



External Lending Mandate

Climate Strategy



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Executive Summary

The External Lending Mandate (ELM) for 2014-2020, covering the Pre-Accession countries, the Southern and Eastern Neighbourhood countries, Asia, Latin America and South Africa, was adopted by Decision No. 466/2014/EU of the European Parliament and of the Council of 16 April 2014, for which the total European Union (EU) guarantee covers up to EUR 27bn outside the EU.

Climate Action is one of the three general objectives, and the only objective for which a dedicated strategic document is requested by the Mandate Decision. Fully in line with the EIB's new Climate Strategy adopted in 2015, the update of the ELM Climate Strategy guides all operations supported by the EU guarantee under the ELM, although its analytical part also takes non-guaranteed operations in ELM regions into consideration.

During the previous ELM 2007-2014, the Bank gradually but steadily ramped up its volume of lending for climate action projects outside Europe, which stands at over EUR 12bn in aggregate. Today, almost a third of the European Investment Bank (EIB)'s external lending is for climate action projects, up from less than 15% in the reference year 2009. The Mandate for the 2014-2020 period reinforces support for EU climate action, by setting quantitative targets (at least 25% of total EIB financing operations), encouraging the Bank to blend its funds with EU grant sources where appropriate and combine them with innovative financial instruments, and reporting annually on results. As announced by the EIB President, by 2020 the Bank intends to increase the share of climate-related projects to 35% of its investments in developing countries.

To meet the mandate requirements and contribute to achieving EU climate objectives, the ELM 2014-2020 Climate Strategy will focus on the following priorities:

1) Reinforcing the impact of EIB climate financing

The EIB Climate Strategy seeks to enhance both the financial and non-financial impact of its climate finance and will focus on steering the Bank's activities towards high impact climate action projects. These are projects that (i) achieve significant mitigation or adaptation gains; and/or (ii) catalyse and mobilise additional climate finance from a range of sources; and/or (iii) reduce financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy. Once the Bank has defined and identified these high impact operations, it will put processes and systems in place to prioritise them within the climate action portfolio.

EIB will focus on developing and diffusing low-carbon technologies in various sectors with significant potential for long-term, transformational greenhouse gas (GHG) emission savings: (i) renewable energy and energy efficiency; (ii) developing transport services that reduce GHG emissions; (iii) water and sanitation; (iv) urban projects, managing solid waste and developing sustainable cities; and (v) reducing deforestation and developing "climate-smart" land use.

2) Increasing resilience to climate change

The EIB Climate Strategy emphasises the promotion of risk management approaches to increase the resilience of assets, communities and ecosystems related to EIB projects. EIB will be developing a Climate Risk and Vulnerability Assessment tool across sectors and regions to identify and address project vulnerabilities. This work will be closely coordinated with work in disaster risk management. Pure adaptation projects will be particularly targeted.

EIB will continue to share knowledge both within the EUFIWACC group (European Finance Institutions Working Group on Adaptation to Climate Change) on adaptation and resilience and in the wider IFI community – working group on climate risk screening.

3) Further integrating climate change considerations across all of the Bank's standards, methods and processes and collaborating with other financial institutions

Climate change considerations will continue to be mainstreamed in the project appraisal process. The Bank has updated its shadow price of carbon to complement the carbon footprint in integrating relevant environmental external costs on the analysis of projects and will work to incorporate new evidence and research on other environmental damages or benefits in the analysis. Adaptation, resource efficiency and energy conservation principles will be further taken into consideration by the increased coverage of the Bank's sector policies and lending criteria.

The EIB aims to continually improve the carbon footprint methodology, learning from and exchanging with peers and partners, so the EIB works and takes an active and leading role in the IFI working group on GHG accounting for projects. The EIB measures its climate action financing in line with definitions agreed with all Multilateral Development Banks (MDBs) and published in the MDB Joint Report on Climate Finance. The EIB is also working with bilateral organisations, including framework organisations such as the International Development Finance Club (IDFC).

The ELM Strategy emphasises the use of new and innovative channels and instruments to increase the impact of ELM resources.

EIB has the ability to blend financing sources, co-fund investments and leverage significant additional public and private financing. The EIB has developed specific products, often in conjunction with EU or other donor funding, to catalyse private investment and leverage public funds. For these activities, the Bank is either using its own resources, for which it created a special activities reserve to allow greater risk-taking capabilities, or combining its financing activities with public funds provided by Member States and the European Commission. EIB will seek strong cooperation with the **Green Climate Fund (GCF)**, develop further the EIB's green bonds – the **Climate Awareness Bonds** – and scale up engagement with private investors through mechanisms like the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**. The strategy also clarifies sectoral and operational aspects of EIB external action.

The EIB will continue to support the economic, social and environmental sustainable development of the partner countries through its financing operations and in line with the EU's policy objectives. Climate action is a key part of achieving long-term global sustainable development, and the EIB will continue to increase its support to achieve low-carbon and climate-resilient development across the world.

Introduction

The current External Lending Mandate (ELM) Climate Strategy was introduced following the mid-term review of the previous ELM in 2011 and formally submitted for the first time on 19 December 2012, valid for the remaining Mandate period (until mid-2014).

On 16 April 2014, the European Parliament and the European Council adopted Decision No. 466/2014/EU granting an EU guarantee to the European Investment Bank (EIB) against losses under financing operations supporting investment projects outside the EU over the period 2014-2020 (the "Decision" and the "EU guarantee"). Following its adoption by the EIB governing bodies on 4 July 2014, the EIB's 2014-2020 ELM has commenced. The Decision requests an update of the ELM Climate Strategy before the end of 2015.

In addition to the legal requirement, an update is necessary to align the ELM Climate Strategy to several recent developments. Transition to low-carbon and climate-resilient development is at the centre of global policy debates on sustainable development. The Sustainable Development Goals (SDGs) with their three dimensions - economic, social and environmental - acknowledge strong interlinkages of development impact and climate action, and identify the latter as a specific goal. The international UNFCCC negotiations will culminate in Paris in December 2015, aiming to set a clear road to decarbonisation.

The recent review of EIB climate action led to the adoption of a Bank-wide EIB Climate Strategy that articulates a clear, long-term vision and presents renewed directions for EIB's future climate action and aspires to catalyse new activities and initiatives to significantly reinforce the Bank's support to EU climate action both within and outside the EU.

The EIB Climate Strategy is structured around three strategic action areas that serve as guiding orientations for the Bank's future climate action: (i) reinforcing the impact of EIB climate financing; (ii) increasing resilience to climate change (adaptation); and (iii) further integrating climate change considerations across all of the Bank's standards, methods and processes. These strategic action areas and their various operational initiatives will combine the provision of advisory services with innovative financial instruments, reinforced due diligence procedures at project level and improved coordination and cooperation with other European and international financial institutions to boost EIB global climate action.

