



LENDING

FUNDING

**Fostering clarity in sustainability:
the EU Taxonomy Regulation applied to sustainability funding instruments**



EU's commitments

Treaty on European Union, article 3.3
 “The Union shall establish an internal market. It shall work for the sustainable development of Europe”

[Climate Law](#) (June 2021) enshrines:

- the objective of climate neutrality by 2050,
- the target of reducing net GHG emissions by at least 55% by 2030 compared to 1990 levels

EU Green Deal: EUR 600bn

McKinsey estimates EUR 28tn of investments are needed by 2050

EIB's commitments (“Climate Bank Roadmap”, Nov 2020)

By end-2020: align all financing activities with the goals of the Paris Agreement

By end-2021: end financing for new unabated fossil fuel energy projects

By 2025: gradually increase the share of its financing dedicated to climate action and environmental sustainability to reach 50% of its new operations

From 2021 to 2030: support EUR 1 trillion of investments in climate action and environmental sustainability

What is the problem?



G20 Green Finance Synthesis Report, September 2016:

“The lack of clarity as to what constitutes green finance activities and products (such as green loans and green bonds) can be an obstacle for investors, companies and banks seeking to identify opportunities for green investing”

...and what is a possible solution?

“more clarity about green finance definitions is demanded from the market and policy makers, although **it does not require a ‘one size fits all’ approach**. Some **internationally comparable indicators** are also useful in facilitating cross-border and cross-market green investment, for evaluating green performance of financial firms, and for analyzing the macro implications of green finance activities.“

Regulation on the establishment of a Framework to facilitate sustainable investment

“EU Taxonomy Regulation”, July 2020, article 19:

“The technical screening criteria... shall...

a) identify the most relevant potential contributions to the given ... objective...

k) be easy to use and be set in a manner that facilitates the verification of their compliance”.

EIB Group Climate Bank Roadmap 2021-2025 (November 2020): alignment with EU Taxonomy Regulation and green bonds



- 1. “The EIB Group, as the EU Climate Bank, will align its tracking methodology for climate action and environmental sustainability (“green”) finance with the framework defined by the EU Taxonomy Regulation, as this develops over time.”**
- 2. “The EIB will reflect such alignment to the capital markets via progressive extension of the eligibilities of its green bonds**
- 3. “The EIB plans to gradually align its green bonds with the proposed EU Green Bond Standard**

For this purpose, EIB has:

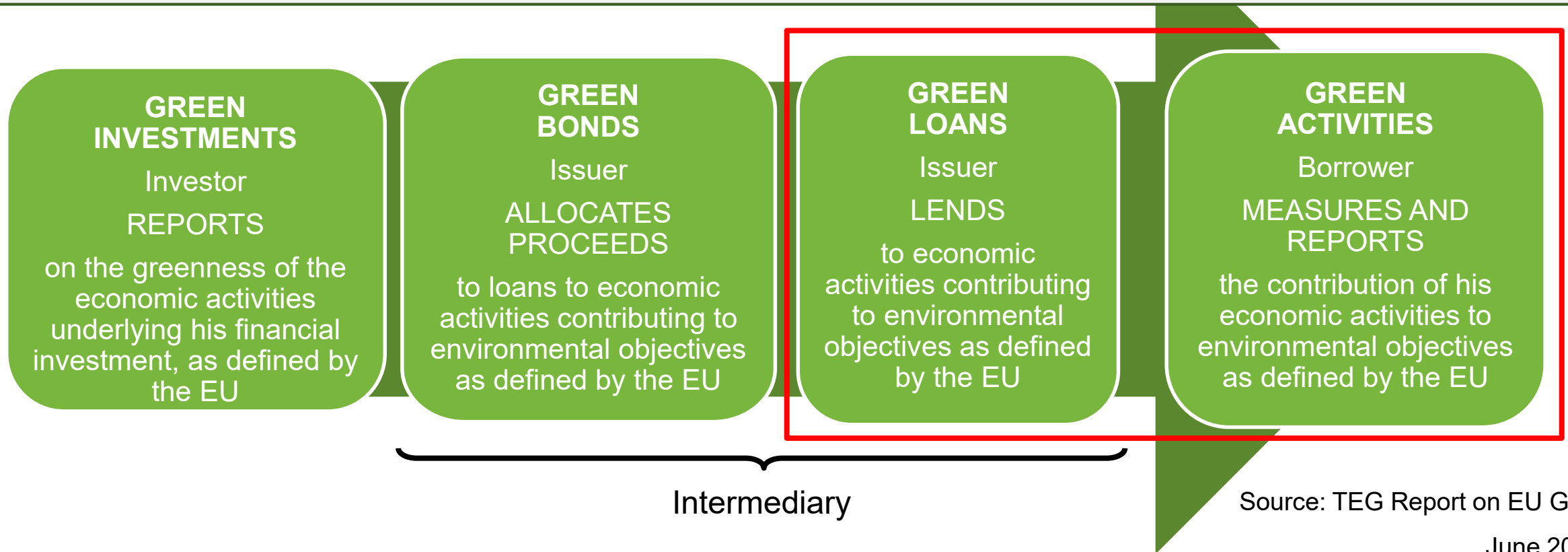
1. adopted green bond documentation that foresees allocation of proceeds to EIB’s lending activities aligned with the EU Taxonomy Regulation **(09/2018)**
2. developed initial plans for green bond product development in the context of the Climate Bank Roadmap **(04/2020)**
3. presented with high precision its plans in the audited [2020 CAB Framework](#) disclosing for the first time its technical screening criteria for climate change mitigation **(09/2021)**

