



Operations Evaluation

Evaluation of EIB financing
of Climate Action (mitigation) within
the EU 2010-2014

Synthesis Report

September 2015

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Operations Evaluation

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GLOSSARY OF TERMS AND ABBREVIATIONS

CA	Board of Directors (<i>Conseil d'Administration</i>) of the EIB
Carbon footprint methodology	EIB methodologies for assessing project GHG emissions and emission variations
COP-20	20 th session of the Conference of the Parties to the UNFCCC
COP-21	21 st session of the Conference of the Parties to the UNFCCC
Distance-to-target	The distance-to-target measures progress made since 2008 (Kyoto Protocol) and the distance still to cover towards the Europe 2020 key targets. For climate change and energy, targets are set on greenhouse gas emissions, share of renewable energy in gross final energy consumption, primary energy consumption, and final energy consumption. Distance to target can apply to the EU at large and to Member States individual targets.
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECSO	EIB Environment, Climate and Social Office
EE	Energy Efficiency
EIB	European Investment Bank
EPS	Emission Performance Standard
ETS	the EU Emissions Trading System
EU	European Union
EU 20-20-20 objectives	Compared to 1990, by 2020: reduce EU greenhouse gas emissions by 20%, increase energy consumption from renewables to 20% and improve energy efficiency by 20%
EU 2030 objectives	Compared to 1990, by 2030: reduce EU greenhouse gas emissions by 40%, increase energy consumption from renewables and improve energy efficiency by at least 27%
EU 2050 objectives	Compared to 1990, by 2050: reduce EU greenhouse gas emissions by 80%
EV	Operations Evaluation (EIB unit entrusted with independent evaluation work)
FI	EIB Finance Directorate
FWL	Framework Loan
GHG	Greenhouse Gas
IFC	International Finance Corporation
IFI	International Financial Institution
MBIL	Multi-Beneficiary Intermediated Loan
MS	Member State(s)
NACE	The statistical classification of economic activities in the European Community (four-digit classification)
NPST	EIB New Products and Special Transactions Department
CCED	Climate Change and Environment Division within NPST (NPST/3 – CCE)
OPS	EIB Operations Directorate (from April 2014)
PJ	EIB Projects Directorate
RDI	Research, Development and Innovation
RE	Renewable Energy
SG	EIB Secretariat General
UK	The United Kingdom
UNFCCC	United Nations Framework- convention on Climate Change
VP	Vice President
°C	Degree Celsius
3PA	3 Pillar Assessment

EXECUTIVE SUMMARY

This thematic evaluation assesses the extent to which the EIB’s Climate Action financing activity has contributed to promoting low-carbon growth within the EU28 over the period 2010-14. The evaluation focus is on the EIB’s lending activities relating to climate change *mitigation*. Mitigation concerns activities aiming to reduce or prevent greenhouse gas emissions (GHG), or sequester GHGs.

In early 2015, the Bank launched a public consultation on its Climate Action activities. In parallel, the Bank developed a Climate Action Strategy, to be presented to the EIB Board of Directors in September 2015 in view of the “COP-21” Climate Conference to be held in Paris at the end of 2015.

The 25% climate target was achieved with a strong sector concentration

Amounting to EUR 75 bn over the period 2010-14, the Bank’s volume target of at least 25% for Climate Action lending was more than attained with climate change mitigation operations within the EU28 only.

About 40% of Climate Action mitigation lending was concentrated in five sectors: manufacture of motor vehicles (11%, all Research, Development and Innovation (RDI) projects), high-speed railways (9%), metro lines (8%), and off- (7%) and onshore (4%) wind. Signatures for high speed railways and metro lines were particularly present in the

portfolio in the first half of the period. The current pipeline suggests that the share of these two sectors may further decrease in the future. The share of operations in manufacture of motor vehicles also decreased, but less so. Prior to 2010, these three sectors were already strongly present in the Bank’s portfolio but were not labelled Climate Action. The Bank introduced a “climate indicator” to label projects only in 2010.

The five largest recipient countries of climate change mitigation lending (France, UK, Germany, Spain, Italy) account for 70% of the portfolio. These countries are also the main recipients of lending in the overall EIB portfolio. Sector distribution in Climate Action is highly country specific, with a dominance of high speed rail in Spain and France, manufacture of motor vehicles in Germany and renewable energy in the UK and, to a lesser extent, Italy.

An important contribution, particularly in Renewable Energy

The total EIB portfolio (projects labelled as Climate Action and those that are not) is deemed to be carbon negative, i.e. not a net GHG emitter.

The case studies performed under this evaluation, as well as the climate-related projects that were evaluated earlier by EV, suggest that projects generally realise their

EIB Climate Action Evaluation – Main findings
<p>With EUR 75 bn invested over 2010-14, the Bank made an important contribution to financing EU28 climate change mitigation. Bank finance of Renewable Energies generally added value and focused on EU Member States with larger “distance-to-target”. This was less the case for Energy Efficiency (EE) in buildings and industry, in which the Bank’s action can still be improved. Here, the Bank could further develop innovative finance and advisory solutions, as EE projects are labour intensive. Also, apart from in the automotive sector, the amount of RDI projects is deemed low in view of EU 2030 and 2050 climate policy objectives.</p> <p>A large share of the Climate Action portfolio (40%) was to the benefit of five sectors only, composed mostly of very large infrastructure projects. These helped the Bank reach its Climate Action target of 25% during the period, which is assessed as positive. However, not all those sectors equally contribute to climate change mitigation (e.g. high speed rail vs. renewable energy). Moreover, some of those sectors may soon reach saturation in some countries. Rather than on volume only, in order to increase relevance, the Bank should focus even more on (i) GHG emission reductions, (ii) financial and non-financial value added and (iii) narrowing Member States distance-to-targets. This should start at the project origination and selection stage.</p> <p>To make this happen, the Bank should provide for clear coordination and leadership in this area within the organisation and complete the mainstreaming of Climate Action within the Bank, which has made much progress but is not yet fully implemented.</p>

intended climate outcomes.

The Bank's contribution to climate change mitigation in the EU28 was particularly important in the area of *electricity generation* through renewable energy (RE), with nearly EUR 15 bn of the EU28 mitigation portfolio 2010-14. It is also in the area of renewable energies that the Bank has responded well to Member States' "distance-to-target" as per the EU 20-20-20 objectives.¹

A closer look into this broad sector shows that the Bank has been particularly active in the sub-sector of wind energy, with projects that have performed well. The Bank has helped to mature *onshore* wind in Europe in the past and is still making a substantial contribution to the development of the *offshore* wind sector.

Results are more mixed regarding energy efficiency (EE) in buildings and industry. EE is generally an area harder to deal with, due to the smaller size and greater complexity of projects. This means that financing them is generally more labour-intensive for the Bank – or for any other IFI. Cognisant of the characteristics of EE projects, the Bank has recently developed a series of initiatives – such as "DEEP Green" – to better and more efficiently finance projects in this area. The portfolio analysis shows that the overall volume lent to EE projects has steadily increased over the evaluated period.

The Bank also financed, in large amounts, projects in rail and in urban transport. Those sectors, albeit relevant under other EIB priorities, have a relatively lower contribution to climate change mitigation, depending on modal shift and the energy mix in the countries concerned.

Finally, the funding for Climate Action RDI in the manufacture of motor vehicles sector was significant as compared to the marginal amounts of RDI in RE. RDI in RE is however clearly needed in view of the EU's current

policies, in particular to reach EU 2030 and 2050 climate objectives.

Pioneering investments in climate funds

The evaluation shows that the EIB has been a pioneer investor in renewable energy and forestry equity funds. The EIB's intervention in climate related funds – which began about 10 years ago – includes a strong component of learning by doing. Such learning especially took place for the RE sector with regard to the conditions (regulation, markets) needed in countries to enable certain technologies to develop. EIB commitments in Climate Action funds were on average only some 0.5% of the EIB EU28 total Climate Action mitigation portfolio *per annum*, yet leverage is considerable. One euro of EIB investment was expected to catalyse on average 6.5 euros from other investors in a fund and lead to 24 euros of final investment; the evaluation could confirm those figures. The EIB fund activity also allows reaching smaller projects which are difficult to serve with the standard EIB investment loans.

Climate action mainstreaming has come a long way but is not yet complete

Mainstreaming Climate Action means that the institution and its staff, including those who are not exclusively addressing climate change, all contribute towards achieving the EIB's climate objectives. This implies that the organisational set-up of the Bank and the operational tools and processes within the organisation are conducive to raising awareness on Climate Action. In other words, Climate Action governance and mainstreaming tools need to contribute to incorporate climate considerations in the Bank's project cycle and provide incentives to staff to reach Climate Action objectives, even when those are not their core activity.

The Bank has introduced a series of systems, tools and processes to mainstream Climate Action in the upstream part of the project cycle (especially appraisal). Furthermore, in both the Operations (OPS) and Project (PJ) Directorates, divisions exist with specific Climate Action responsibilities.

¹ These are, in 2020 as compared to 1990, to reduce EU greenhouse gas emissions by 20%, increase energy consumption from renewables to 20% and improve energy efficiency by 20%.

The evaluation finds that, overall, Climate Action information (intranet, training) and expertise is available for or used by those who are involved in Climate Action on a regular basis, but not sufficiently for those in departments and divisions for which it is *not* a core activity. Incentives to work on Climate Action are mainly linked to staff's personal interests, and to "soft" incentives. Moreover, guidance on Climate Action is to a certain extent not formalised. Therefore, mainstreaming, which, starting virtually from scratch, has made considerable progress in the past five years, should now be completed in order to make sure that all staff (1) know how to recognise and positively influence any potential climate dimension of a project that is originated or appraised and (2) are able to look for opportunities to minimise the negative impact of a project on climate change. Essential for the mainstreaming of climate action throughout the Bank, this is expected to ultimately have a positive effect on both dedicated climate projects and the climate impact of *all* EIB projects.

Future challenges

The Bank currently has a Climate Action lending volume target of at least 25%. The Bank's forthcoming Climate Action Strategy intends to maintain this target in the future.

The evaluation findings suggest that there are several future challenges to continue reaching the target in the way the Bank has been able to do in the past. These are the following.

- *Climate impact.* In view of EU Climate Action policies, which have become more ambitious with the introduction of the EU 2030 Climate and Energy Framework, the Bank can be expected to put greater emphasis on the *impact* on GHG emission reductions of its lending, rather than on volume only. Some Climate Action sectors that, in the past, were massively supported by the Bank are not making a major contribution to climate change mitigation. A weaker presence of loans in those sectors may have consequences for reaching the Climate Action target.
- *EU and Member States' "distance to target".* In order to increase relevance in view of EU Climate Action policies, the Bank would need to put greater emphasis on supporting the EU and its Member States to narrow their "distance-to-target" against their climate objectives as agreed within the EU. The Bank has clearly done this for Renewable Energy. More efforts can still be made in Energy Efficiency. It is recognised that EE projects are in many respects more labour intensive for the Bank than the large investment projects in wind and rail. Therefore, the challenge here is to continue to look for new and innovative financing mechanisms to serve EE projects, which may require blending and advising. Recent initiatives developed by the Bank in this area provide a good starting point to tackle this challenge.
- *Composition of the Climate Action portfolio in terms of sector distribution.* There are several reasons why some of the sectors that were heavily present in the portfolio in the past may be less so in the future. First, some sectors may reach a point of *saturation* in some countries, for instance high speed rail. Second, in certain sectors that have reached maturity – such as onshore wind – EIB value added decreases as private investors become more willing to invest. The EIB should focus on sectors and countries where its value added is maximised and where it can catalyse, not crowd-out, private investment. Saturation or maturation does not necessarily imply reducing investments in the sector but could also mean a shift in country of investment.
- *Investment Plan for Europe.* Finally, the increase of EIB volume due to the Investment Plan for Europe (IPE) could be a challenge. An increase in overall EIB lending volume within the EU28 means that the 25% climate action target will represent a higher absolute volume in comparison to the past. In view of the types of projects intended to be financed under the European Fund for Strategic Investments, part of the IPE, it may also

represent an opportunity for Climate Action.

The recommendations are made against these challenges, on the basis of the evaluation findings. The overall message is that the Bank should aim for a strategy that is more relevant to EU Climate Policy, and targets GHG impact, beyond lending volume.

The Bank should ensure that its internal organisation facilitates the implementation of such a strategy, including the monitoring of its results such that impact can be assessed and therefore guide future strategies.

MANAGEMENT RESPONSE

The Management Committee welcomes the independent Evaluation of the EIB's support to Climate Change Mitigation operations in the EU over the period 2010-2014. This Evaluation covers an important part of the EIB's Climate Action. It does not analyse the Bank's Climate Action outside the EU and climate change adaptation activities.

Building on the Bank's Climate Action track record – and in parallel to this Evaluation – the Bank has developed a comprehensive Climate Strategy with a broader scope covering climate change mitigation and adaptation globally. During the collection of data and drafting of the material prepared to substantiate the evaluation results and the synthesis report, a continuous exchange took place between the EV team and the EIB staff working on the draft EIB Climate Action Strategy endorsed by the Management Committee on 15 July 2015. In so far the results of the Evaluation could already be considered in the drafting of the Strategy as they became available. This global Strategy is presented to the Board of Directors at its September meeting together with the Evaluation report. The Strategy is structured around three main objectives that serve as orientations for the Bank's future Climate Action:

1. Reinforcing the impact of the Bank's financing
2. Building resilience to climate change
3. Further integrating climate change considerations across all of the Bank's standards, methods and processes.

