

# The EIB Environment Framework



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# Executive Summary

1. Life on Earth is facing unprecedented, existential threats. Climate change, pollution, ocean acidification and nature loss pose a series of interconnected problems that may lead to economic and social development reversals. This global environmental crisis directly affects human health, well-being and economic prosperity. And, for the first time in our history the most serious and immediate risks are human made and unfolding on a planetary scale.
2. More needs to be done at the European and global level to restore or avoid further degradation to the environment. At the global level, humanity has already overstepped six of the nine identified environmental planetary boundaries: climate change, biodiversity, chemical pollution, land-use change, nitrogen and phosphorous flows, and green water (water available to plants). At the European level, the European Environment Agency (EEA) considers that Europe is not making enough progress in addressing environmental challenges of unprecedented scale and urgency.
3. Current investment levels dedicated to environmental issues are insufficient to address the challenges of environmental degradation. To take just one example, the UN Environment Programme estimated in 2021 that investment in nature-based solutions ought to at least triple in real terms by 2030 and increase fourfold by 2050 if the world is to meet its climate change, biodiversity and land degradation targets. This acceleration would equate to cumulative total investment of up to \$8.1 trillion.
4. The root of the problem lies in a number of market failures that reduce investment incentives for the private sector. Due to the public-good nature of many natural assets, the undervaluation of inherent environmental benefits in investments, and information asymmetries, the market alone cannot deliver optimum environmental benefits. In addition, a number of investment barriers, particularly acute where environmental investments are concerned, slow down or hinder the design and implementation of investments or even prevent them from happening at all.
5. Building on its vision and commitment articulated in the Climate Bank Roadmap (CBR), the EIB has a role to play in helping operations overcome market failures within its remit and alleviate some of the structural investment gaps identified, particularly with regard to constrained access to finance.<sup>1</sup> Additionality and impact are central to the mission of a public bank such as the EIB. The EIB will continue to enhance its product offering to generate more climate- and environment-oriented financing in support of key policy objectives and deliver additionality by addressing specific investment needs and market gaps or by catalysing additional “green” investment.
6. This document, the EIB Environment Framework (“the Framework”), consolidates the EIB’s efforts and activities contributing to environmental sustainability. It supports the EIB’s operationalisation of its commitment, taken at the COP26 Climate Conference in Glasgow, along with other multilateral development banks (MDBs), to step up efforts towards the protection, restoration and sustainable use of nature.
7. The EIB, including EIB Global, is already engaged in financing investments that bring about environmental benefits. It supports the implementation of the European Green Deal, including its external dimension and, in particular, the actions identified in the EU roadmap to ensure a just and inclusive transition to a sustainable economy. It also supports the United Nations Sustainable Development Goals (SDGs) throughout the world.
8. Currently, out of the four environmental objectives identified by the EU Taxonomy Regulation, the greatest volume of EIB financing goes to investments delivering “*pollution prevention and control*”, followed by investments contributing to the “*sustainable use and protection of water and marine resources*”. Still, the high EIB investment volumes for these two environmental objectives are dwarfed by the investment gaps

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<sup>1</sup> EIB Group Operational Plan 2022-2024

identified, and the global environment situation clearly shows that more needs to be done. The EIB will seek to pursue its efforts in both domains.

9. EIB investments contributing to the two other environmental objectives, “*transition to a circular economy*” and “*protection and restoration of biodiversity and ecosystems*”, are smaller. However, they have gradually increased over the years. Given the importance of the two objectives for achieving the EU Green Deal, the global SDGs and given the significant financing gaps in these areas, the Bank will seek to increase the investment volume dedicated to them as part of its 2025 financing target. The EIB will also explore ways to facilitate access to increased technical assistance and grant funding to overcome some of the identified constraints.
10. The EIB has developed a number of measurement tools and will further its efforts in that direction aiming to:
  - consider how to inform the valuation of project benefits for preserving biodiversity and supporting ecosystem services in order to better integrate environmental costs and benefits into project economic analysis;
  - consider biodiversity footprint methodologies to better identify the physical biodiversity risks associated with projects;
  - work on expanding the climate risk screening methodology to incorporate environmental risks in an integrated manner; and
  - rationalise its environment-related project indicators and metrics, along the four environmental objectives, so that they are comprehensible and relevant to the market, and can be easily aggregated for reporting purposes.
11. To deliver positive environmental impact, the EIB uses and will further muster financial and non-financial contributions. It has recognised that to achieve its environmental objectives, it must mobilise increased amounts of funding from external resources, and accompany this with further development and capitalisation of thematic funds, instruments and technical assistance:
  - In the green debt markets, the EIB’s anchor participation brings credibility in the context of still evolving EU and international taxonomies. The EIB’s robust climate action and environmental sustainability (CA&ES) definitions as well as Environmental and Social Standards offer a benchmark of good practice for clients and markets.
  - The EIB will continue to use blended finance at scale in a targeted and catalytic way to support high environmental impact investments.
  - The EIB intends to further support the development of pilot integrated initiatives that can deliver environmental sustainability impact at scale, with a view to replicating such solutions at a later stage. In collaboration with other institutions and organisations, it is also working on a pilot concept for biodiversity credits that could pave the way for robust financial markets supporting nature-positive outcomes.
  - The EIB is exploring new opportunities to provide the effective delivery of grant, technical assistance and advisory instruments to support project preparation and implementation. It will also continue to mobilise innovation and R&D mandates in the European Union to accelerate the deployment of new technology and innovation that have environmental benefits potential.
  - The Bank will work with its partners to examine how best to target its support towards the priority areas identified in the country-specific strategies and action plans on biodiversity or climate.
12. Lastly, the EIB provides inputs supporting the design of a setting more conducive to environmental investments. It will accompany counterparts in valuing natural capital and leveraging environmental sustainability in their processes and supply chains. It will continue providing inputs to the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and other standard-setting bodies aimed at rebalancing and redistributing environment and climate-related risks. And it is reinforcing its strategic positioning on environmental matters helping to generate knowledge, build capacity and mobilise resources tackling environmental issues.

# 1. Why do we need an Environment Framework?

## Why the environment matters

*“Like it or not, we remain a biological species in a biological world, wondrously well adapted to the peculiar conditions of the planet’s former living environment, albeit tragically not this environment or the one we are creating. In body and soul we are children of the Holocene, the epoch that created us, yet far from well adapted to its successor the Anthropocene.”* — Edward O. Wilson, Half-Earth: Our Planet’s Fight for Life.

- 1.1. Life on Earth is facing unprecedented, existential threats. Climate change, pollution, ocean acidification and nature loss pose a series of interconnected problems and interact with existing inequalities, threatening significant development reversals. There is now a strong scientific consensus as to the anthropogenic roots of this global environmental crisis, which constitutes the greatest human challenge of our era.<sup>2</sup>
- 1.2. The relationship between human health, well-being, economic prosperity and nature is indisputable. Though humanity has achieved incredible progress, environmental degradation, pollution and overexploitation of natural resources hamper economic progress. We have taken the Earth for granted, destabilising the very systems we rely on for survival. Now, over the span of a little more than a decade, the global financial crisis, the climate and biodiversity crises, the increased income inequality crisis and the COVID-19 crisis have all shown that the resilience of human and ecological systems is threatened. Human beings cannot live or thrive without the multitude of services provided by nature and, for the first time in our history, the most serious and immediate risks for humanity and ecosystems are human made and unfolding on a planetary scale. Business as usual simply will not work. This recognition should serve as a springboard to push for meaningful transformative economic, environmental and social action that will protect people and restore the planet’s health.
- 1.3. The natural environment is central to economic activity, growth, human health and well-being, providing the resources we need to produce goods and services, and absorbing and processing unwanted by-products in the form of pollution and waste. Environmental assets contribute to managing risks to economic and social activity, help regulate flood risks and local climate (both air quality and temperature), and maintain the supply of clean water and other resources. Key economic activities (such as agriculture, fishery, forestry, water-related activities, and much of the tourism sector) depend directly on the natural environment. The environment is also the source of energy and raw material inputs (such as water, timber and minerals) for a sizeable portion of our production systems and industrial processes.
- 1.4. Biodiversity loss and climate change, both driven by human economic activities, mutually reinforce each other. Climate change is currently responsible for 11% to 16% of biodiversity loss and is expected to become the dominant driver of such loss over the next few decades.<sup>3</sup> Neither biodiversity loss nor climate change will be successfully resolved unless both are tackled concurrently.<sup>4 5</sup>

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<sup>2</sup> The United Nations (UN) Human Rights council recognised in 2021 that a clean, healthy and sustainable environment is a human right: Human Rights Council resolution 48/13. [G2128950.pdf \(un.org\)](https://www.un.org/press/en/2021/20210713.unhrc-res4813.shtml)

<sup>3</sup> Brondizio, E. S., Settele, J., Díaz, S., & Ngo, H. T. (2019). Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

<sup>4</sup> IPBES-IPCC co-sponsored workshop report on biodiversity and climate change; IPBES and IPCC. DOI:10.5281/zenodo.4782538.

<sup>5</sup> <https://www.ipcc.ch/assessment-report/ar6/>

- 1.5. Degradation of the environment directly affects key aspects of human life:
- Human health and well-being are determined by the availability of natural space, the quality of air, water and soil. Air pollution kills 13 people every minute, while polluted water and poor sanitation lead to more than 800 000 deaths per year.<sup>6</sup> 300-400 million tonnes of industrial waste are dumped into the world's waters every year.<sup>7</sup> Agriculture alone now uses up to 50% of total habitable land<sup>8</sup> and is the most widespread form of land-use change.
  - Food security and biodiversity depend on soil ecosystems, climate, and availability of land and water. Without pollinators, production of some of the leading global crops would decrease by as much as 90% (cantaloupe, cocoa, kiwi, squashes and pumpkins, vanilla and watermelon, for example).<sup>9</sup>
  - The number of people living in extreme poverty may increase by 122 million by 2030, as existing vulnerabilities and inequalities intensify with environmental degradation and climate change, particularly affecting socially excluded groups<sup>10</sup> and those depending on natural resources for their incomes, livelihoods, culture and other practices.<sup>11</sup>
  - Social stability is affected by a range of environmental factors: "Volatility in weather patterns, shocks to food supply and distribution, and land and resource scarcity have all been linked to heightened conflict risks, social tension and undermining sustainable development across all regions".<sup>12</sup>

## Purpose and scope of the EIB Environment Framework

- 1.6. This document, the EIB Environment Framework, builds on the EIB Group Climate Bank Roadmap (CBR)<sup>13</sup> with a focus on the environmental sustainability dimensions. The CBR sets the course for the EIB, including EIB Global, to respond effectively to European and global environmental challenges and recognises the linkages between the environment, climate, economic growth and social inclusion. The Framework consolidates the EIB's efforts and activities for achieving environmental sustainability as well as responding to the emerging needs of its clients. The Framework summarises how the EIB will continue to deliver on its environment-related commitments and, in particular, on the environmental sustainability part of its 2019 objective to increase the share of its annual financing dedicated to climate action and environmental sustainability to at least 50% by 2025 and beyond and the EIB Group's aim to support €1 trillion of investment in climate action and environmental sustainability from 2021 to 2030. It takes into consideration the EIBG's environmental commitments defined in the EIBG Environmental and Social Policy (E&S Policy).
- 1.7. The Framework reflects the environmental sustainability principles of the EU Treaties, the multilateral agreements (such as the Paris Agreement and the Convention on Biological Diversity),<sup>14</sup> conventions, and international treaties including the 2030 Agenda for Sustainable Development<sup>15</sup> to which the European Union has acceded. It takes into account the European Union's Eighth Environment Action Programme

<sup>6</sup> <https://www.who.int/campaigns/world-health-day/2022/campaign-toolkit>

<sup>7</sup> Brondizio, E. S., Settele, J., Díaz, S., & Ngo, H. T. (2019). Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

<sup>8</sup> Total habitable land = global land area minus glaciers and minus barren land. See <https://ourworldindata.org/land-use#:~:text=Half%20of%20all%20habitable%20land,roads%20and%20other%20human%20infrastructure>.