The review of the ELM Climate Strategy builds on the previous document, updating the structure and coverage in a way that is more complementary to the new EIB Climate Strategy, and to cover the whole 2014-20 ELM period. This is also an opportunity for rebalancing with other documents required by the Mandate, in particular the Technical Regional Operational Guidelines, which have also been updated following the Decision on the ELM. The EIB can contribute to EU development cooperation objectives with different actions at sector and project level, in particular by focusing on certain areas linked to development aspects, such as climate change. The document:

- Presents past performance
- Outlines a response to the ELM 2014-20 requirements with regard to climate action
- Describes how this is integrated into the EIB Climate Strategy
- Examines climate action activities in different sectors outside the EU.

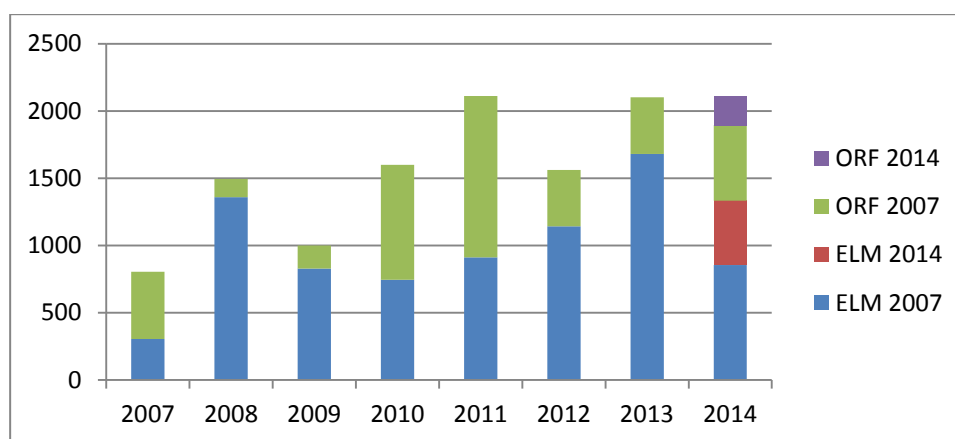
1. Past Performance of ELM

1.1 Climate action lending outside EU 2007-14

In the period 2007-2014, the Bank gradually but steadily ramped up its volume of lending for climate action projects outside Europe, which stands at over EUR 12bn in aggregate. Today, almost a third of EIB's external lending is for climate action projects, up from less than 15% in the reference year 2009.

Outside the EU, the EIB supports the policy objectives and regional strategies through lending from its own resources under "Mandates" covered by guarantees from the EU (ELM) or Member States (Cotonou Agreement) as well as by mobilising third party financing (e.g. in future the Green Climate Fund, GCF). Complementary to the "Mandates" and third party funds, the EIB also undertakes operations outside the EU via the own risk facilities (ORF) established by decision of its governing bodies. While non-ELM operations equally support EU external policies, including climate change, strictly speaking they are not governed by the ELM Climate Strategy. Nevertheless, the ELM Climate Strategy serves as an important reference document for operations complementing the ELM, and contains some information on such operations in order to provide a comprehensive picture. The charts and table below show EIB's climate action lending since 2007 split between ELM and own risk facilities (ORF), both in absolute terms and relative to total lending.

Climate Action signatures in ELM regions (in EUR m) / Share of Climate Action in Total Lending



Share of Climate Action in Total Lending	2007-2008	2009-2010	2011-2012	2013-2014 *
	ELM only	28%	14%	29%
ELM and ORF	26%	17%	28%	31%

* In 2014, the Bank worked under both the 2007 and 2014 mandate.

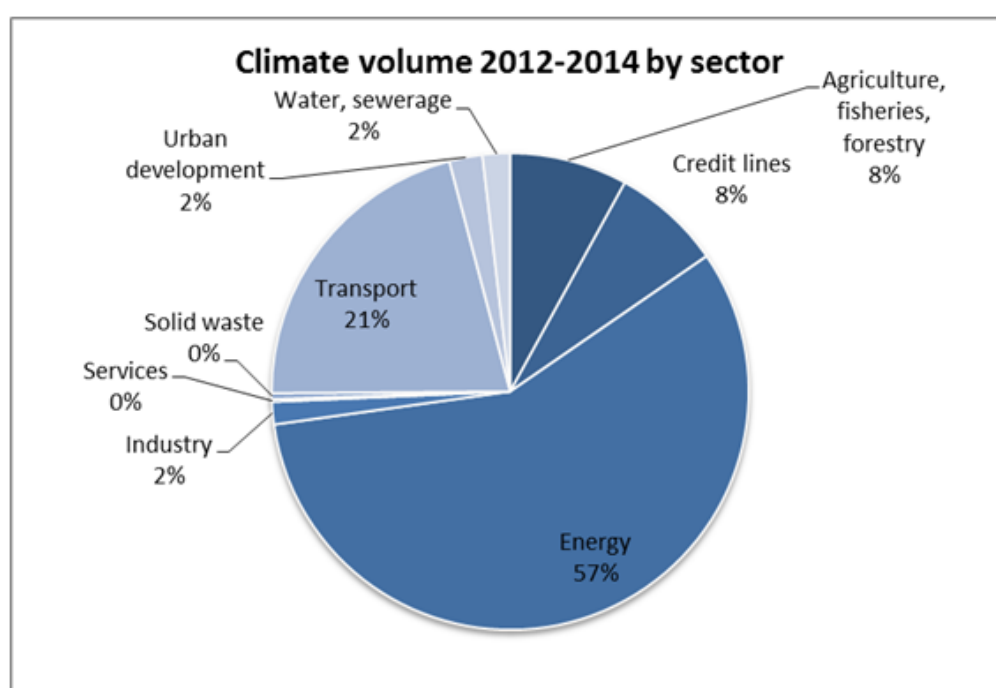
The adoption of the EIB Climate Strategy in External Mandate Countries in 2012 marked a watershed in EIB's approach to external lending for climate action. Since then, the Bank's work was focused on two main "product lines", as follows:

- 1) Debt financing with increased amounts for the development and diffusion of low-carbon technologies with significant potential for long-term, transformational GHG emission savings. This product focuses on: (i) renewable energy installations, fuel switch to less carbon-intensive technologies, single to combined-cycle projects in the power sector and associated infrastructure; (ii) energy efficiency in industry and buildings; (iii) reducing deforestation and degradation, through "climate-smart" land use

and sustainable intensification; (iv) urban transport projects and environmentally sustainable railway infrastructure.