The Strategy incorporates contributions received from external stakeholders during a formal Public Consultation held in early 2015. It does not propose to modify the 25% volume climate finance target, but rather steer the Bank's Climate Action towards those initiatives and projects which have the highest impact. High impact can be achieved in three ways

- Investing in projects which bring significant mitigation or adaptation gains
- Catalysing and mobilising additional finance from a range of sources
- Reducing financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy.

The Evaluation comes very timely to give useful indications for the development of specific work plans on the basis of the Strategy paper.

RECOMMENDATIONS

The recommendations below are based upon the evaluation’s findings and conclusions. The main recommendations are presented under two headings, related to the Bank’s objectives, and reflected in the way in which the evaluation was structured: Increased contribution to EU climate goals and Improved mainstreaming. Additionally, a last recommendation refers to the use of the evaluation material in view of the establishment of the Work Plans after the adoption of the Climate Action Strategy.

<u>STRATEGY AND POLICY</u>	
INCREASE IMPACT BY BEING MORE RELEVANT FOR EU CLIMATE GOALS	
<p>In order to better contribute to climate change mitigation within the EU28, the Bank should <i>emphasise the long-term impact on GHG emissions beyond the Climate Action volume</i> of its operations. This is broken down as follows:</p>	
R1	<p>In the origination and selection of projects, place greater emphasis on climate impact by (1) building on EIB strongholds (e.g. RE); (2) reinforcing activity in areas where performance in view of Member States’ distance-to-targets was weaker (EE). In this, EIB should contribute where it has most value added (technical and financial).</p> <p><i>In order to respond to this recommendation, the Bank should explore the following issues as part of the Climate Action Strategy:</i></p> <ul style="list-style-type: none"> • <i>The currently still weak inclusion of climate impact considerations in the identification of climate action projects and subsequent project prioritisation.</i> • <i>The EIB contribution to closing the Member States’ “distance-to-target”, not only in RE (where the Bank has relatively more invested in countries with larger distance-to-target) but also in EE (where this can still be improved).</i> • <i>The lack of an explicit approach in the area of RDI for Climate Action (e.g. announcing Climate Action more clearly as an important additional objective for RDI projects, in view of EU 2030 and 2050 goals).</i> • <i>The composition of the present portfolio in view of the strong presence of a few sectors, which for different reasons may decrease.</i> <p>MANAGEMENT RESPONSE</p> <p>PARTIALLY AGREED</p> <p>The Management Committee supports the general recommendation to place greater emphasis on climate impact which is also one of the objectives of the Climate Strategy presented to the Board of Directors. The Management Committee recalls that the policy context, including Member States “distance-to-target”, is already a core element of the impact assessment of every operation. Member States’ “distance-to-target” is only one parameter in such an impact consideration. The Bank applies its Value-Added methodology to all projects and the overall value added by the Bank (3rd Pillar) is an important criterion. Moreover the scale of the Bank’s financing and its effective impact in a given Member State depends on the market, economic and regulatory environment in each country. It would go beyond the EIB’s remit to have a bearing on national policies. The Management Committee agrees to explore better inclusion of climate impact considerations in the project identification, make climate action objectives more explicit in the area of RDI and analyse trends in the sector-break-down of climate projects in the framework of concrete Action Plans to be established.</p>

R2	<p>Measuring Climate Action outcomes at EIB portfolio level (including funds and intermediated lending) should be improved to better report and communicate <i>ex-post</i> on the Bank's achievements and better steer Climate Action toward higher impact investments in the future.</p> <p><i>In order to respond to this recommendation, the Bank should explore the following issues as part of the Climate Action Strategy:</i></p> <ul style="list-style-type: none"> • <i>The lack of ex-post reporting on (avoided) GHG emissions, including for funds and intermediated loans.</i> • <i>The lack of reporting on the Bank-financed projects' contribution to closing Member States' distance-to-targets.</i> • <i>Whether indeed 95% of emissions are actually captured by the EIB's methodologies for assessment of project GHG emissions (the evaluation suggests that significant emissions savings, from smaller projects which individually are not taken into account for the footprint calculations but cumulatively may be significant, may be missed).</i> <p>MANAGEMENT RESPONSE</p> <p>AGREED</p> <p>Concrete Action Plans will be prepared after Board approval, taking into account the above comment on Member States' "distance-to-target".</p>
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ORGANISATION

IMPROVED MAINSTREAMING

The Bank has made Climate Action a *transversal* priority. Mainstreaming of Climate Action across the Bank is an important and explicit component of this – and makes this area different from other Bank priorities. The Bank has put several tools in place to screen projects on their climate content. A condition to further increase climate impact is that climate action is not only a set of tools to screen projects, but climate action should be on all operational staff's "radar screen" so that each and every project is considered against possible climate merits (or weaknesses) *from its identification and origination stage onwards*. In other words, whereas Climate Action mainstreaming has made considerable progress since 2010, this process now needs to be completed. This is broken down as follows:

R3	<p>In order to make the EIB organisation even more conducive to Climate Action mainstreaming, clarify and formalise (1) Climate Action-relevant decision-making structure(s), processes and associated controls, (2) the Climate Action-relevant coordination responsibilities within and amongst EIB Departments and, whenever relevant, (3) the decision-making, membership, reporting requirements and relations of the internal Climate Action-related networks.</p> <p><i>In order to respond to this recommendation, the Bank should explore the following issues as part of the Climate Action Strategy:</i></p> <ul style="list-style-type: none"> • <i>A certain lack of Climate Action coordination within and amongst Directorates and of a bank-wide Climate Action operational oversight and strategy function, which is needed to determine how the EIB is going to meet its target and in which countries and sectors its added value is highest.</i> • <i>The currently not well communicated terms of reference, expected contribution, decision-making roles and reporting requirements of each internal network.</i> • <i>The lack of clear Climate Action strategic decision making roles and functions.</i> <p>MANAGEMENT RESPONSE</p> <p>PARTIALLY AGREED</p>
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	<p>The Management Committee deems that it has a clear strategic decision making role and function. This being said it agrees to review the internal communication of the important work done by the existing specialists’ networks, and also to clarify roles and responsibilities as appropriate. Concrete Action Plans will be prepared after Board approval.</p>
<p>R4</p>	<p>In order to make sure that all operational staff (1) know how to recognise and influence positively any potential climate dimension of a project that is originated or appraised and (2) are able to look for opportunities to minimise the negative impact of a project on climate change, guide OPS staff more explicitly on up-stream (identification, origination) operational Climate Action mainstreaming by increasing Climate Action awareness and provide more formal and comprehensive guidance to PJ staff on Climate Action mainstreaming tools and processes.</p> <p><i>In order to respond to this recommendation, the Bank should explore the following issues as part of the Climate Action Strategy:</i></p> <ul style="list-style-type: none"> • <i>The need to rationalise the existing two Climate Action internal intranet portals.</i> • <i>The training needs of staff on Climate Action (tailored to the awareness requirements and expertise of staff) and understaffing of ECSO in Climate Action in this regard.</i> • <i>The need for more Climate Action expertise in PJ and OPS departments and divisions where climate is not the core activity.</i> • <i>The lack of consistent screening and qualification of projects under Climate action criteria,</i> • <i>The absence of formal written guidance on the Climate Action screening processes of a “standard” EIB operation and on the Climate Action “control” processes currently enforced for the Climate Action labelling and GHG foot printing.</i> • <i>The lack of clarity on which Climate Action eligibility list is to be applied and the need for additional guidance for a more homogeneous/standardised application of the list.</i> <p>MANAGEMENT RESPONSE</p> <p>PARTIALLY AGREED</p> <p>The possibility of increasing staff dedicated to Climate Action needs to be seen in the context of all other Bank objectives. The Management Committee agrees that the services provide training, in particular for newly recruited staff and set practical guidelines for climate project screening and eligibility.</p> <p>Concrete Action Plans will be prepared after Board approval.</p>
<p><u>OPERATIONAL</u></p> <p>USE OF EVALUATION MATERIAL FOR WORK PLANS</p>	
<p>R5</p>	<p>The evaluation yielded a wealth of information coming from its different tasks, in much greater detail than could possibly be reflected in the present report. In consultation with the Reference Group it was suggested to screen and wherever possible exploit the more detailed material from the evaluation’s individual task reports. This should support the definition of the Work Plans that will follow the adoption of the new EIB Climate Action Strategy.</p> <p>MANAGEMENT RESPONSE</p> <p>AGREED</p>

1 INTRODUCTION

Climate change represents an urgent and potentially irreversible threat to human society, biodiversity and to the planet. Taking actions to curb climate change and promote sustainable development has been high on the international, national, regional and local policy agendas for over two decades. This movement seems to have accelerated since the Lima “COP-20”² and in view of the Paris “COP-21”. The objective of the Paris COP which will be held at the end of 2015 is to achieve a legally binding and universal agreement on climate.

Climate Action is an important transversal priority of the European Investment Bank (EIB). In 2010 the Bank defined a Climate Action indicator in order to identify climate-relevant EIB operations. In 2012 the Bank introduced a Climate Action volume target of at least 25% of total EIB lending (this target first was 20% in 2010 and 22% in 2011). During the past five years, the Bank has taken a variety of additional initiatives to mainstream climate action considerations at project, sector and portfolio level.

The present evaluation³ assesses the EIB’s qualitative and quantitative contribution to Climate Action policy objectives within the EU28, over the period 2010-2014. The focus is on the EIB’s lending activities relating to climate change *mitigation*. Adaptation to climate change is excluded from the evaluation as it was deemed too premature to be assessed, given the recentness of this area for the Bank. This evaluation also does not cover the Bank’s borrowing activities (e.g. Climate Awareness Bonds), advisory services and internal footprint.

Mitigation and adaptation

Mitigation actions concentrate on reducing or preventing greenhouse gas emissions (GHG), or sequester GHGs.

Adaptation actions attempt to reduce vulnerability and build resilience to the impacts of climate change.

Early 2015 the Bank launched a public consultation on its Climate Action activities. The Bank, in parallel, worked on the definition of a Climate Action Strategy, to be presented to the EIB Board of Directors in September 2015, in view of COP-21. The present evaluation, which started in January 2015, was designed to deliver results that would feed into this strategy process.

This document is structured as follows. After a presentation of the policy background and intervention logic of EIB activity for this area (Chapter 2), this document briefly describes the evaluation approach (Chapter 3). The report will subsequently present the five main findings from the evaluation. These are grouped in two separate chapters, the first on the contribution of the EIB to EU28 climate policies (Chapter 4), the second on mainstreaming of Climate Action within the Bank (Chapter 5).

The overall message resulting from this evaluation is that the Bank should aim at a strategy which, beyond volume, is more relevant in view of EU Climate Policies, and targets Greenhouse Gas (GHG) impact. The Bank should make sure that the internal organisation is structured in such a way to implement this strategy and monitor its results such that impact can be assessed and therefore guide future strategies.

2 POLICY BACKGROUND AND EIB INTERVENTION LOGIC

Climate Action encompasses the development and implementation of policies, strategies and projects to either mitigate climate change or to adapt to it. The EIB covers both climate change mitigation and adaptation actions, though the latter to a significantly lesser extent (6% of the EU28 portfolio 2010-14) than the former.

The current internationally adopted objective is to limit global warming to less than 2°C compared to pre-industrial temperature⁴ levels, and to consider lowering that maximum to 1.5°C in the near future.

² Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC), a process which started formally in Rio de Janeiro in 1992.

³ EV Work Programme for 2014-15 (CA/475/14) approved by the Board on 22 July 2014.

