## a huge investment bank with unique tasks ahead

*With Europe increasingly attentive to environmental and social issues, the European Investment Bank is following suit, facing challenges and opportunites. Mike Scott speaks to the bank's SRI boss, Peter Carter*

As the long-term financing body of the European Union (EU), the European Investment Bank (EIB) promotes EU policies by supporting sustainable investment projects.

As a result of the EU's increasing attention to environmental and social considerations, the EIB has a considerable focus on these areas as well, says Peter Carter, EIB's head of environmental and social office, which 'ensures that the environmental and social principles of the bank are applied to the projects we finance'.

The institution's investment focus could loosely be described as economic and social infrastructure. About 90 per cent of its investments are within the EU, but it has mandates worldwide.

Inevitably, given the EU's 2020 targets on renewable energy and energy efficiency, much of its lending is focused on tackling climate change – about 30 per cent of its funding must have environmental objectives, Carter says, while all of it has to meet the bank's environmental safeguards. 'We have stepped up our activity, especially in renewable energy and energy efficiency.'

However, the bank's size and twin focus on environmental and social issues may lead to conflicts. 'The work of the bank is bedeviled by the need to address trade-offs,' he explains, 'but we like the trade-offs to be exposed. We try to avoid situations where any potential adverse impacts cannot be mitigated or compensated.'

Transport is one area where environmental aims can come into conflict with social and economic benefits. Transport and roads must be seen as an integral part of Europe's economy, but the EIB aims to focus its loans towards more sustainable forms of transport, with 'a preference for rail and public transport, but not to the exclusion of financing roads'.

In 2009, for example, the bank put lots of money into the car sector, but it was aimed at improving the fuel efficiency of the transport fleet. Similarly, financing for the aviation sector is about boosting the efficiency of aircraft or airports.

The bank's role as a multilateral bank, its function in helping to roll out EU policies – and its vast resources – give it a different purpose from SRI investors in the commercial sector.

'We have to cover our costs because most of the money we lend is raised on the markets [the EIB is AAA-rated, giving it a lower cost of capital than many other lenders]. However, our aim is not to maximise profits,' Carter says. 'All our projects must add value from a number of perspectives, including contributing to EU policy objectives and adding something that commercial banks would not, such as providing technical assistance or capacity building. We aim to complement the private sector, not compete with it.'

A concrete example of this came last year, when the EIB considerably stepped up its lending, from €57bn in 2008 to a planned €70bn, to cover the shortfall left by the withdrawal of the commercial banks from the lending market. One of the bank's key roles is to leverage private investment. 'We very rarely finance more than 50 per cent of a project,' he adds. 'Often a relatively small slice of investment from us can be what seals a deal.'

Projects must demonstrate their viability, he continues. ‘We insist on achieving satisfactory economic rates of return, including externalities. We are not in the business of financing white elephants.’

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