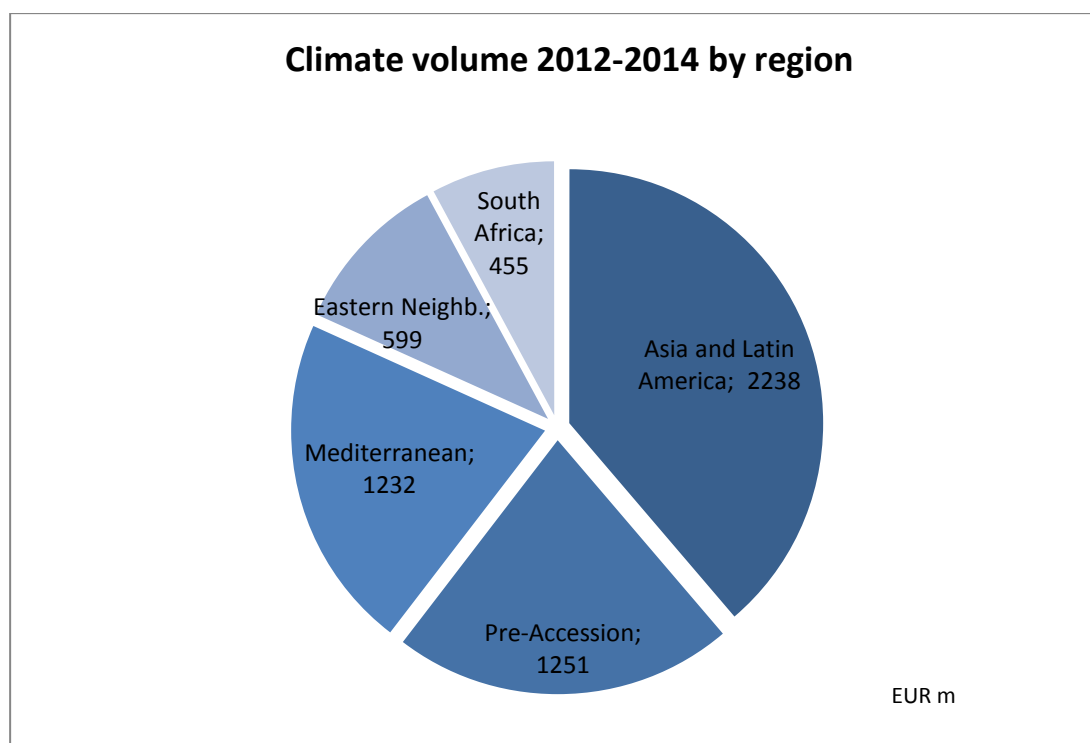
- 2) Blended products with a higher concessionality element suitable for smaller-scale projects that promote low-carbon climate-resilient growth in lower income countries or regions. Project examples would include off-grid solar or biogas home systems for the rural poor; rewetting of peat lands, small hydro and biomass mini-grids; flood control, drainage, sanitation and watershed management; small-scale afforestation and reforestation, agroforestry and permaculture, etc.

From a sectoral viewpoint, not surprisingly 57% of the Bank's non-EU climate lending in recent years supported energy investments including renewable energy and associated transmission facilities and energy efficiency. Sustainable transport represented 21% of climate investments while agriculture & forestry, and climate financing through credit lines for SMEs and midcaps, accounted for 8% each.



Geographically, over a third of climate lending was for Asian and Latin American countries. Projects located in Pre-Accession and Mediterranean countries accounted for over 20% of total climate lending each. The potential for climate action projects in the Eastern Neighbourhood region is significant and the Bank's activities were ramped up with climate action projects targeting cleaner energy, sustainable transport and a climate-resilient agri-food sector.

EIB's lending for projects or project components in the area of climate change adaptation in the period 2012-2014 amounted to EUR 237m, 4% of overall climate finance volume, reflecting the difficulty to identify a stream of adaptation activities, the developing countries' lack of appetite for borrowing for adaptation as well as the limited attractiveness that this sector has for private sector investors. Going forward, investment in adaptation is expected to grow gradually once resources from the GCF and other multi- and bilateral sources of finance begin flowing in earnest, providing much needed investment grants and other subsidies for blending with MDBs' concessional lending.



1.2 EIB's strategic approach to climate action since 2012

The ELM Climate Strategy from 2012 defined three areas for short-term action, and six action areas for a medium to long-term perspective.

1.2.1. Three areas of short-term action: actions until end of 2007-13 ELM

As a short-term priority, the EUR 2bn Climate Change Mandate envelope was to be fully utilised following its activation in October 2011 after the mid-term review, reporting separately on emissions and anchoring adaptation by tracking climate resilience's improvement of the portfolio. Indeed with net signatures of EUR 1.95bn, the Bank's utilisation of the climate envelope reached a level of 98%.

With regard to emission reporting, the Bank has been measuring the carbon footprint of the projects it finances since 2009. Project carbon footprinting is now mainstreamed into the Bank's operations. In addition, the EIB was the first MDB to adopt an Emission Performance Standard (EPS) in 2013 as a tool to screen carbon-intensive new power generation. The EPS is intended to screen fossil fuel power projects on the basis of their CO₂ emissions (currently less than 550 g/kWh), which is consistent with EU climate policies. The level can be adjusted in line with changing policy targets. While the same EPS threshold will be used for the Bank's operations outside the EU, to reconcile the right to economic development of the poorest countries, limited exceptions will be made in certain circumstances in the poorest countries outside the EU where it can be demonstrated that projects with carbon emissions above the threshold will have a significant and material positive impact on poverty alleviation and economic development. This is an example of how EIB integrates climate considerations effectively into all EIB activities and practices, including those related to our project cycle, sector lending policies and project-specific performance standards.

The Bank has also anchored climate change adaptation more comprehensively into its activity. In lower income countries, the poor state of existing infrastructure and the fragility of livelihood systems make investments in adaptation doubly important. The EIB is supporting the agriculture sector in several countries in relation to climate change adaptation because of the sector's particular sensitivity to changing weather patterns.

In 2013, the EIB issued its own Statement on Climate Action and in the run-up to the UN SG Climate Summit in September 2014 it also issued a Joint MDB Statement on Climate Finance. The statements also act as a

guide for EIB activities and outline the standards that the Bank requires of the projects that it finances to promote sustainable development.

1.2.2. Six action areas for a medium to long-term perspective

The longer-term issues for action, which were found to be of relevance beyond the end of the Mandate period, related to the support of innovative mitigation, the improvement of climate resilience, emissions monitoring and reporting and tracking of climate action financial flows. In addressing these issues, close collaboration with EU/EC/EEAS and with financial institutions and Member States was envisaged as a key element.

- Innovative mitigation

The Bank has been supporting the development of National Adaptation Programmes of Action (NAPAs) and Nationally Appropriate Mitigation Actions (NAMAs), particularly in the FEMIP region where it has provided technical assistance at several stages of their development.

