In the **transport sector, a major shift in EIB's approach needs to take place. The roadmap should explicitly exclude high carbon projects such as** airports, motorways and ports. The bank is planning to review its Transport Policy once the Climate Roadmap is adopted, which would provide the opportunity to better define the areas where the EIB needs to focus its efforts, such as scaling-up financing and support for zero-carbon transport infrastructure, electric urban public transport and rail electrification.

5. Raising the bar on **support to corporates** is needed. At the time being, the EIB lags behind the many commercial banks which already exclude support to coal developers for instance. The EIB should require all its clients to have in place solid decarbonisation plans, especially for carbon intensive companies. Any public support via the EIB should

be made conditional on science-based targets and timebound, high-level corporate commitments.

6. **Put Just Transition at the heart of EIB's investments in the next decade**. Priority should be given to investments in **energy efficiency, building renovation, decentralized renewable energy sources, circular economy and other forms of infrastructures that are connected to the needs of citizens and territories.** Opening up EIB's support to community-led initiatives and small-scale projects would be an important step forward. Developing sufficient skills and human resources to be able to finance such projects and increase contacts with local and regional authorities and financial institutions like cooperatives and national public banks will be necessary to support a more decentralized approach to a climate transition.

7. **Mainstreaming climate change considerations in all EIB operations should be at the core of the EIB's transformation in the 'EU Climate Bank'.** What needs to happen is not only an increase of climate-friendly investments, but the mainstreaming of climate considerations throughout all EIB operations – including the 50% which won't be focusing on climate and environmental sustainability as such – especially in the **economic and financial appraisal** of EIB projects. A key step is to improve the **carbon footprint** assessment of projects, which currently does not assess less carbon-intensive alternatives and does not include indirect emissions.

8. **No dirty investments via financial intermediaries.** It will be crucial for the EIB to ensure that its intermediated operations do not fuel climate change. All intermediaries should have decarbonisation plans if they want to benefit from EIB funding. The bank would have to secure the human resources and methodologies in place to ensure this. As part of the review of its Environment & Social standards, a new standard on financial intermediaries should set this reinforced approach in stone.

9. **Raising the bar on transparency:** a major transparency offensive needs to happen if the EIB is to become a more transparent and accountable institution. The bank will revise in 2020 its Transparency Policy, offering the chance to enhance transparency at both governing bodies and project levels. On the climate front, the EIB should proactively disclose the GHG emissions linked to all its operations, on a project-by-project basis. The EIB should ensure that intermediated loans are subject to the same transparency requirements as other types of loans.

10. The EIB should **reinforce the eligibility criteria for climate action** in order to avoid greenwashing. The promise of technological solutions and the push for niche technologies (such as Carbon Capture and Storage, green fuel and renewable gas) should not be a primary focus and should not be used as an alibi not to operate the radical transformation that the Bank refers to.

11. It is crucial that the projects funded by the EIB to address climate change do not cause other types of harm such as biodiversity destruction and social impacts. The EIB furthermore needs to **enforce its environmental, social and human rights due diligence and monitoring** for financed projects, including projects via financial intermediaries, to ensure that it only supports truly sustainable initiatives. **A stringent 'do no harm' and 'do good only' approach should be an essential part of the Climate Roadmap and the future environmental and social standards of the EIB.** The EIB needs to **look at the larger societal impacts of its operations** and not feel constrained by the pressure from lobby and industrial groups.

12. The EIB needs to **achieve its climate ambitions without contributing to the financialization of nature**. It should explicitly exclude carbon and biodiversity offsets, due to their unsolvable issues which makes them unfit for truly protecting nature.

European Investment Bank The EU bank

TOPIC 1 – PARIS ALIGNMENT

Support for low-carbon development

The EIB Group will continue to support projects motivated by a wide range of public policy goals. Building on the EIB's Energy Lending Policy, the EIB Group will need to make sure that, going forward, that all its projects will be aligned with the temperature goals of the Paris Agreement and will be consistent with the transition to low-carbon development pathways.

In addition, in this context and given the limited resources it has at its disposal, the EIB Group will need to make choices in terms of the type of investments it wants to prioritise.

1. Outside of the energy sector, what type of financing and advisory activities should the EIB Group prioritise to most effectively support the transition to low-carbon development?

The newly adopted Energy Lending Policy is a key step forward for the EIB. The promise to align with the Paris Agreement and the planned ban on fossil fuels is however not the end of the road for the EIB. There are many other challenges that the bank needs to tackle if it is to live up to its climate commitments.

Given the limited resources at its disposal, it is crucial that the EIB does not finance any project that goes against its climate commitments.

The Climate Roadmap should enable the bank to mainstream climate considerations into each and every sector of operations, exclude any operations that are not compatible with a 1.5°C Paris-aligned trajectory and stop any support for companies which do not align their business model with the Paris Agreement.

A/ Mainstreaming climate change considerations in all EIB operations:

The Climate Roadmap will need to cover the whole EIB portfolio, rather than focusing purely on lending which meets the criteria for climate action. It is of utmost importance that all EIB investments and sectoral portfolios are aligned with the Paris Agreement. What needs to happen is not only an increase of climate-friendly investments, but the mainstreaming of climate considerations throughout all EIB operations – including the 50% which won't be focusing on climate and environmental sustainability as such – especially in the economic and financial appraisal of EIB projects.

Key steps in this regard would be:

- Assess projects using forward-looking 1.5°C climate scenario analyses that do not overly rely on negative emissions and embrace just transition plans. The **measurement frameworks** of the EIB (both its Three Pillar Assessment and Results Measurement Framework) need to be updated in order to prioritise climate benefits as part of the assessment of its projects.

