

# Green Finance and the Circular Economy

EIB - The bank of European Union

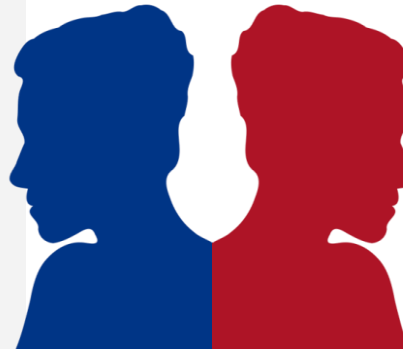
Ljubljana, 11 December 2019

*Francesco Ferrero*  
*Head of EIB Group Office in Slovenia*

# European Investment Bank – a publicly owned Bank is:

## *A public institution*

- The EU Bank: non-profit institution which cooperates with other EU Institutions.
- Strong collaboration with the European Commission (blending/ advisory/ EFSI)
- Invests into projects that contribute to EU policy objectives



## *A Bank*

- AAA-rated
- Independent in borrowing and lending decisions
- Invests in technically sound and financially viable projects
- We work in the market with other investors (crowding-in)

# Our priorities

2018 figures

Innovation



€ **13.5bn**

Environment



€ **15.2bn**

Infrastructure



€ **12.3bn**

SMEs



€ **23.3bn**

# Project Requirements

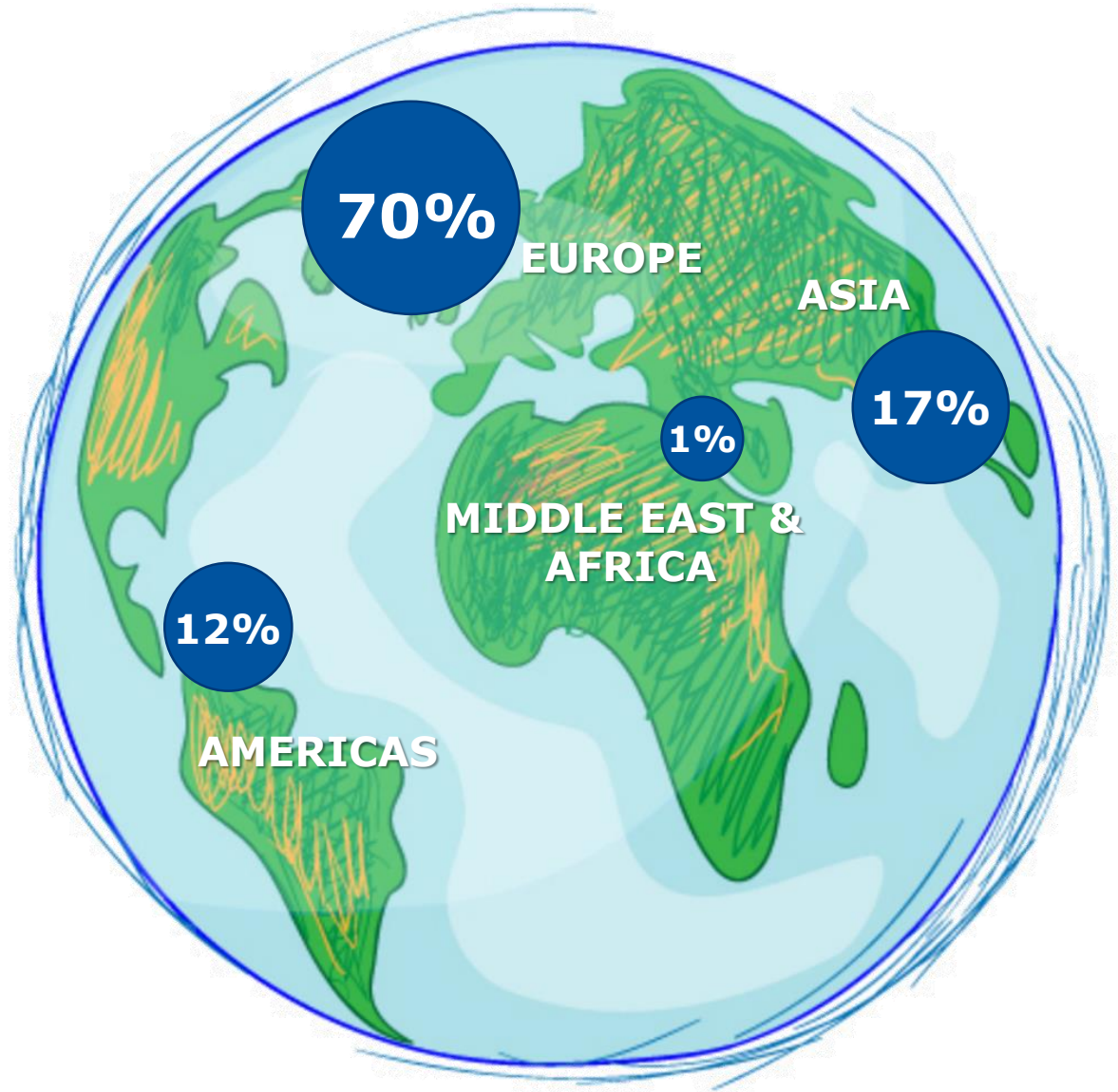
- ▶ EIB-supported projects must:
  - ▶ Meet at least one of the EIB's objectives
  - ▶ Be technically sound and show an acceptable economic return
  - ▶ Be financially solid
  - ▶ Comply with procurement regulations
  - ▶ We appraise and monitor the environmental and social sustainability of all of our investment projects.