Coupled with technical assistance and in addition to the traditional EIB financing, the Bank develops smaller, innovative climate finance products to address specific market failures or sub-optimal investment situations. These products have two goals in common: 1) to support and demonstrate the viability of innovative products, asset types or financing structures and 2) to crowd in private sector financiers. In order to promote innovative climate change mitigation projects, the EIB is also expanding its collaboration with other players.

Meeting global climate objectives will require significant new long-term investment in low-carbon technologies and projects. It is therefore important to access institutional investors' financing sources through capital markets. The EIB's Climate Awareness Bonds (CABs) are a successful product that enables capital market investors to indirectly engage with low-carbon projects.

- Improvement of climate resilience

Climate change is one of the most urgent challenges of this century. Consequences already being felt such as drought, flooding and extreme weather events threaten development and economic growth. In developing countries, support for adaptation processes and investment is crucial since communities tend to be more vulnerable and climate change will have a greater impact on their people, livelihoods, cities and ecosystems.

The EU Adaptation Strategy was launched in April 2013 and endorsed by the EU Council in July 2013. The EIB Statement on Climate Action emphasised the promotion of risk management approaches to increase the resilience of assets, communities and ecosystems related to EIB projects. The Bank has taken several key steps to seriously address adaptation in all its projects, mainstream climate change adaptation and identify and support actual adaptation projects.

Under the new Climate Strategy all operations will be screened for climate change risks. If such risks are identified, an assessment of climate risk and vulnerability will be developed for every project so as to identify relevant no-regret adaptation measures to increase project resilience. It has been demonstrated that identifying the necessary actions and measures at the planning stage is far more cost-effective than implementing them retrospectively. Work to date has involved a review and documentation of sector-specific climate change risks and work on screening tools to ensure that the Bank is systematically requesting information from promoters regarding the climate risks faced by the projects and systems within which they operate.

To date, the majority of the Bank's adaptation financing has come from water-related projects – e.g. water supply, flood protection and coastal protection. In addition to these, several operations focusing on improved forest management and protection – reducing forest fire risk and improving fire-fighting capacity; rehabilitating burned areas; tackling erosion – have been financed.

EIB is a key contributor sharing knowledge both within the EUFIWACC group on adaptation and resilience and in the wider IFI community – in the working group on climate risk screening.

- Emissions monitoring and reporting

The EIB Carbon Footprint Exercise (CFE) estimates and reports the GHG emissions from projects where emissions are expected to be significant. The methodology that is applied by the Bank is consistent with international standards and publicly available on our website. Project carbon footprinting is now mainstreamed into the Bank's operations at appraisal stage. The aggregated results for a year's signatures are reported annually. Individual projects' footprints are now regularly published in the EIB Public Register of Documents as part of the Environmental and Social Data Sheet.

The EIB aims to continually improve the carbon footprint methodology, learning from and exchanging with peers and partners; accordingly, the EIB works and takes an active and leading role in the IFI working group on GHG accounting for projects. In particular, in 2014 and 2015 essential harmonisation agreement was reached on renewable energy (RE) projects, with significant progress also being achieved in energy efficiency (EE) projects. Transport emissions are likely to be tackled next. This work has already paid dividends as an increasing interest in reporting on GHG emissions for Green Bonds has helped the EIB lead the way on transparent reporting of both absolute and relative emissions for its Climate Action Bond portfolio, to better inform investors on the impact of their investments in this growing market.

- Tracking climate action financial flows and collaboration with other financial institutions

Climate finance is currently one of the key issues for the United Nations (UN) negotiations on climate change and one of the main climate-related focus areas for MDBs. The focus on climate finance goes back to the UN climate change summit in Cancun in 2010 (COP 16) when Governments agreed to provide new and additional climate-related resources for developing countries. As a first step, USD 30bn was pledged as "fast start finance" over the period 2010-12 followed by USD 100bn per year from 2020 from public and private sources to be channelled partly through the GCF. Tracking of these climate action financial flows requires objective and transparent data and strongly depends on harmonisation across financial institutions and players.

The EIB has a robust system that clearly identifies and tracks our climate finance. Since the MDBs began jointly reporting their climate finance activities in 2011, they have collectively financed around USD 100bn in the area of climate action. In 2014, the EIB led joint MDB methodological work and data collection and reporting, including publishing the 2013 Joint MDB Climate Finance Report.

The 2014 Joint Report publication (18 June 2015) shows that in 2014 the MDBs delivered over USD 28bn in financing to help developing countries and emerging economies mitigate and adapt to the challenges of climate change. Of this amount, USD 5bn went to climate change adaptation finance. For the third consecutive year, adaptation remained at around a fifth of total climate finance. Among the regions, South Asia received the largest share of total funding, at 21%. Latin America and the Caribbean, non-EU Europe and Central Asia, sub-Saharan Africa, and East Asia and the Pacific received 17%, 16%, 15% and 10% respectively.

The EIB measures its climate action financing in line with definitions agreed with all MDBs and published in the MDB Joint Report on Climate Finance. The EIB is also working with other bilateral organisations under their framework organisation of the International Development Finance Club (IDFC). IDFC is a group of 22 IFIs representing 40 countries focusing on development finance. At this stage both MDBs and IDFC have reached a high degree of consensus on the list of activities eligible under climate change mitigation but more work is needed for the accounting methodologies and for climate change adaptation.

How to leverage private investment is gaining increasing attention in the run up to the COP in Paris. An MDB working group was established on the topic of "Leverage of Climate Finance – Guidance and Common Practice by Multilateral Development Banks" and work has progressed to compare different MDB methodological approaches to accounting and definitions and develop guidance on ways to harmonise MDB leverage methodologies and definitions. The MDBs will share the results of their work to assist international discussions on this topic.

2. ELM Climate Strategy 2014-2020: overarching objectives

The review of the Bank's approach to climate action confirmed the need to continue strengthening climate action, building on the strategic interventions identified in 2012 as described above. The new ELM Climate Strategy puts forward operational initiatives to respond to the Mandate requirements and further reinforce its support to EU climate action in the Mandate regions.

2.1 Implementing EIB Climate Action Strategy in non-EU operations

Climate change is probably the greatest global challenge that threatens to jeopardise the ability to achieve the long-term sustainable development of all countries. The EIB Climate Strategy strengthens the action being taken to promote climate change mitigation and adaptation actions globally, across sectors and regions. The Strategy builds on the challenges of the Bank's climate action to date and further develops the existing framework of policies and initiatives. It presents the direction of EIB climate action around three following strategic action areas:

2.1.1 Reinforcing the impact of EIB climate financing

The Bank will redirect its climate action focus to those sectors and operations that have the most impact. This strong impact will be sought by proactively seeking high mitigation and/or adaptation gains from projects, or by improving the Bank's financial portfolio with new products that tackle investment barriers or instruments that catalyse and mobilise additional climate finance. The overall aim of these efforts is to provide additional channels for private sector investment in climate action. The Bank will step up its technical and financial advisory services to build up a pipeline of climate action projects and facilitate their preparation to enable a better access to finance. These services may be particularly relevant for projects identified and listed in the national Intended Nationally Determined Contributions (INDC) as well as for smaller local or more complex projects.

