The EIB Group Climate Bank Roadmap 2021-2025: What does it mean for developing countries?

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Executive summary

The decade ahead is a critical one for long-term global sustainability. It presents an indispensable opportunity for the world to stimulate a recovery from COVID-19 while addressing the climate crisis. For developing countries with limited fiscal space, which has been constrained further by the pandemic, addressing the climate catastrophe requires ample external financial support. Mandated by the European Commission, the European Investment Bank (EIB) provides finance to developing countries to help them address climate change, while fostering the EU's external objectives. It has launched ambitious climate plans, establishing itself as the EU Climate Bank, to deliver on the climate objectives of the European Green Deal within and outside the European Union (EU).

Building on its 2015 Climate Strategy and its 2019 Energy Lending Policy, the EIB has now developed the Climate Bank Roadmap 2021-2025 as a blueprint of all its climate action operations within and outside the EU. This paper discusses the external dimensions of the four work streams of this Climate Bank Roadmap and explores the extent to which these work streams tackle the concerns that stakeholders raised during the consultation process that preceded the development of the roadmap.

Finally, the paper provides recommendations on how the EIB can ensure greater climate action impact. It suggests that the EIB should: (1) set new ambitious climate action targets for its operations in developing countries; (2) significantly increase its share of climate adaptation finance; (3) strengthen its partnerships with and in developing countries; (4) build up local country presence and expertise; (5) improve policy coordination of its climate action projects through blended finance; (6) support the development of bankable projects; and (7) enhance its inclusive financing by supporting micro- and small businesses through inter alia microcredit institutions.

Introduction

A snapshot of the current situation

The decade ahead is a critical one for long-term global sustainability. It presents an indispensable opportunity for the world to stimulate a recovery from COVID-19 and its induced economic crisis while paying particular attention to the climate catastrophe and extreme weather events, which continue to threaten lives and livelihoods. On the one hand, developed countries have adopted 'build back better and greener' recovery programmes to mitigate climate change, while building climate adaptability and resilience to attain carbon neutral economies by 2050. The European Union (EU) has formulated goals for this climacteric decade, which will enable it to build back better, in a greener, more digital, more inclusive and more resilient way, as necessitated by the European Green Deal (EGD). In this context, EU member states have pledged to increase their reduction in greenhouse gas (GHG) emission from 40% to 55% over the period 2021-2030 (EC 2020). These new EU goals await to be complemented by commitments from other countries at the 26th Conference of the Parties (COP26) of the United Nations Framework Convention on Climate Change, which will take place in November 2021.

On the other hand, most developing countries have limited fiscal space, which has been constrained further by the COVID-19 emergency outlays. Ensuring a green recovery for them may still be a challenge, despite the influence from the Global North. This calls for improved and amplified external financial and technical support that can advance the climate change agenda in their recovery and overall development plans. Europe is already the leading global donor of climate finance and provided about €23.2 billion in 2019.[1] Given the effects of the pandemic on the climate expenditure capacity of developing countries, the external dimension of the EGD now comes in handy. It comprises inter alia climate diplomacy, climate mitigation and adaptation, climate and security, and more importantly, increasing climate finance. This is key, as climate action ought to be complemented by adequate financing and the right technical support, partnerships and policy dialogue.[2]

As the EU progresses towards realising its 'man on the moon' moment with its Green Deal, the President of the European Commission (EC), Ursula von der Leyen, has underlined that public investments in climate action, which extend beyond the European borders, should ensure that Europe becomes the 'first climate neutral continent', but not the 'only climate neutral continent' (EC 2021). Indeed, while supporting sustainable investments and job creation in the African, Caribbean and Pacific regions, the EU aims to ensure that countries adopt climate-friendly policies by promoting the external agenda of the EGD through its diplomatic relations, the wide array of its policies, and its financing tools (EC 2019a).

[1] International climate finance.

[2] European Green Deal – External Dimension as stated by the European External Action Service (EEAS).

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As the EU bank, the European Investment Bank (EIB) is a key pillar and grand implementer of the EGD within and outside the EU, and has launched ambitious climate plans. It has embraced the challenge of being the first multilateral development bank (MDB) to become a 'climate bank,' making it not just the 'EU bank' but the 'EU climate bank.' The EIB's development role in supporting global climate action is not new. For more than half a century, the bank has played the major role of delivering on the EU external development objectives as mandated by the External Lending Mandate (ELM) (EC 2019).

Under the ELM, the EIB has fostered the EU's vertical objectives of supporting private sector development at the local level and the development of social and economic infrastructure, as well as the horizontal objectives of promoting climate action, regional integration and long-term economic resilience (EC 2020a). Climate action features as an area of high priority among the EIB's external investments. The latest EC data reveals that in 2018, the EIB directed 35% of its investments under the ELM towards supporting climate action, while 17% and 19% addressed regional integration and long-term economic resilience respectively (EC 2020a). Particularly in Africa, the EIB provided about €4 billion in loans amid the COVID-19 pandemic in 2020, 27% of which was directed to climate action investments.[3]

The ELM also empowers the EIB as the key implementing partner of the Neighbourhood, Development and International Cooperation Instrument - Global Europe (NDICI-Global Europe). Under the NDICI-Global Europe, 30% of total finance for the years 2021-2027 will be allocated to climate action endeavours through the European Fund for Sustainable Development Plus (EFSD+) and the External Action Guarantee (EAG) (Bilal 2019, Di Ciommo and Ahairwe 2021). The EIB is also the major EU financing arm mandated to support the EU external policies as required by the €36 billion 'Team Europe' package. This positions the EIB to deliver on 'Team Europe' commitments of supporting developing countries to recover from the COVID-19 pandemic while paying particular attention to their climate needs.[4]

[3] Saich, N. (forthcoming September 2021). Climate banks can spur a green transition in this make-or-break decade. ECDPM Great Insights Magazine. ECDPM. Maastricht.

[4] https://www.eib.org/en/publications/mou-between-the-ec-and-the-eib-on-external-mandate

The EIB as a climate bank within and outside the EU

The current climate action agenda of the EIB builds on the strong operational experience that the bank has developed over time. From 2010 to 2014, the EIB invested about 25% of its lending in climate mitigation and adaptation projects within the EU (EIB 2015). In 2015, it launched a Climate Strategy, in which it committed to dedicating at least 25% of its lending to climate action. This strategy focused on three priority areas:

1. reinforcing the impact of climate financing;
2. building resilience to climate change; and
3. integrating climate change considerations across all EIB standards, methods and processes (EIB 2015a).

The three priority areas extended beyond climate to accommodate the environmental sustainability dynamics, and were maintained in the 2020 EIB Climate Strategy, in which the bank committed to:

1. unlocking €1 trillion of investment for climate action and environmental sustainability in this critical decade, starting from 2021 to 2030;
2. gradually increasing the share of its financing dedicated to climate action and environmental sustainability to at least 50% by 2025 – up from 25% in the 2015 Climate Strategy; and
3. aligning all its financing activities with the principles and goals of the Paris Agreement by the end of 2020 (EIB 2019, 2020, 2020a).

The 2020 EIB Climate Strategy is complemented by the ‘first-of-its-kind’ EIB Energy Lending Policy, which was approved in November 2019 by the EIB Board of Directors, making the bank’s plans to become the EU climate bank a reality. The energy lending policy presents the bank’s promise to phase out its support of energy projects that are reliant on unabated fossil fuels by the end of 2020. However, the EIB will still approve the projects that were already under appraisal until the end of 2021 (EIB 2019). The policy also highlights that the bank will support the EU to attain its climate and energy targets by:

1. unlocking energy efficiency – financing up to 75% of eligible capital expenditures and establishing the European Initiative for Building Renovation (EIB-R);
2. decarbonising energy supply – supporting market integration of renewable electricity projects and other types of renewables;
3. supporting innovative technologies and new types of energy infrastructure; and
4. securing the enabling infrastructure (EIB 2019).

The EGD was established in December 2019, a month after the launch of the EIB’s energy lending policy, and aims at delivering a climate neutral Europe by 2050 (EC 2019a). The EU intends to not only play a global leadership role in combating climate change and becoming the first climate neutral continent, but to also support developing countries in dealing with the climate crisis. As the EU climate bank, the EIB is now tasked to deliver on the objectives of the EGD within and outside the EU, starting with the 2021-2030 aspirations.[5]

The EIB Energy Lending Policy has provided a foundation upon which the EIB has established its climate action plan: the EIB Group Climate Bank Roadmap 2021-2025 (the Climate Bank Roadmap). The Climate Bank Roadmap (CBR) enables the bank to execute its climate action ambitions through four different core work streams, as discussed in section 2 of this paper. Although the EIB commitments mostly focus on the EU, which is the major area of its operations, section 2 presents how the EIB intends to consider the idiosyncratic nature of developing countries by setting unique resolutions for them. The challenge for the EIB in the coming months and years will be to implement its action plan in a comprehensive and effective manner, fulfilling its pledges within and outside the EU.

This paper discusses what the EIB Climate Bank Roadmap 2021-2025 offers developing countries. In section 2, it explores the distinct commitments of the EIB for countries outside the EU as presented in the different work streams. Section 3 examines the extent to which the EIB has considered the suggestions made during the consultation process that led to the establishment of the roadmap, while sections 4 and 5 provide recommendations on how the EIB can ensure a greater climate action impact and concluding remarks respectively.

The EIB Climate Bank Roadmap 2021-2025: Beyond the EU

EU member states approved the EIB Group Climate Bank Roadmap 2021-2025 in November 2020. The Climate Bank Roadmap (CBR) CBR is a blueprint that will guide the bank to deliver on the climate objectives of the European Green Deal in the EU and beyond for the next five years. The CBR intends to achieve two major objectives:

1. accelerating the transition to a low-carbon, climate-resilient and environmentally sustainable economy by investing and mobilising significant volumes of ‘green finance’ and
2. aligning all financing activities with the principles and goals of the Paris Agreement and withdrawing support that is not aligned with the agreement.

