

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.8/CRP.1

May 2, 2012

Joint Meeting of the CTF and SCF Trust Fund Committees

Washington, D.C.

May 1-2, 2012

**LETTER FROM EUROPEAN COMMISSIONER FOR CLIMATE ACTION
MS. CONNIE HEDEGAARD,
IN SUPPORT OF EIB'S APPLICATION**

Brussels, 30.04.2012
D (2012) 534007

Dear Stakeholders of the Climate Investment Funds,

As the European Commissioner for Climate Action, I would like to strongly support the European Investment Banks' application to become an Implementing Agency of the Climate Investment Funds. I understand you will discuss the matter on 2nd May and would like to draw to your attention the impressive track record of the EIB in the climate action field.

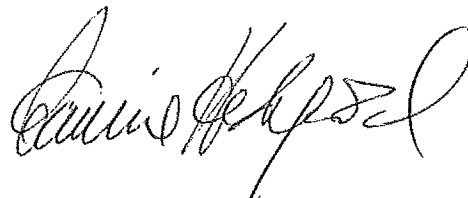
As you are well aware, climate action is a top priority for the EU. The EIB has supported over the years the EU's goals of low-carbon and climate resilient growth both inside and outside Europe. The EIB has thus gained considerable experience, partly complemented with EU budgetary funding. This trend will continue to increase over the next years as the EU will use innovative finance to help support low-carbon growth in the EU and to contribute to the goal of mobilising \$ 100 billion climate finance a year by 2020 for developing countries.

In 2011, the EIB financed €18.5 billion in projects in the fight against climate change. The EIB also brings to the table lending resources that could be further leveraged for activities outside the EU, such as the recently released Climate Mandate for up to €2 billion with an EU Guarantee, and the EIB's own-risk Sustainable Energy lending Facility of up to €4.5 billion.

The EIB, one of the world's largest multilateral financing institutions, would bring considerable technical and financial expertise to the CIFs. That expertise would be complementary to the other implementing agencies. I also trust that the already strong collaboration between the EIB and the CIF implementing agencies, ranging from upstream harmonisation of performance standards to co-financing in the field, will be further cemented by joining forces in the CIFs.

I strongly support the EIB application and trust that you will also lend it your support.

Yours sincerely,



Connie Hedegaard

Cc: President Werner Hoyer

Annex: EIB application

Climate Investment Funds
World Bank
USA – Washington DC

APPLICATION FOR THE EUROPEAN INVESTMENT BANK (EIB) TO BECOME AN IMPLEMENTING AGENT OF THE CLIMATE INVESTMENT FUNDS (CIF)

This note represents the formal application of the European Investment Bank to become an Implementing Agent of the Climate Investment Funds. In proposing to become a CIF Implementing Agent, the EIB is bringing considerable technical and financial expertise on investments for climate mitigation and adaptation both within the EU and in most developing countries. Furthermore, the Bank is uniquely placed to transfer knowledge and experience from its European operations to developing countries. The CIFs also provide the potential to leverage further financial resources from the EIB for sound climate investments in developing countries, in relation to both the Clean Technology Fund, and the sub-funds of the Strategic Climate Fund.

Introduction to the EIB

The European Investment Bank is one of the world's largest multilateral financing institutions. Its mission is to support smart, sustainable and inclusive growth, which thereby makes a tangible contribution to development within and outside Europe.

As the Bank of the European Union, it uses its special expertise and resources to make a difference to the future of Europe and its partners, by supporting sound investments underpinning EU policy objectives. The EIB operates as a multilateral bank and raises the majority of its resources on the capital markets on favourable terms which it passes on to its borrowers. The EIB's shareholders are the Member States of the European Union. The Bank is financially autonomous.

In relative terms, EIB lending is channelled primarily to projects in the EU Member States, while in absolute terms a significant level of lending operations take place in developing countries outside the Union. The Bank contributes to the implementation of EU development aid and internal cooperation policies under a series of specific regional mandates in support of EU development and cooperation policies in partner countries, covering: EU Candidate and Potential Candidate Countries in the Enlargement Region; the Mediterranean, Russia and Eastern Neighbours; Africa, Pacific and Caribbean (ACP); the Republic of South Africa; and Asia and Latin America.

Very importantly, in October 2011, the EU authorised an additional EIB Mandate of up to €2 billion, with an EU budget guarantee, to support EIB financing operations in the field of climate change mitigation and adaptation across developing countries by the end of 2013.

The following text summarises the approach of, and some of the key actions undertaken by, the European Investment Bank (EIB) in relation to climate change.

EIB's activities on climate

Climate Action is a key priority for the EIB. The EIB supports the EU's goals of low-carbon and climate-resilient growth inside and outside Europe. Within the EU, the EIB has gained considerable technical experience and expertise through the intensive promotion of climate action, partly complemented with EU budgetary funding.

Overall, the EIB is one of the largest multilateral providers of climate finance among international financial institutions. In 2011, investments for climate action of approximately €18.5bn accounted for 31% of total Bank lending, of which € 2.16bn was in developing countries outside the EU.

The EIB's climate action focuses both on low-carbon investments that mitigate greenhouse gas emissions and on climate-resilient projects that improve adaptation to climate change impacts. The Bank considers mitigation and adaptation measures to be complementary in the fight against climate change. Financing activities in these two areas are developed within the framework of the EIB's sector lending policies and approaches, particularly those concerning energy, transport, water, wastewater, solid waste, forestry, and research, development and innovation (RDI).