- **Improving the carbon footprint assessment of projects** should be a first step, which currently does not really allow for an assessment of less carbon-intensive alternatives, and does not include indirect emissions (so-called "Scope 3" emissions). In February 2019, Counter Balance, together with NGOs CEE Bankwatch Network, Friends of the Earth Europe and Re:Common, lodged a complaint to the EIB about the poor climate impact assessment of its loans to the Trans Adriatic Pipeline (TAP) and Trans Anatolian Pipeline (TANAP). The complaint exposed the incomplete and incoherent nature of the assessment, including the use of out of date science and failure to address significant GHG emissions.

- Making the **Energy Efficiency First Principle** a reality. The Bank plans to take account of the 'energy efficiency first' principle by considering the impacts of energy efficiency on future demand and the energy security contribution of energy efficiency. Putting the principle into practice comprehensively, however, also requires building in a standard test whether a supply side investment, or part of it, could be replaced by a demand side (reduction/flexibility) investment.

B/ **Excluding high-carbon operations:**

The Roadmap should include a strategy for the bank to phase out funding for projects that are detrimental to the climate. The flagship role that the EIB is to play under the EU economic recovery package following the Covid19 crisis should not come at the expense of its long-term role as a responsible investor, for example by giving away blank cheques to polluters and industries who are not proactive in engaging on a decarbonisation pathway.

The EIB should develop its own **"brown taxonomy"** for its operations which will not be covered under its climate and environmental sustainability lending - at least as long as the EU does not develop an EU brown taxonomy. The Climate Roadmap should exclude the activities highlighted below in high-carbon sectors and serve as a basis for the review of relevant EIB sectoral policies.

B1/ **No dirty investments via financial intermediaries:** It will be crucial for the EIB and the EIF to ensure that their intermediated operations do not fuel climate change. All intermediaries should have decarbonisation plans if they want to benefit from EIB Group funding. The EIB should secure the human resources and have methodologies in place to ensure this. Finally, financial intermediaries should be explicitly covered under the Climate Roadmap and all EIB sectoral policies, and all climate screening tools at the EIB, carbon footprint assessments and carbon pricing should also apply to intermediaries.

***B2/* The EIB's approach to the Transport sector should be overhauled.** The future Transport Policy will be under review in 2020, but the Climate Roadmap should already exclude high-carbon investments in the transport sector, such as airports, motorways and ports.

- Aviation is - or was until recently - one of the fastest growing sources of GHG emissions and the most climate-intensive mode of transport. Globally, aviation emissions have more than doubled in the last 20 years. When including the non-CO_2 climate effects of aircraft, such as NOx emissions and contrails and cirrus cloud formation, the aviation sector is responsible for an estimated 4.9% of anthropogenic warming[1]. It is also the transport sector whose prospects for energy transition are the most difficult and uncertain. A recent study by the NGO Transport & Environment for instance demonstrates that expected technology and operations improvements will be insufficient to mitigate fuel demand and emissions growth from aviation[2]. Any investment in aviation infrastructure is therefore in complete opposition to the objectives of the European Green Deal and the commitments of the EIB to align with the Paris Agreement.

Since 2016, the bank has provided more than €4 billion in loans for the expansion of airports. Just in 2019, the EIB financed airport expansions in Greece, Finland, Germany, the Netherlands, Italy, Ireland and Denmark. Therefore, we recommend the EIB to end the financing of aviation and airport expansion.

- Over the period 2016 to 2019, the EIB has massively supported roads, highways and motorways with EUR 10.65 billion over these four years.

Too often, such investments do not contribute to local mobility and compete with less carbon-intensive transport modes such as trains. Road transportation is also a major contributor of CO_2 emissions. In 2017, road transport was responsible for almost 72 % of total GHG emissions from transport at the EU level. Furthermore, the EU already has an extremely dense network of motorways and highways, many of which create severe problems of ecosystem fragmentation and even disruptions in environmentally protected Natura 2000 areas. We call on the EIB to stop financing motorways and highways.

[1] Lee et al., 2009, *Aviation and global climate change in the 21st century*. https://www.sciencedirect.com/science/article/pii/S1352231009003574
[2] Peeters et al., 2016, *Are technology myths stalling aviation climate policy?*. https://www.sciencedirect.com/science/article/pii/S1361920916000158

- The maritime industry is often omitted as a polluting transport sector, despite the fact that global shipping accounts for more than 2% of global GHG emissions[3]. Emissions from shipping have grown by around 70% since 1990 and are expected to increase by between 50% and 250% by 2050[4]. This means that on a business-as-usual pathway, shipping emissions could account for about 18% of worldwide GHG emissions by 2050. Shipping also emits many pollutants that are responsible for a range of health and environmental issues. Ship engines, which predominantly burn heavy fuel oil, contribute to emissions of sulphur dioxides, nitrogen oxides and particulate matter, which can have severe harmful impacts on human health and ecosystems. The Danish Centre for Energy, Environment and Health found that European ship emissions were responsible for around 50,000 premature deaths every year[5].Shipping is considered to be one of the sectors in which decarbonisation is the hardest to achieve, mostly due to the high cost of and lack of availability of low-carbon technologies but also to the fragmented structure of the industry as well as the difficulty to control the enforcement of environmental measures[6].

The EIB spent almost EUR 3 billion (€ 2.828 billion) euros in maritime investment from 2016 to 2019. Several of its investments, such as the Green Shipping Guarantee programme, have centered toward "greening" the maritime transport sector through investing in new energy-efficient vessels, hull treatment and ballast water treatment systems and alternative fuel such as liquified natural gas (LNG). Some of the environmental claims for these investments can however be disputed, especially with regard to LNG fuels. A report from Transport & Environment described LNG as an expensive diversion that will make it more difficult for the shipping industry to align with the Paris Agreement goals[7]. Rolling out LNG uptake would cost Europe more than 22 billion euros, with at best a 6% to 10% reduction of GHG compared to diesel fuel, and all this under an optimistic methane leakage scenario.

