The Role of European Investment Bank (EIB) and National and Regional Development Banks in the Green Transformation

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Introduction

This chapter examines the role that development banks in general, and the European Investment Bank (EIB) in particular, can play in the green transformation. It begins by discussing their renewed importance worldwide in the context of the global financial crisis of 2008/2009 and the important countercyclical role they played during COVID (2020–2022). It then proceeds to explore the long-term role they can play in the green transformation in the EU, and at the global level, in the four axes of (regional) environmental and climate change policies advanced in the introduction of this volume, i.e., regional redistribution mechanisms (including regional banks and funds from third parties), regulations, rights, and cooperation.

In recent decades, we have witnessed a real renaissance of development banks. They were much maligned in the period of the so-called Washington consensus, when private financial market efficiency was taken to the extreme, to the effect that, almost by definition, public development banks had almost no role to play, as private banks and private financial markets were perceived to do best on their own. Nowadays, the acknowledgment of the importance of development banks has been reborn.

This started with the so-called global financial crisis of 2008/2009, when public development banks at all levels, multilateral, regional, and national, significantly stepped up their lending. The World Bank in its survey (De Luna-Martinez et al., 2017) showed how National Development Banks, which quantitatively represent the most important category within the total of development banks, increased their

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lending by 36% in 2 years, between 2007 and 2009. Similarly, the World Bank and regional development banks also significantly increased their lending during those years. At that time, countries were desperate for funding, as in times of uncertainty, private banks and other financial institutions do not lend or lend much less, as they tend to be pro-cyclical.

The global financial crisis was followed by the Eurozone debt crisis, when again development banks stepped up and helped compensate for declines or slower growth in private lending. At that time, there was increase in the role of the EIB, in the context of the Juncker Plan (Griffith-Jones & Carreras, 2021). After the Eurozone debt zone crisis, almost all European countries created national development banks and increased the size of existing ones. The same occurred during and in the aftermath of COVID. This major countercyclical function of responding in times of uncertainty or crisis by increasing lending has made development banks greatly valued.

A further impulse to development banks came from Asia, through the creation of China-led but more broadly Asian-led, Asia Infrastructure Investment Bank (AIIB), which also has important European membership, as well as from the BRICS New Development Bank (NDB). In addition, India, which had previously closed down many development banks, is now creating one for infrastructure. This trend has also been observed in other regions. For example, in Africa, Nigeria and Ghana recently created new development banks.

These public development banks are already very important actors, especially if we add them all up, multilateral, regional, and national ones. It has been estimated that their assets amount to over US $ 23 trillion worldwide and over US $ 2.3 trillion of annual lending, which represents 10% of total global investment. Thus, development banks are already important actors. It is in this broader context that this chapter proposes to discuss the role of the European Investment Bank in the green transformation, within the EU and in the world more broadly.

Before doing so, it is important to mention the significant role the EIB played during COVID and particularly in vaccine development. For example, the EIB partially funded the initial BioNTech Pfizer vaccine, which has played such an important role in the fight against COVID in Europe and worldwide (Griffith-Jones & Carreras, 2021). This important and effective vaccine might not have come to light or been developed so quickly if the EIB had not made an initial crucial loan to BioNTech. Thus, this initial loan by the EIB had a very strong element of global public good, not only in the European context but also in the international context as well.

EIB and Green Transformation

The role of the EIB in the green transformation must be seen in the broad context of the European Union's willingness to take the lead, at a global level, to become carbon neutral by 2050, which has now been followed by other major countries

including the United States. It is important to stress that this green transition implies major structural transformations across sectors in EU economies and others worldwide, including electromobility and renewable energy like green hydrogen and the corresponding infrastructure to support this (Mazzucato & Mikheeva, 2020). This implies not just new projects but also important research and development. This can be best conceived as what Mariana Mazzucato (2011) calls missions, which are cross-sectorial and involve different activities; an additional challenge is that this green transition must be just, so as to protect the poorest and the most vulnerable.

Initially, the European Commission estimated that an increased investment of at least 260 billion euros a year by 2030 was required to reach this 2050 target of carbon neutrality. But now, given the more ambitious target of reducing carbon emissions by 55% in 2030, even larger amounts are required. The European Investment Bank is central to the European Green Deal and it has committed that, by 2025, 50% of its lending will go to climate change-related activities, both mitigation and adaptation (Griffith-Jones & Carreras, 2021). Furthermore, the EIB has committed that by 2030 it will catalyze 1 trillion euros for investment in these areas.