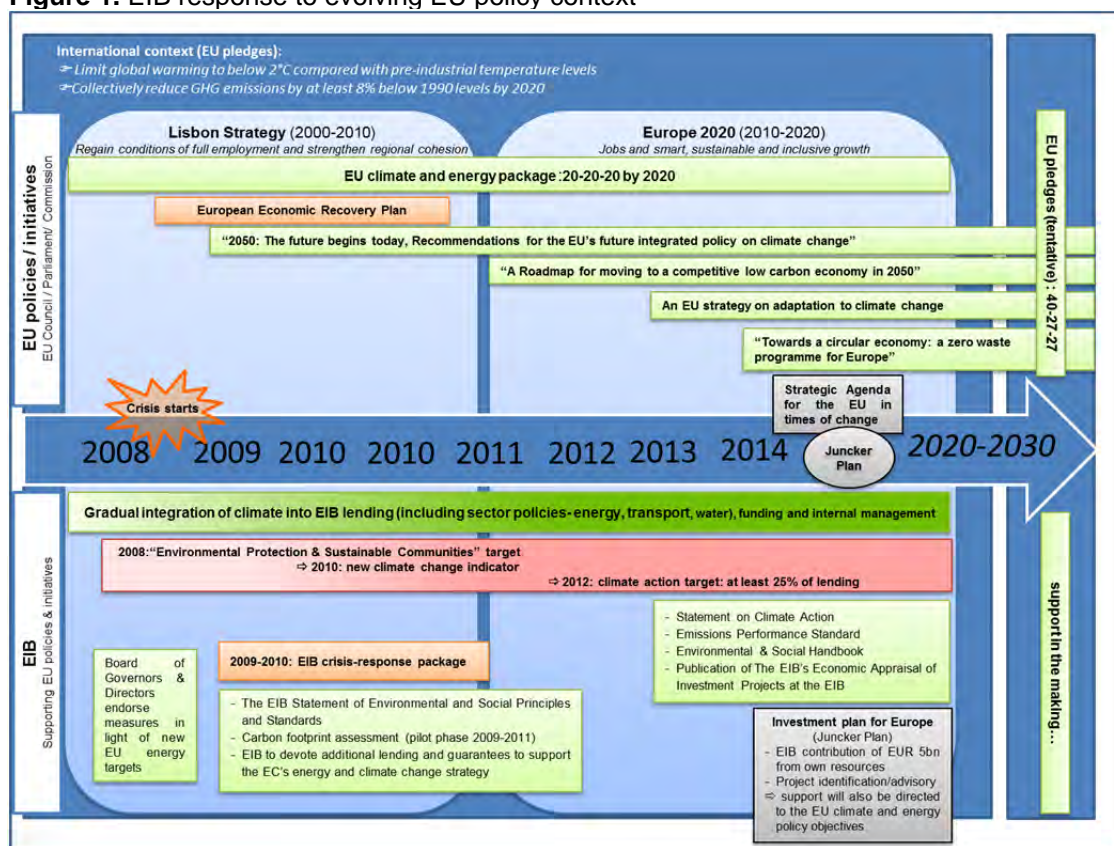
⁴ UNFCCC Agreement reached in Cancun in December 2010

2.1 Policy review

In order to reach the internationally adopted objective, a number of industrialised countries and the European Union (EU) have committed⁵ to collectively reduce GHG emissions by at least 8% below 1990 levels by 2020. The EU currently contributes to 14% of global GHG emissions. The European global objective can be reached even if some Member States do not enforce their individual energy efficiency targets and shift to a low carbon economy. This can be achieved under what is known as the “burden sharing” agreement, namely, national targets are differentiated but collectively add up to the 8% reduction needed. All Member States have taken steps to “green” their economy, notably in the industry and energy sectors. In the aftermath of the economic crisis that struck Europe in 2008, post-Lisbon Strategy policies have been further guided by the imperative of resource efficiency and sustainable growth that creates jobs, within the limits of the planet itself⁶.

The EIB lending activities in the area of climate change were directly influenced by EU and Member States’ policies, as set out in EIB internal papers and documents, and EIB’s Corporate Operational Plan. The following figure shows the evolution of EU and EIB policies and initiatives.

Figure 1. EIB response to evolving EU policy context



This figure illustrates how the EIB responded to the different challenges expressed at EU level. This is briefly explained below.

In the area of climate change, particularly important EU milestones were the publication of the “Roadmap for moving to a competitive low carbon economy in 2015” (2011) and the “EU strategy on adaptation to climate change”. The first communication sets out a cost-effective pathway for achieving much higher emission cuts by 2050 against the backdrop of continued global population growth, rising global gross domestic product (GDP) and varying global trends in terms of climate action, energy and technological developments. The second applies the principle of subsidiarity, i.e. adaptation is a responsibility of Member States, and focuses on (1) promoting adaptation activities by member states; (2) mainstreaming adaptation measures into EU policies and programmes; and (3)

⁵ The Kyoto Protocol was adopted in December 1997 and entered into force on 16 February 2005. The Protocol’s Amendment, the Doha Amendment to the Kyoto Protocol, was adopted in December 2012.

⁶ Europe 2020 Strategy for smart, sustainable and inclusive growth.

better informed decision-making. The adoption, end 2014, of the EU “2030 climate and energy policy framework” (covering the 2020-2030 period) and of the EU position on climate change targets set the path for the upcoming COP 21 negotiations and the coming decade.

In response to climate challenges, since the end of the 2000s the Bank worked on the development of a carbon footprint methodology for the projects it finances. In 2010, it introduced a Climate Action indicator for its projects and started to implement several other Climate Action related activities (e.g. *internal* carbon footprint). The Climate Action indicator is an eligibility criterion which allows the Bank to measure lending volumes for Climate Action.

Climate Action indicator

The Climate Action indicator is an eligibility criterion, which allows the Bank to track the volumes dedicated to Climate Action. It is based on a list of eligible sectors (discussed in Section 5.2.1), against which each project is screened. A project can be fully eligible for Climate Action, or partially, i.e. when only some of its components are deemed eligible by the Bank’s services. The EIB “Climate Action portfolio” is the sum of all projects and project components tagged with the Climate Action indicator.

In the absence of a Climate Action strategy *per se* during the period covered by the evaluation, EIB sector policies have been paramount to mainstream Climate Action in the EIB’s operations (see insert hereunder). 2013 saw the external publication of an EIB Statement on Climate Action. In 2014, a Public Consultation on the Bank’s Climate Action activities was prepared, and launched on 12 January 2015. This consultation, together with other elements, should help the Bank prepare for defining a Strategy for Climate Action, in view of the COP-21 to be held in Paris at the end of 2015. The definition of this Strategy ran in parallel to the present evaluation and will be published at the same time.

Sector policies: Transport, Energy and Water

By their nature, Transport and Energy are sectors of prime relevance for the Climate Action activities of the Bank. For both, policies have recently been defined. The EIB lending strategies under those policies *as such* are outside the scope of the present evaluation. However, their relevance for the Climate Action activity of the Bank is briefly outlined below as – Climate Action being a transversal priority – these sectors were during the period that was evaluated, the main constituting sectors of the Bank’s Climate Action activity.

EIB’s 2011 Transport Lending Policy⁷ explicitly refers to Climate Action as being a priority of the EIB and to the Climate Action indicator introduced in 2010. It states that “*projects in the public transport, rail, inter-modal and waterborne transport sub-sectors generally count towards meeting this indicator whilst those in the roads and aviation do not*”, while “[s]hipping and RDI projects will be assessed on a case-by-case basis”. In addition, the Bank adopts stricter criteria for road and air transport projects. For the transport sector(s), the policy serves to orient the Bank’s portfolio towards supporting the intrinsically more environmentally sustainable modes. Whereas automotive manufacturing does not count towards the Climate Action indicator, the development of efficient car engines or fuels does, and such projects are strongly present in the portfolio since 2010. This was initially related to increased support for the European car manufacturing industry during the crisis, yet the portfolio analysis shows that such funding continued throughout the period of concern.

The Bank’s Energy Lending Criteria,⁸ published after the EIB 2012-13 energy review, which included a public consultation,⁹ naturally emphasises the importance of climate change: “[t]he Bank’s activities [in the energy sector] are primarily guided by EU policies in energy, **climate change**, and external affairs and development” (our emphasis). The Energy Lending Criteria paper underlines the challenges involved in keeping global warming below 2°C.

In direct relation with climate action, the Bank prioritises renewable energies with the assumption that over the medium term renewable energy production costs will continue to fall and become increasingly financially competitive with fossil fuels. Project analysis in this area needs to take into account the long term cost of carbon, the expected energy generation profile of the project and the full system costs. A second major area of the Bank’s energy “policy” related to Climate Action is energy efficiency in buildings, transport and industry, where barriers need to be overcome, in particular, “*small projects, the limited capacity to develop projects, and limited incentives*” (p.4, para 24). The Bank furthermore aims to promote RDI in efficient and low-carbon technologies. Finally, the Bank adopted stricter criteria for fossil fuels generation, as fossil fuels still accounted for more than half of EU electricity production in 2010.

Other areas that the Bank covers in the energy strategy are unconventional hydrocarbon production, nuclear power

⁷ http://www.eib.org/attachments/strategies/transport_lending_policy_en.pdf
⁸ http://www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf
⁹ <http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eibs-energy-lending-policy.htm>

(which is low-carbon) and energy networks, which all three to some extent may be related to climate action activities.

The Water Sector Lending Policy¹⁰, published in 2008, mentions climate change adaptation as a key sector objective. Mitigation is covered under the sector objective of developing waste water and sanitation services and refers to the reduction of GHG emission thanks to sludge treatment and recovery of biogas.

Some climate relevant areas (e.g. agriculture, industry) have not been the subject of an explicit strategy as yet.

2.2 Intervention logic

According to the EIB Statement on Climate Action published in 2013, the overall aim of the EIB in the area of Climate Action was to “...support the EU's aim of promoting low-carbon and climate-resilient growth globally, engaging its technical expertise and financial strength to promote sustainable development ...”.

On the basis of the EIB Statement on Climate Action and other relevant documentation, EV reconstructed, during the initial phases of the evaluation, the intervention logic for EIB Climate Action over the period concerned. The intervention logic (IL) describes the outputs, outcomes and impacts expected from EIB activities. An IL, initially designed by EV, was subsequently discussed in a workshop with the Reference Group for this evaluation, and amended and finalised.

The intervention logic which was used as the basis for this evaluation is presented on the next page. It can be briefly described as follows.

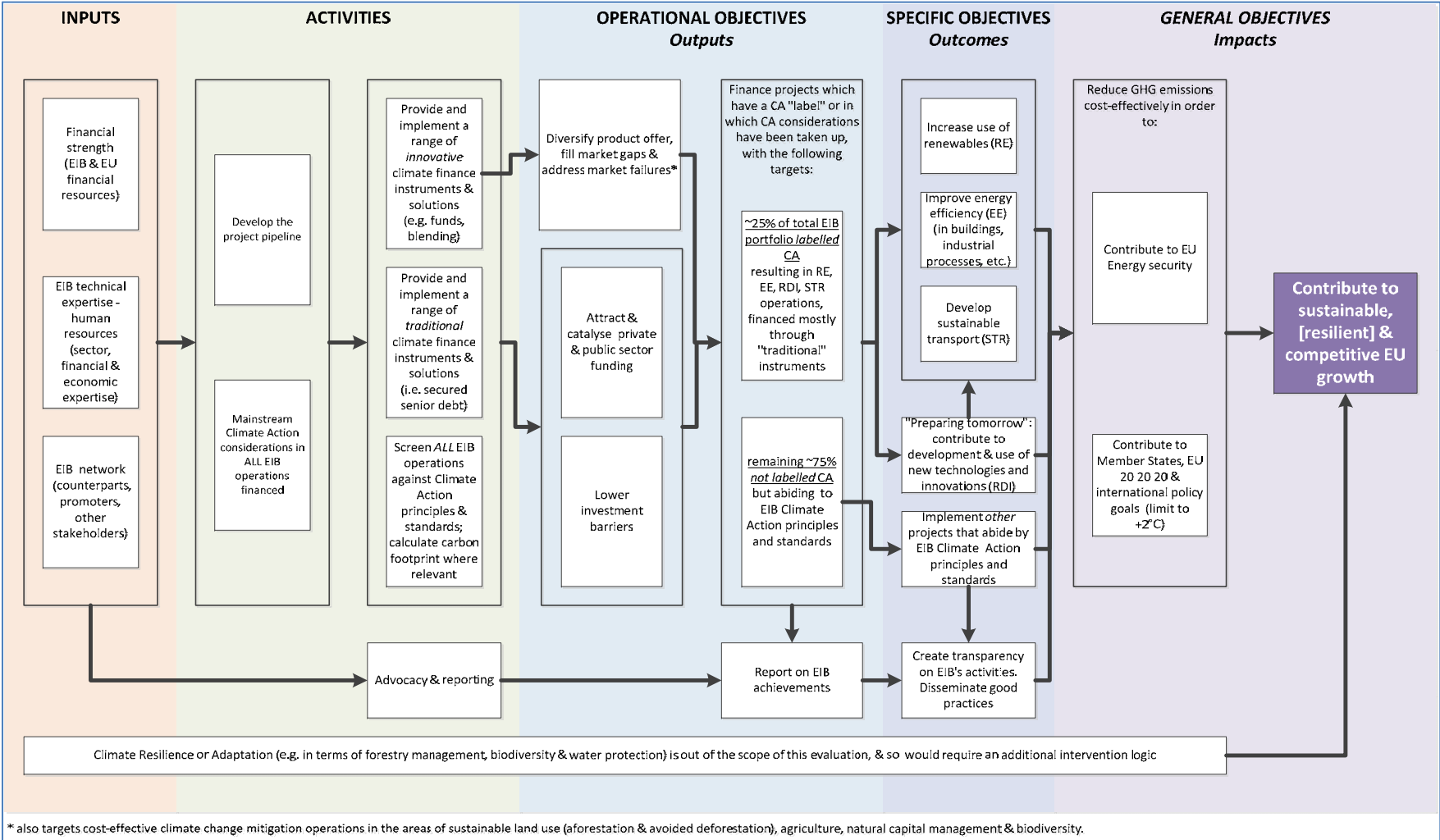
The general objective (right side of the IL) is to contribute to EU sustainable, low carbon, growth. As per the policy review above, in the area of Climate Action, over the period concerned, this means supporting the EU and EU Member States in achieving their 20-20-20 objectives and targets. These are, in 2020 as compared to 1990, to reduce EU greenhouse gas emissions by 20%, increase energy consumption from renewables to 20% and improve energy efficiency by 20%. The activities through which the Bank intends to achieve this (left side of the IL) are: developing the project pipeline and mainstreaming Climate Action considerations in all EIB operations financed; screening all projects against the Bank's climate principles and standards; and concretely financing projects, either with the Bank's more traditional loan products, or with more innovative finance solutions. The latter are specifically meant to diversify the Bank's product offer, and remediate market failures or gaps. Underlying this, the Bank aims to attract and catalyse private and public funding, and lower investment barriers.

