

Stakeholder Engagement on the EIB Group's Climate Bank Roadmap 2021-2025

Question 1 of 10: Outside of the energy sector, what type of financing and advisory activities should the EIB Group prioritise to most effectively support the transition to low-carbon development?

A recent consideration here is the likely impact of COVID-19 in diminishing capital availability over the coming decade – representing at least a third of the time to the EU's 2050 carbon goal.

- Scale of engagement needed to implement the transition will require greater focus on private sector provision. There has been a creative response – particularly in development of Green Bond variants. However, given that a key objective is profit oriented rather than solely environmental & social betterment – even with 'impact investment' – stronger EIB oversight will be needed in setting objectives, assessing impact, monitoring & enforcing. This may require training for EIB loan personnel in non-financial skills (eg ecological science)
- Funding of nature-based solutions is an important, cost-effective aspect in climate change mitigation, supporting the EU Green Deal, Biodiversity Strategy and Natural Capital programme. Protection and restoration of large natural ecosystem areas is crucial: these provide important ecosystem service roles.
- For climate related projects with clear climate and biodiversity value that cannot be fully quantified or where servicing capacity may be problematic, eg with low financial yields, EIB should focus on ultra-soft loan facilities, or even grants funded from surpluses elsewhere in its portfolio. This more 'balanced portfolio approach' may be supported by carbon price and other ecosystem value increases that enable higher returns on other project opportunities.
- A broad analogy here is with the IBRD and IDA elements in World Bank funding. The 'soft' element of EIB funding needs greatly upscaling, with support from other areas of the Bank and third party inputs.
- All types of financing and advisory activity should be considered – whether for insulation, emissions reduction technology or nature-based solutions etc. What matters is that these are applied in a framework of full cost-benefit assessment that should place key focus on measurable impact of project outputs in relation to climate change mitigation or adaptation
- This may sound an obvious principle, but it has not always been adhered to by past EIB funding, eg with wood bioenergy projects.

Question 2 of 10: What type of financing and advisory activities should the EIB Group prioritise to support climate-resilient development?

- This depends on the type of project, and the relative cost-benefit impact of its objectives – whether, for example, adaptation or mitigation of irregular precipitation and incidence of inland flood, rising sea levels, drought, fire or pest incidence. Where there is lack of direct income for loan servicing but priority for resilience is high, direct benefits should be realistically quantified to approximate a ‘nominal’ return on investment, and softer loan – or even grant – terms applied (see Q 6). Co-benefits such as biodiversity enrichment and local community betterment should be taken into account.
- Finance and associated advisory activities must be directly related to outcomes that effectively promote climate resilience. In the case of burning wood for bioenergy, some 50% of timber consumption in Europe now involves energy generation that is provenly not carbon neutral, worsens climate change, air pollution and associated health risks, as well as being highly energy inefficient and damaging large areas of biodiversity rich forest. This growing scandal not only wastes large amounts of taxpayer and consumer incomes on misallocated subsidies, but undermines all 8 elements of the EU Green Deal as well as the Paris Agreement. It threatens to call into question the reputation for environmental and economic probity of the European Union and any institution claiming to support climate resilient development.
- For investments in ecological protection or restoration or claiming to provide related benefits, a crucial element of advice involves verification that long-term sustainable protection is inbuilt to any project as a precondition for acceptance of funding application, with focus on monitoring and enforcement – including loan cancellation in the event that protective stipulations are not abided by.

Question 3 of 10: How and to what extent should the EIB Group help its clients transition to a low-carbon and climate-resilient pathway, in particular those that are highly exposed to the transition and physical risks (both acute and chronic) associated with climate change?