# Raising money on the capital markets

**Borrowing**  
in 2018

€ **60**<sub>bn</sub>

**Largest**  
issuer of  
**green**  
**bonds**



USD **100**<sub>bn</sub>  
2016-2020

Climate  
change  
adaptation

**€ 1.2 bn**

Renewable  
energy

**€ 4.1 bn**

Research,  
development  
and  
innovation

**€ 1.1 bn**

Energy  
efficiency

**€ 2.7 bn**

Lower carbon  
transport

**€ 6.0 bn**

Other  
climate  
change  
mitigation

**€ 1.1 bn**

**€ 16.1 billion**  
Climate action investments

# Climate action: background

- ▶ 2015 - Paris Climate Agreement
- ▶ 2018 - EC adopts Action Plan on Sustainable Finance
  - ▶ EU Sustainability Taxonomy
  - ▶ EU labels for financial products
- ▶ 2018 - Green Loan Principles adopted by LMA
- ▶ 2019 - Political Guidelines for the next EC (Von der Leyen):
  - ▶ EC launching an European Green Deal .
  - ▶ Proposal to turn the EIB into Europe's Climate Bank.
  - ▶ “Climate emergency” declaration by European Parliament.

# EIB - Plans for the future

- ▶ EIB's increased ambitions:
  - ▶ Increase to **50% target** for annual commitments dedicated to climate & environmental goals **by 2025**.
  - ▶ Grow sustainable finance (investments) to **1 trillion by 2030** - increasing support to climate adaptation and resilience.
  - ▶ Align all EIB financing to principles and goals of the **Paris Agreement by end 2020** (EIB Board discussions ongoing):
    - ▶ Phase out projects depending on fossil fuels
    - ▶ “Just” transition.
- ▶ EIB as an incubator for climate finance and expertise
  - ▶ to mobilize other resources, helping our societies and economies transform to a low carbon future