This level of potential GHG savings is also likely to be cancelled out by the expected growth of maritime trade. What is brought into question is whether an increase in global trade and cruise ship tourism can be consistent with the Paris Agreement objectives, both of which are often the main rationale behind EIB's maritime investments. The EIB for instance has invested more than €1.7 billion in port expansions since 2016 to accommodate for a future increase of shipping traffic. Most of the EIB's recent support to port expansions, such as the ports of Brest

3 Third IMO GHG Study, 2014. http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Pages/Greenhouse-Gas-Studies-2014.aspx

4 EP, 2016, *Emission Reduction Targets for International Aviation and Shipping* https://www.europarl.europa.eu/RegData/etudes/STUD/2015/569964/IPOL_STU(2015)569964_EN.pdf

5 Brandt et al. CEEH Scientific Report N°3, 2011, https://www.osti.gov/etdeweb/biblio/1037823 https://www.osti.gov/etdeweb/biblio/1037823

6 Transport & Environment, 2018, *Roadmap to decarbonising European shipping* https://www.transportenvironment.org/sites/te/files/publications/2018_11_Roadmap_decarbonising_European_shipping.pdf

7 Transport & Environment, 2018, *LNG as a marine fuel in the EU* https://www.transportenvironment.org/sites/te/files/2018_06_LNG_marine_fuel_EU_UMAS_study.pdf

and Marseille (-Fos-sur-Mer) in France, Di Civitavecchia in Italy and several ports in Portugal, are even counted as part of the bank's climate actions. It is however difficult to see how a massive increase of shipping traffic and transport of international goods that such investment is fueling can be compatible with the EIB's climate goals and a 1.5°C warming trajectory, especially when taking into account the difficulty in decarbonizing the maritime sector.

We call on the EIB to end support for LNG terminals and port expansions in Europe and related transport and industrial infrastructure including the expansion or creation of special economic zones and strategic logistic zones.

B3/ **Investments in the energy sector**

As far as energy is concerned, the new EIB "Energy Lending Policy" adopted on 14 November 2019 is a key step forward. Together with the prioritization of energy efficiency and renewable energy investments, the policy holds strong potential to contribute to a just transition for all in Europe. The policy however contains three important exceptions that could undermine its objectives.

Firstly, it still allows the EIB to approve projects from the 4th list of so-called 'Projects of Common Interest' (PCIs) by the end of 2021. This list, which is heavily shaped by fossil gas lobbies, contains over 50 new fossil gas projects. According to the EIB, as of September 2019, there were 9 loans for €2 billion already approved but awaiting signature and disbursement, 18 additional projects under appraisal for a total of €1.3 billion, and the EIB had also been approached for 18 other projects (worth €2.6 billion) for which the Management Committee must authorize the start of the appraisal process. All together this meant 45 gas projects at various stages of the EIB project cycle, amounting to EUR 5.9 billion in total potential EIB financing. It is unlikely that all these projects are ultimately financed, however it is emblematic of the threat such projects still pose.

Secondly, the EIB stated that it will "*support the development of low-carbon fuel projects, and the infrastructure needed to integrate low carbon gases into existing gas infrastructure*." This is problematic because both the benefit for the climate and the economic potential of these low carbon gases is uncertain. There is also no accepted definition or a set of criteria to identify which gas is considered low-carbon and which one is not. Considerable risks remain in the use of many of these gases, for instance from methane leakage and the high level of energy required in their production. This could allow financing for new, highly-polluting fossil gas infrastructure, based on the future promises of operational carbon capture and storage (CCS) and low carbon fuels - which may never materialise.

Thirdly, the policy allows financing for power generation projects that emit fewer than 250 grammes of CO_2 per Kilowatt hour over their entire lifetime. This threshold under the EIB's so-called Emissions Performance Standard (EPS) is high and has no scientific justification.

Indeed, the EU sustainable finance taxonomy has established a more stringent threshold of 100 grammes of CO_2, a threshold that is already high for renewables as they tend to achieve numbers far lower than that. The 250g CO_2 per kWh, averaged over the project's lifetime, is essentially an open door to support conventional fossil gas plants and plants accompanied by CCS under the promise of incorporating renewable or green gases in the future.

Given the bank's commitment to align all its operations with the Paris Agreement by the end of 2020, the EIB will need to implement its new energy policy in a stringent manner and not make use of these loopholes to finance any more highly-polluting fossil fuel infrastructure before the ban enters into force.

Another important issue with the new policy is that it still enables financing **nuclear energy**. Despite repeated attempts by the nuclear industry to present itself as a solution for climate change, it is not: building new nuclear power plants requires strong financial, political and institutional commitments, which undermine support to renewables and energy efficiency. Public money should go into real sustainable solutions instead of locking countries into centralized and dangerous energy systems for decades to come. Therefore, it will be crucial to ensure that the EIB does not get more active in this field.

Finally, **the EIB should stop any indirect support to coal and other fossil fuels via loans to polluting corporations, in particular coal developers**. Despite having ruled out direct investment for coal in 2013, the bank has since then provided 4.7 billion euros from 2013 to 2019 to companies with a high share of coal in their power and heat generation portfolios or which planned to develop new coal power capacities when EIB loans were approved. These include Energa, Tauron and PGE in Poland, Endesa in Spain, PPC in Greece and CEZ in Czech Republic. Billions of euros intended to support Polish state companies, such as Energa and PGE, to expand electricity grids have in practice freed up money for new coal power plants and other dirty investments.