<sup>9</sup> Potts, S. G., Imperatriz Fonseca, V., Ngo, H. T., Biesmeijer, J. C., Breeze, T. D., Dicks, L., & Viana, B. F. (2016). Summary for policymakers of the assessment report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services on pollinators, pollination and food production.

<sup>10</sup> Socially excluded groups and individuals may vary depending on the context but in the context of environmental degradation and climate change often include women, indigenous people, migrants and refugees, youths and the elderly, ethnic and religious minorities.

<sup>11</sup> IPCC WGII Sixth Assessment Report, Chapter 8: Poverty, Livelihoods and Sustainable Development (2021)

<sup>12</sup> UNDP Special report: New threats to human security in the Anthropocene: Demanding greater solidarity. [srhs2022.pdf \(undp.org\)](#)

<sup>13</sup> The EIB Group Climate Bank Roadmap 2021-2025 details how the Group will achieve the commitments the EIB's Board of Directors approved in 2019 for climate action and environmental sustainability, and which the EIF Board approved in November 2020: (i) the EIB Group aims to support €1 trillion of investment in climate action and environmental sustainability from 2021 to 2030; (ii) the EIB will gradually increase the share of its annual financing dedicated to climate action and environmental sustainability to 50% by 2025 and beyond; (iii) all new EIB Group operations will be aligned with the principles and goals of the Paris Agreement by the start of 2021.

<sup>14</sup> See Multilateral Agreements — Environment — European Commission (europa.eu)

<sup>15</sup> The 2030 Agenda features the environmental dimension as the foundation to achieve many of its 17 Sustainable Development Goals and its associated targets.

which anchors and operationalises the commitments of the EU Green Deal until 2030. The Framework will also support delivering on investments that simultaneously advance environmental sustainable development, social inclusion, gender equality and resilience building, particularly in socially and environmentally fragile contexts in line with the CBR and E&S Policy ambitions.

- 1.8. The Framework is the EIB's response on how it intends to operationalise its commitment, along with other multilateral development banks, to step up its efforts towards the protection, restoration and sustainable use of nature. In a [joint statement signed at the COP26 Climate Conference in Glasgow](#), the institutions stated that *"progress on global sustainable development, climate and biodiversity goals cannot be achieved without addressing the direct and indirect drivers of nature loss and transforming the way in which we value, use, conserve and share the benefits from nature"*. The Framework reflects five key areas of the commitment made in the Joint Statement to further mainstream nature considerations into respective policies and operations: (i) maintaining thought leadership in the development of safeguards for biodiversity; (ii) fostering "nature-positive investments"; (iii) creating regional synergies and setting out strategic approaches; (iv) valuing nature to guide decision-making; and (v) enhancing reporting on efforts and initiatives to mainstream nature in analyses, advice, investments and operations.
- 1.9. To contribute more effectively to enhancing environmental sustainability, improve human health and well-being, accelerate social inclusion and gender equality, and support its clients in the green transition, the EIB will aim to further support, both inside and outside the European Union, through EIB Global, the four environmental objectives of the [EU Taxonomy Regulation](#), in line with the CBR:<sup>16</sup>
  - Sustainable use and protection of water and marine resources;
  - Transition to a circular economy;
  - Pollution prevention and control; and
  - Protection and restoration of biodiversity and ecosystems.
- 1.10. This overarching document may be complemented by specific orientation papers on key environmental areas consistent with the focus areas for green investments identified and spelled out in the CBR, the EIBG E&S Policy and the European Green Deal. These orientation papers set out the opportunities and the EIB's support for environmental investments.
- 1.11. The Framework will notably:
  - highlight the necessity to tackle the nature crisis and outline the current global shortfall in support for environmental investment;
  - explain how the EIB defines an environmental investment;
  - highlight the types of investment the Bank is exploring to promote and increase its contribution to delivering environmental benefits, considering the links with climate and social goals and reducing environmental degradation;
  - build on the EIB's existing impact measurement and reporting frameworks to gradually develop its existing tools and methodologies; and
  - present the enabling tools and instruments the EIB will continue to use and adapt, where required, seeking to support the delivery of positive impacts on the environment and society.

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<sup>16</sup> These objectives include all the EU Taxonomy environmental objectives except those related to climate change.

## 2. European and global shortfall in support of environmental sustainability

More needs to be done at the European and global level to restore the environment or at least avoid further degradation to the environment by 2030

- 2.1. In its *European environment — state and outlook 2020* the European Environment Agency concluded that Europe is not making enough systemic progress in addressing environmental challenges of unprecedented scale and urgency. On the one hand, the European Union has managed to agree ambitious long-term climate and environmental goals and its environmental and climate policies have delivered substantial benefits in some areas over recent decades. On the other, Europe still “*faces persistent problems in areas such as biodiversity loss, natural resource use, climate change impacts and environmental risks to health and well-being*”.
- 2.2. By way of illustration, the EEA report states that “20% of the EU’s urban population lives in areas with concentrations of air pollutants above at least one EU air quality standard”; that “exposure to fine particulate matter is [still] responsible for around 400 000 premature deaths in Europe every year”; and that “62% of Europe’s ecosystem area is exposed to excessive nitrogen levels, causing eutrophication”.<sup>17</sup> The 2019 *EU Environmental Implementation Review* estimated the costs and foregone benefits to society (in the European Union) to be around €55 billion annually, from not achieving the environmental targets specified in the EU environmental legislation for seven policy areas: air and noise, nature and biodiversity, water, waste, chemical, industrial emission and major environmental accident hazards.
- 2.3. The situation is similar, or worse, at the global level, with humanity failing to stay within the planetary boundaries.<sup>18</sup> Despite the adoption of the SDGs and targets converging on 2030, the unsustainable use of natural resources and other human pressures are driving global environmental change and degradation.
- 2.4. Humanity has already overstepped six of the nine planetary boundaries: climate change, biodiversity, chemical pollution (labelled “novel entities”, which includes plastic), land-use change (which includes deforestation), nitrogen and phosphorous flows (to the biosphere and the oceans), and green water (in other words, water available to plants). Crossing of any of these boundaries results in an increased risk of generating large-scale abrupt or irreversible environmental changes. So far, humanity has altered the carbon cycle, the nitrogen cycle and the water cycle, caused ocean acidification, punched a hole in the ozone layer and sparked a global ecological crisis. The clear message is that continued inaction and policy implementation gaps on the planetary boundaries that are being transgressed now will reduce the options for fair and just pathways in the future.

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<sup>17</sup> Eutrophication is the process by which a body of water becomes enriched with minerals and nutrients, particularly nitrogen and phosphorus leading to algal blooms.

<sup>18</sup> [The nine planetary boundaries — Stockholm Resilience Centre](#)

- 2.5. Environmental degradation also directly affects the economy and livelihoods. Almost all economic activities are supported directly or indirectly by the use of environmental resources (such as land, water, forests). Environmental degradation reduces the availability of natural assets,<sup>19</sup> and this has cascading consequences for economic activity. For example, a collapse in select services such as wild pollination, provision of food from marine fisheries and timber from native forests, could result in a significant decline in global GDP: \$2.7 trillion in 2030.<sup>20</sup> The cost to 42 African countries of not tackling land degradation resulting in a loss of nutrients has been estimated to be about \$4.6 trillion in PPP<sup>21</sup> over the period 2016-30.<sup>22</sup> Meanwhile, water constraints are already impacting energy production around the world.<sup>23</sup> Lack of sufficient water resources in South Africa, for instance, has forced all new power plants to shift to dry cooling systems, which cost more and are less efficient than water-cooled systems.
- 2.6. Fundamental changes to the environment threaten to undermine the progress we have made in health and life expectancy. More heat stress coupled with air pollution, for example, reduces labour productivity and causes more deaths, particularly in mid- and low-latitude regions. Declining crop yields in tropical and sub-tropical regions risk increasing undernutrition for many millions, stunting children's growth. Lack of action to address health-impairing air and water pollution, for example, is costing some countries the equivalent of 4% of GDP or more a year.<sup>24</sup> On top of this, land-use changes, pollution and temperature rise are causing more infectious (vector-borne) diseases. Outbreaks of zoonotic and other infectious diseases such as Ebola, SARS, avian flu and now COVID-19, caused by a novel coronavirus, are on the rise and this is only the tip of the iceberg. If we do not bend the curve and reduce the loss of nature and destruction of natural habitats, zoonotic diseases will continue to thrive.
- 2.7. While the world's per capita gross national product (GNP) has doubled since 1992, the benefits that humans derive from the services provided by nature have fallen by 40% on a per capita basis worldwide. Environmental degradation, pollution and overexploitation of natural resources hamper economic progress. Current incentives embedded within the economic and financial systems are stacked against sustainable management of the world's resources. The current economic model, driven by unsustainable patterns of growth and consumption, is clearly putting too much pressure on an already stretched environment and explains why attempts to tackle climate change and environmental decline have to date been largely unsuccessful, and why the trends continue to move at a fast pace in the wrong direction.
- 2.8. These unsustainable and inefficient growth patterns highlight the need for inclusive green growth and the need for the world to change the measure of economic success from GDP. The Dasgupta Review, an independent global review on the economics of biodiversity, argues that moving to inclusive wealth, which measures all capital assets (in other words produced capital, human capital and natural capital) as the aggregate value of a country's economic success, is a necessary step towards returning to a path of sustainable growth instead of continuing to live beyond our planet's means.<sup>25</sup>

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<sup>19</sup> The United Nations System of Environmental-Economic Accounting (SEEA) defines natural assets as assets of the natural environment: these consist of biological assets (produced or wild), land and water areas with their ecosystems, subsoil assets and air.

<sup>20</sup> The Economic Case for Nature: A global Earth-economy Model to Assess Development Policy Pathways; © 2021 International Bank for Reconstruction and Development / The World Bank

<sup>21</sup> Purchasing power parity

<sup>22</sup> ELD Initiative & United Nations Environment Programme, UNEP (2015). The Economics of Land Degradation in Africa: Benefits of Action Outweigh the Costs. Available from [www.eld-initiative.org](http://www.eld-initiative.org).