The Bank expects its various activities to lead, on the one hand, to a dedicated Climate Action portfolio (as per the target, at least 25% of the lending volume). This portfolio would contain a mix of projects in Renewable Energy (RE), Energy Efficiency (EE), Sustainable Transport (ST) and Research, Development and Innovation (RDI); this can be cross-cutting with the other sectors) as well as possible other areas (sequester GHG for instance with forestry projects). On the other hand, it will lead to the remainder of the portfolio being *not* dedicated to Climate Action *per se* but following nevertheless the Bank's climate principles and standards.

Financing Climate Action projects is expected to yield project outcomes in the abovementioned sectors (e.g. electricity from renewables, increased public transport capacity). These, in turn, are expected to be used by final beneficiaries. On the other hand, the non-Climate Action portfolio is expected to not be particularly polluting in terms of GHG emissions (to not, for instance, cancel the efforts of the Climate Action portfolio). All these activities and the resulting project portfolios in the different sectors should ultimately respond to the Member States' and the EU objectives – leading us back to the general objectives at the right hand side of the Intervention Logic.

¹⁰ http://www.eib.org/attachments/strategies/water_sector_lending_policy_2008_en.pdf

Figure 2. EIB's Intervention Logic for Climate Action (Mitigation) activities within the EU28, 2010-14



3 EVALUATION APPROACH

The evaluation approach was directly inspired from the intervention logic. The overall aim of the evaluation was to assess the extent to which the EIB's Climate Action financing activity has contributed to promoting low-carbon growth within the EU. On the basis of this assessment, possible lessons for improvement were to be identified. Two main evaluation questions guided the evaluation. These were identified based on the Bank's objectives as expressed by the intervention logic outlined above:¹¹

EQ1: How has EIB *mainstreamed* Climate Action considerations into its activities?

EQ2: How does EIB financing activity *contribute* to Climate Action objectives?

EQ1. Climate Action, being one of the main policy priorities of the EIB, has been gradually integrated in all activities of the Bank: borrowing, lending and other financing activities, blending, advisory, and governance. The first evaluation question was therefore broken down in the following four sub-questions:

1. How effective has the use of Climate Action mainstreaming tools been?
2. How conducive has the internal organisation and governance to incorporate Climate Action considerations into EIB activities been?
3. How relevant was the "Climate Action (mitigation) portfolio", i.e. the portfolio of projects explicitly labelled "Climate Action" (mitigation)?
4. How is Climate Action mainstreamed into the "non-Climate Action portfolio" (which represents some 75% of the total EIB portfolio)?

Overview of the Evaluation Research Tasks		
EQ1: MAIN-STREAMING	1.1	Climate Action mainstreaming tools
	1.2	Internal organisation and governance
	1.3	Climate Action portfolio relevance
	1.4	Non-Climate Action portfolio analysis
EQ2: CONTRIBUTION	2.1	Member states profiles (sample of 9)
	2.2	On/offshore wind case study
	2.3	High Speed Rail case study
	2.4	"Small" projects portfolio analysis
	2.5	Funds activity (sample of 5 funds)
	2.6	Past EV evaluations
	3	Peer practices on selected topics

EQ2. Based on EIB's objectives, as per the Intervention Logic, as well as the initial portfolio analysis, the second overall evaluation question was broken down into six sub-questions aiming to assess the contribution of the EIB to Climate Action objectives in the EU28:

1. To what extent has EIB contributed to Member States' climate change mitigation policies?
2. Which lessons can be learned from on- and offshore wind? Individually they rank four and five in volume terms, but on- and offshore wind taken together would be the number one sector (NACE classification)¹² in the EU28 mitigation portfolio (11%)
3. Which lessons can be learned from the high speed rail sector? This is the second most important NACE sector in the portfolio, after manufacture of motor vehicles
4. Which lessons can be learned from the "smaller projects" in the portfolio? The portfolio shows a strong concentration of large projects (61% of volume) in the upper quintile, meaning that there are also many "smaller" projects which deserve to be better understood in terms of their Climate Action contribution
5. Which lessons can be learned from the Bank's Fund activity in the area of Climate Action? Although this covers a small share of the portfolio, it is potentially important in view of leverage and innovative climate finance solutions proposed
6. Which lessons can be learned from past EV evaluations¹³ related to Climate Action?

¹¹ This report tackles the two Evaluation Questions in reverse order, i.e. first the contribution to EU Climate policies will be discussed (Chapter 4), followed by the question on how the Bank has mainstreamed Climate Action activities (Chapter 5).

¹² The statistical classification of economic activities in the European Community (four-digit classification)

¹³ Urban Infrastructure (2012), Energy Efficiency (2013), Framework Loans (2013), RSFF (2011 and 2013) and Knowledge Economy (2015).

Finally, a brief scan was made on how peers deal with climate change related issues. Seven topics¹⁴ were selected for the analysis on the basis of the findings under the other evaluation questions. The evaluation was accompanied by a Reference Group, composed of EIB staff from the different Directorates and nominated by their hierarchy. The Reference Group serves as a sounding board for the evaluation, as a starting point to collect information and also had a more practical role of dispatching the evaluation material to relevant parts of the Bank for comments. The evaluation was carried out from January to July 2015.

Each of the sub-questions and the review of peer practices led to specific research tasks, the results of which are presented in separate reports that are internal to the Bank.

Different definitions of mainstreaming exist. In the present report, climate mainstreaming means that institutions and actors, whose official mandates are not exclusively addressing climate change, also work towards achieving climate objectives.

4 EIB CONTRIBUTION TO EU CLIMATE POLICIES

This chapter assesses the contribution of EIB's Climate Action activities to EU climate change mitigation policies. The first section gives an overview of results, and discusses the areas that can still be improved. The second section will discuss the tracking of volume (which the Bank presently does) against the tracking of *outcomes* of projects in terms of their impact on reducing GHG emissions. The third and last section discusses the lack of RDI in the portfolio in sectors (renewable energy especially) which are deemed important sectors for future EU climate policies.

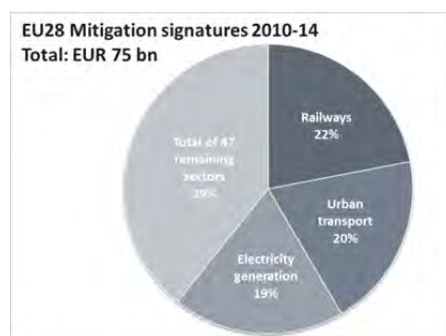
- Evidence base**
- Portfolio relevance analysis (T1.3&T1.4)
 - Wind & High Speed Rail case studies (T2.2&T2.3)
 - "Smaller" projects analysis (T2.4)
 - EIB Fund Activity (T2.5)
 - Previous EV evaluations (T2.6)
 - Peer practices (T3)

4.1 Significant contribution to RE, more mixed results for EE and non-ETS sectors

As explained in the policy review above, the EU defined three key targets under its 2020 Energy and Climate Package: (1) a 20% reduction in EU greenhouse gas (GHG) emissions compared to 1990 levels; (2) increasing energy consumption from renewables to 20%; and (3) improving energy efficiency by 20%. The three "20-20-20" targets correspond to the "general objectives" part of the intervention logic and set the overall background against which to assess the EIB contribution to EU as well as Member States climate policies in the area of mitigation.

4.1.1 A significant contribution to the development of RE

The Bank's EU28 Climate Action mitigation portfolio 2010-14 (5 years) amounted to nearly EUR 75 bn¹⁵. These were achieved through 1314 contracts signed for 554 projects. Total signatures within the EU28 over that period were about EUR 292 bn, hence the EU28 mitigation portfolio amounts to nearly 26% of the total EIB EU28 portfolio over the period. This means that the EIB volume target of (at least) 25% was achieved already by climate change *mitigation* projects within the EU28 only. On top of this, the Bank financed climate projects outside the EU, as well as projects related to adaptation (the latter represented 6% of the EU28 portfolio over 2010-14, not covered by the present evaluation).



The EIB EU28 mitigation portfolio 2010-14 (see insert with "NACE section" (highest level) breakdown) shows a major quantitative contribution especially to the EU priorities and challenges in

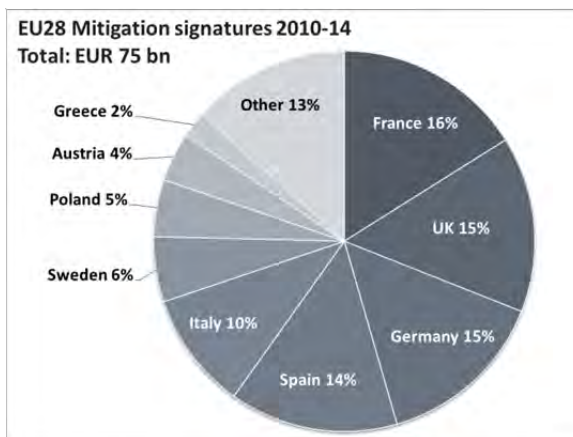
¹⁴ Existence of climate targets; use of a carbon footprint methodology; considering climate change in economic analysis; mainstreaming; coping with intermediary lending; governance; external communication. The analysis was based on desk research.

¹⁵ Signatures; cancellations after signature were excluded.

the sectors of railways, urban transport and electricity generation on the basis of renewable energy sources.

The available evidence suggests that the *overall* EIB portfolio (Climate Action plus non-Climate Action) is carbon *negative*, that is, it is *not* a net emitter of GHG. This means the EIB has already surpassed “carbon neutrality”¹⁶ of its overall project portfolio which several other IFIs are still in the process of trying to attain. Carbon emissions from projects in the “non-Climate Action portfolio” (i.e. the remaining 75%) are contained due mainly to the application of the Emission Performance Standard (EPS).¹⁷

Over the period under study the Bank had a relevant and strong contribution to the development of RE capacity in the EU28, particularly in the on- and offshore wind sector. This was achieved both through its more standard loan products as well as through commitments in equity funds (the latter for lower volumes, but a higher leverage per Euro disbursed – see insert on evaluation of Climate Action related funds at the end of this chapter). RE has a high impact in terms of climate change mitigation as compared to rail, urban transport or improving the efficiency of combustion engines.¹⁸ Correspondingly, RE projects also provide a better GHG emission reduction per EIB Euro lent compared to other sectors in the EIB Climate Action portfolio. Moreover, the Bank provided a considerable financial and non-financial contribution, for instance through the way in which it structured deals.¹⁹



The evaluation included an assessment of the EIB contribution to individual Member States policies in the area of climate change mitigation (see insert below). The five largest recipients of climate change mitigation lending (France, Spain, Germany, UK, Italy) account for 70% of the portfolio. These countries are also the main recipients of lending in the overall EIB portfolio. Sector distribution is highly country specific, with a dominance of high speed rail in Spain and France, manufacture of motor vehicles in Germany and renewable energy in the UK and, to a lesser extent, Italy.

EIB Contribution to Member States’ policies

Under the burden sharing initiative, the EU translated its overall “20-20-20” targets into specific national targets for each Member State which are the subject of national plans. For GHG emissions, the national target covers sectors not included in the EU-wide Emissions Trading System (ETS). The extent to which Member States have reached their objectives is generally referred to as “distance-to-target”.

EIB Climate Action country portfolios for 2010-14 played an important role in supporting Renewable Energy (RE) investments and have contributed to achieving Member States’ targets in this area. The renewable energy sector is clearly an area of strength for EIB. Moreover, the EIB contributed clearly to countries with a larger distance-to-target in RE. For energy efficiency (EE), the results are mixed: the level of investment and their achievements vary across Member States. The evaluation highlights difficulties in this area, especially in the public sector, related to low budgets due to the crisis and the relatively smaller size of projects in EE, which therefore require more resources to be implemented.

EIB lending in the 2010-14 period also addressed various non-ETS sectors such as railways and urban transport. In some Member States, such as France or Spain, these sectors received significant lending, reflecting national policy priorities and EIB priorities other than Climate Action. The contribution of such projects to emission reductions and attainment of 2020 national targets are however weak and the climate action performance of the projects retained for EIB financing can probably still be improved in the future.

¹⁶ Overall carbon neutrality of its portfolio is not an EIB objective or a target.
¹⁷ The EPS is the Bank’s screening tool which caps the emissions in terms of CO2 per unit of electricity generated by a power plant. The level is currently 550 g/kWh, for the 5 year period from 2013 to 2018, and is expected to decline in-line with the falling Emission Trading Scheme (ETS) cap in subsequent periods.
¹⁸ In the system designed by the European Commission (DG Clima) to track climate change expenditures, the latter two sectors are weighted lower than renewables.
¹⁹ Box in Section 4.3 provides an illustration of the EIB’s value added in this area.

There is no strong correlation between a country’s overall distance to EU 2020 targets (i.e. on all three 20-20-20 objectives) and the EIB Climate Action investment portfolio in a country. For RE however, the Bank appears to have focused relatively more on countries which have a larger distance to target than others. There seems to be no consensus within the Bank on whether this is the result of an explicit strategy, but it is considered an important finding which may guide future activity in this area.