2.1.2 Increasing resilience to climate change

Some of the ELM countries are already suffering the impacts of climate change with serious implications for life-threatening and critical security issues such as water, food energy and human health. Adaptation to changing climate requires risk screening and the adoption of specific adaptation measures in investment projects. EIB will be screening all projects for climate risks to address project vulnerabilities. This will be closely coordinated with work in disaster risk management. Pure adaptation projects will be particularly targeted. Priority will be given to nature-based solutions, environmental protection, improved land use (agriculture, forestry and related processing industries, land rehabilitation) that contributes to rural development and results in increased overall resilience.

2.1.3 Further integrating climate change considerations across all of the Bank's standards, methods and processes

Climate change considerations will continue to be mainstreamed in the project appraisal process. The extension of the annual Carbon Footprint Exercise to intermediated lending will be explored as will the possibility to include emissions outside the operational phase of projects. The Bank has updated its shadow price of carbon to complement the carbon footprint in integrating relevant environment external costs on the analysis of projects and will work to incorporate new evidence and research on other environmental damages or benefits in the analysis. Adaptation, resource efficiency and energy conservation principles will be further taken into consideration by the increased coverage of the Bank's sector policies and lending criteria.

2.2 Delivering on the Mandate Requirements¹

Text of the mandate	EIB action to deliver on the mandate requirement
<p>The target (Article 3): Over the period covered by this Decision, EIB financing operations under the ELM in support of climate change mitigation and adaptation should represent at least 25% of total EIB financing operations under the ELM in order to further the promotion of the Union's climate goals on a global scale.</p>	<p>The share of climate action operations is monitored at three different levels. The Bank as a whole will continue to dedicate at least 25% of its financing to specific climate action projects, both for mitigation and adaptation.</p> <p>Although the ELM Decision sets a target of at least 25% climate action for all operations falling under the Decision, separate monitoring will be put in place for the Bank's climate action operations in developing countries outside the EU, where the Bank will progressively increase its climate action lending target to reach 35% of all external lending in developing countries by 2020. This adds to the level of ambition, since several countries with a traditionally high share of climate action-related lending are mostly served through own-risk facilities, and managing targets for several sub-portfolios reduces flexibility for offsetting.</p> <p>The EIB Climate Strategy seeks to enhance both the financial and non-financial impact of its climate finance and will focus on steering the Bank's activities towards high-impact climate action projects. These are projects that (i) bring significant mitigation or adaptation gains; and/or (ii) catalyse and mobilise additional climate finance from a range of sources; and/or (iii) reduce financial and non-financial barriers to the investments needed for the transition to a low-carbon resilient economy. Once the Bank has defined and identified these high impact operations, it will put processes and systems in place to prioritise them within the climate action portfolio.</p> <p>Some high-impact investments will be fragmented, i.e. they will involve large numbers of small projects. The Bank will therefore continue to look for ways in which to increase its support to smaller-scale investments. The Bank will seek to innovate and replicate or build upon the existing financial structures and products (e.g. Framework Loans, Multiple Beneficiary Intermediated Loans and other intermediated structures such as funds, as well as bundling of smaller Independent Power Producer RE projects with Project Finance loans) developed in recent years that have proven successful in bundling and/or aggregating smaller climate projects in suitable sectors and regions. Advisory services could also contribute to developing new financing structures for small projects.</p> <p>The Bank will reinforce its advisory activities offering in support of climate action to facilitate better design and preparation, ultimately leading to more effective implementation and access to finance.</p> <p>In order to achieve a resilient portfolio of climate action projects, the Bank will progressively develop and introduce climate risk screening and vulnerability assessment elements to enhance the resilience of new investments. It will also invest in specific activities with an adaptation focus, such as land and water resource management to increasingly achieve a more balanced portfolio of mitigation and adaptation projects.</p>

¹ Decision No. 466/2014/EU of the European Parliament and of the Council of 16 April 2014 granting an EU guarantee to the European Investment Bank against losses under financing operations supporting investment projects outside the Union.

<p>Blending (Preamble 16): EIB financing operations should, where possible and appropriate, be complemented by funds from the general budget of the Union through the efficient and appropriate blending of grants and loans for climate change financing in the context of Union external assistance.</p>	<p>The Bank is an active partner in the EU Regional Blending Facilities, which are key for offering sustainable and competitive financing for operations outside the EU. In 2014, nearly a third of the Bank's commitment under the ELM was associated with a blending component financed from the EU budget, including numerous climate action projects. Going forward, it is expected that the Bank will continue making extensive use of blending instruments, and in line with EU and Bank priorities that climate action will figure prominently in the Bank's blending portfolio.</p>
<p>Carbon Footprint (Article 3): An analysis of the carbon footprint ought to be included in the environmental assessment procedure to determine whether project proposals optimise energy-efficiency improvements</p>	<p>An assessment of GHG emissions of the projects financed by the EIB is carried out based on sector-specific methodologies during appraisal. This allows the Bank to incorporate the cost of environmental externalities into the project cash flows and assess the emissions of different project alternatives. This is part of a wider systematic effort to integrate relevant external costs in the appraisal of operations.</p> <p>The Bank will explore new approaches to provide an approximate assessment of the overall footprint of financially intermediated lending and equity operations.</p> <p>The Bank will increase its efforts to mainstream energy and broader resource efficiency considerations across sectors will be pursued in line with the EIB's long-standing commitment to support energy efficiency as a matter of priority.</p>
<p>Ex-ante emissions (Article 9): Establish a comprehensive system to assess <i>ex ante</i> relative and absolute GHG emissions related to EIB financing operations where those emissions meet significant thresholds, as defined in relevant methodology included in the EIB climate change strategy, and where data is available.</p>	<p>Project carbon footprinting at the appraisal stage was started at the EIB in 2009 and is now mainstreamed into the Bank's operations. The Bank applies its carbon footprinting methodology to all sectors, not only climate change mitigation projects. This methodology is publicly available and regularly updated to improve the clarity and transparency of the reporting. GHG emissions from projects where emissions are expected to be significant are estimated and reported. The following two thresholds are considered:</p> <ul style="list-style-type: none"> • absolute emissions (actual emissions from the project) >100 000 t CO₂ eq/year for a standard year of the project's operation • relative emissions (estimated emissions increases or reductions compared to the expected alternative) >20 000 t CO₂ eq/year <p>These two thresholds capture approximately 95% of emissions from the EIB's investment projects. EIB strictly applies the Bank's thresholds for inclusion in the CFE to avoid possible distortion of results, despite acknowledging that other EIB projects which fall below the thresholds also target emissions savings.</p> <p>The new EIB Climate Strategy will explore the possibility to extend the carbon footprint analysis to intermediated lending and to the construction/decommissioning phases of projects (in addition to the current operational phase) where relevant and feasible.</p>
<p>Reporting (Article 10): Provide</p>	<p>The Bank annually reports the results of its climate action operations</p>