<sup>23</sup> <https://blogs.worldbank.org/water/4-ways-water-shortages-are-harming-energy-production>

<sup>24</sup> The Lancet Commission on pollution and health, 2017 and the Lancet Planetary Health, 2022

<sup>25</sup> The Economics of Biodiversity: the Dasgupta Review, 2021 — This independent review explores the relationship between biodiversity and economics and calls for changes in how we think, act and measure economic success. It sets out a new framework, grounded in ecology and earth sciences, yet applying principles from finance and economics to understand the sustainability of our interaction with nature and prioritise efforts to enhance nature and prosperity.

## Environmental investment is insufficient

- 2.9. Current public and private investment levels are insufficient to address the challenges of environmental degradation. While estimating the scale of investment required is difficult, there are a few studies which offer insights into the magnitude of the shortfall. In 2019, the European Commission estimated that €320 billion would be needed by 2025 to implement projects that would put the European economy on the path towards a circular economy.<sup>26</sup> The OECD estimated in 2020 that, in the water supply and sanitation sector alone, close to €289 billion of additional expenditure would be needed by 2030 to comply with the relevant EU directives and to enhance the efficiency of the water supply systems in EU Member States.<sup>27</sup> Some €3-5 billion of additional funding would be required annually for flood protection investments.<sup>28</sup>
- 2.10. The level of financing devoted to environmental sustainability goals at the global level would also need to be significantly increased. The United Nations has estimated that achieving the global SDGs would require about \$5-7 trillion worth of investments with an investment gap of about \$2.5 trillion in developing countries.<sup>29</sup> The UN Environment Programme estimated in 2021 that investment in nature-based solutions ought to at least triple in real terms by 2030 and increase fourfold by 2050 if the world is to meet its climate change, biodiversity and land degradation targets. This acceleration would equate to cumulative total investment of up to \$8.1 trillion, and a future annual investment amount of \$536 billion.<sup>30</sup> Similarly, the Paulson Institute estimated that, as of 2019, biodiversity finance faces an average annual shortfall of around \$711 billion against the total estimated biodiversity protection need.<sup>31</sup> The World Bank estimates that achieving the water supply and sanitation targets (SDG targets 6.1 and 6.2) will cost low- and middle-income countries \$198 billion per year, with a further \$103 billion required for flood protection. Moreover, the protection of water-related ecosystem protection would require an increase in financial flows to watershed protection from \$27 billion to \$104-138 billion annually by 2030.<sup>32</sup>

## Market failures and investment barriers hinder necessary increases in environmental investment

- 2.11. Current levels of investment in environment are insufficient to meet policy objectives and targets. The root of the problem lies in a number of market failures that reduce investment incentives for the private sector. Due to the public-good nature of many natural assets, the undervaluation of inherent environmental benefits in investments, and information asymmetries, the market alone cannot deliver optimum environmental benefits.
- 2.12. Public sector intervention is warranted to mitigate such market failures, in particular for environmental investment projects. In fact, the delivery of environmental benefits most often hinges on public intervention, whether through regulation, incentives, taxation or even provision of goods and services. Without these, private sector stakeholders are not likely to engage in reducing pollution, their environmental footprint or soil and water conservation. Similarly, biodiversity benefits and ecosystem services (for example, a clean, unpolluted river) would not be delivered without public intervention.

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<sup>26</sup> [https://ec.europa.eu/info/sites/default/files/research\\_and\\_innovation/knowledge\\_publications\\_tools\\_and\\_data/documents/accelerating\\_circular\\_economy\\_032019.pdf](https://ec.europa.eu/info/sites/default/files/research_and_innovation/knowledge_publications_tools_and_data/documents/accelerating_circular_economy_032019.pdf)

<sup>27</sup> OECD (2020), Financing Water Supply, Sanitation and Flood Protection: Challenges in EU Member States and Policy Options, OECD Studies on Water, OECD Publishing, Paris, <https://doi.org/10.1787/6893cdac-en>.

<sup>28</sup> EIB estimates based on JRC PESETA study and OCDE reports

<sup>29</sup> <https://www.eea.europa.eu/articles/investing-for-sustainability>

<sup>30</sup> <https://www.unep.org/resources/state-finance-nature>

<sup>31</sup> [https://www.paulsoninstitute.org/wp-content/uploads/2020/10/FINANCING-NATURE\\_Full-Report\\_Final-with-endorsements\\_101420.pdf](https://www.paulsoninstitute.org/wp-content/uploads/2020/10/FINANCING-NATURE_Full-Report_Final-with-endorsements_101420.pdf)

<sup>32</sup> [https://www.afd.fr/en/rt65\\_water\\_case\\_studies\\_latin\\_america\\_crespi\\_reghizzi](https://www.afd.fr/en/rt65_water_case_studies_latin_america_crespi_reghizzi)

- 2.13. In addition to market failures, both private and public sector promoters face a set of investment barriers that slow down or hinder the design and implementation of investments or even prevent them from happening at all. The problem is particularly acute where environmental investments are concerned. The EIB identifies four main investment barriers:
- Issues related to **regulation**, such as regulatory uncertainty and fragmentation, perverse incentives and subsidies as well as the administrative procedures burden have been detected across most economic sectors and in many countries inside and outside the European Union.
  - **Market size and structure** often affect the financial viability of investments. Different standards between countries can also make it more difficult to invest.
  - Lack of budgetary **resources** to design and implement investments is a common problem for public-sector investment promoters, as are **weak planning and preparation capacity**, especially in complex investments.
  - **Limited access to finance** is a barrier frequently encountered in the private sector, in particular by small businesses, especially when it comes to risky investments.<sup>33</sup>
- 2.14. For environmental investments, the lack of clarity of regulation and standards is often the main barrier faced by investors. For the private sector, regulatory certainty is particularly relevant for the green transition. The public sector, notably municipalities, also see regulatory hurdles as a major barrier to environmental investment. Understanding and applying these regulations to investments involves a level of complexity that increases the need for skills and enhanced institutional capacity.
- 2.15. Experience and evidence also show that environmental governance is not always strong enough. In countries where institutional capacity is low, enforcement of the regulatory framework is weak, the environmental data and information are insufficient, and the use of economic instruments to prevent and control pollution and manage natural capital is limited.
- 2.16. Another investment barrier comes from the small and diffuse nature of the market in areas where environmental benefits could be increased. Such situations are very hard to consolidate to provide sufficient revenue streams and economies of scale for bankable investments. This is typically the case for the agriculture sector, the fisheries sector and the food industry, all strongly linked with environmental challenges but also with transformational opportunity. These sectors are characterised by a large number of small firms and farms. This is also the case, more generally, for natural capital investments, which, by design, tend to be relatively small-scale and vary hugely in type and location.
- 2.17. The constraints faced by public sector entities are another strong investment barrier hampering environmental activities. These stakeholders are often key to developing water, solid waste management and circular economy or biodiversity investments with strong environmental benefits. Yet, the borrowing capacity of public sector entities is often limited, and so is access to public funding. Moreover, competing priorities, lack of coordination among these entities, insufficient information and weak planning and project preparation capacity slow down environmental investments.
- 2.18. In the private sector, a lack of funds and financial barriers remain a particularly important issue for investments to tackle the green transition, especially for smaller firms. Most EU corporates enjoy adequate access to financing. While conditions have improved, small and medium enterprises remain more likely to be financially constrained. In some Member States this asymmetry is more pronounced, with one in five such companies identifying finance as a constraint. Moreover, the type of investment matters. When asked about barriers to investment that would finance their green transition, two out of three small businesses in the European Union identify the cost of such transformative investments as an issue and one out of two identifies the availability of finance as a constraint. Financial incentives targeting such transformative investment can be effective, with firms that received such support twice as likely to have invested in these areas. SMEs also highlighted their need for advice and technical assistance to identify available funding options for the green transition.

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<sup>33</sup> [Breaking Down Investment Barriers at Ground Level \(eib.org\)](https://www.eib.org/en/press/2022/01/breaking-down-investment-barriers-at-ground-level).

### 3. EIB's Additionality and Impact Measurement Framework for environmental sustainability

The EIB can help bridge part of the existing investment gap and make a difference.

- 3.1. Additionality and impact are central to the mission of a public bank such as the EIB. As such, the EIB has a role to play in helping operations overcome market failures within its remit and alleviate some of the structural investment gaps identified, particularly with regard to constrained access to finance.<sup>34</sup>
- 3.2. The EIB supports investments which have a positive impact on citizens and businesses in the European Union, its neighbourhood and beyond. The EIB ensures that this is the case through its Additionality and Impact Measurement (AIM) Framework, which rests on three pillars accompanied by relevant underlying project result indicators:
  - (i) Why — the EIB should ensure alignment with EU policies<sup>35</sup> and address less than optimal investment situations that result from market failures;
  - (ii) What — what project adequately addresses the identified sub-optimal investment situations and what difference the EIB makes in shaping it; and
  - (iii) How — the EIB should contribute financial and non-financial support to the project that complements support from other organisations and sources.
- 3.3. As the EU bank, the EIB promotes EU policies, delivering support where it is most needed. The EIB welcomes the European Green Deal, including its external dimension, as the new EU growth strategy and supports the implementation of the actions identified in the EU roadmap to ensure a just and inclusive transition to a sustainable economy.<sup>36</sup> In 2019, the EIB committed to increase its investment in climate action and environmental sustainability to more than 50% by 2025 and beyond. Moreover, the EIB supports the United Nations SDGs, the Paris Agreement and the objectives under the Convention on Biological Diversity<sup>37</sup> throughout the European Union and around the world.
- 3.4. The Bank is one of the largest global financiers of sustainable development, most notably of climate action and environmental sustainability. It invests in projects in over 160 countries by providing a wide spectrum of lending and advisory expertise. EIB investments can help improve or restore the degraded environment. In the period 2015-2020, it invested €30 billion in environmental protection and natural resources, €38 billion in sustainable transport and €32 billion in renewable energy and energy efficiency.<sup>38</sup>
- 3.5. The EIB acts as a catalyst crowding in complementary public and private funds to support long-term investments. This is key when considering the magnitude of the investment gap described in section 2 above.

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<sup>34</sup> The EIB Group Operational Plan 2022-2024.

<sup>35</sup> The EU policies also refer to the European Union's external action policies.

<sup>36</sup> Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on the European Green Deal (COM/2019/640 final).

<sup>37</sup> Convention on Biological Diversity — text in English (cbd.int).

<sup>38</sup> EIB impact report 2020.