In its CBR, the EIB has identified ways to continue advancing the EU external climate action agenda. It seeks to build on its long-standing expertise, while taking on a coordinated approach that will involve strengthening its partnerships with the EC, the European External Action Service (EEAS) and EU member states to support developing countries deal

[5] 2030 climate & energy framework.

with the climate crisis. The EIB was one of the 26 development banks – including also the German Development Bank (KfW) and the French Development Agency (AFD) – that joined efforts as Multilateral Development Banks (MDBs) and the International Development Finance Club (IDFC) to develop common climate financing principles in 2015. These principles have been progressively updated and continue to help boost climate financing while promoting transparency and accountability. The EIB has also promised to cooperate with developing countries that have ambitious climate objectives, supporting their Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), and long-term strategies as provided for under the Paris Agreement. The ability of the EIB to deliver on all these commitments will largely depend on how well the specific action plans of the CBR for each work stream are implemented.

The CBR in general highlights four work streams that the bank will employ as a backbone to deliver on its 2021-2025 objectives within and outside the EU. These include:

1. accelerating the transition through green finance;
2. ensuring a just transition for all;
3. supporting Paris-aligned operations; and
4. building strategic coherence and accountability.

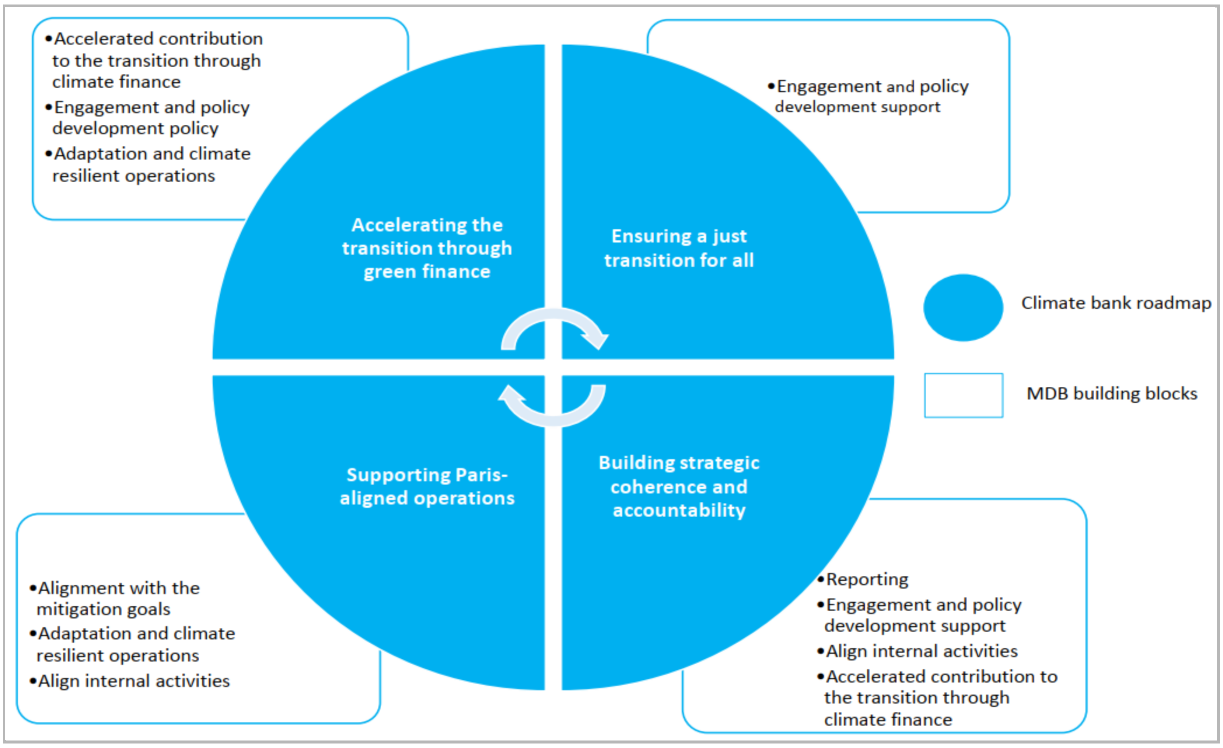
The EIB has based these work streams on the MDBs' framework for aligning activities with the Paris Agreement, which constitutes six building blocks:[6]

1. alignment with mitigation goals;
2. adaptation and climate-resilient operations;
3. accelerated contribution to the transition through climate finance;
4. engagement and policy development support;
5. reporting; and
6. alignment of internal activities.

The interactional relationship between the different work streams of the EIB and the building blocks of the MDB framework is presented in Figure 1.

[6] The MDBs' alignment approach to the objectives of the Paris Agreement: working together to catalyse low-emissions and climate-resilient development

Figure 1: Main work streams of the EIB's climate bank roadmap



Source: Adapted from the EIB (2020)

The work streams of the CBR are mostly focused on the EU, which is the EIB's major area of operation, but the bank also has the mandate to advance the external agenda of the EU in developing countries. It acknowledges that the EU and developing countries have structural diversities such as institutional policy differences, different levels of infrastructure development and unequalled climate change vulnerabilities. The EIB therefore sets unique objectives for each of the above work streams, for the EU and for its operations outside the EU, in developing countries. The external objectives for each work stream are discussed in detail in subsections 2.1 to 2.4.

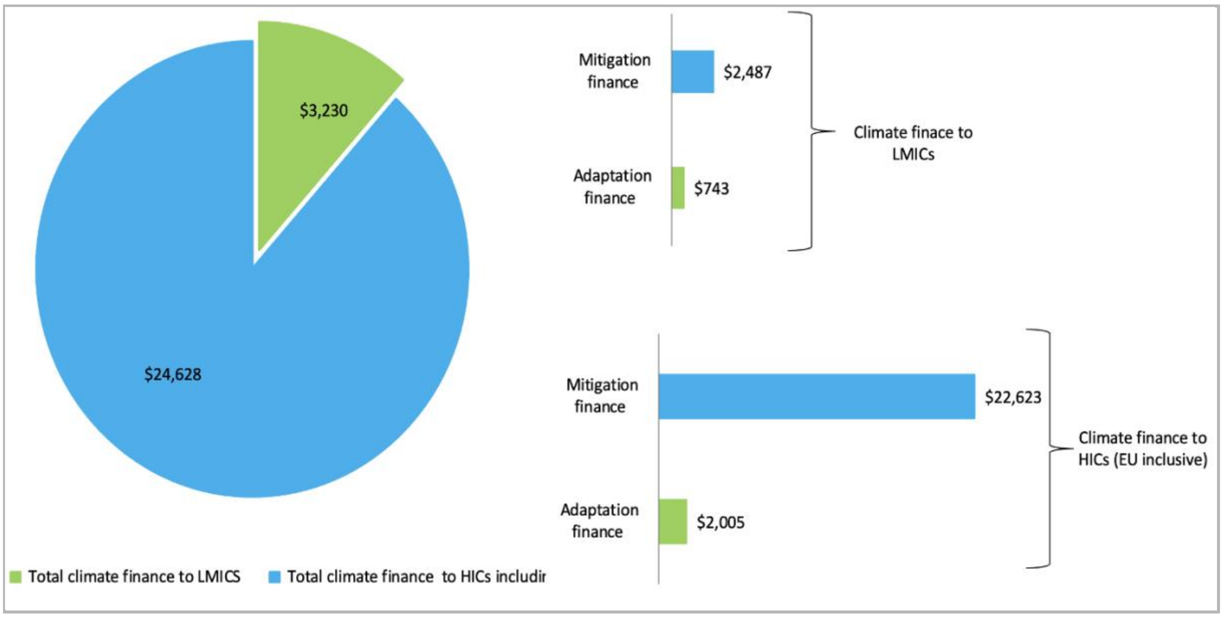
Accelerating a global transition through green finance

In the first core work stream, the EIB pledges to accelerate a green transition globally by increasing its investments in green projects. It is motivated to gradually raise the share of its financing directed towards green investment to above 50% by 2025. This will be achieved through more and improved financial and technical support of inventions and innovations that can deliver long-term climate benefits. The bank also pledges to champion new business models that can pilot sustainable development while minimising transition costs. Already, the EIB is the largest climate action financier globally, with most of its climate change investment occurring in high-income countries, especially within the EU, as illustrated in Figure 2.

The EIB demonstrates great potential to boost its external climate action financing in low- and middle-income countries. In 2017, it realised its goal of increasing climate financing in developing countries to 35% by 2020. This was also achieved in some of the subsequent years, including 2018 and 2019. In the next five years, the Climate Bank Roadmap endeavours to support developing countries deal with the climate crisis by delivering on the nine policy focus areas of the EGD:

1. building greater resilience to climate change;
2. making homes energy efficient;
3. promoting clean energy;
4. promoting smarter and more sustainable transport;
5. striving for greener industry;
6. eliminating pollution;
7. protecting nature;
8. farm to fork;
9. sustainable cities and regions;
10. greening the financial system; and
11. leading the green change globally.