<p>annual information on the climate change and biodiversity financing volumes under this Decision, the impact on absolute and relative greenhouse gas emissions on an aggregated basis as well as the number of projects assessed against the climate risk.</p>	<p>outside the EU, including the regions covered by the External Mandate. It reports not only lending figures but also the expected results in terms of avoided GHG emissions.</p> <p>Since 2012, the Bank publishes its Results Measurement (ReM) Framework. The ReM framework provides an assessment of the results of a project throughout its lifecycle. At the outset, clear, standardised and measurable indicators are identified, with baselines and targets that capture the expected economic, social and environmental outcomes of the operation. The project is rated at the time of Board approval according to three “pillars”, each of them based on a four-point scale:</p> <p>Pillar 1 - Checks eligibility under EIB mandates and rates the contribution to the EU and authorities’ priorities for the country.</p> <p>Pillar 2 - Rates the quality and soundness of the operation, based on the expected results.</p> <p>Pillar 3 - Rates the expected EIB technical and financial contribution to the project.</p> <p>The EIB will develop its Climate Risk and Vulnerability Assessment in order to pinpoint the areas where a project is vulnerable to climate hazards, assess the extent of climate-related risks and identify adaptation solutions to address them. In 2015, the Bank commenced systematic screening of new operations against their climate risks at the pre-appraisal stage.</p> <p>Particular attention will be given to projects achieving significant co-benefits such as economic growth and competitiveness, environmental or biodiversity protection and resource efficiency.</p>
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2.3 Using new channels and instruments to increase impact

2.3.1 The Green Climate Fund

2015 is a landmark year for the climate change agenda. The 21st Conference of the Parties of the United Nations Framework Convention on Climate Change, which will take place in Paris in December, is the last opportunity for a global response to the climate change challenges beyond 2020. In this context the establishment of the GCF could emerge as a key vehicle to finance climate action projects in developing countries in cooperation with the IFIs as well as regional and local financing institutions. In the past, the EIB did not have access to grants from similar climate change financing mechanisms (e.g. Climate Investment Funds - CIF and Global Environment Facility - GEF), but is currently expected to be accredited in early 2016 and engage in deep cooperation with the GCF in consultation with the European Commission.

The GCF has successfully fundraised and is expected to have an initial capitalisation of over USD 12bn, with a significant proportion of these resources being grants from the EU Member States. The EIB started negotiations with the GCF on the establishment of a package of investments. The Bank can bring to the GCF considerable existing technical and financial expertise on investments for climate change mitigation and adaptation, both within the EU and in nearly all developing countries. The EIB’s climate action is completely in line with the GCF investment framework, as it focuses both on low-carbon investments that mitigate GHG emissions and on climate-resilient projects that improve adaptation to climate change impacts. As well as a very diverse portfolio of loan operations, the EIB uses a broad range of financing instruments to support its climate actions, including sovereign and sovereign-guaranteed loans, sub-sovereign loans, non-sovereign loans, equity, guarantees, concessional financing, loans to private power producers, PPPs and grant-funded

technical assistance in various forms. Building on this broad range, the EIB has the ability to blend financing sources, co-fund investments and leverage significant additional public and private financing. The Bank also works closely with the European Commission and partner Governments to identify opportunities in-country for blending grants and loans and for using other innovative financial instruments to help bridge financing gaps.

In short, becoming an Implementing Entity of the GCF would complement the EIB's existing tools and instruments, optimise the Bank's collaborative work to tackling climate change and help to overcome investment hurdles, in particular those that are faced by the private sector.

2.3.2 Financial Instruments for Climate Action

The Bank supports climate action projects through a broad range of financial instruments, mainly medium and long-term direct or intermediated loans with fixed or variable interest rates in euros or other currencies, guarantees, investments in debt and equity funds and venture capital investments. The Bank intends to continue to play a major role in the financing, through project finance loans, of Governments' efforts to involve the private sector to increase the capacity and share of RE in the production mix, through Feed-in Tariff schemes and Public Private Partnerships.

However, EIB or public financing alone is insufficient given the scale of the investment needs outlined above. New financing models will have to be developed to catalyse private sector investment that can address the financing gap and existing market failures.

The EIB has developed specific products, often in conjunction with EU or other donor funding, to catalyse private investment and leverage public funds. These products include alternative investment vehicles such as equity and debt funds, guarantees and/or subordinated loans with a view to providing indirect debt or equity for projects, taking more risk or enhancing the credit quality of projects or project sponsors. For these activities, the Bank is either using its own resources, for which it created a special activities reserve to allow greater risk-taking capabilities, or combining its financing activities with public funds provided by Member States and the European Commission.

Examples include the Global Energy Efficiency and Renewable Energy Fund ("GEEREF"). This is a fund-of-funds, which provides global risk capital to unlock private investments in renewable energy and energy efficiency projects in developing countries and economies in transition. The objective is to address some of the limits of locally sourced financing in these countries. GEEREF is one of the first vehicles that have demonstrated how to leverage public risk capital to engage the private sector in development and climate finance.

In addition, the EIB has developed several instruments with an EU focus that – once fully demonstrated – could have relevance for developing countries and economies in transition. Examples include European Commission-supported risk sharing instruments, such as the Private Finance 4 Energy Efficiency ("PF4EE"), helping local and regional authorities in the implementation of their energy efficiency investment programmes through increased lending by financial institutions and the Natural Capital Finance Facility ("NCF"), which is promoting green infrastructure and ecosystem-based adaptation to climate change through various financing structures.

In addition, the EIB recognises that institutional investors can play an important role in financing low-carbon, climate-resilient growth as they manage large amounts of capital and have long-term liabilities that should fit well with the long-term, stable and index-linked returns from low-carbon projects.

One existing and successful product for institutional investors is Climate Awareness Bonds, the EIB's green bonds, whose proceeds are earmarked for projects supporting climate action. The Bank issued the very first green bond, has played a role in developing this new segment of the financial market and is currently the largest supranational issuer of green bonds. Climate Awareness Bonds have provided a direct interface between the investor community at large and the Bank's Climate Action portfolio.

3. ELM Climate Strategy 2014-20: Sectoral and Operational Aspects

The Bank's lending and advising activities in the ELM regions focus on supporting low-carbon and resilient development and growth. The Bank's operations will be guided by the national proposals or Intended Nationally Determined Contributions (INDCs) put forward by the different countries under the UNFCCC framework. A key challenge remains to distil these plans into concrete investment projects which are bankable and which the private sector can support.