- 3.6. EIB investments can deliver environmental benefits in a number of ways, notably by:
- directly improving or restoring the degraded environment itself;
  - improving resource efficiency and reducing existing pressure on the environment to avoid further degradation and allow for environmental recovery;
  - helping stakeholders transition towards a lower, neutral or positive environmental impact;
  - enabling sustainable natural resource and ecosystem service-based livelihoods and strengthening the resilience and adaptive capacity of those most impacted by environmental degradation while leveraging their skills and knowledge to accelerate change; and
  - helping develop the means by which others can deliver environmental benefits (enabling activities). In the European Union, in particular, the EIB can foster the development and commercialisation of technologies with support from seed-stage to growth-stage companies via venture capital, private equity and senior debt-type investments.
- 3.7. Moreover, the EIB's expertise on environmental issues has enabled the EIB to become a leader in green finance. The Bank has issued more than €50 billion in green bonds (Climate Awareness Bonds) since 2007 and, furthermore, has developed sustainability bonds (Sustainability Awareness Bonds, €9 billion issued by July 2022) to support water, education, health, biodiversity and ecosystems, as well as social and affordable housing. This enables the EIB to raise money on the international capital markets that can then be lent to governments and companies around the world in support of green investments. The Bank thus plays a leading role in embedding environmental considerations in the financial and capital markets. For this, the EIB collaborates with many partners and is an important partner in the EU Platform on Sustainable Finance, which is advising the European Commission in devising policies and tools that make it easier and safer to invest in green projects.
- 3.8. Besides being the long-term financing arm of the European Union, the EIB also plays a role in supporting the enhancement of environmental governance by:
- (i) providing expertise to foster policy coherence among sectoral, growth, climate and environmental policies to effectively address environmental and climate considerations;
  - (ii) providing analytical, advisory and capacity-building support for the implementation of internationally recognised environmental, climate and social sustainability standards, in particular in the natural resources sectors; and
  - (iii) developing partnerships to help leverage support to address promoters' needs by mobilising and leveraging finance to meet their respective net-zero and nature-positive commitments/objectives.

### The EIB aims to further increase the share of its financing which delivers a positive impact on the environment

- 3.9. As part of its renewed CA&ES commitment (see paragraph 3.3 above), the EIB will continue financing investments that deliver environmental benefits. While the Bank is already a major global financier of environmental sustainability, the Bank will aim to further increase its level of financial and non-financial support in this area in response to the critical environmental challenges faced by humanity.
- 3.10. Out of the four environmental objectives of the EU Taxonomy Regulation, the greatest volume of EIB financing currently goes to investments delivering on the "*pollution prevention and control*" objective, followed by investments contributing to the "*sustainable use and protection of water and marine resources*" objective. The former mainly comes from sustainable mobility (railway and urban) and renewable or low-carbon energy investments that bring air pollution benefits alongside climate change mitigation benefits, and the latter from the water sector where the EIB, together with the World Bank, is the largest global lender in the water sector (with around €3 billion of water investments per year since 2016 on average).

- 3.11. The Bank will continue to try to expand further its financing in these domains. The current high EIB investment volumes for these two environmental objectives are still dwarfed by the investment gaps identified in the previous chapter, and the global environment situation clearly shows that more needs to be done.
- 3.12. Given the constraints described in section 2 above, EIB investments contributing to the two other environmental objectives, “*transition to a circular economy*” and “*protection and restoration of biodiversity and ecosystems*”, are smaller. They have increased over the years but still represent a minority of the Bank’s volumes going towards environmental objectives. Given the importance of the two objectives for achieving the EU Green Deal and the global SDGs and given the significant financing gaps in these areas, the Bank will aim to increase the investment volumes dedicated to them as part of its 2025 financing target and beyond. The EIB will also explore ways to facilitate access to increased technical assistance and grant funding to overcome some of the identified constraints.
- 3.13. Over the past ten years, EIB investments contributing to the *transition to a circular economy* objective have been steadily increasing, in part thanks to advisory support and initiatives such as the Circular City Centre (C3).<sup>39</sup> EIB circular economy financing has already reached €3 billion for the period 2017-2021.
- 3.14. Investments going to the “*protection and restoration of biodiversity and ecosystems*” objective, are small (around 1% of EIB global lending volumes) and the EIB is looking into the possibility of scaling them up with the appropriate technical assistance and grant support. The EIB will benefit from the experience gained through piloting the EIB-EC Natural Capital Financing Facility (NCFF), which experimented with different avenues of direct and intermediated finance for biodiversity. It will also tap into its expertise in sectors with high biodiversity potential, such as forestry, agriculture and water.
- 3.15. The relatively lower level of financing dedicated to biodiversity and the circular economy provides a good illustration of the investment barriers that constrain and slow down economic development in the associated sectors. For instance, investments targeting the protection and restoration of biodiversity and ecosystems are generally relatively small financially, and require substantial preparation. They sometimes need to go through a pilot approach to test their bankability before scaling up. These investments can benefit from dedicated funding facilities, such as for example InvestEU<sup>40</sup> or the IKI Fund,<sup>41</sup> with the expectation that they will be mainstreamed later on.
- 3.16. Increasingly, and in line with the ambitions of the CBR,<sup>42</sup> EIB investments related to the environment incorporate social and gender inequality considerations, youth unemployment, where relevant, linked to the environment and/or promoting diversity and inclusion for better environmental, social and financial outcomes. The EIB is looking to continue to identify and support investments that simultaneously deliver environmental, social and gender equality outcomes, green growth recognising sizeable opportunities in the area of nature-based solutions, biodiversity and ecosystems and the blue economy.
- 3.17. The following chapters present the key elements of the EIB Framework to support the diversification and scaling up of its contribution to environmental sustainability.

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<sup>39</sup> <https://eiah.eib.org/about/circular-city-centre.htm>

<sup>40</sup> The InvestEU Programme supports sustainable investment, innovation and job creation in Europe. It aims to trigger more than €372 billion in additional investment over the period 2021-27.

<sup>41</sup> Established in 2019 in partnership with the government of Germany, the International Climate Initiative (IKI) Fund aims to catalyse investment for ambitious climate change mitigation and adaptation projects in developing and emerging countries.

<sup>42</sup> EIBG Climate Bank Roadmap, Chapter 3 “Ensuring a just transition for all”, paragraph 3.21.

### Box 1: What constitutes an environmental investment at the EIB?

The EIB environmental investments contribute to the attainment of the environment and climate-related objectives defined under the UN 2030 Agenda and its SDGs, and are aligned with the goals of the Rio Conventions, the Paris Agreement and other relevant international agreements. All EIB projects are in line with the Bank's Environmental and Social Sustainability Framework. As such, EIB finances projects that *“respect human rights, do not cause significant harm to the environment and are consistent with internationally agreed targets to fight against climate change and biodiversity loss.”*

The EIB considers four main types of environmental investments:

- I. Investments which substantially contribute to environmental objectives<sup>a</sup> in line with the CBR. These are the main type of investments. They contribute to achieving the EIB's new green ambition.<sup>b</sup> Examples include: climate mitigation in the energy sector, sustainable transport, most of which emits less to no air pollutants at the tailpipe (or wake); wastewater infrastructure development making a substantial contribution to the protection of water and marine resources; recyclable material and biowaste collection infrastructure that contributes to the circular economy.
- II. Investments that deliver positive environmental benefits, which may not be assessed as substantially contributing under (i) above but contribute to the Bank's policy priority of “sustainable energy and natural resources”.<sup>c</sup> These investments are comprised of projects or project activities in natural resources management and protection, water, wastewater or waste management. Examples include: the construction of new landfills outside the European Union in countries where waste is often dumped in backyards, rivers, oceans or sub-standard dumpsites with major adverse impacts on the environment, public health, climate and flood risk; modernisation projects in bio-based industries (for instance: food, paper pulp) resulting in resource efficiency; river rehabilitation projects for flood protection using a mix of grey and green infrastructure.
- III. Investments that neither substantially contribute to environmental sustainability under (i) nor contribute to the Bank's policy priority under (ii) but include components delivering positive environmental benefits and/or impact. There is a broad range of such projects in the EIB's current portfolio. For example: nature-positive actions in hydropower projects (decommissioning of old weirs or dams and transition towards run-of-river hydropower); combining transport infrastructure with investments such as green corridors that increase biodiversity and water resilience, cycle or pedestrian lanes or solar panels on noise walls; floating photovoltaics on existing water reservoirs that reduce evaporation; dual use of offshore wind turbine pillars as sea life reefs, creation of marine reserves in offshore windmill fields; urban projects limiting urban sprawl on greenfield sites and new land resources use.
- IV. Activities enabling any of the three above categories. Examples include: research and development activities that help increase soil biodiversity; eco-innovations in materials that facilitate recycling; environmental monitoring technologies that facilitate ocean and natural resources protection.

- a. The environmental sustainability objectives are: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems.
- b. The EIB goal to increase the share of its annual financing dedicated to climate action and environmental sustainability to at least 50% by 2025 and beyond.
- c. They are captured under the EIB vertical public policy goal “Sustainable Energy and Natural Resources” under one of the following two sub-categories: natural resources management and protection, or water, wastewater and waste management.

## 4. The types of EIB investments that could support the delivery of greater environmental impact

- 4.1. The EIB has accompanied the implementation of EU Environmental Policy through its support for the various EU Environmental Action Programmes financing investments with positive environmental impacts both inside and outside the European Union. Since 2019, the EIB has been accompanying the implementation of the European Green Deal<sup>43</sup> and financing investments linked to the main environmental priorities of the Green Deal: moving towards a circular economy, improving waste management, protecting biodiversity and restoring ecosystems, moving towards zero pollution for air, water and soil, and ensuring the sustainability of the blue economy and fisheries sectors.
- 4.2. For each of the four environmental objectives (listed in paragraph 1.9 above), this chapter summarises the types of investments the EIB currently supports, those it will seek to finance more of, and the new areas it will consider supporting in the coming years subject to market demand. It also identifies investments that have the potential to deliver benefits across these four objectives.
- 4.3. The investments identified in this chapter should not be considered an exhaustive list. As expertise grows in the Bank and among its clients, new concepts will emerge to deliver environmental benefits. Moreover, the EIB priorities in this field will evolve over time as the EIB will continue to improve its processes and procedures for the monitoring of environmental impact and environmental risk monitoring, as presented in chapter 5.

### Supporting pollution prevention and control

- 4.4. In 2021, the EU adopted the Action Plan "Towards a Zero Pollution for Air, Water and Soil", a key deliverable of the European Green Deal. This Plan includes a number of 2030 targets to speed up the reduction of pollution at source:
  - improving air quality to reduce the number of premature deaths caused by air pollution by 55%;
  - improving water quality by reducing waste, plastic litter at sea (by 50%) and microplastics released into the environment (by 30%);
  - improving soil quality by reducing nutrient losses and chemical pesticide use by 50%;
  - reducing by 25% the EU ecosystems where air pollution threatens biodiversity;
  - reducing the share of people chronically disturbed by transport noise by 30%; and
  - significantly reducing waste generation and residual municipal waste by 50%.
- 4.5. At the global level, the SDGs also identify targets focused on reducing environmental pollution. SDG 3.9, in particular, seeks to “substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination” by 2030. Other SDGs include targets for pollution reduction (for example, SDG 2.4, SDG 6, SDG 7, SDG 9.4, SDG 11, SDG 12, and SDGs 14 and 15).
- 4.6. For years, the EIB has been supporting investments that help reduce air, water, soil and noise pollution. The EIB contributes to reducing air pollution through investments in cleaner transport,<sup>44</sup> renewable energy, energy efficiency and the upgrade of industrial facilities to meet ambitious emission prevention and reduction targets. The Bank also finances renovation and sustainable construction investments that improve indoor air quality.
- 4.7. To improve water quality, the Bank finances “end of the pipe solutions” in the water sector that prevent pollution from nutrients and contaminants not yet addressed at source. The EIB also finances investments for pollution prevention at source in numerous sectors (such as solid waste management, bioeconomy).