4.1.2 Fund activity: small volume, high leverage²⁰

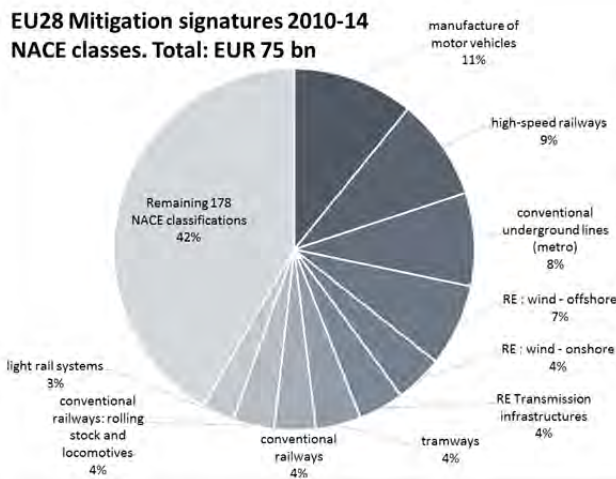
From 2005 to 2014,²¹ the EIB committed EUR 752 m to 22 Funds related to Climate Action. These in turn raised commitments of EUR 7.4 bn. Up to 2014 the underlying investments amount to EUR 4.1 bn, for 178 projects. Almost half of those are projects in Climate Action Sectors (46%), mainly in renewable energy (wind especially, and to a lesser extent solar), followed by forestry. The underlying investment projects are located in 22 countries across the EU28, with most important beneficiary countries being France, Germany, Sweden, UK, Poland and Italy.

Fund investments: why wind?
 The wind sector was by far the favourite sector because it is seen as a less risky, more mature technology, and easier to scale. Yet in some countries the unexpected lack of wind resources and reduced incentives led to some underperforming investments in this sector.

The evaluation shows that EIB has been a pioneer investor in renewable energy equity funds and forestry. EIB’s intervention in this area – the start of which dates back only 10 years ago – includes a strong component of learning-by-doing. Such learning especially took place for the RE sector with regard to the conditions (regulation, markets) needed to enable technologies to develop in certain countries. Finally, although volumes are small – EIB commitments in Climate Action funds were on average only some 0.5% of the EIB EU28 total Climate Action mitigation portfolio *per annum*, yet leverage is deemed considerable.

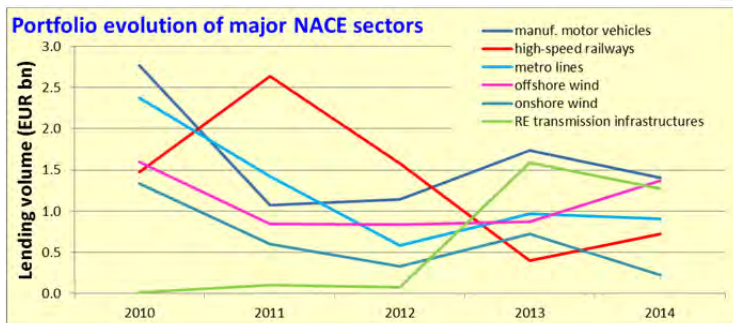
4.1.3 A strong sector concentration in electricity generation, public transport and automotive

Section 4.1.1 showed the NACE section breakdown with as dominant sections railways, urban transport and electricity generation, together representing 61 % of the EU28 mitigation portfolio.



The NACE *sector* classification provides for a more fine-grained breakdown than the Section level presented above. This is provided in the adjacent graph. It shows that about forty percent of the Climate Action (mitigation) portfolio is concentrated in only five NACE sectors. These are manufacture of motor vehicles (11%), high-speed railways (9%), metro lines²² (8%), and offshore (7%)

and onshore (4%) wind. The sector concentration is to a certain extent geographically correlated. That is, sector concentration is high in four Member States, namely Germany (manufacture of motor vehicles), Spain and France (high speed rail), and the UK (RE).



²⁰ The end of the present chapter includes an insert with the results of the Bank’s fund activity evaluation.
²¹ For the assessment of the fund activities of the Bank, a longer timeframe than for the evaluation overall was taken in order to be able to assess funds which would be past their investment period and possibly show some first results.
²² Formally called “conventional underground lines” under the NACE classification; this report will use the more usual term “metro lines”.

High speed railways and metro lines appear particularly present in the first half of the period (see graph above). An analysis of the present pipeline suggests a downward trend in the portfolio for those two sectors (for high speed rail no signatures at July 2015 even). As those are sectors with “big tickets”, contributing to the Climate Action volume target with a limited number of large projects,²³ a smaller pipeline in those sectors implies more difficulties to reach a given volume target. The tendency is confirmed by the share of “smaller projects” in the EU28 mitigation portfolio which increased steadily from around 35% of volume in 2010 to nearly 45% in 2014.

As an illustration, Transmission Infrastructures for Renewable Energy, virtually absent in the beginning of the period is also shown in the above graph. This seems to be an upcoming sector which may start to compensate partly for the downward trend in some of the other sectors.

Moreover, those sectors, albeit relevant under other EIB priorities, have a relatively low contribution to climate change mitigation. In the Bank’s labelling system only volume is taken into account, not the quantum and efficiency of emission reductions of a project. Therefore, a high speed rail operation is tagged as contributing for the full amount of the signed operation (contributing 100% to the EIB climate action indicator) as long as it is not a positive net GHG-equivalent emitter. An RE operation contributing significantly better to emission reductions will be assigned the same 100% weight as the high speed rail operation. If the Bank intends to move to a greater emphasis on the actual climate impact of its projects, and increase climate relevance from an EU point-of-view, especially in view of EU 2030 objectives, the portfolio composition may shift.

4.1.4 Energy Efficiency projects – less prominent and more complex to handle

Although Energy Efficiency (EE) has become more prominent in the EU28 mitigation portfolio over time, the evaluation suggests that EIB’s contribution was limited in this area. The potential for EE within the EU is great and many member states are still far from their targets. Even though the climate cost-efficiency (GHG reduction per EIB Euro spent or lent) of EE projects may be less than for, for instance, wind projects, there is typically a great need in this area which the EIB should address as it is one of the three main policy objectives under the 20-20-20 strategy. Furthermore, the evaluation suggests that taken together, the cumulative emission savings of EE operations in the portfolio could well be more important than is actually thought to be the case. The emission reductions at portfolio level seem underestimated as projects individually mostly do not pass the threshold for such calculations and are therefore not taken into consideration in the overall footprint.

Intermediated lending: how peers appraise and monitor contribution to Climate Action

Many EE operations are intermediated (FWL or MBIL). Given their layered structure, and the short timeframe and scope of the evaluation, it was difficult to assess in more detail the climate impacts of intermediated lending. However, evidence suggests that it could play an important role in further developing EE.

All IFIs acknowledge the difficulty of accurately assessing emission reductions linked to intermediary lending. Several EIB peers require their financial intermediaries to implement Environmental and Social Management Systems (ESMS). However, an ESMS typically has limited specific focus on climate action. Therefore, some IFIs, the IFC and EBRD in particular, are assisting financial intermediaries to increase their lending for clean and efficient energy, and to support finance for climate-related goods and services.

One of the ways in which the EBRD extends sustainable energy financing is through its Sustainable Energy Financing Facilities (SEFFs). These financing facilities scale up energy-saving potential and build expertise by extending credit lines to financial institutions for on-lending to their clients. It also provides advisory on the design of lending products and assesses opportunities to turn sustainable energy projects into sound investments.

IFC developed a web-based application, the CAFI tool (Climate Assessment for Financial intermediaries Investment), which helps Financial Intermediaries monitor results for both investment and advisory projects in the areas of EE, RE and climate adaptation. CAFI helps FIs to determine the eligibility of transactions based on IFC’s climate criteria and to monitor the performance of their portfolio.

EE projects are generally much smaller than the large investment projects in wind, rail and urban transport. They are also often intermediated in the form of a Framework Loan (FWL) or Multi-beneficiary Intermediated Loan (MBIL), which adds to their complexity, and makes it more difficult to

²³ In terms of size, high speed rail and wind and to a lesser extent urban transport are found predominantly in the upper quintile of projects.

correctly assess their climate mitigation contribution. In general, only a small share of an operation is considered as contributing to Climate Action. This, in turn, implies a greater effort to label them, as the components contributing to the climate action indicator need more in-depth scrutiny. Finally, the EE projects may have lower climate impact per euro invested²⁴ as compared to, in particular, renewable energy. In sum, EE projects are more labour-intensive per euro lent and for the climate impact they yield. Such market barriers explain why less progress was made in this area than for RE.

4.1.5 EIB contribution to EU climate objectives needs to be improved

The Bank has more than met its set objectives in volume terms over the period assessed and had a strong contribution in the areas of high speed rail, urban transport (especially conventional underground), on- and offshore wind, and automotive (energy efficient engines). The evaluation suggests nevertheless that there is room for improvement, as follows.

The Bank should emphasise more the *climate impact* of its EIB portfolio rather than focusing on volume only. This means that projects, or sectors, may be weighed against each other in view of their contribution to climate change mitigation. This in turn may lead to a different type of project mix than at present. Related to this issue, the composition of the present EU28 mitigation portfolio needs to be assessed in view of the strong presence, in the past, of a few sectors. The dominance of those sectors (for high speed rail, metro lines and onshore wind, which were relatively more present in the EU28 mitigation portfolio at the beginning of the 2010-14 period) may for a variety of reasons decrease.

Reasons to assess portfolio composition: saturation and maturation

From a sector perspective there are two main reasons to keep an eye on the sector distribution of the EU28 mitigation portfolio in view of evolutions in the past. Some sector-country combinations may come to *saturation* (which may be the case for the strong concentration of high speed rail). This may be saturation of the market (no demand/need for new investments), or of physical or borrowing capacity of promoters. A second main reason seems to be the *maturation* of sectors – such as onshore wind, which also declined over the period – where EIB added value decreases as private investors become more willing to invest. A weaker presence of those sectors (where operations are generally “big ticket” investment loans) in the future, may have strong consequences, implying bigger efforts for the EIB in order to reach its Climate Action target.

As the EU Bank, the EIB has a policy role to play in terms of supporting the EU28 Member States in achieving their agreed climate targets. The evaluation suggests that for RE the Bank has focused indeed more on countries with a higher distance-to-target in this area. For the other 20-20-20 targets (i.e. EE and the overall reduction of GHG emissions) this was less the case. Therefore the Bank should serve better the Member States with greater Distance to Target, notably in areas where EIB added value is potentially highest. Business intelligence in this area needs to be developed in the prolongation of the “country profiles” that EIB has started to develop in 2014. Such studies could also assist the EIB in identifying potential barriers within the enabling framework (policy and regulatory framework, incentive mechanisms, financial incentives and products, etc.) as these can have major impacts on the deployment of certain technologies (e.g. fluctuation of feed-in tariffs for electricity from renewables appeared to have impacted the profitability of some EIB projects or investment funds). It could also provide a basis for dialogue with other actors and financing sources (national financing, EU Cohesion Policy and the Connecting Europe Facility and other EU funds, private sector).

DEEP Green – a recent attempt to tackle energy efficiency more ... efficiently

A recent example of how the Bank has tried to tackle the issues involved with EE projects is the DEEP Green initiative. Launched early 2013, this aims to promote the Bank's lending for energy efficiency investments through the development of a suite of new products or financing structures for four groups of EE intermediaries and promoters, namely, financial intermediaries, public sector, energy efficiency services companies (ESCOs) and utilities.

The present evaluation will be published in conjunction with the Bank's Climate Action Strategy. This strategy is meant to be a “transversal” complement to existing sector strategies and not a substitute. Conversely, relevant sector strategies (for the time being, Energy, Transport and Water) have usefully clarified what is their contribution to the Bank's Climate Action objectives and how these are

²⁴ Yet this is not necessarily the case. That is, to analyse the GHG abatement cost for EE the (discounted) future energy savings need to be deducted from the investment cost. The net amount spent per ton of CO₂ abated may then even be negative.

dealt with within the respective sector policies. Several sectors relevant to Climate Action do not, as yet, have a sector strategy (agriculture, industry and forestry for instance). It is deemed useful to develop those further in order to make more explicit how the Bank’s sector policies contribute to the overall mainstreaming efforts of Climate Action within the Bank.

4.2 Tracking volume ... and outcomes?

In order to be able to have a higher contribution to climate change mitigation and to EU objectives, it is necessary to better understand what this contribution is. Bank reporting on climate action is *ex ante* and all systems have been set up accordingly. These systems were audited by independent third parties with satisfactory results.²⁶

The evaluation brought to light that in many cases, and particularly in the most significant sectors (volume-wise), promoters do collect outcome data – also because such data (e.g. on traffic, on power generation) are crucial to understand the profitability of the investments. Such data are often communicated to the Bank, but the latter does not exploit those as it relies on its own footprint and mainstreaming tools. The Bank does not assess impact *ex-post*. Better *ex-post* reporting is important for communication purposes and to better steer Climate Action toward higher impact investments in the future.

The main indicator for the Bank’s activity is the Climate Action indicator. This is an eligibility criterion, which measures lending volumes for Climate Action. As a volume measuring and communicating the *impact* of its Climate Action portfolio. The target also does not assist the Bank in addressing the carbon impact of the rest of its portfolio.

In order to assess a project’s contribution to climate change mitigation, the EIB services have developed a footprint methodology which is systematically applied across the portfolio (both on carbon positive and carbon negative projects). The carbon footprint is applied *ex-ante* only and only when certain relative or absolute thresholds are exceeded. Applying the footprint methodology furthermore suggests that the non-Climate Action portfolio is not particularly polluting and emissions are contained by the EPS. As indicated above, the overall EIB portfolio in the EU28 is carbon *negative*.