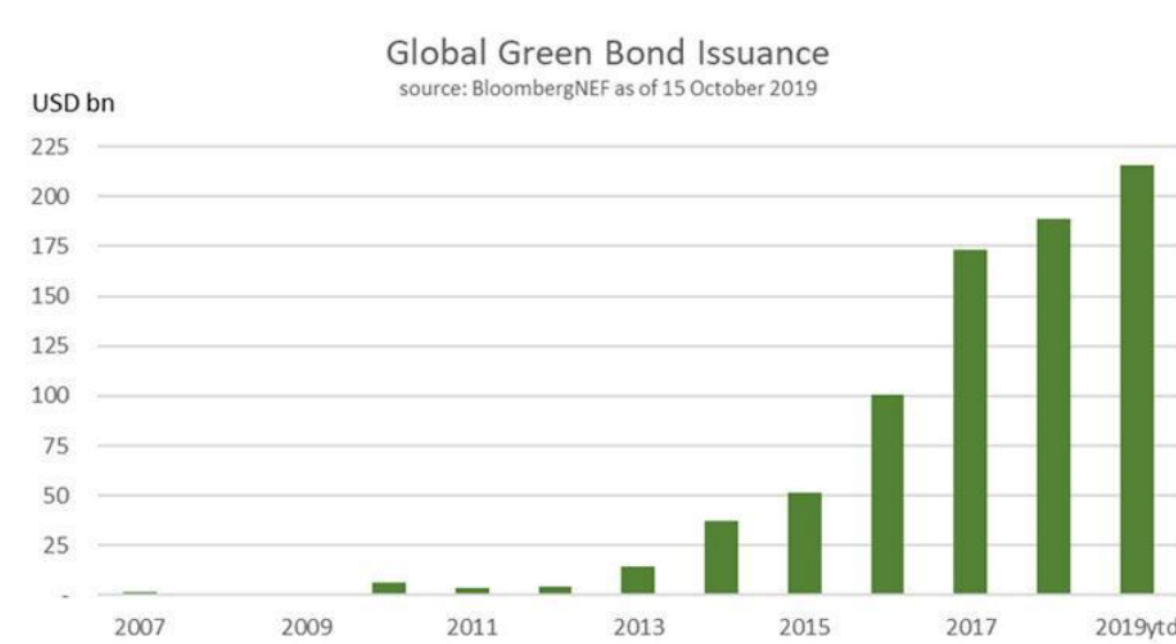


# EIB instruments to support “climate action” projects:

- ▶ Long-term *loans*
- ▶ *Infrastructure and Environment Funds* (since 2005):
  - ▶ EUR 4bn commitments in almost 100 funds
  - ▶ Funds raised approx. EUR 40bn of total commitments
  - ▶ Funds invested in 800 projects, >70% of which with climate action component.
- ▶ *Blending Instruments*: Equity or debt funds, using public funds as “first loss” for risk protection to catalyse other investors
- ▶ *Advisory activities* (e.g. European Local Energy Assistance - ELENA)

# Investors perspective: Green Bonds & ESG criteria

- ▶ Strong growth in the market since EIB launched the *first green bond* in 2007...



- ▶ *ESG (Environmental, Social, Governance)* considerations of growing importance in investing / asset management sector. However, standards of “ESG products” may differ.

# A common language needed

How to know something truly “green” and understand the impact of investments?

- ▶ EIB led the **Green Bond Principles**, non-binding market guidelines.
  - ▶ Pragmatic, no-nonsense guidelines for capital markets.
  - ▶ Reports on allocation and impact, with accredited verification.
  - ▶ coordinated by the *International Capital Market Association*
- ▶ “**EU Taxonomy**” initiative: *shared definitions and comparable classification of economic activities*, in terms of sustainability – linking to instruments to finance them (green bonds, loans, ..).
- ▶ EU Framework to tackle wider *Sustainable Development* (not just climate action: water projects, sanitation, social development... ).

