Paris climate conference: How public development banks can boost private climate investment

The 2015 United Nations Climate Change Conference began in Paris on 30 November. To coincide with the conference, **Ambroise Fayolle** *and* **Jonathan Taylor***, Vice Presidents of the European Investment Bank, write on the role that multilateral development banks have in efforts to tackle global warming, and the measures the European Investment Bank is taking to support projects that mitigate the effects of climate change.*

The extinct Corbetti volcano is a dusty depression in the scrubland 200 miles south of Addis Ababa. It's a world away from the offices of multilateral development banks in Luxembourg, Washington and London. But the distance between the two gets smaller every day.

Corbetti's unique geothermal formation forces water through subterranean channels, where it's heated by the volcanic lava underneath. The water turns into steam as it rushes through the caves, where the Africa Renewable Energy Fund aims to set up generators to harness the force of the steam. Ethiopia's first independent power project, this will work like a coal-fired power station – but without the coal. Corbetti helps achieve a range of policy goals and improves lives. It's the kind of project that's increasingly important to multilateral development banks, including the European Investment Bank, the world's largest internationally owned public bank.

Money matters to climate. One of the objectives of the UN Climate Change Conference in Paris is to generate financing for projects and initiatives that can make a difference to global warming and help people adapt to the changes warming will bring. As a group, multilateral development banks have become the main providers of climate finance.

Their contribution is key in the fight to control the effects of climate change. As the world's biggest climate action lender, the EIB is well aware of its responsibility to find new avenues for climate action. In advance of the Paris conference, we committed to increase the percentage of climate action loans we're making in vulnerable countries. We're also committed to finding ways to reduce the risk of climate action investment so that private investors will warm up to the idea.

Corbetti is a great example of the benefits of this strategy: First, it's a private project, but the fund's equity investment draws on a mix of public and private funds (including an early investment from our Global Energy Efficiency and Renewable Energy Fund) which leverages our contribution many times over. Second, it counters climate change by using existing natural geothermal resources to generate electricity. Third, it transforms lives in developing countries. In eight years Corbetti aims to produce 500 megawatts of electricity annually. That's a quarter of Ethiopia's total usage and enough to supply five million homes there

That's why in October our bank committed to increase lending for climate action projects to 35 per cent of loans in the most vulnerable countries by 2020. This year is set to be the hottest ever, according to the US agency that tracks worldwide temperatures. We want to ensure that the climate isn't the only thing that changes. So must we, because change is an opportunity for growth. Just as the temperature increases all around the world, so growth must increase worldwide. Its effects will be most dramatic in the poorest countries.

Multilateral development banks already make enormous climate action investments in developing countries. They have boosted the resources they devote to climate action in developing countries to £65 billion over the last four years. Last year the European Investment Bank contributed £4 billion of the £18 billion investment by the six major development banks which have been monitoring the issue together.

Of course, climate action works anywhere in the world. The EIB ensures that at least 25 per cent of all its annual loans, including those inside the EU, go to climate action, and this helps deal with climate change everywhere, not just in the countries where the money is spent. But poorer countries generally can't afford to spur climate finance investment themselves. They're also more catastrophically affected by climate change.

Beyond the money they invest, multilateral development banks provide a stamp of security for what might otherwise be seen as risky projects, because private investors recognise our technical and financial expertise. In renewable energy and forestry projects, for example, each pound put in by the EIB results in a final investment of £24.

To bring in more of that additional private money, we create risk-sharing financial vehicles with different types of capital in which public sector money absorbs potential initial losses, mitigating the risk for private investors. That's how the Global Energy Efficiency and Renewable Energy Fund was structured. The EU, Norway and Germany put up £80 million with an agreement to absorb any initial losses. That feature helped entice £79 million of private capital. Based on its track record to date, for every pound of public money in the fund £50 of investment is generated on the ground.

None of this is easy. It takes the expertise and massive resources of multilateral development banks to get it done. But private investors should be assured that our commitment is absolutely firm. When we invite them to join us in financing climate action, they should know that we're with them for as long as it takes.

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