For the “smaller operations” of the Bank’s Climate Action portfolio, only a few had a carbon footprint calculation. This is normal as they may not exceed the set thresholds. However, cumulatively it is expected that they might have a significant Climate Action contribution. The background documentation on the EIB’s carbon footprint methodology makes the assumption that 95% of emissions are captured by the methodology. Given the elements mentioned above (high share of “smaller operations” with no footprint and, collectively, a significant emission reduction potential), this assumption is deemed high. In other words, the emission

Carbon footprint methodology²⁵
Main principles
 Since 2011, following a three-year pilot phase, the EIB assesses the CO₂-equivalent emissions of the operations in its portfolio that exceed certain emission levels, absolute or relative (the latter can be positive or negative). This *ex ante* assessment is performed by PJ engineers at appraisal stage. The assessment covers all seven Kyoto Protocol GHGs (converted to CO₂-equivalent) and an average year of operation. It includes direct (“Scope 1”) emissions i.e. within the project boundaries and indirect (“Scope 2”) emissions from the generation of the consumed electricity emissions. “Scope 3” emissions (occurring as a consequence of the activities of the project but originating from sources not operated by the project), are not included in the assessment. The inclusion of Scope 3 emissions for a broader set of projects is currently under review.

Recalculating carbon footprint *ex-post* appears complex – and is it really relevant?
 Under the footprint methodology, the estimated absolute emissions are compared to a baseline scenario to determine the relative emissions of the project. The emissions of the baseline scenario are those of the expected alternative means to meet the output of the project. Reliable *ex post* calculations of carbon footprint require, apart from outcome data (e.g. power generation or passenger traffic), a reassessment of the baseline. Whereas promoters collect outcome data, they – understandably – do not recalculate the baseline. Shifts in the baseline may occur and could in theory impact the relative emissions estimated. However, it does not inform about the performance of the EIB investment and leads to artificial results. For instance, if a country decides to abandon nuclear energy and increase electricity production from coal- or gas-fired power plants, the carbon footprint of EIB investments would automatically improve. However this is purely artificial as project performance in terms of outcomes did not change.

²⁵ The full name is “EIB Methodologies for Assessing Project GHG Emissions and Emissions Variation”, but in this document the internally more commonly used term “carbon footprint methodology” will be referred to.

²⁶ Therefore the present evaluation has not audited them again.

savings of the portfolio could be higher than the Bank’s current estimates.

Under the Wind case study conducted for this evaluation, it was found that three out of the four promoters from selected individual operations monitor power generation and therewith avoided emissions resulting from their investment projects. For the High Speed Rail case study, traffic data before and after project completion were relatively easily obtained from promoters. Also in the case of the investment through funds (see insert) fund managers track similar data (depending on the technologies invested in –the majority of which were in wind technologies). The information on such project outcomes is often communicated to the EIB where it ends up, normally, in Project Completion Reports (PCRs). However the Bank does not exploit or reports on this material further.

The ex-post data obtained for the Wind and, to a lesser extent, High Speed Rail case study²⁷, suggest that projects meet expected outcomes. This is also confirmed in the few cases related to climate (or energy) under former EV evaluations when ex-ante and ex-post values could be compared. Under the funds that were evaluated projections generally also corresponded to reality though in some cases performance of underlying investment was less because of the changes in the natural (less wind than expected) or enabling environment (e.g. change in feed-in tariffs). Overall however the evaluation suggests that – all other things being equal (see insert on recalculating carbon footprint, above) – ex-ante carbon footprints are comparable to ex-post values, the operations therewith performing as expected.

4.3 An as yet timid engagement in Climate Action related RDI

This section addresses the question on RDI which, although prominent in the Climate Action portfolio, is for an important share concentrated in one single sector only (automotive). In relation to this, the question of financial innovation and EIB contribution is addressed.

4.3.1 EIB contributes well to investments for tomorrow, but what about the day after tomorrow?

The evaluation provides evidence that, in the past, the Bank has played an important role in accompanying the *maturation* of some sectors and technologies in Europe. This was the case for instance for onshore wind. This sector now however seems to mature and EIB added value is decreasing. The evaluation suggests that EIB’s value added remains important in offshore wind (see insert) not so much related to EIB’s technological expertise, which the promoters in this area have themselves, but more through financial value added and the structuring of deals.

Offshore deals, an illustration of EIB financial/structuring value added

The financial risk profile of operations focusing on the construction phase of onshore, but even more for offshore, wind parks is often higher than the average EIB operation. Financial market actors are not always ready to accept construction risks, notably linked to the intervention of multiple contractors. The sample selected under the Wind case study provides an interesting illustration of how the EIB can provide value added, helping an off-shore wind deal to materialise and encouraging market players to step in:

<u>Construction phase</u> <i>higher risk</i>	→	<u>Operation phase</u> <i>all things being equal, less risky</i>
EIB support: corporate finance		EIB support: project finance
<ul style="list-style-type: none"> - No interest from the market, aggravated by the absence of liquidity linked to the financial crisis - Strong promoter: able to finance a part of the project through its balance sheet-equity 	A D A P T I N G	<ul style="list-style-type: none"> - Interest from the market- a majority of the shares sold by the promoter to investors- in this case public counterparts - Signalling effect: EIB maintaining its support was a key driver to convene commercial banks
<input checked="" type="checkbox"/> for the promoter = cheaper deal if on its balance sheet than through project finance		<input checked="" type="checkbox"/> for the promoter = shifting the deal off the balance sheet*

The other financial benefits of working with the EIB- as mentioned by the promoters interviewed in the context of the four individual operations were 1/ availability of funding during the crisis- including, in one case, going beyond the 50% EIB financing limit, 2/ the maturity: long tenor that can extend beyond the feed in tariff period, and 3/good pricing conditions.

* the premium is higher than the one on the corporate loan

²⁷ Passenger traffic picked up more slowly than expected due to the crisis.

The EIB has also significantly accompanied, throughout the EU, building up the high speed rail and urban transport networks (e.g. metro, tramways) sectors – which in the EIB labelling count as 100% climate action. The evaluation shows that technologies promoted through the operations financed are state-of-the-art, and include innovations incrementally, following the principle of “Best Available Technology”.

In EE in buildings, where past EV evaluations indicate that sometimes the EIB had not sufficiently anticipated upcoming EU EE regulation, the evaluation observed that recent project appraisals appear to put more emphasis on anticipating future EU standards and regulations than in the past. The present evaluation, given its scale and scope, was not able to establish whether the EIB projects in EE were particularly innovative from this point of view or whether the more stringent EIB requirements have actually an impact on the ground.

However, whereas the Bank has supported the maturation of sectors once past the innovation stage, the Bank has not promoted RDI in Climate Action so much.

Whereas the share of RDI finance on the Climate Action portfolio is higher than the share of *overall* RDI finance on the *overall* portfolio, about half the Climate Action RDI appears to consist of operations in the NACE sector Manufacture of motor vehicles. Slightly over 40% of Climate Action RDI volume went to the German automobile sector. Other important recipient countries of RDI finance in this sector under the Climate Action priority were France, Sweden and Italy.

At the other end of the spectrum, RDI operations on new RE technologies are virtually absent from the Climate Action portfolio whereas also in the public transport sector (rail, urban transport) very little RDI projects were supported over the period of concern. It fell outside the scope of the evaluation to assess whether this was due to a certain under-labelling of RE projects in terms of RDI, as suggested by some Bank staff, but the imbalance between the levels of RDI between the different Climate Action sectors is an issue which needs to be further addressed by the Bank.

The evaluation also shows that the Bank's RDI related initiatives in the past, have not paid special attention to Climate Action. In this respect, the recent EV evaluations of the Risk Sharing Finance Facility (RSFF) and of the EIB contribution to the Knowledge Economy suggest that climate action has not been a particular point of focus. Again, for most of these, Climate Action is not the main reason for doing the project but there will be some Climate Action benefits in most cases. Climate Action could however be more explicitly announced as an important additional objective for RDI projects, in view of the 2030 and 2050 objectives.²⁸

4.3.2 Innovative finance solutions

The great majority of the EIB lending volume over the period of concern was through traditional EIB lending products, managed by the geographical divisions with the support of relevant project teams. The evaluation suggests that such projects achieve their objectives well.

Alongside those, over the past 10 years²⁹ EUR 750 m was invested in new and innovative climate finance solutions such as equity, project finance and blending, to fill market gaps and provide innovative financial solutions to tackle more complex sectors. Such products are eventually reiterated (i.e. when EIB invests in follow-up funds), spun in to the Bank (e.g. when new project finance models or innovative finance solutions in new sectors are adopted by other parts of the Bank) or spun out (i.e. when EIB involvement is no longer required and other market players take over or further develop the initiative in which the Bank was initially involved).

Although relatively marginal in volume terms compared to the overall EU28 mitigation portfolio, the Bank's activity in this area is overall deemed successful (see insert at the end of this section).

4.3.3 Preparing the day after tomorrow – role and contribution could be better clarified

²⁸ The InnovFin (successor of RSFF) project pipeline however includes several RDI projects in the RE sector. InnovFin is a recent initiative and fell outside the scope of the present evaluation.

²⁹ For the evaluation of climate related funds the evaluation went further back in time than for the evaluation overall in order to be able to assess funds that were past their investment period.

Despite EIB’s past contribution to developing and maturing new technologies and despite the successful development of innovative finance solutions in a variety of areas, the evaluation suggest that the attention paid by the Bank to RDI in the area of Climate Action has been only weakly structured and ad hoc, linked to individual sectors, i.e. the automotive industry. To better assist the EU in preparing for tomorrow, the Bank’s model or role to contribute to both technological and financial innovation with respect to climate change mitigation needs to be clarified and better communicated.

EIB Climate Action funds in the EU – highlights from the evaluation

The evaluation assessed the Bank’s participation in Funds investing in assets contributing to climate change mitigation (Climate Action Funds) in the EU. It turns out that EIB’s Climate Action Fund Portfolio is relatively more oriented towards Western European countries and dominated by wind.

From 2005 to 2014, the EIB committed nearly EUR 752 m to 22 Climate Action Funds (fully or partly) which in turn have raised commitments of EUR 7.4 bn. The Bank’s commitment has ranged from EUR 15 m to EUR 100 m in the 22 Climate Action investment funds. The average Climate Action investment of these Funds amounted to EUR 10 m. Up to 2014 the underlying investments amount to EUR 4.1 bn in 178 projects. Almost half of these investments are projects in Climate Action Sectors (46%), mainly in renewables (wind 30.2%, solar 12.2%), followed by forestry (3.6%). These projects are located in 22 countries, the main ones being France, Germany, Sweden, UK, Poland and Italy. Wind appears to be the favourite because it is viewed as less risky and more mature technology, and easier to scale. Even so, in some countries the unexpected lack of wind and changes in incentives led to underperforming investments in this sector.

The Climate Funds are a relatively small activity in terms of the overall portfolio (0.5-1% per annum). However, they have a high catalytic effect (estimated by the Bank at 6.5x) and a high multiplier effect (24x). Moreover, through those funds, the Bank reaches smaller Climate Action projects which cannot benefit from a direct EIB investment. The catalytic effect refers to the commitments in funds induced by EIB taking part in it. The multiplier effect refers to the total investment in final projects under those funds.

For this evaluation a sample of 5 Climate Action funds was assessed more in-depth. This assessment has confirmed the high added value during the first generation of renewable energy investment funds, filling some market gaps. Additionally, the catalytic effect has been confirmed, for 4 out of 5 funds, as those funds would likely have not existed without EIB participation. EIB’s participation in these funds is seen as a “seal of quality”. Though EIB fund activity represents a relatively small proportion of the market (estimated at 1%), the available evidence suggests that EIB has had a positive impact in developing the renewable energy market and in stimulating new investments at the EU level, in particular in more emerging segments.

The Bank had an active role in fund design, and providing comfort to the other investors through the dissemination of best practice. EIB could however improve its communication on the outcome of the Climate Action investment fund portfolio, and facilitate the exchange of sector/market developments. The EIB does not track at the level of the individual investments electricity generated or GHG emissions avoided. Therefore, it is not possible to gauge the impact of EIB’s investments in funds amount of MW actually installed of renewable energy or other climate impacts at a portfolio level. Given that fund managers generally keep track of such data (as they are crucial for the profitability of the investment), the Bank should be able to track the outcomes of the Climate Action investments and annually report on these. Also, given its oversight over a great variety of funds, the Bank could more encourage the exchange of information on sector/market developments between fund managers and EIB sector experts. A recent example was around the GEEREF fund, active outside the EU however.

