

Environmental and Social Sustainability Framework

Standard 11 – Intermediated Finance

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STANDARD 11: INTERMEDIATED FINANCE

INTRODUCTION

- 1 The EIB uses intermediated finance¹ through a wide range of financial intermediaries (FIs)² to support eligible smaller projects undertaken inter alia by SMEs, midcaps and public entities that cannot be financed directly.
- 2 All projects benefiting from EIB support through intermediated finance are designated as sub-projects.

OBJECTIVE

- 3 This Standard sets out how the environmental, climate and social (ECS) impacts and risks arising from sub-projects shall be identified, assessed for their significance³, managed and monitored, in line with applicable requirements⁴ and commensurate with the sub-project's size, nature, socioeconomic context, location and sector; sensitivity to environmental and social ECS impacts and risks; ~~socioeconomic context and location~~.

SCOPE OF APPLICATION

- 4 The requirements of this Standard apply to intermediated finance as follows:
 - a. where EIB support is channelled to sub-projects through the FI, the requirements of this Standard apply to sub-projects, where relevant;
 - b. where the FI on-lends EIB funding to another FI, the term sub-project includes the sub-projects financed through each subsequent FI and the requirements of this Standard will apply to sub-projects, where relevant;
 - c. where the EIB provides financing to a FI that is a fund investment vehicle, the requirements of this Standard apply: (i) to the investee companies financed by the EIB through the FI from the time that the EIB becomes an investor; and (ii) on a best-efforts basis, to the investee companies financed through the FI prior to the time that the EIB becomes an investor.
- 5 The requirements of this Standard do not apply to sub-projects financed through FIs that do not benefit from EIB support.

GENERAL REQUIREMENTS FOR ALL FINANCIAL INTERMEDIARIES

- 6 In order to meet the requirements of the EIB's Environmental and Social Policy, the FI shall respect the labour rights of its employees and provide a safe and healthy working environment in accordance with: (i) if located in EU, EFTA, Candidate and potential Candidate countries, the applicable national and EU legislation⁵ to which it is subject; and (ii) if located in the rest of the world, the applicable national legislation and relevant aspects of EIB's Standard 8 on Labour Rights⁶ and Standard 9 on Health, Safety and Security⁷.
- 7 If located in EU and EFTA countries, the FI shall require final beneficiaries to cooperate, in accordance with EU legislation, with the relevant competent authorities in order that rights-holders⁸ have access to meaningful public consultation as well as to review procedures on

¹ Operations with FIs which 'intermediate' i.e. on-lend the EIB funds to final beneficiaries (including framework loans intermediated through a financial institution), or lend funds to final beneficiaries in relation to an EIB guarantee or use EIB funds to invest in a portfolio of investee companies.

² Including, but not limited to, commercial banks, national/regional promotional banks, leasing companies and other financial institutions, funds and microfinance institutions. This includes cases where EIB support is channelled to the FI through a public institution or entity.

³ ~~Based on Taking note of the criteria set out in the EU legal framework.~~

⁴ As defined under General and Specific Requirements below.

⁵ EU Labour and Health & Safety legislation.

⁶ Primarily on management of working relations, terms and conditions of employment, fair treatment, non-discrimination and equal treatment and opportunity of workers and freedom of association and collective bargaining.

⁷ Primarily health and safety management and workplace risks.

⁸ Rights-holders are understood as all individuals and population groups that can make valid claims to fundamental rights from a human rights perspective. In the context of EIB-supported sub-projects, it refers to persons who are, actually or potentially, adversely affected by the sub-project. It includes persons affected by the sub-project, local community members, workers, etc.

environmental, climate and social matters in connection with sub-projects benefiting from EIB support.

8 If located in the rest of the world⁹, the FI shall require final beneficiaries to ensure that rights-holders have access to meaningful stakeholder engagement and effective means to raise grievances on ECS matters in connection with sub-projects benefiting from EIB support¹⁰.

69 In order to enhance transparency on non-financial, sustainability-related information, the FI shall:

- a. if located in EU and EFTA countries, comply with sustainability-related disclosure requirements under national and EU legislation which is applicable to their activities; and
- b. if located in the rest of the world¹¹, comply with the applicable national legislation and as a matter of course make available to the public information on its due diligence and monitoring policies and procedures, or equivalent, for assessing, ~~and~~ and monitoring the ~~ECS~~environmental and social impacts and risks of sub-projects. ~~The scope of the FI's policies and procedures shall be commensurate to the FI's size and the nature and scale of its business, where relevant.~~

710 With regards to sub-projects benefitting from EIB support, ~~t~~The FI shall ~~comply~~ take note of ~~with~~ relevant EIBG Environmental and Social Policy requirements, as well as comply with specific ~~environmental and social~~ECS requirements including reporting requirements ~~(as set out in the documentation concluded between the FI and the EIB) (including reporting requirements)~~ which are adapted to the type of intermediated finance and which are identified as appropriate in the EIB's due diligence process, ~~also taking into account the FI's implementation capacity.~~

811 The FI shall have in place a process for identifying, assessing, managing and monitoring ~~environmental and social~~ECS impacts and risks. This process ~~i) may include relevant policies and procedures commensurate to i) the FI's size and nature of business and and ii) it shall be commensurate to the sub-projects' size, nature, socioeconomic context, location and sector sensitivity to ECS impacts and risks.~~ size, nature, socioeconomic context and location of the sub-projects, as well as the sector's sensitivity to environmental and social risks. Such a process can either be distinct from or integrated in any existing systems operating within the FI, such as the FI's regular credit/investment processes.