The EU Taxonomy aims at uniform classification across jurisdictions („fair competition“) and along the sustainable investment chain („effective criterion of choice“)



“This Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable”

June 2020, *Regulation on the establishment of a framework to facilitate sustainable investment* - Article 1



Source: TEG Report on EU GBS

June 2019




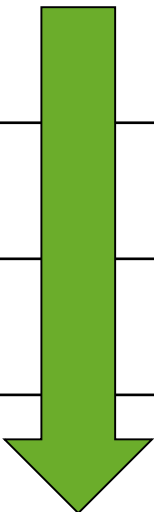
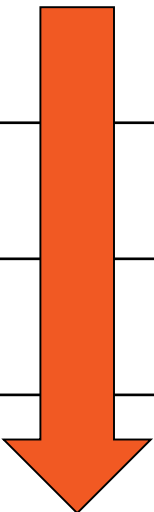
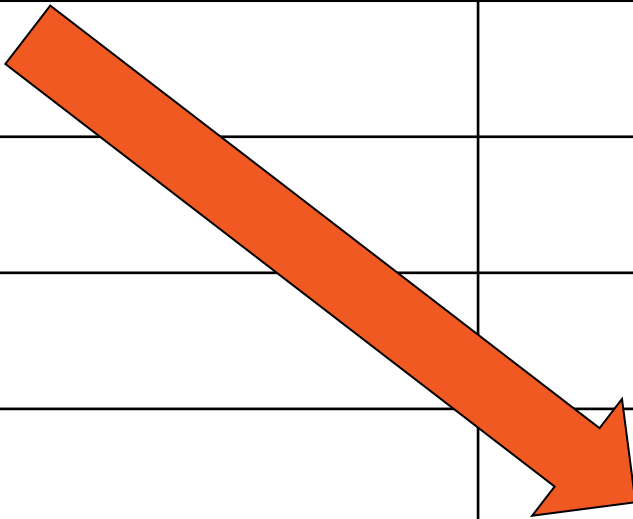
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Progressive extension of CAB/SAB eligibilities goes hand in hand with Taxonomy development and implementation



EU Sustainability Taxonomy

	Climate Change Mitigation (CCM)	Environmental objectives other than CCM and Social objectives	
Sustainability projects	CAB	SAB	
			



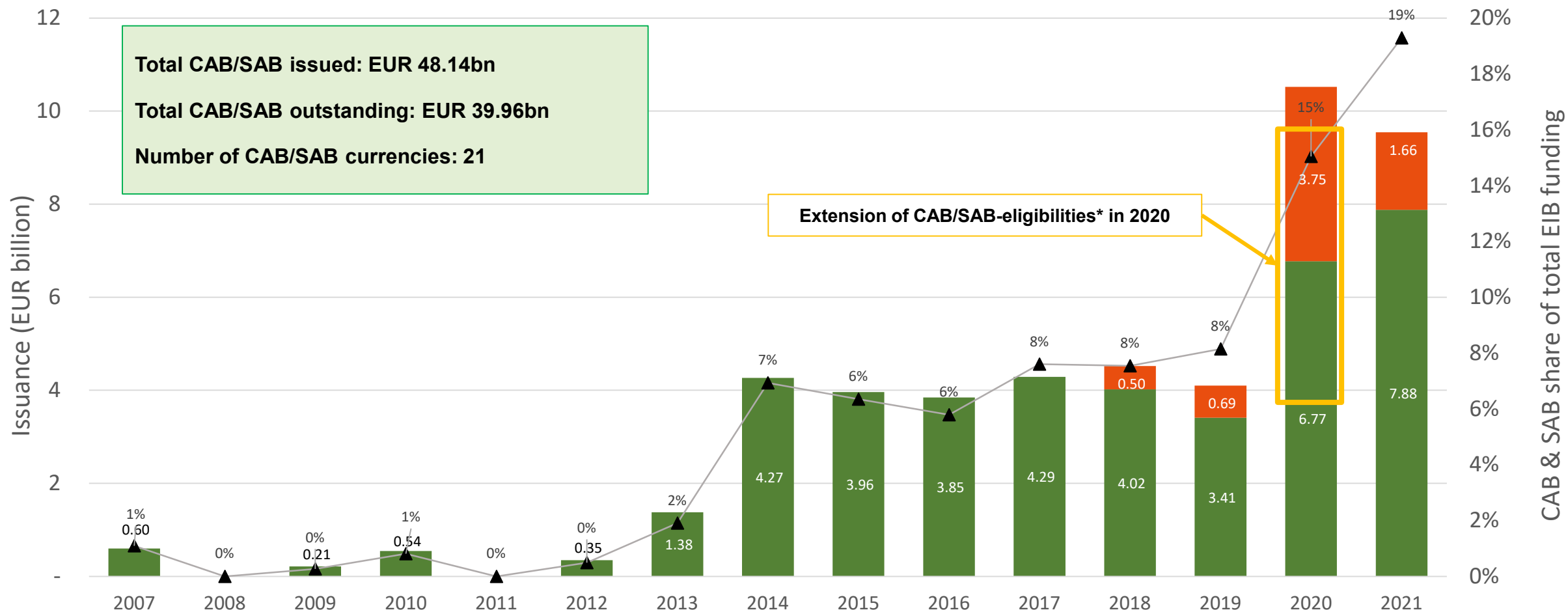
- Loan eligibilities are decided upon Board approval and reviewed upon disbursements (in case of new information), in both cases by the Project Directorate
- Double counting is excluded
- Proceeds are allocated only to **new** eligible **disbursements** taking place after bond issue date
- Allocations are automated and follow a “first in, first out” rule
- Allocations are frozen and booked twice a year in a separate treasury portfolio
- Allocation and impact reports are published in yearly “CAB/SAB Frameworks”
- CAB/SAB Frameworks are audited by KPMG with **Reasonable Assurance (ISAE 3000)**