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<sup>43</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en#thematicareas](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en#thematicareas)

<sup>44</sup> Such as rail, public transport, e-mobility schemes or other technologies that have lower emissions at the tailpipe (or wake).

- 4.8. Many of the EIB investments addressing water pollution also improve soil quality. In addition, the EIB supports investments that contribute to improving or maintaining soil quality (for example, land and forest management), and support innovation and business models in the bioeconomy to increase soil biodiversity and reduce the use of agrochemicals.
- 4.9. The EIB stands ready to support the EU goal to move towards zero pollution and help reduce pollution outside the European Union by continuing to support investments in sound pollution management applying best available techniques.<sup>45</sup> It will aim to increase its contribution in the years ahead in the energy, transport, industry, water, solid waste and building sectors, and in the area of site decontamination or remediation, thereby helping to reduce air, water and soil pollution. In particular, it will look to identify investments that can help reduce the pollution for which the planetary boundaries have been exceeded: nitrogen and phosphorus pollutions from the agri-food sectors, and contaminants of emerging concern, including plastic.
- 4.10. In accordance with and in support of the EU industrial policy strategy, the EIB will continue its support for the development of an industrial sector that uses fewer natural resources, emits fewer pollutants into the air, water, and land and generates less waste.
- 4.11. The Bank intends to further increase its focus on the mounting challenge of marine pollution through investments addressing critical ocean pollution sources, such as land-based untreated water discharge, nutrient pollution (such as from the agri-food sector), and unsustainable waste management.

## Supporting the sustainable use and protection of water and marine resources

### Sustainable use and protection of water resources:

- 4.12. At the EU level, the EU Water Framework Directive (2000/60/EC), and the targeted directives supporting it (on Groundwater, Drinking Water, Bathing Water, Nitrates, Urban Waste Water Treatment, Environmental Quality Standards and Floods) are driving investment decisions towards more sustainable use and protection of water resources. At the global level, SDG 6<sup>46</sup> identifies targets to reduce water pollution, increase water recycling and reuse, increase water use efficiency, ensure sustainable withdrawals and protect and restore water-related ecosystems. For years, EIB financing related to water resources has been supporting the implementation of these EU directives and of SDG 6 inside and outside the European Union.
- 4.13. When financing investments that extract and use fresh water resources, the EIB supports promoters that ensure that this is done in a sustainable manner, paying particular attention to water use efficiency. This applies to investments in the water sector, in agriculture and in the industry sector.
- 4.14. The EIB also finances a large array of investments that protect and restore fresh water resources. Beyond the investments identified in the previous subsection for water pollution prevention, the Bank also supports agriculture water management investments that avoid both water overuse and pollution, or that protect groundwater abstraction areas and restore neighbouring catchment areas.
- 4.15. Beyond these critical existing financing areas, the EIB aims at identifying additional domains where it will further support the sustainable use and protection of water resources in a context of increasing water scarcity linked to climate change and population growth, including through the promotion of nature-based solutions for climate change adaptation goals (for instance, flood management, drought prevention).

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<sup>45</sup> Performance Standard 3: Resource Efficiency and Pollution Prevention

<sup>46</sup> SDG 6: “Ensure availability and sustainable management of water and sanitation for all”.

- 4.16. Using a circular approach, the Bank will seek to finance activities that capture and store excess water from intensive rains and floods<sup>47</sup> or treated wastewater (reclaimed water), to be used for industrial processes, landscaping use, toilet flushing in place of potable water, or to refill groundwater tables. It will also support floating photovoltaic investments that reduce water evaporation.
- 4.17. Moreover, to further improve or maintain the good status of water bodies, both for inland and coastal waters, the Bank will seek to support investments that help to control the main sources of nutrient pollution (such as from the agri-food sector) in pollution hotspots.

#### **Sustainable use and protection of marine resources:**

- 4.18. A sustainable blue economy and healthy oceans are indispensable if we are to meet the EU and global environmental and climate objectives. The European Commission's [EU blue economy strategy](#) (2021) calls for a transition from 'blue growth' to a 'sustainable blue economy'. Its agenda focuses on: (i) achieving the objectives of climate neutrality and zero pollution, (ii) promoting a circular economy and preventing waste (notably with a goal to halve pollution from plastic, nutrients and chemical pesticides by 2030), and (iii) biodiversity and investing in nature (with legally binding targets to restore degraded ecosystems in preparation, protect fisheries resources and the marine ecosystem and designate new marine protected areas). At the global level, SDG 14 "Life below water" sets out key targets to achieve in the short term covering, in particular, the reduction of marine pollution, the sustainable management and protection of the marine and coastal ecosystem, the restoration of fish stocks, an increase in marine protected areas, but also marine research and innovation.
- 4.19. The EIB has had for years a key role in supporting the EU blue economy strategy and has been actively supporting sustainable ocean initiatives internationally<sup>48</sup>. In coastal areas, the solid waste management, wastewater and stormwater investments financed by the EIB reduce pollutants reaching the sea, including plastic pollution. They are captured under the Clean Ocean Initiative<sup>49</sup>. The EIB also finances the development of sustainable shipping and ports and coastal protection infrastructure that help preserve coastal biodiversity and ecosystems under the Blue Sustainable Ocean Strategy.<sup>50</sup>
- 4.20. Looking forward, the EIB will pursue its efforts to further support the development of a sustainable blue economy protecting marine and coastal resources. The EIB will seek to expand its financing of investments that contribute to reducing ocean pollution. The protection, rehabilitation and sustainable management of coastal ecosystems will also receive increased attention. The Bank will explore ways to support the development of innovative sustainable aquaculture production models and financing models helping fisheries improve and transition towards more sustainable practices. When supporting offshore wind farms, the EIB will promote the inclusion of activities improving habitat for marine life. And it will support investments in ocean monitoring facilities and technologies to facilitate the protection of ocean resources.

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<sup>47</sup> Including through off-river stormwater harvesting.

<sup>48</sup> [Sustainable oceans and blue economy \(eib.org\)](#)

<sup>49</sup> <https://www.eib.org/en/publications/the-clean-oceans-initiative>

<sup>50</sup> <https://www.eib.org/en/publications/blue-sustainable-ocean-strategy>

## Supporting the transition to a circular economy

- 4.21. The transition to a more circular economy is promoted by the European Commission through its Circular Economy Action Plan,<sup>51</sup> which is one of the main building blocks of the European Green Deal. Circular projects not only impact levels of material use and waste generation, but have multifaceted benefits towards mitigation of climate change, pollution and biodiversity loss in doing so. The European Union aims to double its circular material use rate by 2030. At the global level, SDG 12 “Responsible consumption and production” includes targets for the efficient use of natural resources and the reduction of waste generation. As the EU and climate bank, the EIB supports this transition and has been increasingly active in financing circular economy investment<sup>52</sup>.
- 4.22. In accordance with the EU waste management hierarchy, the EIB finances investments that contribute to preventing and reducing waste generation, and increasing reuse and recycling in multiple sectors (such as solid waste management, bioeconomy, industry, buildings). The EIB also finances investments increasing the efficient use of resources and process by-products towards a more circular economy, and has started supporting innovative circular business models (from sales to leasing, for example), and technologies and social innovation supporting circular solutions. In the European Union, the EIB, together with five European national promotional banks and institutions have committed to at least €10 billion of investments over the period 2019–2023 under the Joint Initiative on Circular Economy.
- 4.23. To support clients in their circular transition, the EIB offers circular economy-focused advisory services through a number of initiatives covering both technical and financial aspects in an integrated manner (such as the Circular City Centre (C3)<sup>53</sup>).
- 4.24. The EIB plans to accompany and help speed up the shift humanity needs to make towards a more circular world. To do so, it is ready to continue and increase its financing to the circular economy.
- 4.25. In this effort, the Bank will be guided by the European Commission’s new Circular Economy Action Plan. The EIB prioritises its support in sectors that use the most resources and where the potential for circularity is high. Seven such circular priority sectors have been identified in the European Commission’s Circular Economy Action Plan: (1) electronics and ICT; (2) batteries and vehicles; (3) packaging; (4) plastics; (5) textiles; (6) construction and buildings; and (7) food, water and nutrients.
- 4.26. The EIB will continue to support the development and dissemination of innovations that can reduce waste generation or increase resource efficiency upstream in production processes. It will also explore supporting the development and dissemination of innovations that increase the durability, reusability and recyclability of products.

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<sup>51</sup> The European Commission’s Circular Economy Action Plan covers activities both inside and outside the European Union.

<sup>52</sup> See, for instance, EIB’s Circular Economy Overview 2021.

<sup>53</sup> <https://eiah.eib.org/about/circular-city-centre.htm>

## Supporting the protection and restoration of biodiversity and ecosystems

- 4.27. The European Union has developed a Biodiversity strategy for 2030<sup>54</sup> as part of the EU Green Deal. The strategy encompasses several objectives including a widening of the EU network of protected areas (with a target to protect at least 30% of land and sea areas) and the development of an EU nature restoration plan. The latter includes 2030 targets such as a 50% decrease of chemical pesticide use, the restoration of at least 25 000 km of rivers into free-flowing rivers, a 20% reduction of fertiliser use, and the restoration of marine ecosystems to a good environmental status.
- 4.28. This strategy is the European Union's ambitious contribution to the upcoming international negotiations on the Post-2020 Global Biodiversity Framework<sup>55</sup> under the Convention on Biological Diversity's Conference of the Parties (COP). This global framework, once adopted, will guide actions worldwide through 2030, to preserve and protect nature and its essential services to people as well as reverse the loss of biodiversity.
- 4.29. The EIB supports its countries of operation in delivering on their biodiversity goals and actively finances investment in this area. Since 2008, the EIB has been exploring different approaches to developing and investing in natural capital markets that deliver nature-positive and equitable outcomes. Support to this type of activity is ongoing and will continue under the umbrella of the InvestEU and NDICI (Neighbourhood, Development and International Cooperation Instrument) mandates as well as other dedicated mandates.
- 4.30. The EIB is financing investments supporting the restoration of degraded areas (such as forest, soils and landscapes). It also embeds restoration objectives in investments with broader goals (for example, coastal protection, wetland restoration, restoration of river connectivity, and some hydropower investments). Similarly, biodiversity conservation goals are embedded in investments targeting sustainable forestry, coastal protection and groundwater resources preservation. More broadly, many bioeconomy investments include goals for sustainable land use and management.
- 4.31. In particular outside the European Union, social inclusion and gender equality considerations are increasingly embedded in the biodiversity and ecosystem protection investments that EIB Global supports. EIB Global will continue to invest in biodiversity-focused investments and funds that explicitly aim at delivering social impacts around gender equality, indigenous communities and resilience building.<sup>56</sup> Wherever possible, EIB Global will invest in women fund managers and entrepreneurs that are advancing biodiversity and ecosystem goals.
- 4.32. Looking forward, the EIB will look to support the operationalisation of national biodiversity strategies and action plans (NBSAPs) in the European Union and beyond. The Bank is ready to increase its contribution to help reverse the global trend of biodiversity loss and ecosystem degradation.