912 Where requested, the FI shall provide the EIB with information related to its process for identifying, assessing, managing and monitoring ~~EC~~environmental and social impacts and risks.

1013 In particular, this process will enable the FI to perform the following steps:

- a. screen all sub-projects against the EIB's list of excluded activities¹², as regularly amended, and meet any other ~~environmental and social~~ECS undertakings, ~~as well as reporting requirements on potential significant ECS impacts and risks,~~ as set out in the documentation concluded between the FI and the EIB. The eligibility of sub-projects may be further restricted in justified cases;
- b. identify the sub-projects according to the level of ECS risks, assess and monitor ~~the management of how~~ the significant ~~environmental and social~~ECS impacts and risks arising from sub-projects are managed, as applicable, and ensure that agreed ~~environmental and social~~ECS undertakings are met;
- c. require that the sub-projects comply with the applicable legislation as described in paragraphs 142 and 153 below.

As described in the UN Guiding Principles on Business and Human Rights, organisations or entities, such as States, trade unions or religious institutions, are not human rights-holders, but may act in a representative capacity for individuals who are rights-holders.

⁹ For the purpose of stakeholder engagement and access to grievances, as well as disclosure requirements, Candidate and potential Candidate countries are included in the "rest of the world".

¹⁰ According to Standard 2, taking into consideration the sub-projects' size, nature, socioeconomic context, location and sector sensitivity to environmental, climate and social impacts and risks.

¹¹ For the purpose of disclosure requirements, Candidate and potential Candidate countries are included in the "rest of the world."

¹² <https://www.eib.org/en/about/documents/excluded-activities-2013.htm>.

~~4114~~ For sub-projects in EU, EFTA, Candidate and potential Candidate countries¹³, the FI shall require that they be implemented in line with the applicable national and EU legislation.

~~4215~~ For sub-projects outside the European Union, the FI shall require that they be implemented in line with the applicable national legislation and the relevant EIB Environmental and Social Standards.

~~4316~~ ~~Where appropriate, the FI may shall be required to report to the EIB on potential significant environmental and social ECS impacts and risks arising from specific sub-projects. Certain sWhere appropriate, based on the ECS risk management process the FI has in place and its capacity to implement it, sub-projects with high ECS risks¹⁴ shall may be referred back to the EIB for review and approval. and for prior review and approval. due, for example, to their size, nature, socioeconomic context and location, as well as the sector's sensitivity to environmental and social risks.~~ Where applicable, appropriate mitigating measures shall be identified by the EIB in consultation with the FI, and implemented accordingly.

~~4417~~ Where possible and appropriate, the FI may receive the EIB's support for assessing, managing and monitoring, as well as reporting on ECS environmental and social impacts and risks.

SPECIFIC REQUIREMENTS

Intermediated finance in pursuit of environmentally and/or socially sustainable objectives

~~4518~~ Where intermediated finance is fully or partially dedicated¹⁵ to promoting environmentally and socially sustainability objectives, the FI ~~may shall~~ be subject to additional requirements, ~~including that may include~~ reporting and undertakings, to demonstrate that its processes and systems adequately factor sustainability impacts and risks into investment decisions in line with the EU Taxonomy, ~~including the Do No Significant Harm (DNSH) and Minimum Safeguards (MS) principles and requirements,~~ as relevant.

Equity funds

~~4619~~ The FI shall put in place an environmental and social management process commensurate to the risk exposure that the Fund Entity is expected to manage.

~~4720~~ The FI shall ensure the implementation of the above environmental and social management process, including environmental and social procedures as well as the monitoring of the environmental and social performance of its investees, where relevant.

~~48~~ Where the FI has made specific commitments regarding ~~climate climate action or~~ environmental and social sustainability objectives, gender equality or other agreed areas, progress on the agreed indicators shall be monitored and reported on. to ensure consistency with DNSH and MS principles and criteria, as relevant.

Microfinance operations

~~4921~~ Microfinance Service Providers (MSPs), which include microfinance institutions and banks (MFIs) or more broadly inclusive finance providers, are characterised by their small-scale operations and specific mission. MSPs shall ensure that their approach to engaging with and managing ~~environmental and social~~ ECS impacts and risks is commensurate to the capacity and size of the financed microenterprises in order to mitigate such impacts and risks. Since the MSPs typically focus on clients from the poorest socioeconomic groups, who are usually vulnerable to social impacts and risks, they shall operate in alignment with strict client protection principles.

¹³ For projects located in Candidate and potential Candidate countries, the promoter shall consider any timeframes for reaching compliance with specific EU environmental legislation as arranged with the European Union through bilateral agreements and/or action programmes.

¹⁴ High risk sub-projects: sub-projects that are likely to have significant environmental, climate and/or social impacts and risks and require the preparation of an Environmental Impact Assessment (EIA)/Environmental and Social Impact Assessment (ESIA) report due to: ii) national and/or EU Law requirements; or ii) determination made by the competent authorities in the host country and/or by FIs based on a case-by case basis. analysis that takes into account the existing FIs ECS risk management process.

¹⁵ Sub-projects geared to certain objectives, including but not limited to, climate action, environmental sustainability, gender equality, etc.