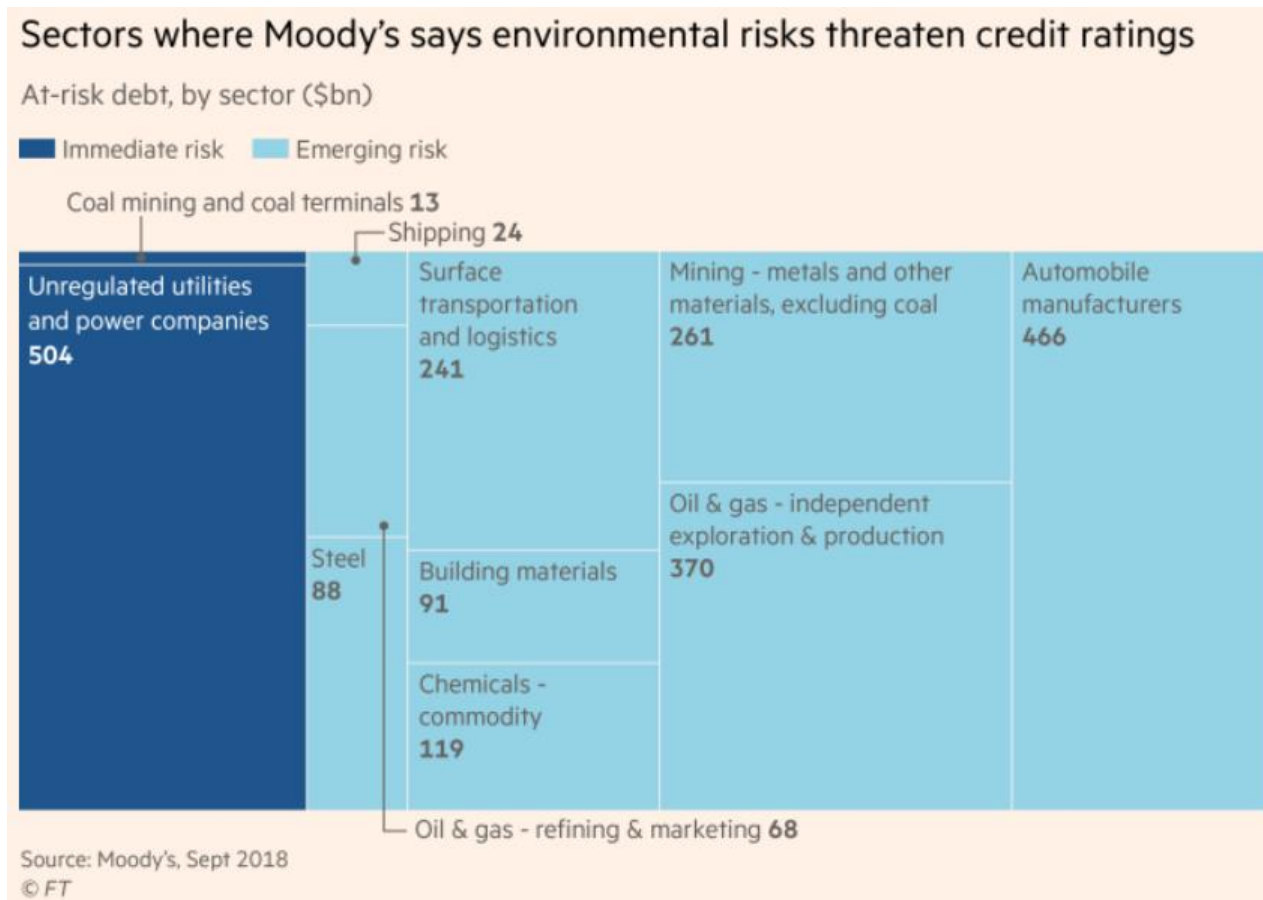
# The wider picture: changes are coming

Strong focus on **role of financial sector to support “green transition”**: public pressure, market demand, regulatory impact, ...

Examples:

- ▶ For banks: discussions of reduced capital requirements (*risk-weightings*) for green/sustainable lending;
- ▶ Capital markets / asset management industry: growing demand for ESG products; transparency on use of proceeds
- ▶ For companies: climate-change risk is real (“stranded assets”, regulation/compliance, emission penalties, catastrophic events, ...)