Figure 2: The EIB's climate financing in 2020 (in US$ millions)

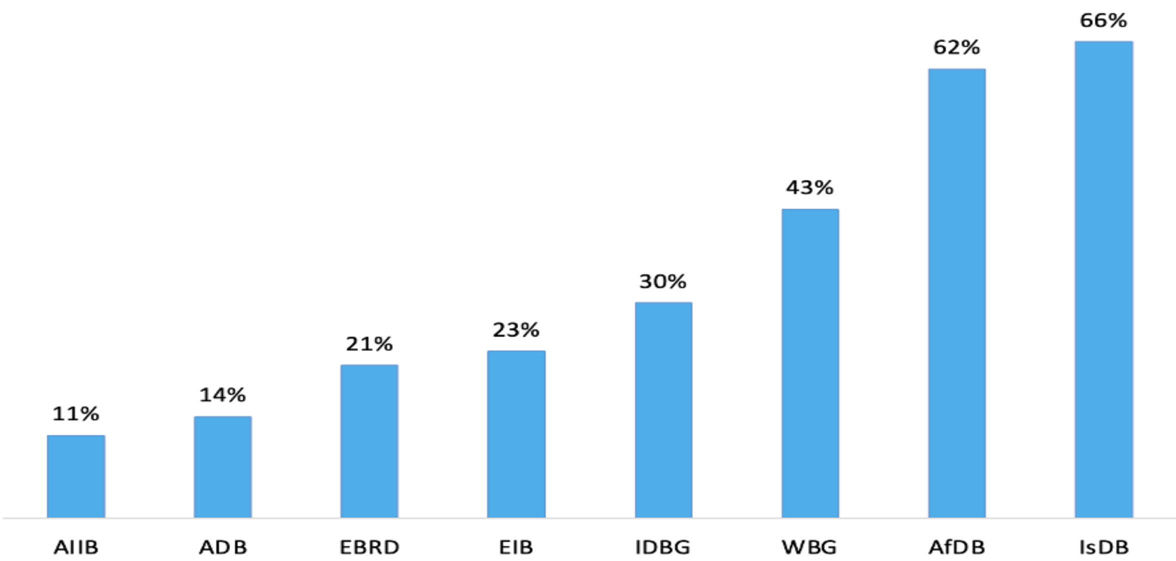


Source: Adapted from MDBs (2021)

The new climate ambitions of the EIB are commended as they offer hope for increased investments in climate action. Despite providing support to COVID-19-related causes as well, the EIB has managed to raise its climate finance share as a proportion of its total operations from 34% in 2019 to 40% in 2020 (EIB 2021a). This progress has however not been matched by improvements in climate adaptation financing. The overall climate adaptation finance of the EIB as a share of its annual lending has remained consistently very low at 1% to 2% in about the last 10 years (EIB 2020). The bank's current external financing also shows that the bank still has a long way to go to support climate action in developing countries.

In developing countries, the proportion of climate finance that the EIB invests in supporting adaptation to climate change is significantly lower compared to that from some non-European MDBs, as presented in Figure 3. As a climate bank that intends to play a global leadership role in supporting climate action while paying particular attention to Least Developed Countries (LDCs) and Small Island Developing states (SIDS), the EIB may need to step up its adaptation financing game. It could support more projects that enable developing countries, which are more vulnerable to climate change, to adapt to the current climate crisis, while building resilience against future calamities.

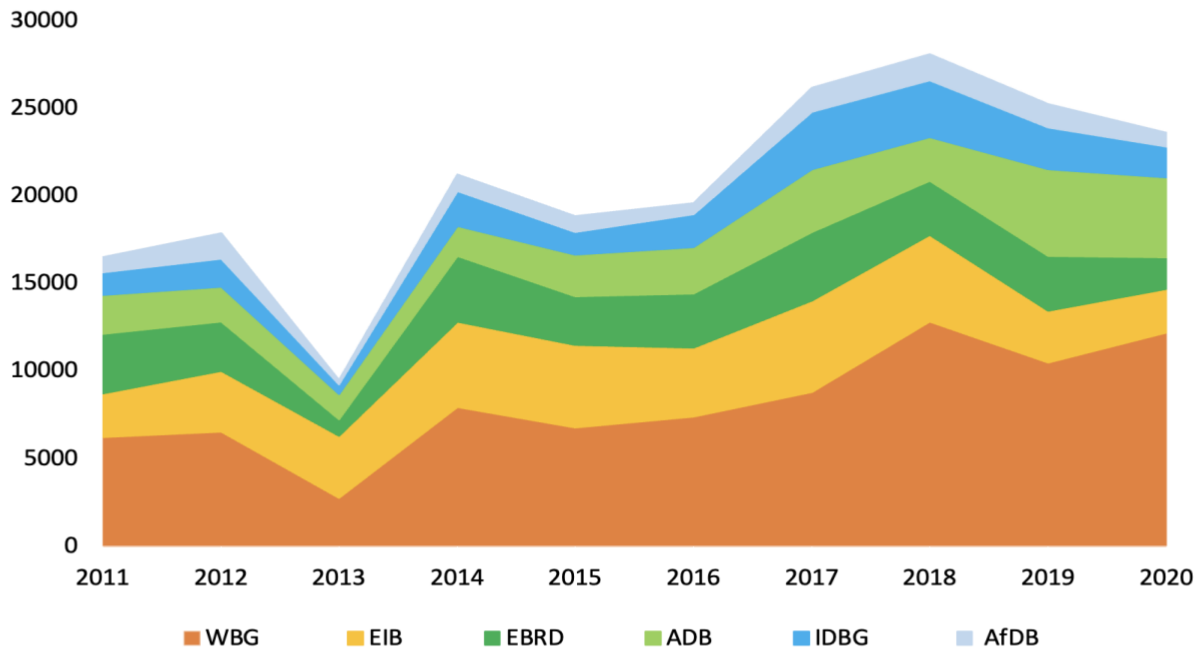
Figure 3: The share of climate finance invested in climate adaptation for LICs and MICs in 2020



Source: Compiled using data from MDBs (2021)

Climate mitigation and climate adaptation are two sides of the same coin that require a balanced approach. Supporting mitigation against climate change is vitally important in protecting developing countries against future climate tragedies. The EIB has appreciably invested in mitigating climate change in several developing countries, with the second highest climate mitigation finance contributions after the World Bank Group (WBG), as presented in Figure 4. While the most vulnerable developing countries are low emitters, they are suffering the effects of climate change now. Many people, for instance, are being displaced and/or drawn into poverty, suffering waterborne diseases as a result of floods, and food security and political stability are being threatened (Ahairwe and Bilal 2019).

Figure 4: MDBs' historical climate mitigation financing from 2011-2020 (US$ millions)



Source: Adapted from MDBs climate financing reports 2012-2021

As the EU bank promoting the EU development agenda, the EIB therefore needs to boost its adaptation finance to support these countries to adapt to current climate change consequences The bank is taking some noteworthy steps to solve this shortcoming, which include the preparation of an ambitious adaptation plan that it expects to launch in November at COP26. However, it is stressed that supporting climate adaptation, especially in developing countries, remains difficult because of the location-specific element that is involved.[7]

The Climate Bank Roadmap sets clear external commitments for most of its focus areas on green investment, as shown in Table 1. However, it does not identify a new specific quantitative target for its climate finance operations abroad. While the general commitments of the CBR reflect very ambitious climate targets, assessing the pledges of the EIB outside the EU implies that the bank has subtly maintained a long-achieved climate financing target of 35% (EIB 2020). Broad climate targets may easily overshadow the bank's efforts to boost its climate action support to specific groups such as developing countries, especially those most susceptible to climate change. These countries already account for a small share of the EIB's portfolio – on average about 10% of its total operations (Wieser et al. 2019). Therefore, the EIB needs to evaluate how it can ensure that its 50% climate action target is not accompanied by it investing in some countries at the expense of others. In a scenario like this, a more ambitious and distinct external climate action target, including for climate adaptation, may be desirable.

[7] Saich, N. (forthcoming September 2021). Climate banks can spur a green transition in this make-or-break decade. ECDPM Great Insights Magazine. ECDPM. Maastricht.

Table 1: The green investment focus areas outside the EU

Green investment focus area	Relevance to developing countries	EIB Group Climate Bank Roadmap pledge
Focus area 1: Building greater resilience to climate change	Developing economies are likely to be hit the hardest by the climate crisis because of their geographic exposure, the quality of their infrastructure and their economic structure, and yet have limited investments to enable them to cope with climate change threats.	To work with developing countries to support opportunities to protect people, assets and the environment, and strengthen the adaptive capacity of people and regions most at risk from climate change by promoting access to finance – concessional finance is key. To work with clients such as businesses, banks and public authorities through the EIB advisory dimension to develop further their approaches to climate resilience – dedicated financial products, including blended finance solutions, are crucial.
Focus area 2: Making homes energy efficient	Most of the EU neighbourhood misses energy efficient and decarbonised building stock, as the amount of energy consumption by materials and standards was not given much consideration at the time of construction.	To work in close partnership with the Commission and various bilateral donors to develop multi-country blending facilities to support residential and public building renovation at scale. At the global scale, the EIB will continue to support the construction of new buildings with high energy performance standards.
Focus area 3: Promoting clean energy	A number of developing and emerging economies have significant potential to develop as renewable energy hubs and can facilitate the production of synthetic fuels for the global market.	To develop blending facilities and support electrification of public facilities (schools, hospitals) and communities through renewable off-grid solutions.
Focus area 4: Smarter, more sustainable transport	There is a need to decarbonise the transport sector among the global operations of the EIB, including in developing countries, prioritising the large capital-intensive transport infrastructure projects, with high financing costs.	To continue to support the lowest-emission forms of transport, with many rails, metro and port projects already in its portfolio. To help drive down financing costs, often with public sector counterparties. Where necessary, this support can be reinforced through project preparation and implementation. To work with public authorities to develop ambitious sustainable mobility investment programmes.
Focus area 5: Striving for greener industry	With climate neutral ambitions, industries even in developing countries will only be able to compete if they make major changes to the way their industries consume energy and create products, calling for greener and climate-friendly sustainable industries.	To support low-carbon and transitional projects in developing countries where access to low-carbon energy can help drive international competitiveness. To reinforce the EIB's activities on the circular economy across all geographical areas of operation, including by providing advisory and financial support.
Focus area 6: Eliminating pollution	Pollution represents a classic market failure and a global challenge that is costing the environment and affecting the health of the people.	To support depollution projects in various sectors across all countries of operation. For the water sector, the EIB will strive to achieve clean water and sanitation for all. To support public and private investment for developing integrated waste management systems, with an increased focus on material recovery and recycling – concessional finance is key. To step up its financing and advisory support to cleaning oceans through additional investments aimed at addressing new challenges such as micropollutants.
Focus area 7: Protecting nature	Biodiversity loss and the climate crisis are interdependent. The EU Biodiversity Strategy for 2030 and the EU Forest Strategy emphasise that protecting nature, particularly as a priority of the EU's external action, will be mainstreamed throughout bilateral and	To support the fulfilment of the European Green Deal's goals on protection of nature (biodiversity and nature) and help implement concrete measures to support 'deforestation-free' value chains and an ambitious post-2020 global deal for nature – to be adopted at the 15th Conference of the Parties to the UN Convention on Biological Diversity. To strengthen its support for large-scale investment programmes for restoration and rehabilitation of degraded land.

