Climate Action Network (CAN) Europe submission to the EIB Energy Lending Policy consultation

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 150 member organisations from 35 European countries, representing over 1.700 NGOs and more than 47 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

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European Investment Bank (EIB)
Olivia Saunders (EIB Secretariat General)
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
elpconsultation@eib.org [by email]

From project towards process – EIB's role in driving sectoral transformations

Science leaves no doubts about the devastating social, ecological and economic impacts of climate change, globally and in Europe. The recent IPCC report warns that impacts that were previously expected with warming of 2°C will now happen when exceeding 1.5°C. To stay below 1.5°C, as indicated in the report, emissions need to decrease as fast as possible: by 2030, global emissions will need to be halved to have a decent chance to stay below 1.5°C. If action is insufficient now, it will likely be impossible to make up for the deficit later.

However, current pledges under the Paris Agreement to cut greenhouse emissions, even if fully implemented, still leave the world on track for more than 3°C of global warming. More ambition is needed to deliver on the objectives of the Paris Agreement. For the European Union that means to fully decarbonize already by 2040[1] and significantly increase its 2030 target to at least 65%[2] domestic greenhouse gas emission reductions, compared to 1990 levels.

[1] CAN Europe Position on Long Term Climate Targets for the EU http://www.caneurope.org/publications/can-europe-positions/1656-can-europe-position-on-long-term-targets
[2] CAN Europe Position on the EU's 2030 Climate Target http://www.caneurope.org/publications/blogs/1740-can-europe-calls-for-an-increase-of-the-eu-s-2030-climate-target-to-at-least-65

To keep global warming to within 1.5°C, all sectors of the economy, i.e. energy, transport, housing and urban living, industries and agriculture, need to undergo structural transformations towards 'zero - emissions' and a genuinely 'circular economy'. The investment needs for undertaking such structural transformations are significant. The EIB therefore needs to ensure that it is focusing its limited resources on investments which add long-lasting value to the energy transition, that it triggers structural transformation and that its climate credentials are robust enough to ensure the world keeps to within 1.5°C of global warming.

Financing fossil fuel projects do not meet that criteria. The EIB should focus only on sustainable projects, not detrimental to Paris Agreement. The role of the EIB should be to accelerate and deepen the energy transition, not to slow it down by continued investments in gas infrastructure with long-term lock-in effects.

The EIB's approach towards assessing climate impacts is largely 'project based', i.e. the Emission Performance Standard or the 'shadow carbon price' are part of the individual projects' assessment, respectively its cost-benefit-analysis, all adding up to a carbon footprint of EIB's portfolio. However, this approach falls short of putting investment decisions into the context of sectoral developments, their limited carbon budgets and the need to structurally transform all sectors of the economy. Financing needs to be put into the context of sectoral decarbonisation pathways with the aim to achieve GHG neutrality in energy, transport, housing and urban living, industries, agriculture before mid-century.

This means concretely focusing on energy efficiency projects and integrating the Energy Efficiency First Principle in all its investment decisions, as well as giving priority to investments in decentralised, small-scale and community-led energy projects. The EIB, when taking investment decisions, thus should embrace an integrated approach unlocking the indigenous potential of the concerned region, rooted in a regional structural transformation strategy owned and carried out by the stakeholders on the ground.

Lending in developing countries: EIB must scale-up support in line with Paris Agreement

This section focuses on lending to countries outside Europe, with particular reference to consultation Question 16 and where the Bank can focus its support to meet the Sustainable Development Goals and better support the scaling up of renewables, energy efficiency and electricity grids in a developing country context.

The EU is committed to deliver on its Paris Agreement commitments and the EIB has made its own commitment to deliver on the Paris Agreement by 2020.

We welcome the Bank's commitment of a 35% target for climate action in developing countries by 2020. This should now be increased for the post-2020 period, when the collective annual mobilisation goal of $100 billion climate finance for developing countries comes into force under the Paris Agreement (also a target for sustainable development goal 13).

The Paris Agreement pays special consideration to small island developing states and least developed countries given their particular vulnerability to climate change but also their significant capacity restraints (Paris Agreement Article 9.4). These countries face greater difficulties in mobilising private finance, and often have lower performance across the spectrum of the sustainable development goals (SDGs), notably SDG7 access to affordable, reliable, sustainable and modern energy. However the EIB's external lending continues to favour lower and upper middle income countries where energy access is less of an issue. Turkey, where 100% of the population had access to electricity before 2010, received the most support from EU institutions between 2010-2016.[3] The EIB's share of climate finance going to least developed countries continues to be below the average of other multilateral development banks.[4] We therefore recommend that the EIB takes measures to drastically scale-up and increase the share of support going to least developed countries, and develop country tailored approaches which identify barriers, opportunities and relevant financial mechanisms for investments in these countries.