# Climate risk leads to financial risk...

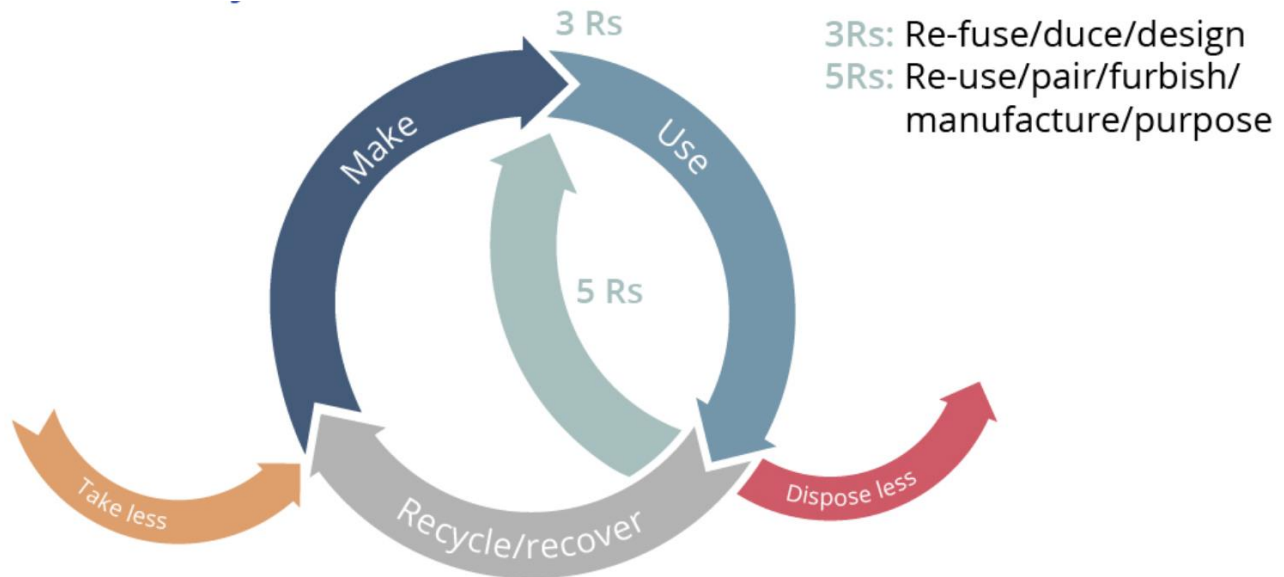


# EIB and the Circular Economy

Supporting transition from a linear ...



...to a circular economy:



# Drivers for change

- ▶ **Resource constraints:** The population/consumption grow ► resource use increases ► risk for depletion of scarce/finite resources
- ▶ **Commodity prices & volatility:** Increasing demand and decreasing supply of scarce/finite resources ► increasing/fluctuating prices
- ▶ **Resources are wasted** in production and consumption – approx. 2.6 bn tons/yr of physical resources in the EU, of which only 40% are recycled
- ▶ **Environmental/climate impacts:** increasing externalities from extraction/transport/wastage, e.g. plastics in the ocean

# Circular Economy projects - features

## ***Efficient and sustainable resource use***

- Reducing inputs of virgin/hazardous materials
- Increasing inputs of secondary materials;
- Closure of material loops
- Reducing waste generation in production and consumption

## ***Extended life of assets and products***

- Reuse, repair and remanufacturing
- New sharing/service models

## ***Recovery of resources from waste-/water and by-products***

- Collection and refinement of secondary raw materials
- Recovering value from bio-waste, by-products and wastewater
- Reusing waste water
- Reducing disposal of recyclable waste



# Financing a circular economy

## *Promoters and projects come in different shapes and forms:*

- **business model:** traditional “closing loop models” (increase quality or quantity of recycling); new material streams / technologies; new leasing/sharing models
- **company/project size and maturity:** From R&D implementation and start-ups - to large corporates
- **risk profile:** Technical risks; market/value chain (feedstock and output) risks; legal and regulatory risks; client risks (contracts).

⇒ **funding needs will vary**, from working capital to large-scale debt funding

⇒ **different financial solutions**, reflecting the business model, project size and maturity, and risk profile of promoter.

# EIB financed projects - examples

- ***Eco titanium:*** The first EU industrial plant to recycle and re-use titanium (metal and titanium alloys) for the aviation industry.
- ***Novamont renewable chemistry:*** Development of innovative bioplastics based on renewable resources (fully biodegradable and compostable). Scale-up of production facilities, also with improved energy efficiency.
- ***Recycled paper circular economy Spain:*** efficient containerboard production plant (high-quality final products using recycled fibre as raw material).
- ***Belfius Smart Cities, Climate and Circular Economy***  
Bank intermediated loan targeting circular economy and sustainable city projects for public promoters / municipalities in Belgium
- ***Orbital Systems:*** Industrialisation and scale-up of water and energy efficient shower systems, reducing up to 90% of resources.

## EIB Circular Economy lending 2014 - 2018

Sector	CE lending 2014-2018 (EUR m)	Share
Industry and services sector	766	34%
Agriculture and bioeconomy sector	448	20%
Water management sector	426	19%
Waste management sector	425	19%
Mobility	95	4%
Urban development sector	78	3%
Energy sector	14	1%
<b>Total CE lending</b>	<b>2,251</b>	<b>100%</b>

# The EIB in the Circular Economy



The EIB CE brochure provides information about EIB CE lending, project examples, lending and advisory products and a link to the EIB CE Guide

It is downloadable on the EIB web-site publication section and on the dedicated EIB CE webpage:  
[www.eib.org/circular-economy](http://www.eib.org/circular-economy)

# Thank you!

More information at: [www.eib.org](http://www.eib.org)  
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