CAB & SAB Sustainability Objectives & Activities – *status quo*



	Climate Awareness Bonds	Sustainability Awareness Bonds	
	Environmental	Environmental (other than climate change mitigation)	Social
Objectives	<ul style="list-style-type: none"> Climate Change Mitigation (2007) 	<p>So far:</p> <ul style="list-style-type: none"> Sustainable Use and Protection of Water and Marine Resources (2018) Pollution Prevention and Control (2018) Protection and Restoration of Biodiversity and Ecosystems (2021) 	<p>So far:</p> <ul style="list-style-type: none"> Access to Water and Sanitation (2018) Natural Disaster Risk Management (2018) Access to Equitable and Inclusive Education (end 2019) Universal Access to Affordable Health Services (end 2019) Health Emergencies Response & Preparedness Capacity (2020)
Activities	<p><u>Eligible activities:</u></p> <ul style="list-style-type: none"> Renewable Energy (2007) Energy Efficiency (2007) Research, development and deployment of innovative low-carbon technologies (06/2020) Electric rail infrastructure and rolling stock, and electric buses (06/2020) 	<p><u>Eligible activities:</u></p> <ul style="list-style-type: none"> Water Supply and Management (2018) Wastewater Collection and Treatment (2018) Sustainable Forest Management (2021) 	<p><u>Eligible activities:</u></p> <ul style="list-style-type: none"> Water Supply and Management (2018) Wastewater Collection and Treatment (2018) Flood Protection (2018) Education (2019), including higher education (2020) Health (2019), including Covid-related activities (2020)

CAB/SAB issuance and their share in EIB's total funding programme



Total CAB/SAB issued: EUR 48.14bn
Total CAB/SAB outstanding: EUR 39.96bn
Number of CAB/SAB currencies: 21

Extension of CAB/SAB-eligibilities* in 2020

***CAB ELIGIBILITIES:**

2007-2020: RE&EE projects; **2020:** Extended to: (a) Electric rail infrastructure and vehicles and other electric public land transport vehicles, (b) Research, development and deployment of innovative low carbon technologies.

***SAB ELIGIBILITIES:**

2018-2020: Water projects; **2020:** Extended to Education and Health projects (incl. COVID-19)

Source: EIB Sustainability Funding Team
 Data as of 13 September 2021

CAB and SAB in comparison with GBP/SBP and EUGBS proposal



Green/Social Bond Principles

TEG Proposal for EU Green Bond Standard

EIB CAB/SAB

- Alignment with the GBP/SBP objectives/project categories

- Alignment with the **EU Sustainability Taxonomy (EUST)**

- EUST Transition Plan (5.3 CBR)
- CAB/SAB documentation already aligned (since 09/2018)
- Gradual extension of CAB/SAB eligibilities

- Description of issuer's approach regarding process for project evaluation and selection and management of proceeds

- Disclosure of issuer's alignment with: the EU taxonomy; overall green bond strategy; project selection; methodologies and processes for allocation and impact reporting

- [CAB Framework](#) since 2016
- [SAB Framework](#) since 2020

- Allocation and Impact reporting recommended

- Allocation and Impact reporting mandatory

(including both allocation and impact reports)

- Appointment of an external reviewer recommended

- Issuers shall appoint an accredited external verifier
- Verification applies: (i) to the Green Bond Framework and at least (ii) to the Allocation Reporting

- KPMG's **Reasonable Assurance (ISAE 3000)** on CAB/SAB Framework covering framework, allocation and impact reports





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