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<sup>54</sup> The European Union and the global community have committed to restoring nature within a generation. This commitment is central not only to the EU strategy to achieve net-zero emissions by 2050, but also to tackle biodiversity loss, reconnect people with nature and increase global economic resilience to climate change. If nature is to continue providing ecosystem services, investment must be made in maintaining and increasing the natural capital base and such investments must be accorded the same priority (if not higher) as investments in other forms of capital (built, human and social).

<sup>55</sup> <https://www.cbd.int/conferences/post2020>

<sup>56</sup> For example, EcoEnterprises Partner III, Okavango Capital, Althelia Ecosphere Fund.

- 4.33. There is general consensus that in order to successfully preserve biodiversity and protect ecosystems, due attention needs to be given to addressing the drivers of nature loss and degradation within terrestrial, freshwater and marine ecosystems, as well as the promotion of sustainable natural resource management. The Bank will have particular interest in supporting investments reducing deforestation and forest degradation (for instance, the development of deforestation-free commodities and value chains, projects aiming to reduce deforestation through a sustainable increase in agriculture productivity, in areas where deforestation pressure is high due to low agricultural productivity). The EIB will also seek to support integrated solutions from the perspective of all goods and services that an ecosystem provides such as support for food security, flood control and livelihoods, acknowledging the linkages between natural capital and economic sectors such as agriculture, fisheries, forestry and manufacturing. Specific attention is needed for sustainable agriculture, forest and water management, as well as coastal and marine resource management.
- 4.34. Additional opportunities, both inside and outside the European Union, may also arise from the possibility to further embed biodiversity goals in urban, transport, health, innovation, blue economy and energy investments.
- 4.35. The EIB will continue to work with partners to explore the development of high-integrity environmental and biodiversity credit markets, thereby securing large-scale private investment in nature recovery.

#### Cross-cutting and enabling activities delivering benefits across the environmental goals

- 4.36. The EIB is active in financing investments that deliver environmental benefits spanning environmental goals. This can be the case with research, development and innovation investments, and investment programmes at national and sub-national levels. This can also happen with integrated urban renewal and regeneration operations that include sustainable urban schemes and, more generally, with urban renovation, reconstruction and regeneration investments that avoid urban sprawl on greenfield sites.
- 4.37. The EIB is ready to finance more investments with cross-cutting environmental benefits, for instance supporting education on environmental issues and the development of job skills needed for the transition to green and sustainable growth. The Bank will seek to support universities and research centres undertaking public research that have strong links with or are focused on environmental issues in scientific fields.
- 4.38. The Bank will also support the inclusion of environmental considerations and activities in infrastructure investments (such as in the construction or renovation of buildings and estates), and the development of integrated approaches in transport infrastructure investments that include environmental objectives.
- 4.39. The EIB will continue and expand its support for green business development to more effectively mobilise private sector resources for green growth, notably in the fields of R&D and innovation. Furthermore, the EIB will continue to promote the greening of supply chains by promoting the achievement of sustainable certification programmes and supporting sustainability initiatives by small businesses across different sectors.

## 5. Further enhancing the EIB's environmental impact and risk measurement

- 5.1. Through its AIM methodology, the Bank assesses how a project helps address existing market failures and the effect on the investment needs identified earlier. The assessment is based on the expected outputs and outcomes of the operation, the standards followed, the risks involved and any risk mitigating measures taken. For most of the EIB's operations, this is assessed through four main components: economic benefits, employment, environmental, and social sustainability.
- 5.2. Over the last decade or so, the EIB, as part of its value added framework, has promoted the implementation of international standards and good practices for the integrated management of environmental, climate and social risks and opportunities associated with its projects. In addition, it has adopted a set of specific climate risk management tools to measure and manage climate risk exposures. These include carbon footprinting, the use of a shadow price of carbon, the development of climate risk screening tools at counterparty level, etc.<sup>57</sup>
- 5.3. Given the urgent nature of the environmental issues confronting humanity and the strong interconnections between climate, environment, people and the economy, complementary tools (described below) for the appropriate management, measurement and reporting of environmental risks and impacts are needed.

### Providing the true costs and benefits and measuring the environmental footprint of EIB investments

- 5.4. The economic appraisal plays a central role in informing the Bank and its stakeholders of the socioeconomic benefits a given project brings to society as a whole as well as assessing whether the investment will contribute to sustainable economic growth and the economic progress of its partners.<sup>58</sup> Therefore, it is fundamental that the environmental costs and the benefits created by a project are valued and accounted for in a project's economic analysis.
- 5.5. The Bank began to integrate a cost for environmental externalities (carbon and local air pollutants) into project appraisal in the late 1990s, notably for energy and transport projects. The external cost values have been updated and refined on several occasions subsequently, in light of new evidence, and are applied systematically across all relevant sectors of the Bank's operations.
- 5.6. Following the adoption of the CBR, the approach to estimating the value of greenhouse gas emissions (the shadow cost of carbon) was revised as part of the EIB's Paris-alignment framework. Importantly, beyond global warming, and in line with its commitments on nature, the Bank is working to enhance the valuation of project benefits for preserving biodiversity and supporting ecosystem services, taking into account the recommendations of the Dasgupta Review on the economics of biodiversity,<sup>59</sup> monitoring emerging literature and applying good practice.

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<sup>57</sup> See EIB Group Climate Road Map for further details on the specific climate risk management tools.

<sup>58</sup> <https://www.eib.org/en/publications/economic-appraisal-of-investment-projects>

<sup>59</sup> <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

- 5.7. There are a number of potential implications of the Dasgupta Review for the EIB. Firstly, although the CBR does address all dimensions of the EU Green Deal, the Review is a timely reminder that net-zero targets need to be grounded in wider sustainable economic development — reflecting changes in inclusive wealth — and one in which growth may be bounded. Secondly, as a public bank, the EIB needs to follow good practice in integrating accounting values for all capital assets into its cost-benefit analysis of investment projects and where possible, introduce alternative metrics that may flag where countries are generating GDP at the cost of depletion of natural capital stock.
- 5.8. An increasing number of corporates, financial institutions and governments have committed to nature-positive and net-zero targets.<sup>60</sup> As such, the private and financial sectors have been developing beyond the assessment of their carbon footprint, different methodologies to measure the biodiversity impacts and dependencies of a project or value chain. Since 2006, the EIB has been transparently assessing and disclosing the carbon footprint of its operations and is considering extending such assessment to biodiversity. To that end, within the context of the EU Business and Biodiversity Platform, the EIB, with its project and sector expertise, has been engaging — through the provision of technical and scientific expertise — with partner financial institutions on the refinement of different biodiversity measurement methodologies being adopted at EU and international level.

### Management of environmental risks in projects

- 5.9. Standards can be seen as the first line of tools to not only reduce risks but to maximise opportunities. MDBs' environmental and social standards tend to become the benchmark of good practice. The EIB's environmental, climate and social policies and standards are increasingly recognised as a leading benchmark, particularly for climate and environmental risk. The EIB Environmental and Social Sustainability Framework (ESSF) defines the EIB standards. It is an important tool for ensuring that environmental, climate and social concerns are integrated into all aspects of EIB-financed projects. In the ESSF, a risk-based approach is taken and implemented through a Bank-wide policy statement, a set of standards, an implementing framework for the different phases of the project investment cycle, access-to-information requirements, and different forms of guidance in carrying out safeguard requirements. At the heart of the ESSF is the application of the “mitigation hierarchy”. The EIB supports operations that *“do not significantly harm the environment, do not impinge on the sustainable use of natural and living resources and respect human rights.”*<sup>61</sup>

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<sup>60</sup> For example, Finance for Biodiversity Pledge: [Finance for Biodiversity Pledge – Reverse nature loss in this decade](#); Leaders Pledge for Nature:

<sup>61</sup> EIBG Environmental and Social Policy, 2022 paragraph 3.2 (iii)

## Accounting for the environmental risks of counterparties

- 5.10. A number of regulatory developments require that regulated entities, including certain corporates and financial institutions, implement practices to identify, manage and measure the exposure risk in their investment portfolios to climate and natural capital dependencies and impacts. These practices are similar to those used to manage other forms of risk (such as market risk, reputational risk and regulatory risk). Key regulatory developments include those in preparation at the EU<sup>62</sup> and global level on disclosure and reporting of environmental and climate-related risks, as well as the ECB<sup>63</sup> and European Banking Authority<sup>64</sup> final guidelines on climate-related and environmental risks, outlining the regulator's requirements for sound, effective and comprehensive management of such risks.
- 5.11. A growing number of financial regulators are warning against the potential high material impact of the environment on the financial sector, defining it as a new systemic risk. This is particularly true for water resources issues, biodiversity loss and ecosystem degradation. In order to address these risks, financial institutions are increasingly called upon to incorporate environment-related risks into their risk management frameworks.<sup>65</sup>
- 5.12. The EIB has already put in place a climate risk screening tool at counterparty level. The Bank is now working on further expanding its methodology to also incorporate environmental aspects at counterparty level. The methodology will seek to capture counterparties' exposure to two main risk drivers (i) physical risk (referring to the financial impact of environmental degradation) and (ii) transition risk (referring to an institution's financial loss that can result directly or indirectly, from the process of adjustment, to a more environmentally sustainable economy).

## Measuring the environmental impact of EIB operations

- 5.13. A focus on impacts and results is at the core of the EIB's contribution to supporting a green, inclusive and resilient transition. Under AIM, the EIB has established a systematic measurement and monitoring framework which assesses and measures the contribution and impact of EIB-supported operations and activities to achieving the Bank's environmental policy objectives. Project-related indicators for respective sectors are tailored to focus on output and outcome results that are most relevant to each sector and are used to track progress over time at the project level.<sup>66</sup>

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<sup>62</sup> EU Corporate Sustainability Reporting Directive (CSRD) and EU Sustainable Finance Disclosure Regulation (SFDR)

<sup>63</sup> Guide on climate-related and environmental risks: Supervisory expectations relating to risk management and disclosure, ECB, November 2020

<sup>64</sup> Guidelines on Loan Origination and Monitoring, EBA, May 2020, and Discussion Paper on the Role of Environmental Risks in the Prudential Framework, EBA, May 2022

<sup>65</sup> Under the umbrella of the European Central Bank (ECB), the Financial Stability Board (FSB), the Sustainability Accounting Standards Board (SASB), the European Banking Authorities (EBA), and the Task Force on Nature-related Financial Disclosures (TNFD), consistent environment-related financial risk disclosures for use by companies to provide information to investors, lenders, insurers and other stakeholders are being developed. The European Commission is also tackling this issue. As the Sustainable Finance Regulation and the proposal for a Corporate Sustainability Reporting Directive come into effect, which will amend the existing reporting requirements of the Non-Financial Reporting Directive, this reporting will no longer be voluntary in the European Union.