- ‘Help’ can take many forms, including public exposition by a respected entity such as EIB of real land use cost-benefit. In many cases existing agricultural uses in marginal areas are only viable because of subsidies, so the opportunity cost of ecosystem restoration in terms of economic production forgone is negative. Clear statement of this by EIB will help propel changes in ossified land use patterns that currently hinder largescale ecological restoration needed for climate change mitigation and adaptation
- The climate change mitigation benefits of ecosystem services have been well analysed in terms of their economic value. However the translation of this value into cash flows to fund protection and restoration of natural ecosystems that address climate change and mitigate its consequences is only undertaken by a limited number of entities. There is an important facilitation role for EIB, in tandem with the EC, in promoting development and collaboration between enterprises that promote this translation – thus enabling cash flows to service EIB loan facilities

- Greater recognition is needed that the conservation sector often lacks skills for cost-benefit feasibility assessments, enterprise management or loan handling. It is important that assessment of capacity to service the loan is included as part of the loan package. Good funding applications using one-off consultancy may not translate into good field or strategic management of the actual projects, and there can be inadequate safeguard against unintended impacts on the local environment or a sub-optimal gain for local communities.
- Promote long-term legal landholding structures in the private sector, that can match the extensive time periods required for full ecosystem restoration and thus full mitigation and adaptation– eg freehold/leasehold and covenant/easement based arrangements where long-term oversight mechanisms may be required. These could be incentivized by EIB promoting favourable terms with long-term funding support mechanisms

Question 4 of 10: What type of advisory support is most needed to help clients and promoters become Paris aligned?

- For the conservation sector, advice on how to promote non-extractive ecosystem service enterprise is a crucial element of capacity building needed by the sector. This can unlock a wider range of climate change mitigating projects, particularly in response to Article 5 of the Paris Agreement (conserve and enhance GHG sinks), Article 7 (adaptation) and Articles 9 and 12 (capacity building and training), generating income for ecosystem restoration or 'rewilding' without compromising underlying conservation. EIB can play a central role in encouraging the development of such capacity building, in tandem with the EC: eg for SME enterprise planning and management, economic cost-benefit assessment, financial support instruments quantification of social benefits and the related to conservation.
- These specialisms are of course adjuncts for core conservation and climate change knowledge, but without them being integrated into planning and practice of conservation activity on a daily basis it is difficult to create comprehensive strategy on a scale that will deliver the natural capital agenda, with necessarily ambitious targets for restoration and protection of natural habitats in the remaining 30 years before 2050
- Promoting adoption at national and local government level of parallel accounting systems that include externalities, in line with the robust accounting cited in Paris Agreement, Articles 13 and 15. EIB is not a lobbying entity, but its acknowledged stature can be used to add weight to appropriate implementation in alignment with Climate Bank aspirations.

Question 5 of 10: Should a different approach towards Paris alignment be applied in the context of developing countries, in particular in Least Developed Countries and Small Island Developing States? If so, why and for which type of activities?

- All countries must be encouraged to participate fully in practical support of Paris objectives – particularly bearing in mind Least DCs and of course

particularly SIDS are generally located in areas most vulnerable to the impact of climate change.

- However their limited capital capacity clearly implies the need for significant support from wealthier countries, together with clear focus on the most cost-effective approaches – particularly protection and restoration of remaining intact natural ecosystems, and investment in appropriate technologies.

EIB should review the potential for links with key instruments, eg the new Neighbourhood, Development, International Cooperation Instrument 45% investment allocation (NDICI - total 22bn Europe component)

- In a global context, EIB should not be cooperating with any element of EU related policy that continues to promote practices whose impact contradicts the objectives of the Paris Agreement, power generation from wood biomass in particular, even if this offers short-term income to LDCs.

Question 6 of 10: In which types of projects are there likely to be natural synergies for environmental sustainability and climate action? In which cases might there be potential trade-offs?

- Funding of natural capital approaches is an important, cost-effective aspect in climate change mitigation with rapid impact. Provision of support for full protection and restoration of large natural ecosystem areas is crucial here, involving elements of ecosystem service agenda, eg: 1) carbon - with natural ecosystem areas outperforming their managed counterparts – eg old growth/primary forest have significantly higher storage levels than managed forest, and must be protected. 2) flood mitigation, water table stabilisation & water purification, applicable on a river basin scale to engage integrated planning of watershed, lowland sink and riparian restoration. 3) associated low impact tourism, recreational and social benefit projects bringing income and employment to local communities and landholders.
- Sound natural capital projects can deliver full synergies, and minimize the need “trade-offs” - usually another phrase for compromises that reduce environmental benefit. Projects that focus on non-intervention and non-extraction management practice in protection or restoration of key natural ecosystem core areas (IUCN stipulation that this be 75% of National Parks and aligned protected areas) can maximise ecosystem service benefits.
- To avoid the need for any “trade offs” it is important that EIB loans for such natural capital have softest terms, with low interest rates and extended payback periods, so they can be met through low impact activities (carbon, hydrology, tourism) rather than encouraging extractive adjuncts that produce higher cash flow but can compromise conservation objectives. This approach should include greater recognition that the conservation sector is generally unable to process larger loans, with higher servicing cost ratios for EIB being inevitable.