5 MAINSTREAMING CLIMATE ACTION

Mainstreaming Climate Action means that the institution and its staff, even when climate change is not their main focus, all work towards achieving the EIB’s climate objectives. This implies that the organisational set-up of the Bank and the operational tools and processes that are proposed within the organisation should be conducive to raising awareness on Climate Action, to better target, identify, originate and prioritise projects in this area. Climate Action governance and mainstreaming tools need to contribute to incorporate climate considerations in the Bank’s project cycle, from its initial

- Evidence base**
- Climate action mainstreaming tools (T1.1)
 - Internal organisation and governance (T1.2)
 - Wind & High Speed Rail case studies (T2.2&T2.3)
 - Peer practices (T3)

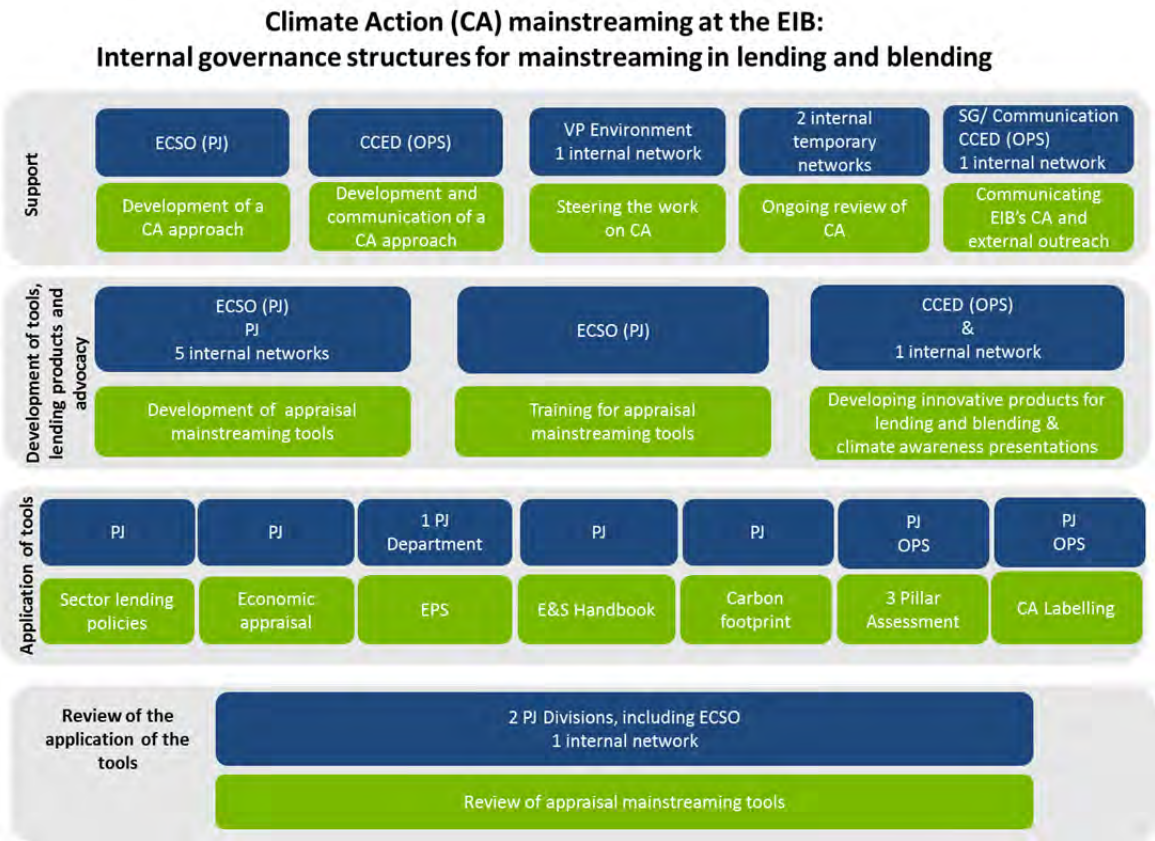
phases, and provide incentives to staff to reach the set objectives, even when Climate Action is not their core activity – which is often the case.

The Bank has introduced a series of tools and processes to mainstream Climate Action in the upstream part of the project cycle (origination and, especially, appraisal). Furthermore, it has taken a number of steps to institutionalise Climate Action. The institutional and governance arrangements are assessed in the following section. The way in which the tools and processes are used to mainstream Climate Action is assessed afterwards.

5.1 EIB Climate Action governance: a structure that grew organically and sometimes lacks coordination, transparency and formalisation

The EIB’s internal governance on Climate Action has different layers and structures. Climate Action is overseen by a Vice President (VP) responsible for Environment and Climate Action. The main Climate Action focal points are respectively the Environment, Climate and Social Office (ECSO) in the Projects Directorate (PJ) and the Climate Change and Environment Division (CCED) of the New Products and Special Transactions department (NPST) within the Directorate for Operations (OPS). Various internal and external “networks”³⁰ (i.e. working groups, task forces, etc.), have been established to address strategic, operational and technical issues relevant for climate change by pooling together resources across divisions and directorates. Such networks focus, for example, on the development of methodologies for carbon footprint assessments or the harmonisation of methodologies for identifying Climate Action finance.

The internal governance structures for mainstreaming Climate Action in lending and blending have evolved organically over the past few years. They can, in broad outline, be represented as follows.



³⁰ At the time the evaluation was carried out, 10 such internal networks have been identified as having a Climate Action dimension (of which two were qualified by EIB Services as no longer existing, and two as temporary) and around 10 external networks with other International Finance Institutions in which the EIB is represented (on top of which there are a multitude of *other* international or multilateral networks to which the Bank participates more systematically or more ad hoc). As some networks are temporary, the number of networks is subject to change.

5.1.1 Climate Action coordination is not sufficiently formalised and sometimes limited

The two Directorates that deal with Climate Action on a daily basis, OPS and PJ, have incorporated Climate Action in their organisation and governance structures.

In the case of PJ, ECSO is the Climate Action focal point. ECSO is responsible for the strategy and policy development of Climate Action lending and advising, for overseeing the day-to-day development of climate methodologies, the application of climate mainstreaming tools, the training of staff, and the dissemination of climate information internally and externally. ECSO, *de facto*, has a bank-wide Climate Action strategy, outreach and support function. However, it does not have the formal mandate of coordinating Climate Action across the Bank or creating a vision for Climate Action. Furthermore, Climate Action is also embedded in the PJ Sector Divisions that have developed sector lending policies with a climate action dimension³¹ and Climate Action sector-specific tools such as proprietary models necessary for calculating baseline emissions and the Emission Performance Standard. Most of the other Sector Divisions have not formally mainstreamed Climate Action but keep themselves informed, relying on the genuine interest and expertise of some of their staff and on the attendance to some of the internal networks. The distribution of Climate Action responsibilities between ECSO and PJ Sector Divisions (initiation, support, and supervisory role) are not always clear and have not been formalised. It can furthermore be noted that ECSO staff dedicated to Climate Action (mitigation) amounts to not more than 2.5 FTE.

In the case of OPS, the institutionalisation of Climate Action is as follows. The CCED exercises, *de facto*, a Climate Action coordination role, mainly through the climate-related network it facilitates. This network is the platform for Bank-wide dissemination of climate finance information and good practice examples. It also reports on the Climate Action target, for which PJ produces the data. Yet the CCED does not have a formal responsibility of mainstreaming Climate Action within OPS although it has successfully worked on incorporating Climate Action in the climate finance it manages itself (blending, equity, etc.). Mainstreaming is also taking place through staff that attend the Bank's Climate Action networks and have a genuine interest in or expertise on Climate Action.

Mainstreaming implies that *all* the Bank's Directorates, not only PJ and OPS, take on board Climate Action in their activities. To this end, inter-Directorate coordination and supervision would be required (see adjacent insert). Whereas the Vice President for Environment and Climate Action oversees the policy dimension, his role is not necessarily operational, which seems normal. Further coordination at operational level is now required to further mainstream Climate Action across the Bank and to continue to make sure that the climate target is met.

This does not mean the Bank is unable to coordinate when it needs to. As a matter of fact, recently all Directorates have collectively coordinated the successful delivery and review of the Bank's forthcoming Climate Strategy. For this purpose, two internal temporary networks have been set-up. This demonstrates the EIB's ability, when needed, to rapidly set-up Climate Action internal coordination and supervisory bodies. However, both entities are temporary and focused only on the delivery of the Climate Strategy – they would normally be dissolved after. The coordination and

Climate Action coordination – Peer practice

Several EIB peer organisations have appointed high level climate champions at senior management level. At the departmental level, the governance approaches differ. Generally, operational responsibilities for climate are integrated into either the Energy or the Environment Divisions, with sometimes horizontal climate change units responsible for policy and strategy development, which at the same time act as climate champions

At the Inter-American Development Bank (IDB), a dedicated operational Division for Climate Change and Sustainability (CCS) was created in 2012. The findings of a recent evaluation on this structure indicate that whether a climate unit should have operational responsibilities is debatable, as it may lead to tensions with other sector divisions while also reducing demand for its support services.

The peer examples show the importance of climate units being a cross-sectoral "service" division to support other sector divisions in more effectively mainstreaming Climate Change in their strategies and operations. Such a unit needs to have a clear mandate and incentives. The IDB example suggests that giving such a unit operational responsibilities may result in tensions.

Source: Thematic Evaluation. [Climate Change at the IDB: Building Resilience and Reducing Emissions](#). IDB/OVE, November 2014, peer review briefing note of the EIB (T3)

³¹ See insert on Energy and Transport sector policies, above (Section 2.1).

supervision of the implementation and follow-up of the Climate Strategy – in the form of the intended Work Plans – had not been defined at the time the evaluation was carried out. When defined, according to good practice, it should have a clear mandate and incentives. Having the sufficient leeway to drive, monitor and report on the Climate Strategy will be key factors of a successful implementation. In spite of the Strategy such a strategic vision seems to be currently lacking.

Overall, Climate Action coordination at the Bank is not sufficiently formalised and sometimes lacking both within and amongst Directorates. A bank-wide coordination function does not exist.

5.1.2 Climate Action internal networks address the Bank’s needs but their transparency can be improved

A number of internal networks have been set up to tackle the variety of aspects related with the Climate Action priority of the Bank. Depending on their role, origin and composition these can be Working Groups (mainly driven by PJ), Centres of Excellence (by OPS) or Task Forces (involving generally higher level staff and/or bringing together different Directorates and chaired by a VP). Moreover in the area of climate, in view of the public consultation and the elaboration of the strategy, ad hoc networks were set up, as discussed above.

Overall, the internal Climate Action networks successfully tackle the different mitigation issues and topics the EIB must address in view of its Climate Action priority. Mapping the establishment, mandates/scope, decision-making process, membership, and interaction across Climate Action networks has however proven difficult and was only partially carried out given the absence of documentation. Similarly, the minutes or the deliverables of the networks are not systematically communicated, or only to a limited audience, contributing to limit the information flow and transparency on the work performed. Although ECSO is represented in almost all the internal networks it does not have an official oversight and coordination function of *all* the Climate Action specific networks. Such an oversight and coordination function does not exist at the EIB.

Network membership is often on a voluntary basis and, in a number of cases, the same staff members participate in the different Climate Action networks. This constitutes both a strength and a weakness.

It is a strength as the members of these networks build up expertise and are easy to mobilise. The informal character made possible by the limited number of “key” staff makes working also very flexible. There is also a good flow of information within such restricted groups of staff and a high awareness on ongoing and pending issues.

It however also constitutes a weakness, if not an operational risk, given the high concentration of knowledge and expertise in a limited number of staff. This risk seems to have already partly materialised as a large majority of staff, including those which consider Climate Action as their core activity, have indicated they are (1) not aware of the existence of most Climate Action networks, (2) not sufficiently familiar with the mandates and scope of the networks, and (3) not satisfied with the information they received about the networks, with the exception of two. A related risk is the upcoming retirement of senior Climate Action key persons within the Bank. This necessitates timely preparation of the new generation of climate champions.

5.2 Climate Action is largely mainstreamed yet information is sometimes insufficient and guidance not always formal

Mainstreaming Climate Action implies that all EIB staff must be aware of the Bank’s Climate Action objectives and targets and working towards achieving them, even when it is not their core activity. This section focuses on mainstreaming at the operational level.

Regarding the importance of the EIB’s Climate Action for EIB staff work, a survey carried out in the context of this evaluation provides some interesting insights.

The respondents who answered the questions on: (1) how important is Climate Action for your daily activities and (2) for the work of your division (90% response rate), mainly indicated (in both cases)

that Climate Action constitutes a part of their activities (74%), while 26% indicated they do not deal at all with Climate Action in their daily activities. This suggests Climate Action is not fully mainstreamed.

The picture for OPS and PJ is more nuanced. The proportion of OPS and PJ respondents indicating that Climate Action is either a part or a marginal daily activity is similar. However, more PJ respondents indicate Climate Action is the core business of their activities, 21% compared to 15% from OPS, while more OPS respondents report they do not deal with Climate Action (17% of OPS respondents compared to 9% from the PJ respondents).

Mainstreaming does not mean that all staff members have to become a climate expert or champion. Rather, it means staff must (1) know how to identify possible climate dimensions of each project that is originated or appraised, (2) are able to look for opportunities to minimise the negative impact of a project on climate change and (3) be in a position to recognise and influence positively any potential climate dimension of a project. These competences, which from a mainstreaming point-of-view would be required from staff, should be based on the sector and climate information circulated within the Bank, staff own expertise and the specific Climate Action tools and processes available. Such awareness has been substantially raised in the Bank during the past five years. However, the evaluation shows that this process is not fully complete.