With the danger of carbon lock-in and stranded assets, no public financial support should be given to companies planning new coal power capacity, including buying or retrofitting existing coal assets. As fossil fuels are becoming not only an environmental but also financial liability, supporting companies planning new coal power plants directly contradicts the EIB's climate commitments and ability to steer the European economy towards decarbonisation at the horizon 2050. Building a new coal asset, whose economical as well technical operation lifetime is measured in decades, cannot be justified. The EIB must apply stricter due diligence and make its financing conditional on company-level decarbonisation plans aligned with the Paris Agreement.

***B4/* The bank must establish or review sectoral policies to mainstream climate consideration and exclude polluting activities**. Here are our key recommendations for some of the most important sectors:

- Carbon-intensive industrial sectors where the EIB is active (like cement, aluminium, steel, etc) must also be covered by stringent policies. There are serious reputational and legal risks associated with the high emitting & non-Paris aligned investments of the EIB. The EIB should align with the EU taxonomy, set targets to phase out all 'brown' lending and require companies to have credible decarbonisation plans.

- **Waste management**: the EIB should concentrate its operation on waste reduction, re-use and recycling. In the energy sector, it should support the development of biogas from separately collected biowaste in line with mandatory separation requirements from the end of 2023 under the Waste Framework Directive). It should exclude financing waste incineration and co-incineration projects that counter the transition to a more circular economy.

- Residential Heating and Cooling: The EIB should be working with municipalities and countries on integrated programs for building efficiency (with focus on deep retrofitting) in combination with fuel shifts from both coal, gas and oil to renewable electricity or other renewable solutions. The focus should be on switching coal and gas based district heating installations towards renewable energy solutions, and 'coal to gas'- switch must not be financed. The EIB should rule out support for gas boilers by adopting an Emissions Performance Standard (EPS) low enough to exclude gas and instead support non-fossil alternatives.

- Tourism: The EIB should not finance the expansion of the carbon intensive, mass touristic sector, either directly or indirectly through the financing of the touristic cruise sector; the support for the modernization, retrofitting of existing vessels; the financing of new touristic ports; or through the financing of new touristic real estate development.

***B5/* The EIB's current contribution to the development of infrastructure mega-corridors stands at odds with the Paris Agreement.** The Bank should support the relocalisation of agriculture and industry rather than contribute to the globalization of value chains.

The Covid-19 crisis is demonstrating the crucial need to relocalize activities as a fundamental condition for more sustainable social and economic systems. Unfortunately, the EIB's investments in mega-corridors are moving us in the complete opposite direction.

International Financial Institutions like the EIB are a key driving force behind "global infrastructure agenda". The EIB has been strongly supporting the expansion of ports, roads for exporting raw materials, airports as well as special economic zones and logistic centres.

Infrastructure is to become a new 'asset class', attracting private liquidity and lessening the financial burden on constrained public coffers. There is a real threat that public finance is actually captured by this agenda, to the detriment of local communities and citizens. Public money could end up guaranteeing the profits of private investors from revenue streams associated with user fees paid by citizens.

This model is having devastating impacts on the climate, despite efforts at European level through the Sustainable Finance agenda to label this agenda under the heading of "sustainable infrastructure".

Large dams, power grids, transport projects, water and waste management provision or energy extraction/generation projects have tended to come with significant environmental and social costs. The top-down mega-project model that has prevailed for decades has usually proven to be ineffective in serving the needs of people and their communities, or of society in general, as affected communities and civil society groups monitoring infrastructure finance have long pointed out.

In addition, mega-corridors all over the world are based on high-carbon transport (airports, motorways) and energy infrastructure (including fossil fuels). As a result, this infrastructure agenda simply does not fit with decarbonization targets, or with commitments to tackle climate change on a global scale and align financial flows with the objectives of the Paris Agreement.

In this context, public banks like the EIB should aim at **supporting infrastructure that prioritises social and environmental justice**, instead of scaling-up efforts to financialise infrastructure projects that are disconnected from the needs of citizens and territories. Therefore, it will be crucial for the EIB not to further promote projects which are key components of mega-corridors.

C/ **Finally, the EIB must raise the bar on corporate support in order to be consistent with the transition to low-carbon development pathways:** The EIB must apply stricter due diligence and make its financing conditional on concrete company-level decarbonisation plans aligned with the Paris Agreement (see question 3 for more details).

Support for climate-resilient development

The Paris Agreement also requires that financial flows support climate-resilient development. Going forward, the EIB Group aims to help strengthen climate resilience in and through the projects it supports.

2. What type of financing and advisory activities should the EIB Group prioritise to support climate-resilient development?

In our view, the EIB should prioritise the support to climate mitigation measures, but still explore the following areas in terms of climate resilience:

- In relation to **adaptation projects**, the focus should mainly be on community-based projects. The EIB must pay attention to the debt and social impacts of such projects – for which loans may not be the most adapted financial tool.

- **Protecting and restoring ecosystems** will be important for increasing climate resilience. This should however be done without engaging in carbon or biodiversity offsetting and other mechanisms that contribute to the financialization of nature (see question 6 for more details). The trendy so-called **"nature-based solutions**", which encompass a variety of conservation and restoration projects, are almost always financed by offsetting mechanisms. As a recent report by the NGO Green Finance Observatory points out, nature-based solutions without offsets are unfortunately unlikely to happen, since their appeal resides precisely in their 'cost effectiveness' compared to curbing destruction, and their ability to provide 'business opportunities. They are in practice only the new name given to carbon and biodiversity offsetting.