<sup>66</sup> [Measuring the EIB Group's impact: Methods and studies](#), October 2021

- 5.14. As the sustainability investing market is growing and the reporting and disclosure requirements on climate and environmental sustainability are coming into effect, so has the market's demand for aggregate and comparable environment-related indicators and metrics. Together with its peer institutions, the European Commission and European development finance institutions, the EIB has been working to rationalise the environment-related indicators and metrics it collects. It aims, where feasible, to express these indicators in a thematic way along the four environmental objectives so that they are comprehensible and relevant to the market and can be easily aggregated for reporting purposes. This would place the Bank in a position to report both on environmental sustainability financing volumes and on environmental impact and benefits across its portfolio.
- 5.15. Developing or consolidating environment databases and access to them can considerably improve the quality of environmental impact assessments, reporting and transparency capacity in that sphere. Data availability underpins all impact measurement frameworks. The access to relevant environmental data has increased dramatically in the last two decades, due both to increased sophistication of satellite imagery and greater efforts to assemble information, particularly on topics such as biodiversity, carbon, water flows and vegetation change. The EIB acknowledges that environmental data does not stand on its own, but needs to be closely linked with data and analytics across other development issues such as fragility, inclusion, conflict, etc. Environmental change, whether positive or negative, has an impact on and is impacted by change in other development areas. The positive impact of EIB-supported investments in multiple domains increases with greater understanding of the linkages and interactions between environment and development. The EIB continues to work closely with its MDB peers, the European Commission, the EEA, the Food and Agriculture Organization (FAO), and the United Nations Environment Programme (UNEP), and supports organisations such as the European Space Agency, EuropaBON (European Biodiversity Observation Network) and the International Union for Conservation of Nature (IUCN) to address the urgent need for more comprehensive geospatial data and close existing data gaps to allow for meaningful analysis of environmental change.
- 5.16. Following commitments made by the EIB at the Finance in Common Summit to the Data4Nature initiative managed by AFD, the EIB will also aim to encourage its promoters to share and report data collected through their respective environmental impact assessment and monitoring processes. The exchange and sharing of raw data will make environment and biodiversity data more easily accessible (especially in areas with limited data), reduce the cost of environmental and biodiversity impact studies for clients, improve their quality, and enable the public and private sectors to make significant and long-term investments that ease the pressure on the environment and nature.
- 5.17. As it has been invited in the past, the EIB also contributes to EU and international initiatives aimed at defining common shared criteria for environmental sustainability investments across institutions. As the environmental market develops, like other asset classes, it is important to converge on definition, key performance indicators and quality standards. These elements are needed to compare operations, build a track record and move towards the creation of a clearly defined asset class, in particular for water and nature. The Bank will continue to support the development of global sustainability and risk management standards (for example, through its representation in the Platform on Sustainable Finance, and the Task Force on Nature-related Financial Disclosures), harmonised data, measurement, accountability and reporting frameworks, including taxonomies to help set minimum standards for what can be considered sustainable investments. Ongoing efforts by UNEP (EIB is a member of the Restoration Monitoring Taskforce), HIPSO<sup>67</sup> (EIB is a core member of HIPSO, Harmonized Indicators for Private Sector Operations), the EEA and others, to harmonise indicators for the environment will also play a role. The EIB will continue to work with the private and public sectors as well as academia and international finance institution peers<sup>68</sup> to develop and agree standards for measuring and quantifying environmental sustainability, including by identifying critical environmental data needs and making such data accessible.

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<sup>67</sup> IFIs Harmonised Development Results Indicators for Private Sector Investment Operations

<sup>68</sup> These include MDBs, DFIs and other international financing organisations

## Tracking EIB environmental financing

- 5.18. In 2011, the EIB together with other MDBs joined forces to develop a methodology for tracking their climate finance contributions in a consistent, comparable and transparent manner and started to publish the “Joint Report on MDB Climate Finance” annually. Tracking finance to climate mitigation and climate adaptation has enabled the EIB to increasingly support better project design, track and report climate finance flows internally and externally, facilitated the assessment of results from climate investments and helped mobilise resources from capital markets.
- 5.19. In the same way, the EIB has acknowledged that it is equally important to track and report financial flows that support environmental objectives, to ensure credibility with regard to these objectives and monitor trends and progress in environment-related investments.
- 5.20. At the moment, there is no consistent global framework for environmental sustainability finance tracking. At the EU level, relevant Delegated Acts under the Taxonomy Regulation have not yet been adopted. The EIB has implemented a set of environmental sustainability definitions to track its environmental sustainability investments starting from January 2021. These definitions will be reviewed once the relevant Delegated Act for these four objectives is formally adopted in due course.<sup>69</sup>
- 5.21. The accurate quantification of the environmental sustainability contribution of a project or operation is crucial for robust reporting vis-à-vis the Bank’s climate action and environmental sustainability target. Tracking the EIB’s environmental sustainability finance also enables the Bank to benchmark its achievements and progress against that of other international finance institutions. The Bank’s environmental sustainability reporting, which is externally audited, is considered to be an essential indicator of progress towards the achievement of EU and global environmental sustainability objectives.
- 5.22. In parallel, the need for coherence and comparability has been identified for the emerging concept of ‘nature-positive’ investments. On the back of subsequent global and regional assessments on the state of biodiversity, such as the International Panel on Biodiversity and Ecosystem Services (IPBES) global assessment in 2019 and the Global Biodiversity Outlook in 2020, decision-makers gradually realised that existing targets to conserve and halt the loss of biodiversity will not suffice and that a more ambitious and proactive agenda is required. This has resulted in the emergence of political calls for ‘nature-positive’ approaches<sup>70</sup>, and other initiatives in recent years such as the UN Decade on Ecosystem Restoration and regenerative approaches, for example, to agriculture. Nature-positive is still an early concept with different definitions in published sources. Despite these differences, most literature seems to converge around a common goal that nature-positive approaches should aim for: go beyond halting further nature loss (‘damage control’) by actually *reversing* it and putting nature on a path to recovery.
- 5.23. Harmonised definitions of what qualifies as nature-positive would encourage investment and support better data collection on investments, impact, costs and need. As part of its commitment under the [MDB Statement on Nature](#), the EIB is working with the Inter-American Development Bank (IaDB) and its other MDB peers to define ‘nature-positive’, harmonise said definition and identify the relevant indicators.

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<sup>69</sup> [European Investment Bank Climate Action and Environmental Sustainability — List of eligible sectors and eligibility criteria \(eib.org\)](#); May 2022

<sup>70</sup> See for example the Communiqué from the G20 Finance Ministers and Central Bank Governors Meeting of February 2022 in Jakarta, Indonesia (available at: <https://g20.org/>), the Carbis Bay G7 Summit Communiqué (available at: <https://www.g7uk.org/>), and the Leaders’ Pledge for Nature (available at: <https://www.leaderspledgefornature.org/>)

## 6. EIB's financial and non-financial contribution to delivering greater environmental impact

- 6.1. Finance coupled with technical assistance, where necessary, has a key role to play in diverting society from its current environmentally destructive course. Guided by the fundamental principle of additionality (see chapter 3), the EIB has recognised that to achieve the environmental objectives under the 2030 Agenda for Sustainable Development and the Sendai Framework, it must mobilise increased amounts of funding from external resources. This should be accompanied by further development and capitalisation of thematic funds, instruments and technical assistance. In addition, the Bank will look to develop new partnerships, initiatives and programmes to support investments delivering greater environmental impact.
- 6.2. The EIB has been promoting the environment through its investments for the last three decades, thereby helping to support EU policy objectives and the relevant SDGs. The Bank took an early and leading role in the financing of renewable energy and energy efficiency investments and was one of the first and largest issuers of green bonds (climate and sustainability awareness bonds). Furthermore, it has adjusted its practices based on lessons learned from the various lending mandates and advisory services (energy efficiency, NCCF, innovation, etc.), which are relevant for further developing and mainstreaming the environmental finance agenda.

### Channelling increased funding for environment-related actions

- 6.3. For the EIB to meet its 50% CA&ES targets, it needs to facilitate access to external public and private finance for climate and environmental investments, thereby promoting a shift to sustainable and resilient infrastructure. The EIB's existing product mix has been successfully utilised to catalyse green investments in a large variety of sectors, as evidenced by the EIB Group's improved climate action performance in recent years. It will also support the delivery of significant volumes of investment in environmental sustainability projects in the future. For example, we can expect that the EIB's existing investment loan offering, with long tenors matching the economic life of its projects, will continue to finance environment-related investments. However, the EIB Group may need to further enhance its product offering in order to generate increasing volumes of green funding in specific market segments, to address their investment needs, and catalyse green investments where possible.
- 6.4. In the green debt markets, the EIB's anchor participation brings credibility in the context of evolving EU and international taxonomies, thereby boosting investor confidence and crowding in private capital. The Bank can also guide potential issuers on environmental objectives for which the EU Taxonomy's Delegated Acts have not yet been adopted. The EIB's CA&ES definitions and Environmental and Social Standards offer a solid benchmark for clients and markets. Apart from the green use-of-proceeds financing, the EIB is exploring the use of sustainability-linked instruments to support sustainable investments. Moreover, the Bank's green debt instruments can be complemented by a technical assistance/advisory proposition, ensuring an integrated sustainable finance offer.
- 6.5. The EIB will continue to use blended finance at scale in a targeted and catalytic way to support high environmental impact investments. The mobilisation of blended finance from bilateral and multilateral partners including EU mandates is a key component of the EIB's resource mobilisation efforts. This includes (i) further deployment of EIB financing in support of environmental goals, (ii) leveraging of other financing sources by partnering with financing institutions with a mandate to support green investments (such as the Green Climate Fund (GCF) and the Nordic Environment Finance Corporation (NEFCO)), and (iii) mobilising risk mitigation for environment investments through loans, equity, green bonds, grants, risk capital or guarantees.

- 6.6. To help overcome finance access issues linked to the small size of investments (such as in circular economy and natural capital projects), financing through thematic framework loans and intermediated lending, based on clearly defined environmental sustainability eligibility and definitions, will be further explored. This could also be used to better serve the most vulnerable populations, especially in conflict zones and fragile areas, thereby improving the health, well-being and resilience of local communities.
- 6.7. Lastly, the EIB will consider two ways to support more private sector investments for the environment. First, the use of thematic equity funds, which has been effective in catalysing funds that deliver on environmental sustainability and social returns by de-risking private sector investments (for example, Althelia Ecosphere Fund, EcoEnterprises Fund, Land Degradation Neutrality Fund). Second, the provision of increased support to corporates will be considered towards improved environmental impact. Such support should encompass the demonstration of process validity for industrial scale deployment, digitalisation and commercialisation of new designs, products, technologies and business models. When the associated risks in such operations are too high for standard lending instruments, the EIB uses thematic impact financing instruments with EU guarantees. These enable the Bank to finance higher-risk projects where there is strong potential for demonstration replication, scale-up and commercial sustainability.