	multilateral engagements, through the EU's Green Deal diplomacy and the forthcoming green alliance.	To pursue synergies between environmental and social goals by targeting and involving local communities (women and indigenous groups).
Focus area 8: Farm to fork	The introduction and successful rollout of sustainable agriculture can help strengthen food security in developing countries, as well as strengthen soil and plant carbon sinks globally. There is a need for advisory services, innovative financial instruments, and research, development and innovation (RDI) to enable and accelerate the transition to a fair, healthy and environmentally friendly food system.	To use financing and investment opportunities provided for by the NDICI-Global Europe and other initiatives to fine-tune innovative financing tools to address the specific needs throughout the global bio economy value chains. To expand support to corporates and cooperatives investing in RDI as well as bio economy projects in rural communities, develop national level advisory programmes to support changes to lower-carbon, more adaptive practices, or develop smaller-scale projects to tackle specific issues.
Focus area 9: Sustainable cities and regions	Global cities and regions, including in developing countries, are heavily exposed to climate risks as well as environmental pollution, with low-income citizens more vulnerable, exacerbating inequality.	To use existing approaches and partnerships (EU, city networks, national promotional institutions and partner MDBs) to support investment programmes (social housing, strategic urban public transportation) of cities and regions. To provide financing and advisory services for service providers, creating platforms to unlock additional financing for urban investment.
Focus area 10: Greening the finance system	The financial system as a whole is not transitioning fast enough. The EIB is already involved with three important initiatives, which have the important role of facilitating the emergence of an international sustainable finance sector. These are the Central Banks and Supervisors Network for Greening the Financial System (NGFS), the Coalition of Finance Ministers for Climate Action, and the European Commission's International Platform on Sustainable Finance.	To gradually align its Climate Awareness Bond (CAB) and Sustainability Awareness Bond (SAB) with the proposed EU Green Bond Standard. To develop the initial environmental sustainability eligibility criteria and fine-tune the climate action eligibility criteria to align the classification of EIB's lending activities with the EU taxonomy for sustainable activities. To share knowledge with other potential green bond issuers, to help them develop and market products that meet the EU taxonomy and contribute to broadening and deepening the market for green finance.
Focus area 11: Leading the green change globally	Many developing countries are, for the first time, committing to reducing or limiting emissions and increasing adaptation capability.	To provide effective and catalytic support (financial and policy dialogue) in key sectors and activities through a stronger engagement at country level in selected regions based on specific strengths and areas of EIB expertise, so as to foster the implementation and strengthening of developing countries' NDCs under the Paris Agreement. To support the EU's role as a global leader driving both domestic and international action on climate and environmental sustainability, helping large emitting countries reduce their GHG emission, and the LDCs and SIDS deal with climate vulnerability. To utilise partnerships within the EU and outside the EU (also MDBs) for leveraging additional financing, including concessional financing, and to provide advisory services, including technical assistance, knowledge and capacity development, and providing de-risking support. To strengthen external coordination mechanisms with partner MDBs and international organisations and promote transparency so that the EIB's contributions and value added can be clearly linked to climate and development impacts on the ground.

Source: Adapted from the EIB (2020)

Table 1 suggests that it may be appropriate for the EIB to adopt overall climate commitments for some focus areas, such as greening the financial system and leading the green change globally, provided the commitments in question are applied flexibly across all the geographic areas of its operations. Such pliable considerations enable developing countries to also benefit from the overall ambitious and innovative approaches pursued by the bank. This has worked with the green and sustainability bonds that the EIB has issued in about 17 currencies.

The bank pioneered in issuing the world's first ever green bond – the Climate Awareness Bonds in 2007 – and has kept a global leadership role in the green bond market.[8] Building on this experience, it also issued its first Sustainability Awareness Bonds in 2018 to enhance its support of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs).[9] The EIB has also been active in supporting the development of the EU taxonomy and continues to cooperate with other international players, such as central banks, to advance green financial systems. This empowers it to lead the green change globally, while supporting its partners to also adopt green finance approaches.

A just transition for all

A just transition for all is the second core work stream of the Climate Bank Roadmap. Beyond the EU, the EIB will integrate social development with climate change, aiming at addressing the resilience needs of the most vulnerable countries, businesses and people. The climate crisis continues to derail developing countries. In 2019 alone, most African countries experienced extreme climatic conditions that consisted of the flooding in the Sahel, the heavy rains that led to a locust outbreak in East Africa, drought in Southern Africa countries, and the famous tropical cyclones *Idal* and *Keneth* (Ahairwe and Bilal 2019; IDMC & NRC 2020. WMO 2019; 2020). Such climate disasters are greatly costing developing countries, causing food insecurity, loss of livelihoods, waterborne diseases, and increased yet unexpected government expenditures.

The EIB hopes to reach the last mile and promote social development by providing targeted investments to regions that are more exposed to the climate crisis, while supporting a green transition. Green investments will be directed towards strengthening capacities of the most vulnerable and fragile communities to better adapt to the climate crisis for inclusive and sustainable development. In today's globalised world, climate risks can be transmitted across country borders through migration, security relations, financial markets and international trade (Knaepen 2021). Emissions from developed countries, including in Europe, affect developing countries by altering their climate conditions, and sometimes leading to climate catastrophes. In the same way, climate change effects in developing countries can also have cascading effects on developed countries, for instance by prompting increased climigrations and the need for more development finance to address these catastrophes.

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[8] Pioneering the green bond market.

[9] Sustainability Awareness Bonds.

In 2019, about 3.8 million people were displaced as a result of climate disasters in only 10 developing countries, whereas more than 12 million people (the majority of whom were children) in Kenya, Ethiopia and Somalia were projected to experience food insecurity by 2020 (WMO 2019). People with paltry financial means (women, youth and children) are usually more affected by these climatic conditions, mostly due to their geographical location and their inability to build resilient infrastructure, including housing that can help them withstand unexpected climate disruptions. In most cases, their national governments have insufficient fiscal space to predict and address such emergencies in a timely and efficient manner. This leaves them with limited options, such as internal or external migrations to countries or regions that can offer them better security from such disruptive shocks.

Some developing countries are experiencing conflict and fragility, making it hard for the affected countries to formulate policies, implement programmes and invest in business projects that can address prevailing climate problems. In return, climate disasters may also frustrate people, encouraging political unrest, including disputes and armed conflicts (Peters et al. 2020; ICC 2020). Data evidence from the Fragile States Index reveals that politically unstable countries such as Somalia, Ethiopia, Eritrea and South Sudan also experienced climate-related conflicts, especially among agricultural and pastoral communities.[10] These conflicts may intensify in different countries if the world fails to achieve the Paris Agreement objectives. In the event that global warming rises to 4°C, the chance of conflict risk may increase by 26%; this probability will reduce to 13% if the 2°C goal is approximately met (Mach et al. 2019).

Climate disasters also exacerbate inequalities of all kinds within and across countries. They make people poorer, and since they most likely affect women, they also deepen gender inequalities. Women are more vulnerable to climate changes as they are more engaged in sectors that are prone to climate change effects. In sub-Saharan Africa (SSA), more than 60% of employed women work in the agriculture sector, which in addition to forestry and land use activities are among the top sources of GHG emission and are also more likely to be affected by droughts, floods and cyclones, among others (IPCC 2019; Meinzen-Dick 2019). On the contrary, it is argued that gender inequalities undermine mitigation and adaptation efforts. Women, who constitute a considerable percentage of individuals that are employed in the agriculture, forestry and land use activities, are sometimes left out in climate action programmes (Ahairwe and Bilal 2020). This sometimes may leave them involved in climate unfriendly agricultural practices, which in turn lead to climate change.