In fact, all the operations of the EIB are under European Green Deal priorities, and the bank has stopped funding fossil fuels. The EIB has developed and used pioneering instruments like the shadow price of carbon to evaluate projects (see Stern and Stiglitz (2021), as well as the chapter by Stephan Schulmeister in this book) over a decade ago, being a true pioneer in that respect, which is interesting from an international perspective, and also of course for Latin America (Griffith-Jones & Leistner, 2018). Already in 2022, the shadow price of carbon used by the EIB reached 80 euros per ton of carbon, and it is planned to increase to 800 euros per ton of carbon by 2050, increasing gradually before. It would be valuable to discuss whether this instrument could be relevant for regional and national development banks in Latin America. In addition, there is an EU green taxonomy, which has been quite positive, even if not perfect. EIB lending has to be aligned with this EU green taxonomy. And again, this kind of instrument could be very positive to Latin American regional and national development banks. However, there remains an important challenge, which is how to make the financial intermediaries, through which the European Investment Bank channels an important part of its lending, align with the Paris criteria and with the EU green taxonomy.

The EIB has also designed an interesting climate roadmap to accelerate the green transition, to make it just, accountable, and Paris-aligned. This means not just lending to green activities but also increasing investment in innovative green technologies (Griffith-Jones and Carreras, op cit). The EIB is active, for example, in funding and promoting research on hydrogen, including green hydrogen produced with renewable energy. This has an important international dimension, including for Latin America, as Chile, for example, is very active, both through its development bank, CORFO, and via the private sector, in promoting and investing in green hydrogen, both for the domestic market but also for export, including to the European Union (Carreras et al., 2022; Griffith-Jones et al., forthcoming).

It should be stressed that EIB also has an important international dimension because 10% of its lending go to emerging and developing countries, including Latin America, and since 2020 35% of EIB lending to emerging and developing countries goes to climate finance; this proportion will be increased. Therefore, the EIB is also playing an important role in the transition to the green economy worldwide.

Furthermore, if we look at the sectors the EIB lends to, we can note that its lending is progressively becoming more aligned with the green transition. For example, the EIB has committed that, within the EU, it will not lend to any further expansion of airports unless they have a very clear green element (Climate Bank Roadmap, 2021–2025). In fact, they will only make loans for activities that mean greening airports.

On the other hand, green NGOs contest that, in certain regions and countries, the EIB still supports road building if they meet certain tests (Counter Balance (2020), Transport and Environment (2020). The EIB does not seem to value enough alternatives like trains, which are powered mainly or completely by electricity, being less carbon-intensive than road transport. The EIB argues that road building is legitimate because it supports electric cars, which means that road transport will become more low-carbon. However, there is a lot of uncertainty about the speed of developing electric cars, which leads to some controversy on this. The role that green NGOs are playing in these debates can be very constructive, because they put pressure on public development banks and on the EIB in particular to accelerate the share of their investment in genuinely low-carbon investment.

There is also a need to diversify instruments beyond credit and guarantees, such as equity. Being more involved in equity in companies allows institutions like the EIB to have greener directionality and to have more of what we call traditionally industrial policy capacity, which is very important to the green transition. Secondly, the greater use of instruments of direct equity or quasi-equity means that the EIB does not just share the risks with the private sector but also shares the potential upside, which is positive (for more details see Griffith-Jones and Carreras, op cit). One example of quasi-equity instrument used by the EIB is called venture debt. If the company does well, the EIB has the right to transform the debt into equity and therefore receive part of the profits.

An important final point is that institutions like the EIB, as well as other development banks, need not only to provide better, greener, more inclusive loans, but they need to do significantly more, especially in the area of the low-carbon transition. The scale of investment needed is so large that there is a requirement to have larger development banks. In many countries in Latin America, like Chile, the countries have good development banks, but they are very small (Griffith-Jones et al., forthcoming). Countries like Brazil, which had very important and large development banks, like BNDES especially, recently reduced its scale, when there is a need to increase its scale (Carreras, forthcoming). It is, therefore, important and cheap for governments to increase the paid in capital of development banks (Griffith-Jones et al., 2022). And in the European case, it is also important for the European

Commission to provide guarantees, which imply that the EIB can take more economic risk and fund these new technologies and their dissemination.

This is a very important lesson internationally as well. It is paramount that the capital of the World Bank is increased rapidly, as well as the capital of the African Development Bank and Inter-American Development Bank, because these countries have limited fiscal space, and they need additional international support, including for the low-carbon transition. However, the international community has been relatively inactive and somewhat silent. It has expanded liquidity for the creation of Special Drawing Rights in the wake of the COVID crisis, but not so much for funding expanded development finance.

We would like to conclude by emphasizing that there are potentially valuable lessons internationally and for Latin America in particular, from some of the pioneering aspects of the European Investment Bank, of course duly adapted to the circumstances of Latin America. These include the introduction of carbon shadow carbon pricing, green taxonomy, climate roadmap, and new instruments such as venture debt. These measures discussed above are interesting in providing experiences that can be drawn on also by Latin American and other countries.

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