- In the **agricultural sector**, greater emphasis should be put on shorter supply chains and agroecological practices in order to make agriculture more resilient to climate change. The EIB investments must contribute to a transition away from a dependence on chemical inputs (such as pesticides, fertilisers and antibiotics) and not feed into the model of intensive agriculture. The Bank should exclude investments in research and development of genetically modified seeds and precision agriculture, which tend to contribute to the continuation of current damaging practices at the expense of a more diversified and climate-resilient agriculture.

- While climate-resilient development is often mainly framed as technical measures to prepare and anticipate the impacts of climate change, such as flood prevention or green infrastructure, resilience is also about **closing systemic vulnerabilities and inequalities,** many of which have become even more visible in the current Covid-19 crisis. It will be crucial for the EIB to **strengthen the social dimension** of its operations to make sure that it does not contribute to social injustices.

TOPIC 1 – PARIS ALIGNMENT (cont.)

Support for clients' decarbonisation and climate resilience strategies

As the EU Climate Bank, the EIB Group wants to support its public and private sector clients to align their activities with the goals of the Paris Agreement, by helping them develop and implement decarbonisation and climate resilience strategies.

3. How and to what extent should the EIB Group help its clients transition to a low-carbon and climate-resilient pathway, in particular those that are highly exposed to the transition and physical risks (both acute and chronic) associated with climate change?

Raising the bar on support to corporates is needed. At the time being, the EIB lags behind many commercial banks for example in its support to coal developers.

Between 2013 and 2019, the EIB provided EUR 4.7 billion to companies with a high share of coal in their power and heat generation portfolios or which plan to develop new coal power capacities.

With the danger of carbon lock-in and stranded assets, no public financial support should be given to companies planning new coal power capacity, including buying or retrofitting existing coal assets. As fossil fuels are becoming not only an environmental but also financial liability, supporting companies planning new coal power plants directly contradicts the EIB's climate commitments and ability to steer the European economy towards decarbonisation at the horizon 2050.

The Bank should stop any support for high-carbon and unsustainable companies which do not rapidly adopt and implement such 1.5°C compliant targets and plans to align their business model with the Paris Agreement.

It must make financing conditional on company-level climate science based targets and credible and timebound, asset-level detailed decarbonisation plans aligned with the Paris Agreement prior to loan approval.

4. What type of advisory support is most needed to help clients and promoters become Paris aligned?

- The Bank should offer technical assistance, including under the European Investment Advisory Hub and all facilities which will be grouped under the future technical assistance pillar of InvestEU, with regards to companies' decarbonisation strategies, including realistic financial plans for their implementation. The EIB must also require that companies receiving its loans purchase electricity from renewable energy resources.

- The EIB should expand technical assistance for heating and cooling projects, including for district heating networks, to provide comprehensive advice on possible alternative renewable solutions, development of 4th and 5th generation of district heating and other available financing sources such as the EU funds and national schemes.

Paris alignment in the context of developing countries

With respect to Paris alignment, the role of the EIB Group as the EU Climate Bank also applies in the context of developing countries, in particular in Least Developed Countries and Small Island Developing States.

In fact, the EIB Group intends to play a leading role in extending the principles and objectives of the EU Green Deal beyond the borders of the EU.

5. **Should a different approach towards Paris alignment be applied in the context of developing countries, in particular in Least Developed Countries and Small Island Developing States? If so, why and for which type of activities?**

On a general note, we see it crucial that the same environmental and social standards and climate commitments govern all EIB operations, both within and outside the EU. Still, given the different legal framework under which the EIB operates outside of the EU, we include in this section more specific demands regarding the environmental and social principles of the EIB, including the priority it should award to the protection and promotion of Human Rights.

It is crucial that the projects funded by the EIB to address climate change inside or outside the EU do not cause other types of harm such as environmental destruction and social impacts. If the EIB is to be serious on its external mandate, it has to deliver on human rights due diligence, better align with the development policy objectives of the EU such as poverty reduction, and act in a more transparent and accountable manner.

Civil society organisations monitoring projects financed by the EIB have frequently revealed neglected areas of the bank's performance outside Europe, including lack of access to information, questionable responses to tax evasion and tax dodging, and poor human rights due diligence[8].

The operational weakness of the Bank is unfortunately often matched by a lack of political willingness. Too often, the bank is hiding behind the political greenlight to operate in a given country, ignoring its responsibilities at the project level.

The current lack of space and instruments available for civil society participation means that people are often not able to express themselves freely and oppose or suggest alternatives to investment projects.

Key steps therefore need to be taken for the EIB to contribute to positive changes and not cause further harm:

- The EIB must more effectively e**nforce its environmental, social and human rights due diligence and monitoring for financed projects to ensure that it only supports truly sustainable initiatives**. Due diligence procedures should be improved to ensure that projects are publicly consulted and developed in a transparent and participatory manner. A stringent **'do no harm' and 'do good only' approach** must be an essential aspect of the EIB operations.

- The EIB should **ensure meaningful stakeholder engagement and public participation** are taking place in practice. Public participation should be able to have a tangible influence on the decisions related to proposed projects, that is even the rejection of a project. Obligations for project promoters - and related sanctions - should be integrated and made binding through the contracts with the EIB.

- All EIB standards and requirements should apply to all its intermediated operations, which are still a key weakness of the Bank. The EIB should only give loans to financial intermediaries which have substantial local ownership and do not operate in offshore financial centres.