Given the bidirectional nature of the relationships between climate change and inequalities, and climate change and political instabilities, the EIB pledges to prioritise two thematic areas: (1) gender equality and climate action, and (2) climate change and conflict, fragility and migration, as presented in Table 2. The EIB is also part of the 2X Challenge, which has collaborated with different financiers in the public and private sectors to leverage resources aimed at promoting gender equality by supporting women as entrepreneurs, leaders, employees and consumers. It already applies the 2X Challenge criteria in its gender financing; however, this criteria needs to be aligned with its climate benchmarks (2X Challenge 2018). The EIB has made steps to integrate its climate

[10] Climate change raises conflict concerns.

objectives with its gender equality aspirations. It is part of the 2X Gender and Climate Finance Taskforce, which proposes to boost climate adaptation and resilience through financial inclusion, adopt gender-responsive climate mitigation solutions and gender-smart pathways for net-zero economies.[11]

Table 2: EIB CBR and just transition for all in developing countries

Thematic area	EIB Group Climate Bank Roadmap pledge
Gender inequality	To lend to women entrepreneurs and fund managers involved in tackling the climate crisis and promoting environmental sustainability.
	To support projects that tackle deep-rooted gender inequalities while strengthening the resilience and adaptive capacity of women and girls.
	To enable women and girls to access and benefit from the low-carbon and climate-resilient infrastructure/services generated by the EIB's investments.
	To support promoters to set targets for women's employment and leadership opportunities, through advisory and technical assistance.
Conflict, fragility and migration	To support climate adaptation and resilience projects in fragile contexts and of populations at particular risk of displacement.
	To support climate-resilient urban infrastructure to build resilience to future shocks and influx of climate refugees and migrants, and rebuilding settlements after sudden disasters.
	To support disaster preparedness, early warning systems and post-disaster recovery as well as projects that in a broader sense contribute to peacebuilding, social cohesion, stability and reducing inequality.

Source: Adapted from the EIB Climate Bank Roadmap (2020)

Supporting Paris-aligned operations

The decade 2021-2030 provides financing institutions and donor countries with the last opportunity to make investment decisions that can help the world meet the Paris Agreement objectives and protect lives, livelihoods, biodiversity, ecosystems, and infrastructure among other things (EIB 2020a). As the EU bank, the EIB is playing a leading role among financial institutions and is committing to contributing to the needed finance and help the world limit global warming to 1.5˚C. The bank has therefore embraced 'supporting Paris-aligned operations' as the third core work stream of its CBR 2021-2025. Starting with 2021, the EIB has devoted itself to align all its new financing activities with the goals of the Paris Agreement. In this respect, all the bank's investments will be consistent with: (1) a pathway to a climate neutral economy, being compatible with the 1.5°C Paris Agreement limit, and (2) climate-resilient development, that is, resilient to any climate change risks posed through their life cycle (IPCC 2018).[12]

[11] Investing in Women, Tackling Climate Change.

[12] What is the Paris Agreement?

Regarding the first dimension of aligning new projects with pathways towards low GHG emissions outside the EU, the EIB plans to recognise the principle of 'common but differentiated responsibilities' (CBDR), signalling that although the EU and developing countries are both responsible for tackling climate change, they are not equally responsible. The CBDR principle broadly appeals to the need to boost climate financing in vulnerable countries.[13] It calls on developed countries to support developing countries meet their climate objectives by providing them with the necessary financial and technical assistance. The EIB will also take into consideration the low levels of economic development and limited abilities of especially LDCs and SIDS in addressing climate change, providing effective and impactful assistance that fits within the local context.[14]

For the second dimension of aligning new projects with climate-resilient development, the EIB plans to use its investments to support broader and long-term resilience goals that are in line with developing countries' NDCs and NAPs. The bank sets out to develop an approach that incorporates systematic climate resilience with due diligence processes for financial intermediaries. While employing the MDBs' standardised approach towards alignment with the climate resilience goals of the Paris Agreement, the EIB will render additional investment support to projects in the various sectors of agriculture, buildings, energy, forestry, transport, urban development, water and industry. The bank proposes to provide a series of financial instruments, including direct lending, intermediated lending, green loan and green debt products, equity funds, securitisation and advisory services such as assisting its clients with project preparation and market development to promote different climate action projects in developing countries.

Current data evidence shows that MDBs' – including the EIB – highly directed their climate financing to middle-income countries (MICs). Figure 5 shows that over the years 2015-2019, low-income countries consistently received lower financial support for climate mitigation and adaptation. The high bias of investing in MICs is also revealed by the data evidence on the overall development finance that is directed towards developing countries. In 2019, development finance institutions (DFIs) directed a relatively smaller proportion of their financing to low-income countries, with the largest contributions going to lower-middle and upper-middle income countries, as shown in Figure 6. Figure 6 also shows that concessional finance that is provided to lower-middle income countries is more than double that which is directed to low-income countries. Given that low-income countries are more vulnerable, DFIs and MDBs may need to provide more concessional financing to low-income countries, accompanied by grant-based financing and technical assistance. If the overall level of finance by MDBs increases, such an increase will not come at the expense of financing MICs.

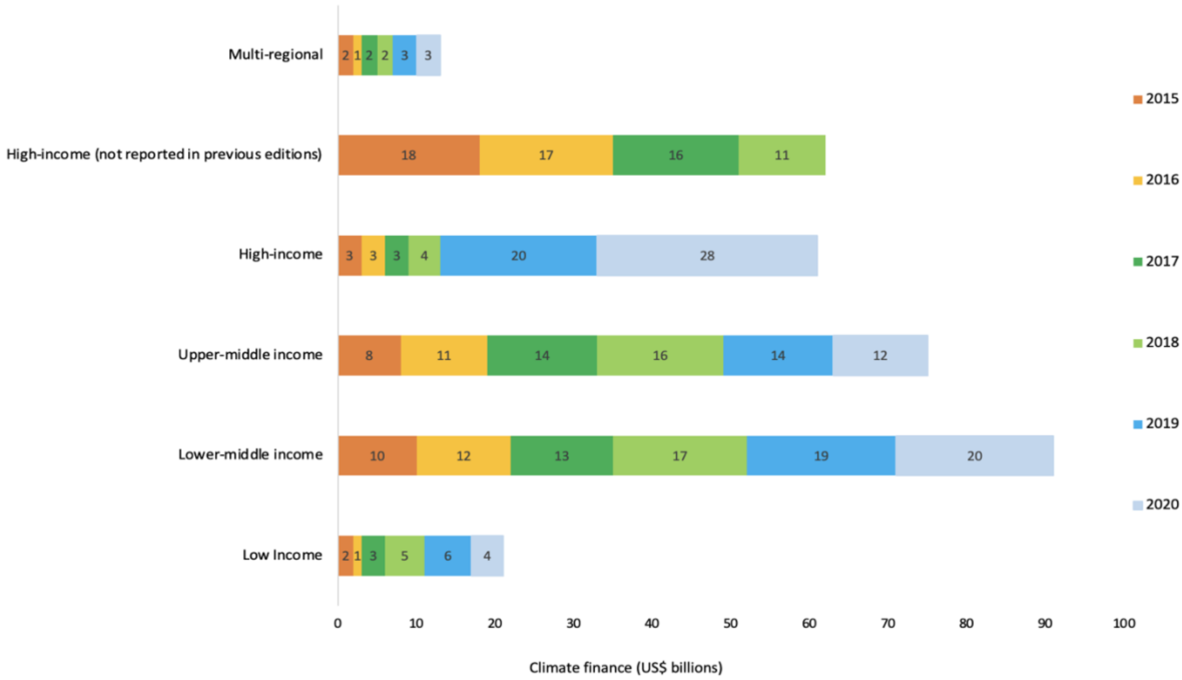
The Climate Bank Roadmap clearly states that the EIB will focus on supporting the most vulnerable countries. This challenges the bank to overcome the problem of high and unfair concentration in middle-income countries that most international finance institutions (IFIs) face. It is often argued that MDBs' financing is limited in LDCs and SIDS due to lack of

[13] Introduction to Climate Finance.

[14] Common but differentiated responsibilities.

bankable projects in these regions. The EIB may need to go beyond its current bankability assessment *modus operandi* and adopt innovative means to finance, working more actively on upstreaming financing, in synergy with the EC and other European donors. This may need to be complemented by extensive technical support that can help boost the bankability potential of most promising climate action projects in vulnerable countries. Increased partnerships with other DFIs, bilateral and multilateral country donors, as well as national public institutions such as the National Development Banks (NDBs), will be necessary to enable risk sharing, making it possible for the EIB to take on Paris-aligned developmental projects that would otherwise be considered not bankable.

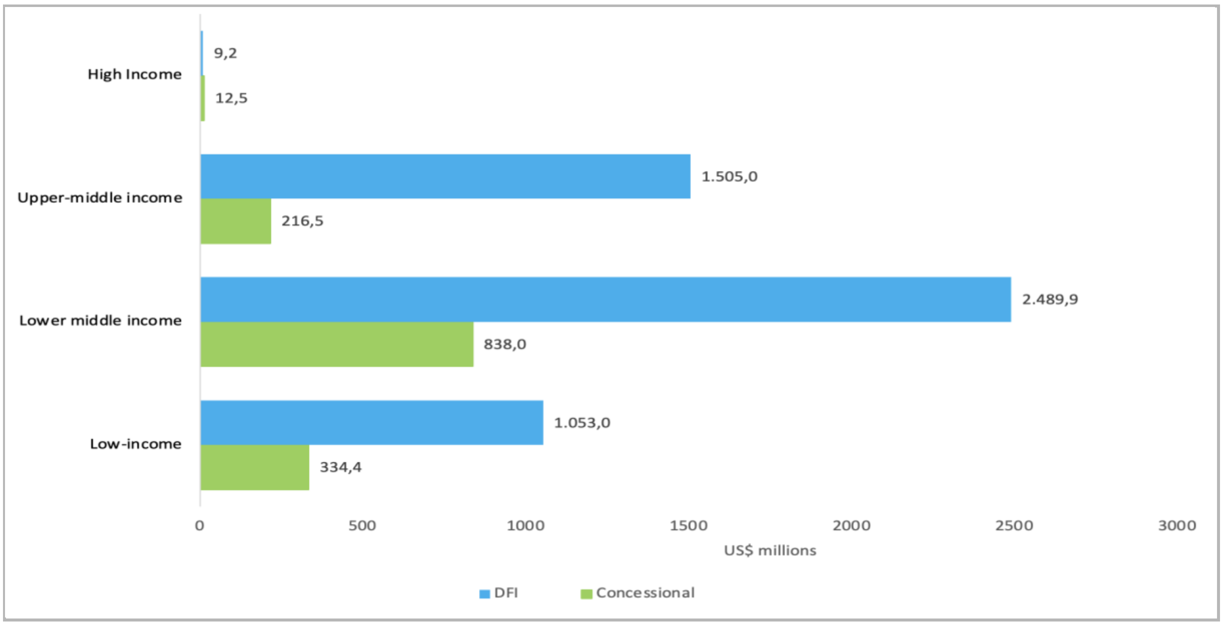
Figure 5: MDBs' climate finance by income group of borrowing recipient countries from 2015 to 2020



Source: Adapted from MDB (2021)

High investments in MICs may also be explained by conventional as well as non-conventional factors that exist in different financial markets. Some of these factors are systematic and inherent within the financing models of DFIs and MDBs. For instance, MDBs may not offer small ticket loans that are mostly needed in LDCs unless they are financing them via financial intermediaries, while MICs may require large ticket size loans for bigger projects that MDBs are willing and able to finance. Other factors such as information asymmetry, preference for known connections – clients that IFIs have previously financed – and/or limited issuance of local currency bonds may also lead to high concentration of IFIs in MICs at the cost of their absence in low-income countries.