The Bank will continue to support initiatives in the following sectors that have climate benefits in terms of emissions reduction or adaptation to climate change impacts:

3.1 Renewable energy and energy efficiency

Energy production and use account for two thirds of the world's GHG emissions. The Bank supports the transition towards more efficient, less polluting and more flexible energy systems that are also less vulnerable to fossil fuels' price volatility. This transition requires decarbonisation of the energy mix (by using renewable energy sources (RES) and/or switching to low-emission fuels when and where possible), increased electrification to use this clean energy and support to off-grid distributed generation schemes based on renewable energy sources. Improved efficiency and energy productivity is critical across the board, notably in buildings (public, commercial and private) but also in industry and transport sectors.

Lack of access to affordable modern energy continues to be an obstacle to economic and social development in the external mandate countries. Paradoxically, many of the countries in which the Bank operates have abundant renewable energy resources – high irradiation, hydro potential, good geothermal resources and wind. The continuous decrease in the cost of renewable energy technologies (notably solar photovoltaics and wind equipment) in recent decades enables these technologies to be cost competitive against fossil fuel alternatives (usually small diesel units).

The Bank will continue to strongly support RES projects and energy efficiency in its operations outside the EU in the context of its lending mandate and climate action objectives. There are significant operational challenges to RES and energy efficiency (EE) development in these markets given the instruments that are available to EIB and the fact that the Bank must apply EIB rules and procedures. Slow take-up of low-carbon technologies often reflects the generally weaker institutional environment in which external lending takes place, structural barriers such as fossil fuel subsidies, which distort markets and reduce investment potential, or difficult current economic environments that impact access to capital. Whenever possible, feasible and required, the Bank will complement its lending with technical assistance to strengthen fundamental institutions and an enabling environment to foster structural change by reinforcing due diligence and effective monitoring.

The Bank will develop innovative financing and intermediated lending with local financial intermediaries to adapt financing to the RE and EE investment features (smaller, scattered and often linked to distributed off-grid installations). Direct investments will favour larger new renewable energy power plants and network upgrade, integration of RE into the grids and the extension of basic energy access services.

3.2 Transport

Under its climate action lending programme, the Bank supports all transport projects (apart from road and air) that result in the reduction of aggregate GHG emissions through a modal shift and/or more efficient single-mode operation. Examples of eligible projects would be (i) fixed assets, urban mass transit, inter-urban rail, inland waterway, intermodal and short sea shipping facilities and (ii) movable assets, replacement and refurbishment including the retrofitting of components to achieve better energy efficiency.

The Bank will work on promoting initiatives that focus on creating efficient and effective supply chains and promoting efficient inter-modal connections and support and facilitate new technologies that make more

efficient use of current transport infrastructure. Technical assistance will contribute to enhancing these features in transport projects when necessary.

For most countries covered by the external lending mandate, trade and increased population are important engines of economic growth and job creation. Transport is also key to regional integration and vital to improving quality of life and reducing poverty, vulnerability and exclusion. New infrastructure, technologies, equipment and regulation have facilitated the dynamic growth of transport for trade and tourism in recent decades and increased movement of goods and people is expected in a globalised world. The Bank supports core freight corridors to facilitate regional and international trade (ports, rail and logistic platforms) and urban public transport to meet growing global urbanisation. Both freight transport and passenger traffic are a very significant source of GHG emissions, highlighting the urgency of tackling such emissions in a more sustainable, accessible and affordable way.

The Bank also promotes resource-efficient and economically sustainable investments in climate-smart urban mobility. Our support focuses on the construction, extension or rehabilitation of public low-carbon transport infrastructure (such as railway, light rail, metro and tramway systems and rolling stock) under an integrated urban mobility plan.

3.3 Water and sanitation

A safe and reliable supply of water and the protection of water resources are essential for human life and ecosystems. However, water and wastewater services are often of poor quality and water resources are managed in an economic and environmentally unsustainable fashion.

Increasing and competing demands for water arise from a growing, urbanising world population and related economic development which make communities and businesses increasingly aware of water-related risks and their impacts on health, quality of life, competitiveness and the environment. A central component of EU development policy is directed towards achievement of the water and sanitation targets forming part of the United Nations Sustainable Development Goals.

While maintaining the traditional lending in support of sustainable management of water, increasing attention is being put on adaptation and on enhancing the climate resilience of water service systems, e.g. by diversifying water sources, improving demand management or reducing vulnerability to extreme events.

Looking ahead, the EIB intends to consolidate its leading role in supporting water security worldwide. EIB is supporting project identification, preparation and financing – including innovative solutions to leverage private sector finance. It seeks to finance not only resilient municipal water services and help countries to adapt their water management strategies, but also to work with partners outside the water sector to identify and finance “water stewardship” measures, such as water efficiency and recycling. Smart and innovative solutions are key components of a water security strategy. Smart meters to reduce water losses, smart systems helping farmers and companies to optimise water use depending on key process indicators and information systems reducing the vulnerability of municipal areas to water-related risks linked to droughts or floods all play a part in ensuring security for resilient communities and competitive economic activities. Innovation and efficiency in water-intensive sectors, such as the energy sector, would help to ease the pressure on scarce resources, reducing the need to invest in additional resource development.

Another important activity area concerns water-related natural disaster reconstruction and risk management, whether or not climate change-related.

3.4 Municipal solid waste

Management of solid waste remains among the key challenges for local authorities both in urban and rural areas. Uncontrolled dumping not only impacts public health, quality of life and environment but is also a source of GHG emissions. In a global perspective, in relation to climate change GHG emissions from solid

waste play a marginal role overall. In fact, the contribution to GHG emissions is estimated to be between 3% and 5%. However, the production, distribution and use of products – as well as the management of the resulting waste – have significant environmental and climate impacts. This is why waste prevention and recycling, and energy recovery from waste, are key factors in the equation to address climate change. The EIB's eligibility criteria will continue to include both projects that make basic improvements to solid waste management (through increased collection coverage, closure of dump sites and construction of sanitary landfills adhering to high standards), as well as projects addressing activities placed higher in the waste hierarchy – prevention, reduction, recycling and reuse, and in particular waste diversion measures e.g. green waste composting, separate collection. The optimisation of the project scope will be guided by the local context and affordability constraints.

3.5 Urban development

Transforming cities and making them more sustainable are important goals of the EIB's investment approach in the urban sector. Many cities in the external lending countries face environmental, social and economic challenges which influence the everyday lives of millions. A key objective of the EIB is to provide financial and technical support for the development of cities that address the multiple challenges of resource management, resilience and environmental protection prompted by their growth.