Fossil fuel generation projects in developing countries received more support from the EIB than renewable generation projects between 2010-16.[5] This is unacceptable. The EIB must commit immediately to end any financing to fossil fuel exploration, extraction, transmission, distribution, storage, purchase and generation and direct all lending to energy efficiency, renewables and distribution to support developing countries to achieve the sustainable development goals (see below). This should apply to direct operations of the EIB as well as to its operations via financial intermediaries (from commercial banks to equity funds) for all fossil fuels.

In order to better align lending with Agenda 2030 and achievement of sustainable development goal 13 on climate action, energy lending must work in close collaboration with national governments to take into account country-driven strategies, and national climate strategies and plans. Regarding sustainable development goal 7 and energy access, analysis shows that only a fraction (0.69%) of the EIB's total energy lending between 2010-16 went to energy access (OECD CRS data).[6] Half the world's population without energy access live in the South and Central Asia region but these regions receive a very low proportion of the EIB's lending. The EIB must drastically scale up its support to renewable energy access projects if it is serious about the sustainable development goals and contributing to Agenda 2030.
Considering the EIB's own sustainable development external objectives (including application of best available technologies and application of EU standards for environmental protection) and SDG7 targets, the EIB must adopt the energy efficiency first principle to ensure that the projects the bank finances would make sense in a cost-effective energy efficient environment. This would mean

[3] Further data on recipients of EIB and EU institutions' lending for energy access can be found here:
CIDSE & ODI, *Study: EU SUPPORT FOR ENERGY IN DEVELOPING COUNTRIES 2010-2016 p9*
https://www.cidse.org/articles/climate-justice/climate-finance/eu-climate-finance-more-than-a-numbers-game.html

[4] ACT Alliance*: An analysis of the Climate Finance Reporting of the European Union*, April 2018 https://actalliance.eu/wp-content/uploads/2018/04/Analysis-of-the-climate-finance-reporting-of-the-EU.pdf p4

[5] Ibid. p19

[6] CIDSE & ODI, *Study: EU SUPPORT FOR ENERGY IN DEVELOPING COUNTRIES 2010-2016 p9*
https://www.cidse.org/articles/climate-justice/climate-finance/eu-climate-finance-more-than-a-numbers-game.html

considering if cost-efficient, technically, economically and environmentally sound alternative energy efficiency measures could replace in whole or in part the envisaged investment measures.
The EIB must step up financial assistance to small-scale and people owned and controlled decentralised renewable energy projects with a strong sustainability objective. Renewable energy can be provided through community-led, off-grid or mini-grid solutions, enabling access to energy in rural locations. Supporting these projects can also contribute to the achievement of multiple SDGs considering the need to contribute to poverty alleviation, economic inclusion and resilience infrastructure. The EIB should widen support for renewable energy in countries currently underrepresented in the EIB's energy lending portfolio and develop country tailored approaches which identify barriers, opportunities and relevant financial mechanisms for such investments.

Conclusions

The EIB should:

Commit immediately to end any financing to fossil fuels exploration, extraction, transmission, distribution, storage, purchase and generation; This should apply to direct operations of the EIB as well as to its operations via financial intermediaries (from commercial banks to equity funds) for all fossil fuels within and outside the EU.

Adopt the energy efficiency first principle to ensure that the projects the bank finances would make sense in a cost-effective energy efficient environment. This would mean considering if cost-efficient, technically, economically and environmentally sound alternative energy efficiency measures could replace in whole or in part the envisaged investment measures. Any investment decisions should be made on the background of regional and sectoral decarbonisation pathways with the aim to achieve 'net-zero' emissions before mid-century.

Step up financial assistance to small-scale and people owned and controlled decentralised renewable energy projects with a strong sustainability objective. To do so, the EIB should widen support for renewable energy in EU countries currently underrepresented in the EIB's energy lending portfolio and develop country tailored approaches which identify barriers, opportunities and relevant financial mechanisms for such investments.

Increase the current 35% target for lending on climate action in developing countries.

Scale-up support to least developed countries and small island states given the barriers faced by these countries in mobilising private finance.

Seriously scale-up support going to renewable energy access in developing countries (SDG7) and develop country tailored approaches which identify barriers, opportunities and relevant financial mechanisms for investments in these countries.