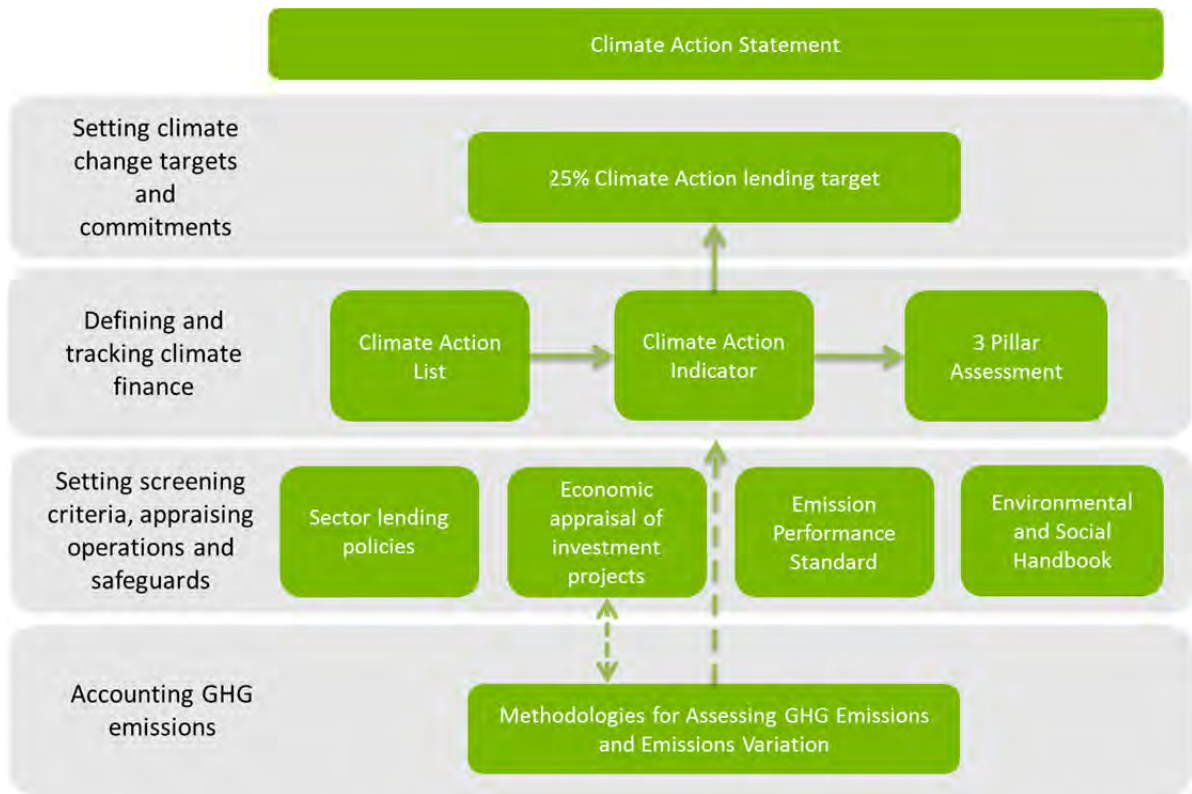
5.2.1 A variety of tools and processes to mainstream Climate Action up-stream are in place and functioning yet guidance is sometimes insufficient and not formalised

This section first reviews the various operational tools and processes used to mainstream Climate Action at the EIB. The section then focuses on the up-stream awareness of the two Directorates, OPS and PJ, that are in charge of originating Climate Action deals, appraising the Climate Action dimension of all operations and, if need be and when possible, mitigating negative climate impacts.

Since 2010, the Bank has taken various steps to mainstream climate change considerations in its operations, in particular by

- developing a Climate Action eligibility list and sector-specific lending policies that enable the Climate Action labelling of operations in the 3PA;
- setting a Climate Action lending target of at least 25% (this target ramping up from 20% in 2010 and 22% in 2011) of signed volumes (as per the Climate Action Strategy this target remains valid in the future);
- assessing the carbon footprint of operations that exceed a set emission threshold;
- screening fossil fuel projects to make sure they abide to the EIB’s EPS; and
- taking into account Climate Action considerations in the economic appraisal of investment projects- included as an environmental externality and resulting in an adjusted economic rate of return.

The figure below provides an overview of those Climate Action lending mainstreaming tools and processes and of their direct and indirect interactions. Direct interactions are expressed by continuous lines and indirect interactions by dotted lines (for instance, footprint methodologies had formally no direct impact on the eligibility list, however, over time findings from the footprint assessment have influenced the eligibility list).



The evaluation assessed the various tools and processes and finds that the EIB has effectively mainstreamed climate change mitigation considerations into its financing activities. When compared to peer organisations, the EIB has some clear strengths: in addition to its volume objective, the Bank incorporates the social cost of carbon into its economic appraisal of both Climate Action and non-Climate Action projects and filters out, through the EPS, projects with excessive emissions. The analysis of the non-Climate Action portfolio confirms this finding. However, there remain opportunities for improvement, notably by putting more emphasis on Climate Action outputs and, ultimately, impact, as suggested in Section 4.1.

Mainstreaming tools are to a great extent consistently applied. This consistency is however mainly linked to the informal information sharing, personal guidance provided and “control” mechanisms, especially from ECSO. That is, the written guidance provided on when and how to apply the different mainstreaming tools is compiled in separate documents, with no comprehensive overview or systematic cross-references, including to sector policies. The EIB’s Environmental and Social Handbook, which informs internal and external stakeholders about standards and the assessment processes a project undergoes at the Bank does not provide sufficient guidance and links to the relevant climate tools. A significant amount of Climate Action information sharing on EIB Climate Action tools takes place through informal channels, where colleagues inform and guide their peers on a bilateral or personal basis. So far, such an informal structure seems to have worked well but with a growing number of Bank staff, the emergence of new priorities, the increase of lending volumes and increasing staff turnover (including retirement of some key staff in the Climate Action area), the continuity of informal channels is challenged. The need for additional written guidance is confirmed by staff, which often suggested in the survey they would like to have more guidance regarding the different Climate Action documents and tools.

The importance of guidelines: Peer practice

EIB’s peers have developed climate change mainstreaming tools of the following categories: carbon footprint tools, performance standards, guidance for climate-proofing investments in different sectors, etc. Guidance on mainstreaming tools is important.

The Inter-American Development Bank has developed specific knowledge products regarding climate activities of the bank. It also has good minimum climate change performance guidelines for investments in landfills, cement plants and coal-fired powered plants. The Asian Development Bank stands out through its guidelines for upstream environmental analysis, which includes climate change.

Source: peer review briefing note (task 3)

Although the mainstreaming tools were overall consistently applied, the informal and insufficient guidance nevertheless led to inconsistencies. This is well illustrated by the Bank’s Climate Action labelling tool. The Bank relies on

a list of Climate Action eligibilities to help staff determine if an operation can be, totally or partially, labelled Climate Action and contribute to meeting the Bank's Climate Action lending target. This list sets out sectors and project types. For some sectors, a carbon footprint must be carried out to determine Climate Action eligibility. Since 2013 however, two lists co-exist on the Bank's intranet, a first list compiled in 2010 by the EIB and validated by its governing bodies and a second one defined and adopted by a group of Multilateral Development Banks, to which the EIB aims to align given it is a member of the group. The two lists are broadly consistent but show some differences. The evaluation provided evidence that there are different opinions on which labelling list – if any – staff use when applying the Climate Action indicator. Staff members' own knowledge of the sector appears to be the most important source of information used, followed by the EIB list, and then advice from colleagues, particularly in ECSO. The Multilateral Development Bank list seems to be mainly applied by some staff members in ECSO, whereas other staff still apply the original list stemming from 2010 (interestingly, the Strategy proposes a new list which then everybody is expected to use).

Both lists are general and the identification of Climate Action, as raised above, is subject to staff expertise given the limited written guidance provided. The insufficient formal guidance, informal mentoring and non-clarity on which list to apply, call for control processes/procedures. Although not formalised, such control processes have been set up and contribute to ensuring a consistent application of some of the mainstreaming tools. For example, two divisions in PJ, of which the division in charge of Quality Management and ECSO, review the climate labelling performed by staff on a monthly basis and propose changes to project teams if necessary. ECSO estimates that in about 10% of cases the labelling assigned needs to be discussed with project teams. At the carbon footprinting level, similar discussions take place between ECSO, in charge of the review, and PJ sector departments, in charge of performing the calculations. These "control" processes that have been set up to correct discrepancies and inconsistencies are enforced but have not been formalised. Whilst they support the consistent application of tools, which is positive, they may also contribute to limiting the ownership of staff in charge of their application: as long as ECSO will continue to check, there will be less incentive for divisions to invest sufficiently in training and mentoring staff at their level.

5.2.2 The Climate Action information and expertise is overall available but not sufficiently mainstreamed in departments and divisions where climate is not the core activity

Awareness relies, to a great extent, on the efforts undertaken within the EIB to actively communicate and share information on its Climate Action target and objectives. The EIB's media and information sharing events and training are a means to strengthen this awareness, as well as Bank-wide reporting on Climate Action. Awareness also depends on the climate expertise of the Bank's staff and, correlated, their ability to recognise the climate dimension of the projects they discuss with promoters or borrowers.

The Bank's internal intranet portal can be expected to play an important role in advocating the Bank's Climate Action at both generalist and expert level. Staff should be able to easily inform themselves and get an overall view of the Climate Action governance, sector policies, tools, processes and networks. Therefore the evaluation assessed the adequacy and effectiveness of the Bank's portal for sharing information on Climate Action. One of the main findings of this assessment is that the Bank's Intranet contains most of the important Climate Action information. The information is generally up-to-date and most of the links work, with the exception of some links to external websites. However, while the Intranet has generally been consolidated a few years ago, PJ and OPS each continue to have their own climate site, which leads to both information overlaps and gaps. Generally, the PJ site (with links to sector websites) contains more background information than the one of OPS. However, due to the existence of two separate climate sites, finding the available information or getting a comprehensive view is not straightforward. Interestingly, the survey among staff carried out for this evaluation suggests that whilst OPS staff rely primarily on the web site of PJ for climate information, PJ staff themselves primarily rely on informal discussions with ECSO. For them, the "Climate Action" intranet is the third source of information after online sources.

Training and information sharing events are another way to raise climate awareness, to share skills and knowledge on sectors and markets, and to encourage staff to consider and work on new types of initiatives. ECSO is responsible for the training of staff and dissemination of climate information internally and externally. The CCED, through the internal Climate Action-related network it manages

is notably responsible for facilitating the platform of internal bank-wide dissemination of climate finance information and good practice examples. Both structures organise trainings and information sharing events. However, the evaluation highlights a bottleneck regarding training. On the one hand, more climate awareness is needed³², notably in OPS where Climate Action mainstreaming is often dependent on staff's personal interest and, on the other hand, ECSO is already understaffed to cover all its Climate Action activities, and in particular does not have enough staff to provide training.

Relying on the climate expertise of staff in OPS and PJ, be it acquired through vocational training, on-the-job or information sharing events, is another means to mainstream climate action in the Bank's project pipeline and to ensure climate considerations are taken on board in operations financed by the EIB. The evaluation found that there is expertise and interest on Climate action throughout PJ (beyond ECSO) and that OPS staff consult their PJ colleague on this matter (beyond ECSO). This consultation – formal and informal – is often driven by personal interest of OPS staff. There is no clear answer as to whether there are sufficient internal resources available for supporting Climate Action. According to staff, informal exchange of information seems to be common practice and has, so far, worked well. However, there is a need for more expertise in departments and divisions where climate is not the core activity, particularly in OPS. It is important that OPS staff systematically consider Climate Action in their work as they are responsible for Climate Action project origination, for the Climate Action labelling of MBILs, and given they are the main interface with the promoter, including on possible climate related issues (promotion and mitigation).

Staff incentives are another way to encourage staff to pay more attention to climate considerations. Incentives can be very formal – for example, stated in the objectives of staff. They can also be indirect, for example by giving even more visibility to climate in the Bank's reports such as the annual 3PA report to the Board (e.g. "EIB Operations inside the EU 2013"). Such initiatives can motivate staff to prioritise efforts on Climate Action and better screen and qualify projects along Climate Action criteria. Apart from the "soft" reporting incentives³³ mentioned above, the evaluation has not found evidence that formal Climate Action incentives are applied (or only very occasionally) to individual staff. Respondents to the survey question on "What is your main motivation to work on Climate Action", with multiple answers possible, indicated annual performance objectives in 4.5% of cases³⁴, compared to more than 57% indicating personal interest and commitment to Climate Action. Staff implication is mainly driven by personal interest, as confirmed by individual interviews, and the "at least 25%" overall target, although it is not clear how this target trickles down to individual staff.

Overall, Climate Action information (intranet, trainings) and expertise is available but not sufficient in and for departments and divisions where climate is not the core activity. Incentives to work on Climate Action are mainly linked to staff's personal interests, and to "soft" incentives. The evaluation has not been able to uncover if and how the Bank's Climate Action target is used to incentivise staff at individual level.

In summary, in the current context (growing institution, additional objectives, high concentration of expertise on a limited number of staff, weaknesses in the Climate Action governance), relying on, to a certain extent, informal Climate Action processes and information sharing and guidance to mainstream Climate Action at the operational level, generates an increased risk of inconsistent application of Climate Action tools and processes and of missing Climate Action opportunities.

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³² Respondents to the survey question on "have you attended internal training on Climate Action?" mainly answered "no" (76.6%). 12% indicated having attended in training in the past year, of which 2.5% from OPS and 4.5% from PJ.

³³ Climate Action is reported in the Bank's Sustainability Report. However, the carbon data reported is limited to the emissions from operations that exceed the footprint threshold- as stipulated in the EIB's Methodologies. Climate Action is not mentioned in the EIB report on the results of EIB operations. Emissions are included in the project's Environmental and Social Data Sheets (ESDS) when above threshold.

³⁴ Of which, 2% from OPS and PJ, respectively.

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