8 See for example our 2016 report *Going Abroad: A critique of the European Investment Bank's External Lending Mandate*
http://www.counter-balance.org/wp-content/uploads/2016/11/Going-Abroad_2016_web.pdf

TOPIC 2 – INTEGRATED APPROACH ON CLIMATE ACTION AND ENVIRONMENTAL SUSTAINABILITY, INCLUDING ON SOCIAL ASPECTS

Increasing environmental sustainability investments

By adopting new ambitious targets, the EIB also intends to increase the share of EIB's financing dedicated to environmental sustainability distinct from climate action (e.g. water quality, circular economy, pollution prevention and biodiversity).

6. In which types of projects are there likely to be natural synergies for environmental sustainability and climate action? In which cases might there be potential trade-offs?

Environmental Sustainability and Climate Action should not be considered as distinct. The EIB should not consider any climate action that includes important environmental and social trade-offs.

- **Reinforcing the eligibility criteria for the EIB's climate action.** The eligibility criteria for climate action should be expanded to include the "environmental sustainability" dimension, together with social justice and human rights considerations. The EIB should make use of the EU taxonomy to define "Climate Action" and "Environmental Sustainability". Still, given the specific role of the EIB as the EU Bank, the EIB should retain the possibility to apply more stringent criteria than the current taxonomy.

- In parallel, the EIB should develop a **"brown taxonomy"** for operations that cannot be included under its climate and environmental sustainability lending. This eligibility criteria should address the risks of "greenwashing", for instance in relation to biomass, hydropower projects, waste incineration or impacts on natural carbon sinks. As highlighted by the Technical Expert Group on sustainable finance "identifying an environmentally harmful economic activity as partially green carries significant risks, such as leading the market to believe that any performance improvement is good enough even if the underlying activity and its potential performance is ultimately inconsistent with environmental goals over the medium to long term".

- The promise of technological solutions and the push for niche technologies (such as Carbon Capture and Storage, green fuel and renewable gas) should not be a primary focus and should not be used as an alibi not to operate the radical transformation that the Bank refers to.

- **The EIB should reconsider its involvement in market-based mechanisms as part of its climate action**. REDD projects and offsetting mechanisms should not be part of the EIB climate policy. We warn against including and using carbon credits, since the ETS and the use of Clean Development Mechanisms shows after several years of experience that they do not reduce emissions, but rather create new markets of offsets that risk to create new bubbles without contributing to fighting climate change and helped big climate polluters to create new sources of income[9].

Biodiversity offsetting approaches are similarly problematic. Whereas biodiversity losses are guaranteed, future biodiversity gains are likely to be realized late or not at all. Evidence shows that it is unrealistic to expect offsets to be secured in the long-term, let alone in perpetuity. In the end, this inevitably means a net loss of biodiversity[10].

Experiences of compensatory approaches have shown that offsetting tends to weaken environmental protection. In practice, considerable difficulties, many of them insurmountable due to financial, environmental, social and governance realities, mean that such mechanisms have not brought expected results, and cannot be considered an alternative to avoiding impacts in the first place.

The Bank should therefore put an emphasis on the avoidance of carbon emissions and repercussions on biodiversity, and not rely on offsetting as a way of minimizing impact.

Leaving no one behind

The transition to low-carbon and climate-resilient pathways will have significant socio-economic implications, in particular for clients and communities highly exposed to the transition and physical risks associated with this transition.

[9] See for instance:
Carbon Trade Watch, *carbon offsets* http://www.carbontradewatch.org/issues/carbon-offsets.html
Hache, 2019, *50 Shades of Green: The fallacy of environmental markets Part I*
https://greenfinanceobservatory.org/wp-content/uploads/2019/03/50-shades-carbon-final.pdf
Öko Institut, 2016, *Study prepared for DG CLIMA, How additional is the Clean Development Mechanism?* https://ec.europa.eu/clima/sites/clima/files/ets/docs/clean_dev_mechanism_en.pdf

[10] See for example:
Hache, 2019, *50 Shades of Green The fallacy of environmental markets Part II*
https://greenfinanceobservatory.org/wp-content/uploads/2019/05/50-shades-biodiversity-final.pdf
FERN, 2014, *Briefing note 3: Biodiversity offsetting in practice*
https://www.fern.org/fileadmin/uploads/fern/Documents/Biodiversity3_EN.pdf
Vatn et al, 2011, *Can Markets Protect Biodiversity? An Evaluation of Different Financial Mechanisms*
https://www.nina.no/archive/nina/PppBasePdf/Rapporter%20i%20ekstern%20rapportserie%5C2011%5CBarton%20Ca%20Norsgric%20Report%2060%202011.pdf

Recognising this challenge, the EIB Group intends to leverage synergies between climate action and sustainable development to ensure a socially-fair transition, particularly for vulnerable groups.[11]

7. Which type of climate action and environmental sustainability projects are likely to have strong social benefits?

The EIB should **put the Just Transition at the heart of its investments** in the next decade. The Bank must pay specific attention to the social impacts of its operations so that it tackles growing territorial and social inequalities through its long-term lending.

The EIB's commitment to achieve a 50% target for climate and environmentally sustainable investments by 2025 is a welcome step forward. Still, the core issue remains what the EIB will consider as climate-friendly activities, and how to make sure these investments really steer Europe towards a fair and just transition. In this context, we recommend to **focus on the quality** rather than the volume of EIB's climate action – independently from a potential capital increase for the EIB. Below are several recommendations in this regard:

- **Prioritising investments in energy efficiency, building renovation and decentralized renewable energy sources**, in particular by developing sufficient skills and human resources at the EIB to be able to finance smaller projects and increase contacts with local and regional authorities.

- Opening up EIB's support to **community-led initiatives and small-scale projects** (well below the traditional EUR 25 million minimum threshold for a direct EIB loan) would be an important step forward. Stepping up contacts with local and regional authorities and financial institutions like cooperatives and national public banks is necessary to support a more decentralized approach to the energy transition.