Figure 6: Concessional and DFI new commitments by income group in 2019



Source: Adapted from DFI Working Group (2020)

Low-income countries have large economic development gaps, which need to be addressed if such countries are to attain the SDGs even within the requirements of the Paris Agreement. The EIB's transition into a climate bank faces a question of whether the bank will find potential projects in LDCs and SIDS that can offer developmental returns while being Paris-aligned. This at times may tax the bank to trade off Paris alignment for social development impact. Supporting projects that offer socio-economic development is the spirit of Paris alignment and failure to support such impactful activities runs counter to the spirit of the Paris Agreement (EIB 2020). This is the reality of some projects, such as those intended to elevate power generation in low-income countries. Lack of electricity is a common problem that is limiting economic growth and development in most developing countries. Although some power generation infrastructure projects may not be Paris-aligned, they may offer social benefits that can lead to improvement of lives and livelihoods while providing a foundation for the establishment of more Paris-aligned projects.

In consequence, the EIB CBR 2021-2025 emphasises that supporting Paris-aligned projects in vulnerable countries – LDCs and SIDS – may require the EIB to relax its application of the EU taxonomy and rather define it in a way that fits the local context of the country it plans to support. Therefore, although the EIB CBR requires that the same principles, as established under the alignment framework, be applied to all of its operations within and outside the EU without any specific carve-outs, it also acknowledges that where the EIB principles are defined in reference to the EU legislation, interpretation of such principles in a non-EU context is clearly necessary. The EIB CBR principles that adhere to this exception are presented in Table 3, illustrating that the interpretation of principles will vary based on the nature and social impact of the investment project at hand.

Table 3: Interpretation of Paris alignment outside the EU[15]

Finance activity	Interpretation of the principle
Power generation	Investment in new power generation may or may not be aligned to low-carbon goals.
Road sector	The road sector, including vehicles, will be interpreted within the local context of the developing countries in question.
Buildings	New buildings will be required to achieve international or best local construction standards. Building rehabilitations will be required to achieve high energy performance standards. The EIB may request renovations to do energy efficiency audits or appropriate certification schemes.
Industrial sector	Due attention will be given to regional industrial decarbonisation prospects.
Meat and dairy industry	May be regionally dependent. In case of vulnerable food supply systems, GHG emission may be benchmarked on local best practice, rather than international best standards, provided supply is for local demand.

Source: Adapted from the EIB (2020)

Building strategic coherence and accountability

The EIB CBR 2021-2025 will use its fourth core work stream of building a strategic coherence and accountability approach to deliver on the first three work streams, that is, accelerating the transition through green finance; a just transition for all; and support of Paris-aligned operations. The coherent approach will also guide the bank through the implementation phase and in improving its strategy for better results. It will specifically be built on three essential and cross-cutting elements of policy, transparency and institutional support, as presented in Table 4.

Table 4: Three underpinning and cross-cutting elements of work stream four

Element	Remarks
Policy	Setting climate-related policies that are in line with the wider context of sustainable finance and overall environmental and social sustainability.
Transparency	Being transparent and adhering to the accountability and quality assurance standard requirements.
Institutional support	Providing institutional support, including aligning internal operations with the Paris Agreement goals, reaching out and establishing partnerships within the EU and abroad, and sharing knowledge, embracing external and internal communications and human resources management.

Source: Adapted from the EIB (2020)

[15] A derogation to this general alignment framework can always be made on a case-by-case basis.

To build a coherent policy approach, the EIB will operate within a sustainable finance framework, aligning its activities to the EU taxonomy while being congruent with the externally audited tracking system that is harmonised with the MDBs and reporting standards of the United Nations Framework Convention on Climate Change (UNFCCC) and the Organisation for Economic Co-operation and Development (OECD) (MDBs 2020). Climate-related contributions and results that can be harmoniously quantified and measured help the EIB and DFIs to track, manage and monitor progress of their investments. This may also be used by relevant institutions to formulate and inform policy innovations that can leverage additional climate financing, while attracting climate action projects that offer a higher impact.

Harmonised and transparent methodologies help policymakers and investors get a clear picture of the progress and the financing gaps that still need to be addressed. Since 2011, the EIB, in cooperation with the major global MDBs, including the Asian Development Bank (ADB), the African Development Bank (AfDB), the Inter-American Development Bank (IADB), the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (WBG), have always used a common methodology to report on their climate financing. Together, they have also taken collective and gradual steps to continuously update their methodology so that they can capture the necessary data, as deemed vital for concerned investors and other stakeholders. However, this methodology has not been adopted by other IFIs, making it difficult to uniformly measure climate finance investment gaps across a wide range of financiers.

DFIs such as the members of the European Development Finance Institutions (EDFI) and European national development banks such as AFD and KfW, as well as developed donor countries, also report their climate financing; however, using different methodologies. The lack of a common methodological approach by the different financiers limits the extent to which climate finance data is tracked and reported in real time to inform policymakers and investors, including the EIB. The EIB has established strong partnerships with some organisations, such as the OECD, the International Development Finance Club (IDFC), the Climate Policy Initiative (CPI), and Convergence Blended Finance, which adopt different institutional methodologies to evaluate climate finance data from different IFIs and provide collective reporting on the progress of climate finance globally (EIB 2020, CPI 2020, OECD 2020)[16]. These institutions use different taxonomies to quantify what counts as climate finance. Although these divergences boost creativity and innovation, they limit the degree of clarity in the green markets.

The EIB also pledges that it will participate in outreaches, partnerships and knowledge sharing programs in order to ensure coherence in promoting climate action. This will also include the EIB aligning its approach and technical criteria with the EU taxonomy to ensure that 'no significant harm' is done to any of its six environmental objectives, which include:

1. climate change mitigation;
2. climate change adaptation;
3. sustainable use and protection of water and marine resources;

[16] Blended Finance.

4. transition to a circular economy;
5. pollution prevention and control; and
6. protection and restoration of biodiversity and ecosystems.

The 'Do No Significant Harm' (DNSH) principle applied here is defined under the EU Regulation 2021/241 of the Recovery and Resilience Facility (RRF), as explained in Table 5.[17] The EIB CBR has been adopted at a time when some elements of the EU taxonomy are not yet fully accomplished. In such instances, the bank will adopt interim definitions and will also apply the MDB climate methodology, albeit within the provisions set forth by the EU taxonomy.

Table 5: Application of the 'Do No Significant Harm' principle on environmental objectives

Environmental objective	Application of the 'Do No Significant Harm' principle
Climate change mitigation	An activity is considered to do significant harm to climate change mitigation if it leads to significant GHG emissions.
Climate change adaptation	An activity is considered to do significant harm to climate change adaptation if it leads to an increased adverse impact on the current climate and the expected future climate, on the activity itself or on people, nature or assets.
Sustainable use and protection of water and marine resources	An activity is considered to do significant harm to the sustainable use and protection of water and marine resources if it is detrimental to the good status or the good ecological potential of bodies of water, including surface water and groundwater, or to the good environmental status of marine waters.
Transition to a circular economy	An activity is considered to do significant harm to the circular economy, including waste prevention and recycling, if it leads to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources, or if it significantly increases the generation, incineration or disposal of waste, or if the long-term disposal of waste may cause significant and long-term environmental harm.
Pollution prevention and control	An activity is considered to do significant harm to pollution prevention and control if it leads to a significant increase in emissions of pollutants into air, water or land.
Protection and restoration of biodiversity and ecosystems	An activity is considered to do significant harm to the protection and restoration of biodiversity and ecosystems if it is significantly detrimental to the good condition and resilience of ecosystems, or detrimental to the conservation status of habitats and species, including those of EU interest.

Source: European Commission (2021)

Implementation of the Climate Bank Roadmap's work streams

The potential of the roadmap to enable the bank to fulfil its new climate commitments within and outside the EU will depend on how efficiently and effectively it is implemented. The EIB will start implementation with three different immediate steps, as presented in Table 6. These immediate steps are the backbone for implementation of the entire CBR. They will enable the EIB to track the progress towards fulfillment of its CBR commitments as soon as the implementation phase commences.

17 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

Based on the immediate steps, the EIB has decided to manage the transition into a climate bank by approving all projects (some of which may be Paris non-aligned) that were under appraisal before 1 January 2021 – the start date of the CBR 2021-2025 – until the end of 2022. The EIB has also formulated different action plans, as presented in Table 7, which will help it achieve the broad objectives under its four different work streams. These action plans will act as internal planning tools to ensure that progress is made in realising the objectives of the EIB CBR 2021-2025.