The EIB strongly supports:

- Energy efficiency and renewable energy investments;
- Investments to accelerate the development and dissemination of low-carbon technologies and processes in all sectors (i.e. long-term R&D, early-stage commercialisation and demonstration; clean transport; carbon capture and storage);
- Afforestation and sustainable forest management, the multifunctional benefits of which include both climate change mitigation and adaptation;
- Lending that fosters resilience in sectors which are particularly vulnerable to climate change and to governments and local authorities that need to adapt to climate change (e.g. flood control and drought management measures in the water sector);
- Technical assistance initiatives in a wide range of areas for project development and implementation;
- Development of carbon markets.

The Bank is also supporting the European Commission in the UN Sustainable Energy for All initiative, and has participated in the Technical Support Unit of the Transitional Committee in charge of designing the Green Climate Fund.

The Bank has set a minimum annual target for climate action projects of 25% of its total lending.

The EIB's climate activities outside Europe

The EIB has a longstanding experience (more than 40-year) of activity in developing countries worldwide. On top of the lending mandates under the EU-ACP (Africa Caribbean and Pacific) partnership agreements or decided by the European Council and Parliament, the Bank's Board of Governors has approved an additional EIB own-risk lending facility of €4.5 billion available over the period 2007-2013 for the financing of climate action projects outside Europe.

The EIB's climate activities cover clean technology, forestry, adaptation and renewable energy and energy efficiency. Indicative examples of activities and investment projects outside the EU include:

- Framework Loans, e.g. in Brazil, China, India, Central America, South Africa for mitigation, energy efficiency and renewable energy, including at small and medium-scale project level;
- Increasing climate resilience in the East African water and sanitation sector;
- Onshore wind farms on four islands in the Cape Verde archipelago;
- Reforestation of degraded land in Uganda;
- A post-2012 Carbon Fund supporting low-carbon projects in Asia, Africa and Latin America;
- Hydropower in Chile
- Interact Climate Change Facility (a co-financing facility together with AFD and the European Development Financing Institutions).

As can be seen from the above list, as well as a very diverse portfolio of operations, the EIB uses a broad range of financing instruments to support its climate actions, including sovereign and sovereign-guaranteed loans, sub-sovereign loans, non-sovereign loans, equity, guarantees, concessional financing and grant-funded technical assistance in various forms. Building on this broad range, the EIB has the ability to blend financing sources and to co-fund investments, to leverage significant additional public and private financing. The EIB also works closely with the European Commission and EU Delegations to identify opportunities in-country for blending grants and loans and for using other innovative financial instruments to help bridge financing gaps.

This range of financing instruments has been important in catalyzing climate change mitigation investments by the private sector. The traditional range of financing instruments is particularly appropriate for investments with positive rates of return and climate change mitigation benefits. However, when these benefits cannot be fully captured by investors, or client governments, the EIB can deploy innovative climate financing instruments which blend concessional funding with own financing to address market failures (notably in the adaptation sector), reduce risk, and leverage further investment.

Project sustainability, including financial sustainability, is core to the EIB operations. Lending discipline, return-to-capital objectives, rigorous due-diligence and environmental procedures, selective engagement rules, and frequent co-financing with the MDBs or commercial banks all support project implementation and sustainability.

Likewise, the EIB has considerable sectoral expertise and experience. The EIB has developed sector policies for energy, transport, water and waste water treatment, sustainable urban development, solid waste management, manufacturing of biofuels and research and development. Each of these policies includes the systematic identification of the need for, and possibilities to, incorporate climate change resilience and adaptation, and how the Bank can play a role to increase project quality. The EIB requires from project promoters, and is available to assist them in, a vulnerability analysis and pro-active measures to build in climate resilience in the project design and operation. In addition, as part of the standard project appraisal process, the EIB is doing pioneering work to measure the carbon footprint and the reductions in greenhouse gas emissions generated by the projects. It is also considering the progressive reduction of internal carbon footprint, as part of its corporate responsibility objectives.

Cooperation with other Development Banks

The EIB cooperates extensively with the other Multilateral Development Banks (MDBs), as well as with European bilateral agencies, with regard to harmonising performance standards, carbon footprint calculations, climate risk management, reporting on investment and financial flows, and providing advice to UNFCCC policy makers. The EIB was part of the joint MDB input to the High Level Advisory Group on International Climate Action Finance, the input to the technical support group of the UN Green Fund Transitional Committee, and the joint MDB report to the G20 on mobilising climate finance.

Numerous projects and programmes are co-financed by EIB with other MDBs, including some of those already receiving grants from the Climate Investment Funds (e.g. the Ouarzazate Solar Power in Morocco).

Participation as an Implementing Agent in the CIF, the current major multilateral disbursement mechanism for climate funds, will complement the above work.

Why is the EIB applying to become an IA now?

The EIB has been active in the CIFs, having been an Observer of the CIF Committee Meetings since 2010, and participating in two programming missions. The EIB also participates in discussions and preparations regarding the Green Climate Fund. It has always been an anomaly, however, that one of the largest public multilateral development banks is not a CIF IA.

With additional countries being asked to produce new investment plans, as well as existing investment plans being updated, and with the CIFs remaining the key multilateral financing vehicle until the Green Climate Funds are established, the EIB has decided to formally apply for IA status, so as to play a greater part, in coordination with other multilateral agencies, to help meet the financing needs of developing countries.

The EIB has approved the allocation of the extra staff resources for the preparatory work to become an Implementing Agent, and to undertake subsequent country programming.

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

European Investment Bank, Luxembourg

30th March 2012