Question 7 of 10: Which type of climate action and environmental sustainability projects are likely to have strong social benefits?

- Non-extraction ecosystem protection and restoration projects can, in addition to earnings from 'physical' ecosystem services (carbon funding, flood mitigation payments) also enrich biodiversity with correspondingly positive impact on potential for ecotourism, a fast-growing labour intensive sector providing income and employment for local communities and land holders with high multiplier retention of earnings in the local economy. Recreation, corporate team and other activities are also increasingly prominent, applicable in areas of sufficient size not to compromise conservation objectives.
- Ancillary gains for local communities can include income and/or employment visitor centres, guidance fees, transport, accommodation, restaurant, retail and craft. Careful upfront planning is needed 1) to obviate future environmental conflict from rejuvenated local economies, 2) to maximise the local value added for local communities rather than excessive focus on large tourism operators with external contract personnel and remitting surplus to distant shareholders and 3) to ensure appropriate provision of advisory, training, management, marketing and accreditation support
- These benefits can frequently outmatch the economic benefits of alternatives in forestry or even agriculture particularly in marginal regions where traditional land use is only practiced because of subsidies that burden economically productive sectors or, in the case of some state forestry operation, institutional statutes that stipulate active management even when this incurs losses.
- Large natural ecosystems can facilitate transformative behavioural and experiential impacts, and are being used for a growing range of social projects related to predominantly inner urban challenges: youth development, youth at risk, psychological and physical healthcare, even conflict resolution (eg a significant initiative on the Northern Ireland peace process). In addition to positive gain for local communities, there are clear benefits for wider society.

Question 8 of 10: What new types of financing instruments should the EIB Group seek to develop to have a high catalytic effect on other sources of public and private sector finance?

- Greater emphasis on softer loans (see Q1 and 6 response) related to a scoring system that placed higher emphasis on elements of climate change address and biodiversity improvement that are hard to quantify and monetise or yield low income potential in relation to their impact value.
- Closer coordination with appropriate LIFE projects could create synergies between conservation objectives and encouragement of non-extractive activities to service supplementary matched funding from loan provision

- An element of EIB work, in tandem with the EC, should involve assessment and encouragement of innovative funding for co-finance: eg fiscal reforms to encourage allocation of ring-fenced Insurance Premium Tax supplements related to ecosystem restoration that reduces quantifiable probability of flood damage could raise very large annual sums for servicing EIB loans for river basin scale ecosystem restoration – an urgent requirement in many regions.
- Funding instruments for mitigation relating to carbon, hydrology (flood, drought, water quality) could be developed with greater focus on prospective co-financiers from local authorities, water utilities, corporations with strong CSR requirements – aiming to produce solutions for all scales of operation and all levels of likely internal cash generation. There should be similar discussions with planners for National Adaptation Programmes.

Question 9 of 10: How can the impact of climate action and environmental sustainability activities be best measured?

- It is essential that measurement of impact is focused on “output” rather than just stated objectives and assumed compliance with sound environmental practice. This should rule out further involvement, for example, with wood burning for bioenergy
- Where measurement is by comparison with other projects, rather than direct ideally quantified observation, such comparability must be clearly provable
- Co benefits including biodiversity enrichment and social betterment of local communities and wider society should be included
- Where parallel Environmental Impact Assessments are involved, care should be taken to ensure there are no conflicts of interest on the part of the relevant consultants

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

- There should not be any difference in the rigour with which impact is measure between direct and indirect investment
- This should apply even where the intermediary is a conservation organization. Sound scientific principles should still prevail and a proper cost-benefit framework be utilized, with full subsequent monitoring