Table 6: The three immediate steps of implementation phase

Step	Description
Step 1	A new framework to ensure the alignment of EIB Group operations with the goals of the Paris Agreement, underpinned by an updated carbon pricing policy to ensure that the institution appropriately supports the EU's effort to limit global warming to 1.5˚C and to become climate neutral by 2050.
Step 2	A strengthened and widened system to track the EIB Group climate action and environmental sustainability finance, in line with the EU taxonomy.
Step 3	An updated Climate Strategy, to ensure policy coherence, bring its language in line with the Paris Agreement's wording and incorporate the EIB Group's new commitments.

Source: Adapted from the EIB (2020)

The EIB further emphasises that the progress made towards attainment of the CBR goals and objectives will be assessed through evaluation reports. Such reports will include annual reports, which will review the shadow cost of carbon, midterm reports that will take stock of the progress made and necessary adjustments that are needed for the pending implementation period. The bank will also do an end-of-programme assessment that will evaluate its fulfillment of the CBR commitments by 2024. The final assessment report will take into consideration the annual and midterm reports and will provide recommendations that will be used to inform the new CBR for the subsequent years.

Table 7: Action plans for implementing the four work streams of the EIB outside the EU

Work stream	Action plan
Accelerating the transition through green finance	Action plan 1: Invest and support policy development in eleven focus areas. Action plan 2: Develop business, financial and advisory products, and mobilise additional finance.
Ensuring a just transition for all	Action plan 3: Support the Just Transition Mechanism. Action plan 4: Social development and climate change across the globe, paying special attention to gender, conflict and migration.
Supporting Paris-aligned operations	Action plan 5: Align all new operations with the goals and principles of the Paris Agreement. Action plan 6: Integrate climate risks into the EIB Group risk management framework.
Building strategic coherence and accountability	Action plan 7: Align climate action and environmental sustainability definitions with the EU taxonomy and enhance climate- and nature-related disclosures. Action plan 8: Develop an integrated sustainability policy framework. Action plan 9: Establish a results framework. Action plan 10: Ensure a coherent approach to institutional support.

Source: Adapted from the EIB (2020)

Suggestions from the consultation process: Does the EIB Climate Bank Roadmap 2021-2025 reflect broader concerns?

The EIB Climate Bank Roadmap 2021-2025 is the result of a transparent and inclusive consultation process that was held from March through July 2020, involving various stakeholders from different civil society organisations (CSOs) (EIB 2020b). The first engagement process took place between 23 and 26 March 2020, and involved ten key questions that were built around four topics, which are in line with the four work streams of the Climate Bank Roadmap. These topics included:

1. aligning the EIB Group's activities with the goals and principles of the Paris Agreement;
2. increasing environmental sustainability investments and leaving no one behind;
3. leveraging private sector finance and promoting financial innovation; and
4. measuring the long-term effect of the EIB Group's operations.

Based on the findings from the first webinar series, the EIB published a position paper that focused on two core areas: (1) the alignment of new projects with the goals and principles of the Paris Agreement, and (2) the revision of the definitions of climate action and environmental sustainability investments. The position paper led to the updating of the consultations with 15 supplementary questions.

The EIB has taken on board most recommendations from the stakeholder consultations. As presented in Tables 1 and 3, it has featured the different priority areas such as low-carbon transport solutions, energy-efficient buildings, renewable energy and nature-based solutions, water management, climate-smart agriculture, land use, sustainable forestry, and the integrated circular economy approach as proposed by stakeholders. The CSOs particularly called on the EIB to reduce its investments that are directed towards the aviation industry, which is among the most GHG-emitting sectors; yet the bank does not pledge to entirely deprioritise its support to the sector. On the one hand, it has promised to withdraw its support of the airport capacity expansion and the conventionally-fuelled aircraft, having provided about €4 billion in loans over the period 2016 and 2020 (Counter Balance 2020).

On the other hand, the EIB stresses that no clarity exists on the pathway to decarbonisation for the aviation sector. Therefore, it has committed to investing in the improvement of the existing airport capacity, centering on safety, security, rationalisation, resilience and decarbonisation investment (EIB 2020). The COVID-19 pandemic has hit all sectors, including the aviation industry, threatening jobs, connectivity and even the ability of the industry to invest in decarbonisation research and development programmes. Other stakeholders proffered that being carbon neutral should not take place at the expense of technology, and suggested that the EIB should instead prioritise the aviation industry by investing smartly as required by the prevailing climate laws and regulations.

The EIB has since provided financial support to different airports in some countries to support social economic recovery from the pandemic. For example, it invested €270 million in the rebuilding of the airport infrastructure and boosting operational resilience to help Ukraine recover from COVID-19.[18] In the Western Balkans, it has invested €10.3 million in Serbia and Montenegro Air Traffic Services Agency to promote integration between Europe and the Western Balkans while improving efficiency and safety of air travel.[19] Such continued support of airports is not in line with the recommendations of some stakeholders who signal that this goes against the bank's climate neutral ambitions. The EIB however is not alone in supporting airlines. Since the start of the pandemic, the EU and its member states have invested heavily in bailing out the airlines. In April 2021, it was reported that the EU airlines had received approximately €35 to €40 billion of state aid, compared with about €7 billion that was invested in helping railways recover from the effects of the pandemic (Hurst 2021). The EU decisions to invest highly in polluting transport means may limit the capacity at which the EU and its member states can promote the European Green Deal objectives in developing countries.

The EIB has also adopted the EU taxonomy, flexibly applying it outside the EU to fit within the local context, as recommended by the stakeholders and as explained in Table 3. Stakeholders argued that the needs of developing countries and their capacities diverge from those of developed countries, calling for a different application of the Paris-alignment principles. They advised the EIB to provide special technical and financial support to boost the resilience of these countries to climate change. In return, the EIB has committed to applying the principle of CBDR in supporting LDCs and SIDS. It will provide them with concessional financing, grants and technical assistance to ensure a just transition, where no one is left behind. As LDCs and SIDS are among the countries that emit the least GHG, stakeholders also suggested that the EIB should focus more on climate adaptation and resilience in these countries by fostering synergies and complementarities between climate mitigation and adaptation (Bilal and Ahairwe 2020a).

The risk of transition is higher in developed countries, but developing countries face a higher physical risk. UNEP (2021) estimates that developing countries are likely to incur costs of about US$140 to 300 billion to adapt to climate change annually. Though these costs are less than what developed countries incur to transition to green means, they take up a large proportion of their gross domestic product (GDP), affecting their ability to pursue other socio-economic development programmes. MDBs such as the EIB can offer financial support to these countries, creating a fiscal space that can enable them to pursue other and complementary development objectives. Investing in adaptation also offers higher benefits to developing countries. GCA (2019) provides evidence that investing

[18] The European Investment Bank loans €270 million to improve Boryspil International Airport.

[19] Team Europe: EIB invests in safer air traffic on key air corridors over the Western Balkans.

about US$1.8 trillion in early warning systems, climate-resilient infrastructure, improved dryland agriculture crop production, global mangrove protection and more resilient water resources from 2020 to 2030 could generate about US$7.1 trillion in total net benefits.

Current debates postulate that financing institutions have an oversupply of capital but this capital cannot find bankable projects (OECD 2018). Some stakeholders urged the EIB to not simply look for bankable projects in vulnerable countries, but, as an MDB with a development mandate, to actively invest in de-risking and making the existing projects bankable, allowing it to develop potential climate action businesses that can eventually graduate to commercial loans. The EIB CBR proposes that it will provide advisory services to support public institutions in developing bankable investment programmes. As presented in Figure 3, the proportion of the EIB's climate finance that is invested in climate adaptation outside the EU is relatively lower when compared to that of other MDBs, making the EIB's investments incoherent with its financing objective. Solving this mismatch in climate finance targeting, especially among the vulnerable developing countries, will require the EU bank to go beyond 'business as usual' and to take on a balanced approach that equally boosts climate adaptation financing.

Stakeholders also stressed the problem of information asymmetry that exists in financial markets and called on the EIB to improve its presence in developing countries, reaching out to potential recipients who are eligible and in need of financial assistance but are missing out. Addressing this challenge will require the EIB to establish strong and functional partnerships within developing countries that can boost its visibility and also build its expertise to fit the local needs of LDCs and SIDS. As agriculture is a dominant economic activity among most of the developing country communities, the EIB has also pledged to invest in small-scale subsistence farmers, especially female and young farmers. This will require the EIB to go beyond the local commercial banks and partner with microcredit finance institutions that can provide financial services that are suitable for these individuals.

Other stakeholders called on the EIB to set a more ambitious climate action target for developing countries. In 2015, the EIB increased its target share of lending outside the EU that is dedicated to climate action from 25% to 35%.[20] This goal was achieved in 2017 and in some of the subsequent years. In 2020, the share of the EIB's total investments outside the EU that was directed towards climate action was only 30%, which fell short of its 35% climate financing goal (EIB 2021). As the EIB positions itself as a climate bank, it has set broader climate action aspirations, but it has not expressed any intentions to set a post-2020 ambitious climate action goal specifically for developing countries (CAN 2019). Developed countries in general also committed to raising US$100 billion for climate finance in developing countries by 2020. Nonetheless, evidence from the Independent Expert Group on Climate Finance (IEGCF) shows that the Global North fell shy of achieving this goal by US$2 to 8 billion, mobilising about US$92 to 98 billion by 2020 (IEGCF 2020).