- Further developing the **Energy Transition Package**: the EIB needs to do more to support regions and territories accelerate their just transition, and has to strongly contribute to the future Just Transition Mechanism as proposed by the European Commission in January 2020. In this regard, the EIB's energy policy foresees the creation of an Energy Transition Package, but without many details. In addition to covering up to 75% (instead of 50% usually) of the costs of projects, this package needs to be beefed up if it is to make a difference. This will be a litmus test for how the EIB can increase its contribution to a just transition for workers in those sectors that will see fundamental changes.

[11] It should be noted that the European Commission (EC) is running a public consultation on its legislative proposals related to the EU Green Deal, including on the Just Transition Mechanism. The consultation on a just and socially-fair transition, as part of the EIB Group Climate Bank Roadmap 2021-2025, does not pre-empt the outcome of the EC's wider public consultation on this topic.

- Greater enforcement of the EIB **environmental, social and human rights due diligence and monitoring**, including projects via financial intermediaries, will be necessary to ensure social benefits. As already mentioned in the previous section**, a stringent 'do no harm' and 'do good only' approach** should be an essential part of the Climate Roadmap and the future environmental and social standards of the EIB.

Despite being portrayed as green or climate-friendly, large infrastructure projects undertaken under development objectives can have highly detrimental effects on populations living near-by.

The negative impact of green projects is well illustrated by a geothermal project in Kenya that the NGO CEE Bankwatch Network has been closely closely monitoring[12].. In 2010, the EIB, together with several other development banks, invested in the extension of the geothermal power plants Olkaria I and IV, which resulted in the resettlement of four indigenous Maasai villages inhabited by around 1 000 people.

The EIB also recently approved a loan for the Nenskra hydropower plant in Georgia, despite the project being heavily protested by local populations. If built, the 280 MW plant would cause irreparable damage to the unique biodiversity of the Caucasus Mountains and the livelihoods of the indigenous Svan people who have lived in the region for many generations[13].

If the EIB wants to become the EU "Climate Bank", it needs to take serious steps to ensure that it does not fund additional damage on the environment and local populations. There can be no sustainable investment when the livelihoods and wellbeing of local communities are negatively affected, especially when these people are denied the right to oppose, or request changes to, a problematic project.

TOPIC 3 – SUSTAINABLE FINANCE

Leveraging private-sector finance and promoting financial innovation

The EIB Group has a strong track record in terms of "crowding in" other sources of finance, particularly from the private sector, for climate action and environmental sustainability investments.

12 See the analysis of CEE Bankwatch Network: https://bankwatch.org/project/olkaria-geothermal-development-kenya
13 See the analysis of CEE Bankwatch Network: https://bankwatch.org/project/nenskra-hydropower-plant-georgia#1561628105588-d1c82e71-cad8

However, going forward, the EIB intends to increase this leveraging effect to attract public and private-sector financing and to promote financial innovation for such investments.

8. What new types of financing instruments should the EIB Group seek to develop to have a high catalytic effect on other sources of public and private sector finance?

We consider that leveraging private-sector finance should not be a priority in itself for the EIB, especially since the increased role of private finance and mechanisms such as Public-Private Partnerships (PPPs) have proven highly problematic in the past. In this context, our key recommendations are flagged below:

- The development of financing instruments should mostly focus on **reinforcing the role of the public sector in steering a just transition**. In this context, the planned Public Sector Loan Facility under the Just Transition Mechanism could be an important opportunity for the EIB to tailor its financial contribution to important local initiatives supporting a just transition.

- **The EIB should stop its heavy support to Public-Private Partnerships**. The negative effects of PPPs on hidden debt and public services are becoming increasingly clearer, and some European countries are already moving away from this model. There is ample literature available on this topic - from academics, trade unions and NGOs - critically analysing the concept and experiences of PPPs[14]. The current corona crisis in particular illustrates its failures, with the support for PPPs having played an important part in dismantling public health structures and undermining the universal right to health[15].

- **Innovative financial mechanisms through financial intermediaries with dubious environmental and social track record should not be part of the EIB's operations.** A weak area for the EIB climate action relates to its intermediated operations, which are primarily aimed at supporting growth, jobs and innovation and do not have a core climate focus. The EIB's investment criteria - including social, environmental and climate criteria – must be applied to the financial intermediaries. The EIB should furthermore increase the transparency of its intermediary operations (see question 10).

- **Protecting biodiversity without contributing to the financialisation of nature**.

[14] See for example:
Gideon & Unterhalter, 2017, *Exploring public private partnerships in health and education: a critique*
Eurodad, 2018, *History Repeated: How Public Private Partnerships are failing*
https://eurodad.org/files/pdf/1546956-history-repppeated-how-public-private-partnerships-are-failing-.pdf
[15] See for instance our recent blogpost highlighting cases of hospitals in Italy financed under PPP schemes: http://www.counter-balance.org/public-health-eib-amnesia/)

Putting a price on nature is increasingly being promoted as an approach to address pressing environmental issues like biodiversity loss. Nature is becoming conceptualized as a collection of “natural capital” assets that provide ecosystem services which can be measured and monetized. The trend towards green finance, nature-based solutions, biodiversity offsetting and the financialization of nature bears significant risks.

Unfortunately the EIB intends to be a pioneer in the field as part of its commitments on climate and the protection of biodiversity. In recent years, the EIB has increasingly pushed for investments in natural capital to turn ‘natural capital into an asset class’, especially via its Natural Capital Finance Facility (NCFF). But while this initiative has been introduced as a means of building a “business case” for investing in nature, the facility seems to struggle to show that cash flows and revenues can be generated through biodiversity protection projects.