#### Pilot initiatives that can deliver environmental impact at scale

- 6.8. The EIB intends to further support the development of multi-stakeholder pilot integrated initiatives that can deliver environmental sustainability impact at scale, with a view to replicating such solutions at a later stage. Integrated land or seascape along with river basin approaches are increasingly being recognised as solutions to the environment, climate, food security and poverty challenges faced today and as effective ways to increase impact on the ground. The EIB is therefore pursuing its efforts with partners to develop and test landscape and multi-disciplinary business models at scale that can then be replicated across regions and sectors. For example, the EIB has committed to invest, by 2025, €1 billion under the Great Green Wall Initiative to improve biodiversity and tackle climate and environmental challenges facing the Sahel region by providing financing and technical support to back sustainable agriculture, water and sustainable infrastructure.
- 6.9. Integrated approaches can help increase the financing available to environmental sustainability projects. Many natural capital and circular economy projects have high transaction costs being small-scale and therefore also too small for the green bond market. Integrated approaches (such as integrated river basin and/or landscape/ecosystem approaches and aggregating outcomes at project level) can help bundle small projects to achieve the scale necessary to attract private investment. For instance, the EIB will continue to explore financial arrangements (including funds, blended finance structures, sector-based lending outside the European Union) that enable the development of integrated projects addressing water issues at river basin level. InvestEU, for example, would lend itself to such pilot projects in the European Union.
- 6.10. Over the last decade, there have been various approaches to creating new markets for environmental benefits, such as sequestered carbon, water quality and biodiversity. Government, private and public sector leaders in finance, environment and conservation have been exploring such market approaches in the hope of creating new revenue streams which can help support their attempts to improve the state of nature and possibly create new “investable” assets. It has led to explorations of biodiversity offsetting and supported a series of “Payments for ecosystem services” pilot projects. However, neither approach has led to dynamic new markets, often due to inadequate design, poor implementation (including concerns around equivalence) and perceived issues relating to a lack of integrity and an absence of consistent and rigorous standards and equitable outcomes.

- 6.11. Today it is clear that the global environmental challenges (such as climate change and biodiversity collapse) cannot be overcome without a market exchange that can efficiently match varied demand for nature's services with a clear and trustworthy source of supply. New nature market mechanisms could deliver nature-positive products, engaging and benefiting public and private players, including local and indigenous communities. The EIB, as part of a multi-stakeholder group, led by the World Economic Forum and Pollination Group, is working on a pilot concept to explore the essential elements and structures needed for a robust natural capital market starting with the Asia-Pacific Region. The aim is to design the building blocks for a market that fully reflects and captures the value of nature while enabling economic returns and biodiversity conservation underpinned by social justice.

### Providing technical support for the development of projects delivering positive environmental impact

- 6.12. Evidence shows that mandates and/or programmes which bundle investment loans with technical assistance and/or advisory enhance the environmental sustainability outcomes and impacts of the project, for example, NCF, EU Investment Facility, ELENA<sup>71</sup>, Water Sector Fund. Technical assistance and/or grant financing whether on its own or as part of a blended finance structure is required to (i) develop, structure and prepare bankable projects, thereby creating more opportunities for private sector investment and participation, such as the Clean Oceans Preparatory Technical Assistance Facility; (ii) explore and demonstrate the feasibility of new business models and expand successful ones to new sectors and geographies (for example, the technical assistance facility under the NCF, technical assistance under the LDNF<sup>72</sup>); (iii) deploy new investment vehicles focused on environment sustainability finance; and (iv) ensure environmental sustainability mainstreaming and capacity-building initiatives of promoters, regional and national sectoral agencies and key financial institutions, such as Green Gateway TA.<sup>73</sup>
- 6.13. A growing pipeline of projects contributing to environmental sustainability, in particular in sub-Saharan Africa and Asia, demonstrates that governments and the private sector are keen to align their financing to meet their green transition commitments. However, most of these projects are still under preparation and have not yet reached bankability stage so that they can access the financing needed to implement them and scale them up. Building on the experience of programmes such as the UNEP Mediterranean Action Plan, the Mediterranean Hotspot Investment Programme and the Clean Oceans Initiative, the EIB is making strides to close these gaps, exploring additional avenues beyond its current mandates to provide the effective delivery of grant, technical assistance and advisory instruments to support project preparation — including much-needed support to conduct the technical, financial and economic analyses required for concept-stage environmental sustainability projects to reach bankability.

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<sup>71</sup> European Local Energy Assistance

<sup>72</sup> Land Degradation Neutrality Fund

<sup>73</sup> Green Gateway — Greening Financial Systems Technical Assistance Programme: the objective of the technical assistance programme is to promote net-zero climate-resilient financial systems that ultimately will support the private sector in deploying climate-related and environmentally sustainable investments. This will be done by providing capacity building and support to central banks and supervisors, and introducing best lending practices related to green financing in terms of procedures, processes and products available to financial intermediaries.

- 6.14. The EIB will continue to mobilise innovation and R&D mandates to develop early-stage projects and ventures, including the acceleration of deployment of new technology and innovation that have environmental benefit potential. Through its engagement with financial institutions (including through advisory and technical assistance) as part of the development and implementation of environment, climate and social standards, the EIB supports the greening and capacity development of the financial and banking sector to manage environmental, climate and social risks (for example, Green Gateway). The Bank will continue to engage with relevant stakeholders and partners (such as the European Commission, MDB peers, UN agencies, academia and NGOs). The EIB's firm commitment on this front makes it a key player in the development of sustainability principles, standards and criteria, such as for sectors (blue economy), markets (biodiversity credit markets) and financial instruments (green bonds), thereby ensuring coherence, integrity and implementability.
- 6.15. In order to increase the financing of environmentally sustainable activities, the EIB sees the benefit of entering into upstream sector dialogue with its public and private sector clients to raise awareness of its readiness to do more in this area. Building on its experience of engagement on the National Energy and Climate Plans, in the water and waste sectors, and FELICITY, the EIB will work with the European Commission, external partners, relevant line ministries, regulators and industry associations to examine how best to target its support towards the priority areas identified in the country-specific NBSAPs and the nationally determined contributions (NDCs).<sup>74</sup> These efforts aim to facilitate the translation of nature-based solutions (NbS) and ecosystem restoration strategies into formal cross-cutting and viable forms of investment, identifying suitable scalable financing instruments. Furthermore, the EIB seeks to enhance its advisory support, helping beneficiaries to develop plans and strategies that include environmental goals and activities.
- 6.16. Stimulus plans (such as under the EU Resilience and Recovery Facility) provide an opportunity to match recovery investment allocation to environmental sustainability objectives and to reform business-as-usual policies. The Bank will use its advisory services and Joint Assistance to Support Projects in European Regions (JASPERS)<sup>75</sup>, which engage with and support EU Member States and Instrument for Pre-Accession Assistance (IPA) countries to address the regulatory bottlenecks hampering the realisation of environmental projects. This includes advice on the repurposing of state aid and agricultural subsidies, bringing with it investment in productivity and job creation, the introduction of market incentives to invest in natural capital and the circular economy, and the reform of policies that have a negative impact on nature and climate and cause land degradation.
- 6.17. While it is recognised that technical assistance is an important tool to develop sustainably sound and bankable environmental projects, an element that needs to be further expanded is the access to grant financing, especially for project development outside the European Union. The EIB will continue to explore different opportunities to further access grant instruments from the European Union, Member States, development financing institutions and philanthropic sources, thus enabling the Bank to enhance its value proposition to support the generation of bankable projects delivering on positive environmental impacts.

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<sup>74</sup> 66% of governments have committed to restoring or protecting ecosystems in their NDCs, 104 governments included natural ecosystems in their adaptation plans and 27 governments described NbS in their mitigation targets

<sup>75</sup> <https://jaspers.eib.org/>

- 6.18. Supporting the development of conditions more conducive to delivering positive environmental impacts, the EIB has been engaging through various working groups, partnerships and facilities in policy dialogue on creating a more enabling environment to facilitate the financing of environment sustainability operations. Through its participation in platforms (such as the EU Platform on Sustainable Finance), facilities (including the NGFS<sup>76</sup> green bonds standards facility), the Bank will continue contributing inputs to the development of more mature, efficient and mainstream environmental markets (natural capital and circular economy) with effective incentives and standards, thereby facilitating the transition to a green economy.
- 6.19. As such, the EIB will continue providing inputs to support the NGFS and EU and international standard-setting bodies in promoting long-term institutional investors that help rebalance and redistribute environment and climate-related risks while maintaining financial stability. Against this backdrop, the EIB is working with the NGFS to explore the use of hedging instruments in order to help insure against increasing natural disaster and other financial instruments (such as green bonds, other voluntary decarbonisation initiatives) that can help reallocate investment to one of the four environmental sustainability objectives.
- 6.20. Through the Green Gateway Technical Assistance Programme, which responds to an initiative by the NDC Partnership, the EIB is supporting CA&ES interventions in the financial sector in Africa, the Southern and Eastern Neighbourhood and the Western Balkans. Under the IKI Fund, the EIB aims to further explore opportunities to support investments addressing the loss of biodiversity, with a specific focus on Asia, Latin America and Small Island States.
- 6.21. Understanding the value creation and exchange potential of ecosystem services is a key step in understanding which delivery and business models might work. Using advisory and technical assistance instruments, the EIB will accompany its counterparts in valuing natural capital and leveraging environmental sustainability in their processes and supply chains to support the green transition and meet their net-zero commitments. Sustainable supply chain finance can be a tool to incentivise suppliers to be more sustainable and help corporates meet their own environment sustainability goals.
- 6.22. Given the dynamic development in finance, technology and policy knowledge and needs, as well as the wealth of available knowledge, initiatives and opportunities for partnerships, the EIB has been reinforcing its strategic positioning on environmental matters helping to generate knowledge, build capacity and strengthen the establishment of strategic collaboration for resource mobilisation and financing with local, regional, EU and global public and private sector finance partners, NGOs and academia. For example, the EIB as a member of the BIOPATH consortium<sup>77</sup>, led by Lund University, is working on a research programme, *“Pathways towards an efficient alignment of the financial system with the needs of biodiversity”* to develop, innovate and test the most viable and effective solutions needed to halt and reverse the loss of biodiversity.

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<sup>76</sup> Network of Central Banks and Supervisors for Greening the Financial System

<sup>77</sup> The consortium is composed of experts in sustainable finance and biodiversity from industry, finance and the public sector.

## 7. Implementation

- 7.1. This document has been developed in a policy context that is evolving rapidly. A number of international initiatives are under way that the EIB will need to follow closely, notably:
- the implementation of the Joint MDB Statement "Nature, People, and Planet";
  - the preparations for the Post-2020 Biodiversity Framework, under the Convention on Biological Diversity, which is expected to provide a global, outcome-oriented framework for the development of national, and as appropriate, regional, goals and targets and — where necessary — the updating of national biodiversity strategies and action plans to achieve these and facilitate regular monitoring and review of progress at the global level; and
  - the adoption of the relevant Delegated Act under the EU Taxonomy Regulation.
- 7.2. A review of the Environment Framework will be undertaken at the end of the Climate Bank Roadmap implementation period, to take stock of progress made and of relevant developments and to consider any required adjustments.



# The EIB Environment Framework



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