Geographical–specific climate targets are necessary because achievements from broader targets can be subtly biased in some regions. The EIB has for instance decided to devote

[20] EIB sets new 35% target for climate lending in developing countries.

at least 50% of its lending to specific climate action and environmental sustainability projects, regardless of where these investments take place. Such broad targets result in some countries taking a larger share of finance, which is clearly evident in developing countries where MICs tend to receive a larger share of development finance as presented in Figures 5 and 6. Stakeholders called on the EIB to specifically support vulnerable groups in LDCs and SIDS through innovative business models and financial solutions, focusing greatly on climate adaptation. Although the EIB has taken on this recommendation, it remains to be seen how these countries will be prioritised in its financial climate targets, and if it will increase its adaptation financing share.

The EIB aspires to support vulnerable countries, including LDCs, SIDS and conflict-affected countries. Within these countries, it also aims at supporting the most vulnerable people, including women and youth. Most of these own micro-, small and medium-sized enterprises (MSMEs) which require a relatively small size of credit. MSMEs' owners also sometimes lack social collateral that most commercial banks may require in exchange for credit. Stakeholders proposed that the EIB collaborates with microcredit institutions such as microfinance companies, which share the same development objectives as the EIB and also offer small loans, lower interest rates and better credit terms that are suitable for these MSMEs, women and youth. In its CBR, the EIB has committed to cooperating with financial intermediaries to offer microfinancial instruments, supporting microfinance schemes in especially the agriculture sectors of countries that are experiencing food insecurity. This will include supporting agriculture production, as well as agribusinesses and the different value chains involved.

Recommendations: How the EIB can ensure a greater climate action impact

The EIB Climate Bank Roadmap 2021-2025 presents very promising objectives. The challenge now lies in ensuring that such planning translates into real operations on the ground that can ensure a fair and just green transition in all dimensions within and outside the EU. According to Griffith-Jones and Carreras (2021), the Climate Bank Roadmap provides the bank with a role to contribute towards the global green transition that centres on four elements:

1. substantially increasing its financing for adaptation;
2. increasing its investments in innovative green technologies;
3. supporting the reduction of the long-term costs of capital in capital-intensive green infrastructure; and
4. aggregating, scaling and replicating to ensure more investment with specific reference to adaptation, energy efficiency and sustainable agriculture.

Outside the EU, the EIB is taxed to boost its climate action financing to ensure an inclusive and sustainable socio-economic transformation. It will also deliver on the 'Team Europe' commitments that advocate for a green recovery from COVID-19. The new external climate ambitions of the EIB beyond the EU are coherent with the new EU adaptation strategy, which highlights that 'Team Europe' will be capitalised on to strengthen partnerships with African initiatives and institutions for integrated support of adaptation, development and humanitarian aid programmes (EC 2021b). To 'truly walk the talk' of leading as a climate bank in Europe and beyond, **the EIB should significantly increase the share of its climate adaptation finance in developing countries.** This will align its financing operations with the external climate adaptation goals and objectives of the EU. It also portrays efforts of the EU bank to raise its financial targets and complement other MDBs that are leading on supporting climate adaptation as presented in Figure 3.

The EIB needs to set a clear and new climate action target for developing countries, which coincides with its Climate Bank Roadmap ambitious plans. The current goal of increasing climate finance to 35% was attained in 2017 and in some of the subsequent years. This shows that the EIB has the potential to do better and boost its climate finance beyond its current targets. The roadmap presents clear commitments about how and where the EIB will invest, but falls short of adopting new commitment targets for its activities outside the EU. The lack of new geographical-specific goals especially for the Global South may limit the ability of the EIB to direct resources towards realising its objective of boosting climate action beyond the EU. It is worth noting that the current climate finance targets apply broadly to all areas of the bank's operations, but since the ratio of its investments differs across regions as presented in Figure 2, there is a likelihood that the financing target ratio can be biased by region. For a balanced applicability of its climate ambitious plans, EIB may need to set a specific target for developing countries to ensure they are not left behind.

Evidence suggests that donor institutions, including MDBs, mostly direct their climate financing towards MICs, even though their policy objectives aim at supporting the most vulnerable countries. In the years 2016-2018, developed countries directed 69% of their climate finance to MICs and only about 8% to LDCs (OECD 2020a). The EIB CBR aims at increasing its support of LDCs and SIDS, however, these are often avoided as they lack bankable projects and due to the poor nature of their local macroeconomic policies. Addressing such a limitation requires the **EIB to move away from its current *modus operandi* of searching for bankable projects to a new model of supporting the development of bankable projects.** This may require the bank to: (1) integrate systematic risks and opportunities within its climate finance cost benefit analysis models to identify 'potential bankable' projects; (2) adopting innovative financing tools; (3) work more actively on upstreaming financing in synergy with the EC, EU member states, as well as LDCs, SIDS, and their NDBs, and (4) partner with microcredit institutions to provide small ticket loans to MSMES, women, and youth**.** These initiatives may need to be complemented by extensive technical support, policy dialogues, and concessional financing that can help boost the bankability potential of most promising climate action projects in vulnerable countries. Helping address the bankability gap will enable the EIB to create a market for its future financing while supporting developing countries in an equitable fashion.

The EIB also needs to strengthen its local country presence and expertise if it is to effectively support climate action in developing countries. The EIB currently has limited country presence in most developing countries. This may limit the extent to which it can create functional partnerships with crucial local implementing players and financial actors, including NDBs and the private sector financial institutions, to support NDCs and NAPs (Bilal 2021, Wieser et al. 2019). NDBs are apt in influencing national governments and leveraging additional private investments to support the Paris Agreement and SDGs (OECD and UNCDF 2020). The EIB can cooperate with NDBs to utilise their local expertise and already established partnerships with local implementing partners from the public and private sectors. Building a strong country presence and expertise that has sufficient knowledge of developing countries may help the EIB to best create active synergies, which can help in leveraging more public and private sector finance within developing countries. Such partnerships are even more important under the current circumstances that require nations to recover from COVID-19 and can provide the EIB with an opportunity to tailor its climate investments with the COVID-19 recovery programmes of different developing countries. It may also help the bank to prioritise its climate action agenda in line with the NDPs of developing countries as endorsed by the Paris Agreement.

Improved policy coordination through blended finance at the national and international level may also help the EIB to boost its climate action financing. Climate projects are more policy based. They require a wider government involvement in adopting the Environmental, Social and Corporate Governance (ESG) systems, harmonised reporting, disclosure legislations, green taxonomies, and even ambitious national and international climate plans. Financiers that will be able to make an impact will be those whose investment support is well integrated into local laws, rules, regulations and priorities. Both as the EU bank and as a long-standing MDB, the EIB is at an advantageous position. It can exploit its connections within the EU framework for development and international partnerships, and benefit from long-standing country relations directly through the EU delegations in partner countries, as well as the new 'Team Europe' initiatives to support climate action in developing countries. This advantageous position can also be mainstreamed in other social policy developments for new structural and non-structural policy measures that can boost climate action support with an emphasis on poorer and more vulnerable countries and populations.

The EIB should adopt mechanisms to measure the impact of its climate financing activities. The EIB has collaborated with MDBs to improve the reporting of climate finance data. However, to ensure the value of every dollar spent, there is a need for the bank to evaluate and monitor the quality of its climate action investments and the level of impact that these investments are making in addressing climate adaptation and mitigation needs. This will provide an understanding of the best practices that can be adopted in similar situations. It will also provide lessons learned, which the bank and other MDBs can utilise to inform policy and how to best improve the quality of future climate action investments for optimal benefits including enhancing environmental protection, job creation, and problem-solving innovations. Effective measurement of impact will enable the EIB to keep informed of its successes and lessons learned and how to best make positive changes for a better impact in the future.

The EIB also needs to continue to improve transparency especially of its investments that are provided via third party-financial intermediaries. MSMEs usually require small ticket loans which the EIB provides by cooperating with local financial intermediaries, especially commercial banks. However, this initiative has been argued to be associated with a number of impediments such as lack of transparency, limited control over funds, and a mismatch in objectives (CB 2020a, 2020b). That is, the objective of the EIB – development impact may differ from that of financial intermediaries – profit maximisation. Consequently, some financial intermediaries may not pass on all the benefits from their EIB credit lines to their clients. In a worst-case scenario, this may result in possible corruption and fraud risks, higher interest rates, diversion of funds to other profitable businesses, among others (CB 2020a, 2020b). The EIB therefore needs to improve its due diligence and to adopt proper tracking mechanisms to ensure that its financing via financial intermediaries is actually provided to the target groups (individuals and businesses) and thematic areas including climate change at the agreed rates. Such tracking should also guarantee that the 'Do No Significant Harm principle' applies to any of the environmental objectives, and that no harm is done to human rights, including the displacement of vulnerable people.

Conclusion

The commitments laid down in the EIB's Climate Bank Roadmap 2021-2025 are a good imperative start. If effectively implemented, they will deliver credible support towards building net zero economies and strengthening the adaptability and resilience to climate change within and outside the EU. However, the EIB should set specific climate action targets for its activities outside the EU, increasing the proportion of its total external financing that is assigned to climate mitigation and adaptation from 35% to a more ambitious goal. It may also need to develop an operational strategy to significantly increase its climate adaptation ambitions and activities. Successful climate financing in developing countries also calls for more result-oriented partnerships, which requires the EIB to strengthen its local country presence and expertise, and ensure that its commitments are well aligned with NDCs, NAPs and NDPs. Real impact on the ground will also require the bank to ensure that its support for poorer and more vulnerable countries, including LDCs and SIDS, is not lost in its broad climate action contribution to developing countries.

All in all, for practical transformation beyond the EU borders, the EIB will need to actively implement the commitments that it has made, fully engaging its partners in developing countries through climate action policy dialogues. The EIB should also ensure that its climate action support is compliant with not only the Paris Agreement goals, but also with the SDGs, the Addis Ababa Action Plan (AAAA), Africa's Agenda 2063 and the African Union's Green Recovery Action Plan, with the aim to foster an inclusive and sustainable COVID-19 recovery**.**

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