Indeed, as of April 2020, the EIB had only financed 5 operations worth EUR 43.5 million, while 2 other operations were under appraisal. And out of these 5 operations, 2 were not even direct support to projects, but support through financial intermediaries. The EIB and the Commission even had to expand the end of the initiative until the end of 2021 to disburse the funds foreseen under the initiative. Hence, at this stage it is hard to see how this pilot project could be labelled as a success.

Shifting from public grant-based funding to these new forms of financing raises important concerns. These financial instruments require success to become measured in terms of profitability and rate of return rather than on the ability to protect or enhance “nature”. Moreover, it is arguably not compatible with what science asks us to do in terms of timing and ambition. Promoting these instruments could for instance foster controversial policy tools such as carbon and biodiversity offsetting, which would only worsen the issue.

Pricing natural systems is not simply a means of environmental protection but ultimately rather a means for promoting the privatisation and financialisation of nature and creating new ways for the financial sector to continue earning high profits.

This is not to say that sustainable finance has no part to play in a desirable future, but it should target a reduction in the consumption of natural resources and energy rather than green growth, and prioritize people’s wellbeing and environmental protection over profit maximisation. **The EIB should finance projects that mitigate climate change and do no harm, while in parallel refraining from entering the new business of offsets and payments for ecosystem services.**

TOPIC 4 – IMPACT MEASUREMENT

Measuring the long-term effect of EIB's operations

The EIB Group would like to enhance the assessment of the long-term effect of its operations, including the environmental and social benefits.

9. How can the impact of climate action and environmental sustainability activities be best measured?

Several recommendations have been made in the sections above in terms of developing methodologies and approaches to link social, environmental and climate issues and ensure that the EIB better incorporates in its appraisal and decision-making the long-term impacts of its operations. Here are some additional points in this regard.

- The greenhouse gas emissions methodologies of the EIB will have to be revised periodically in order to ensure that they are in line with the latest scientific developments regarding emissions calculations and properly track the impacts of financed projects.

- The EIB should develop a baseline that encapsulates best practices and enables the EIB to better calculate the added value of its financing. The bank must develop criteria to identify the best option in social, environmental and economic terms, rather than using business-as-usual baseline options.

- In addition, it is crucial that the EIB **raises the bar on transparency**: the EIB should proactively disclose the GHG emissions linked to all its operations, on a project-by-project basis. The EIB should also report on an annual basis on the green/brown energy lending ratio within the bank to measure its Paris-alignment.

10. How should the EIB Group tackle the measurement of impact when investing indirectly through financial intermediaries?

This is still a major challenge for the EIB and a crucial element to be tackled if it wants to live up to its climate objective.

Back in 2015, the EIB climate strategy included an action plan for the EIB to develop a methodology to measure the climate impacts of its intermediated operations. But not much has happened on that front to date. Therefore, the current situation is that at least a third of the EIB Group operations are not properly assessed and cannot be considered as climate-proof.

If the EIB and the EIF were to really target these intermediated operations towards climate action, they would need to adopt sound methodologies and to exert much more control about the use of their funds by final beneficiaries and commercial banks, which would require more staff to advise, monitor and report on the climate impact of these operations. The EIB energy policy stipulates that all its intermediated operations should apply the policy - and therefore be fossil free by end 2021 - but it remains particularly unclear how this would be applied in practice.

Civil society has long called attention to the lack of transparency of intermediary operations, as the bank provides next to no information on where the intermediated money ends up. This is compounded by the EIB's rigorous protection of its clients' commercial confidentiality, as well as the client's interest in turn to protect the confidentiality of the ultimate beneficiaries of loans or equity. In this context of widespread business secrecy, in a large majority of cases the EIB appears reluctant to encourage intermediaries to disclose at least some details regarding the support they provide to third parties. Still, recent developments in regard to disclosure of information on small hydropower projects in the Balkans demonstrate that the EIB is able to disclose more information on the final beneficiaries of its projects, and this approach should be expanded to other high-risk projects. As it stands, the rather inflexible stance of the EIB ignores the overwhelming public interest vis-a-vis commercial confidentiality in knowing how European public money is ultimately being deployed.

Furthermore, the EIB does not shed any light on whether the investment funds it supports have any proven capacity and ability to manage – in line with EU standards – the environmental and social impacts and risks arising from its operations. A recent case worth mentioning here is the Belgrade waste incinerator[16]. While the EIB ultimately decided not to finance the project for a lack of alignment with EU waste policies, the Marguerite II Fund - in which EIB is an investor - is a shareholder in the project company.

- The EIB must ensure that intermediated loans are **subject to the same transparency requirements** as other types of loans.

- **The EIB should adopt a whole new approach towards the use of financial intermediaries.** The intermediated operations of the Bank are primarily aimed at supporting growth, jobs and innovation but do not have a core climate focus. **It will be crucial for the EIB to ensure that**

[16] See the analysis of CEE Bankwatch Network: https://bankwatch.org/press_release/new-analysis-belgrade-incinerator-public-private-partnership-a-textbook-case-of-corporate-capture)

its intermediated operations do not fuel climate change. All intermediaries should have decarbonisation plans if they want to benefit from EIB funding.

- The EIB must set a climate action target for each intermediated operation, and not only for those which specifically aim at climate action. Financial intermediaries should be obliged to apply the EU taxonomy for tracking their climate and environmental sustainability investments.

- **The EIB's investment criteria - including social, environmental and climate criteria – should all be applied to the financial intermediaries.** The EIB needs to secure the human resources and methodologies in place to ensure this. As part of the review of its Environment & Social standards in 2020, a new standard on financial intermediaries should set this reinforced approach in stone.

END