EIB supports urban areas to deliver significant improvements in terms of urban renewal, promoting sustainable transport, improved water and waste management systems. The Bank seeks to finance under its climate action lending any activities within urban development and retrofitting projects that embrace adaptation measures to improve the climate resilience of cities. Projects also aim to increase energy efficiency and promote waste minimisation. Examples of eligible projects would be specific components of: mixed-use and denser developments that promote urban concentration, projects enhancing water resource management and use in urban areas, improved urban transport systems which contribute to the reduction of CO₂ emissions, more sustainable buildings and outdoor lighting including street lighting. The facilitation and promotion of non-motorised forms of transport with the goal of improving urban mobility are also examples of eligible projects. Implementation of "greening" strategies including the provision of public parks, rehabilitation or planting of green urban areas (e.g. to support carbon sequestration and provide shade to lower ambient temperatures) are also targeted. Finally, climate action in urban development can include implementation of smart information and communication technologies and other eco-innovations for the built environment aimed at reducing emissions or increasing climate resilience.

3.6 Forestry and land use

Growing forests sequester greenhouse gases and store carbon. They combat desertification, protect soils against harmful soil erosion and enhance biodiversity. Forests also improve fresh water quality and play a pivotal role in mitigating flood risks by improving the soil's water retention capacity. Therefore forests have a significant role both in climate change adaptation and mitigation.

Besides improving our living environment, an estimated 1 billion people depend on forests for survival. In addition to supplying significant non-market eco-services, growing forests are important for the production of marketable products such as timber for mechanical forest industries and renewable fibre for chemical forest industries. Forests also produce fuel wood and non-wood forest products.

According to FAO estimates, some 13 million hectares of forest are lost every year. Competing and conflicting demands for land are likely to grow further as we move towards 2050, when 9 billion people will be sharing one planet and its limited resources under changing climate patterns and socio-economic conditions. In some areas converting forests for alternative use is considered more valuable than continuing to grow the existing forest itself. Pressures for forest conversion increase with increasing populations and their need for food and fuel wood. Deforestation and agriculture account for some 30% of global carbon dioxide (CO₂) emissions – more than the EU's total GHG emissions. Addressing unsustainable land use therefore represents up to 60% of national mitigation potential against climate change in some countries,

with significant co-benefits for adaptation. Threats to forests also jeopardise invaluable biodiversity areas, economic prosperity and development.

The Bank seeks to finance projects that sequester or conserve CO₂ and store carbon. Examples of eligible projects are afforestation, reforestation, forest rehabilitation, forest protection and investments in fast-growing plantations. Improved water and soil management and biomass are also focus areas for EIB climate action.

The supported activities focus on both the establishment of new forest plantations and on the protection and enhancement of existing forests through fire prevention and REDD+ (Reducing Emissions from Deforestation and Forest Degradation). Our due diligence is tailored to the location with its environmental conditions and the type of project to ensure that all forestry investments are financially, technically, economically, environmentally and socially sustainable. The Bank is strongly committed to protecting critical habitats and High Nature Value forests. Tackling deforestation and forest degradation, which are responsible for 15-20% of global GHG emissions, is a top priority so the Bank excludes conversion of natural forest to plantations or commercial logging in primary tropical and subtropical forests.

3.7 Adaptation

Even if climate change is contained and the temperature increase globally remains under 2°C, changes in the climate are likely to have serious consequences. Climate change is likely to manifest as (i) changing temperatures; (ii) changing rainfall patterns; (iii) increasing aridity or overall reduction in annual rainfall; (iv) an increasing frequency of extreme weather events (such as dust storms, heavy rainfall, haze, heatwaves and strong winds); and (v) increasing frequency and intensity of climate-related disasters (such as floods, droughts, mudslides, avalanches and landslides). Such impacts may be critical for already highly vulnerable pastures, woodland and mountainous areas, and aquatic ecosystems in many of the countries covered by the external lending mandate. Many sectors of the economy will be affected, with implications for critical issues such as water security, food security, energy security and human health. This vulnerability is exacerbated in some regions by poverty and lack of capacity.

The Bank is developing risk screening criteria and tools to enhance the resilience of its investments, but is also seeking to increase lending in support of specific activities with an adaptation focus, such as land and water resource management.

The Bank seeks to finance project activities which fulfil the following three design process criteria. They:

- set out a context of climate vulnerability (climate data, exposure and sensitivity), considering both the impacts from climate change as well as climate variability-related risks;
- include a statement of purpose or intent to address or improve climate resilience to differentiate between adaptation to current and future climate change and normal good practice;
- must be linked to the context of climate vulnerability (e.g. socio-economic conditions and location) and contribute directly to climate resilience.

Examples of eligible activities would be improved flood control and drought management measures to address climate change, and measures to increase the climate resilience of vulnerable infrastructure or areas (e.g. coastal areas).

The EIB proactively engages in improvements of the planning processes around a project, project design and management, and assisting the promoter with technical assistance (TA) where appropriate. The Bank continues to work on strengthening national and international governance in relation to climate change adaptation and natural disaster preparedness. EU regional blending and other facilities such as the ELM TA facilities will play a crucial role for the Bank to provide this support.

3.8 Other

Any activity in a sector not included in this list with demonstrable substantial reductions in GHG emissions, including through an ex-ante relative carbon footprint calculation.

Examples of eligible projects would be methane capture or avoidance projects from wastewater treatment plants, other projects that reduce methane emissions, or industrial plant modernisation projects, including projects that eliminate or reduce emissions of N₂O, PFC, HFC, SF₆ and NF₃. Thermal power plant modernisations that enable fuel switching from a more GHG-intensive fuel to a different, less GHG-intensive fuel may also be eligible, subject to meeting the Bank's emission performance standard for GHG emissions.

Abbreviations

CAB	Climate Awareness Bond
CFE	Carbon Footprint Exercise
CIF	Climate Investment Fund
CO ₂	Carbon Dioxide
COP	Conference of the Parties to the United Nations Framework Convention on Climate Change
CS	Climate Strategy
EE	Energy Efficiency
ELM	External Lending Mandate
EPS	Emission Performance Standard
EUEI PDF	EU Energy Initiative - Policy Dialogue Facility
EUFIWACC	European Finance Institutions Working Group on Adaptation to Climate Change
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
GCF	Global Climate Fund
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
IFI	International Financial Institution
IDFC	International Development Finance Club
INDS	Intended Nationally Determined Contributions
MDB	Multilateral Development Banks
NAMA	Nationally Appropriate Mitigation Action
NAPA	National Adaptation Programme of Action
NCFF	Natural Capital Finance Facility
PF4EE	Private Finance 4 Energy Efficiency
PPP	Public Private Partnership
ORF	Own-Risk Facilities
RE	Renewable Energy
ReM	Results Measurement Framework
RES	Renewable Energy Sources
SDG	Sustainable Development Goals
TA	Technical Assistance
UNFCCC	United Nations Framework Convention on Climate Change
UNSG	United Nations Secretary General



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