

Environmental and Social Sustainability Framework

Standard 5 – Climate Change

Draft – 15 December 2021

DRAFT



STANDARD 5: CLIMATE CHANGE

INTRODUCTION

- 1 This Standard recognises the importance and urgency of combating climate change, which poses a major global threat and is a common concern of humankind, as rising temperatures increasingly result in severe, pervasive and irreversible negative impacts for people, economic activities, ecosystems and the regenerative capacity of the planet.
- 2 This Standard further recognises the role of finance in supporting low-carbon and climate-resilient development, i.e. in (i) addressing climate change by reducing greenhouse gas (GHG) emissions; and (ii) building the resilience and adaptive capacity of people, nature and assets to cope with current and future climate change-induced impacts.

OBJECTIVES

- 3 This Standard sets out the responsibilities of promoters with respect to climate change mitigation and adaptation¹ and thereby to the fight against climate change, as further described below.
- 4 This Standard promotes the alignment of projects supported by the EIB with the goals and principles of: (i) the Paris Agreement² and (ii) the Sustainable Finance Action Plan³. It does so by stipulating that climate change mitigation and adaptation considerations must be explicitly addressed and incorporated by promoters in the decision-making process of the projects that the EIB supports, in accordance with the approaches established in the EIB Group Climate Bank Roadmap⁴ and the EIB Climate Strategy⁵.

SCOPE

- 5 This Standard applies to all operations and the specific requirements that need to be addressed are determined during the environmental impact assessment/environmental and social impact assessment (EIA/ESIA) process (as outlined in Standard 1) and the EIB appraisal, based on the nature and scope of the project.
- 6 This Standard outlines the responsibilities of the promoter with regard to assessing, managing and monitoring project-related (i) GHG emissions and transition climate risks⁶ and (ii) physical climate risks⁷. More specifically, the promoter's responsibilities involve:
 - Assessing GHG emissions at the project level and the project's alignment with pathways to limit global warming to 1.5°C above pre-industrial levels and options to reduce transition risks;
 - Assessing the project's resilience to physical climate risks, its alignment with climate-resilient development pathways⁸, and the options to reduce physical climate risks to the project, its natural environment and the people that may be affected by it.

¹ Climate change mitigation refers to human intervention to reduce emissions or enhance GHG sinks. Note that this encompasses carbon dioxide removal (CDR) options (IPCC Glossary at: https://www.ipcc.ch/site/assets/uploads/2018/11/sr15_glossary.pdf). Climate change adaptation refers to adjustments in structures and practices to reduce potential damage or to benefit from opportunities resulting from a changing climate. It is centred on the understanding that the climate attributes of the past no longer represent the future, and therefore adjustments are required for societies, economies or ecosystems to continue to function in the future.

² Adopted on 12 December 2015 at the 21st session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP 21) in Paris. https://unfccc.int/sites/default/files/english_paris_agreement.pdf.

³ Communication from the Commission, Action Plan: Financing Sustainable Growth (COM/2018/97 final), and subsequent supporting legislation, notably Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment ("the Taxonomy Regulation") <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>.

⁴ Adopted on 11 November 2020 by the EIB Board of Directors. <https://www.eib.org/en/publications/the-eib-group-climate-bank-roadmap>.

⁵ Update adopted on 11 November 2020 by the EIB Board of Directors. <https://www.eib.org/en/publications/eib-climate-strategy>.

⁶ Transition climate risks are risks caused by the process of transitioning to a lower-carbon economy. This process may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations. (<https://www.tcfhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf>). Transition risks may also threaten the provision of services to the general public and local communities.

⁷ Physical climate risks result from both chronic or slow onset climate-related hazards (such as average temperature increases and rising sea levels) and rapid or acute climate related hazards (such as extreme rainfall, storm surges, flooding and heat waves).

⁸ Climate-resilient development pathways refer to trajectories that strengthen sustainable development and efforts to eradicate poverty and reduce inequalities while promoting fair and cross-scalar adaptation to and resilience in a changing climate (IPCC Glossary at: https://www.ipcc.ch/site/assets/uploads/2018/11/sr15_glossary.pdf).

GENERAL REQUIREMENTS

- 7 All projects located in EU, EFTA, Candidate and potential Candidate countries shall comply with the applicable national and EU environmental and climate legislation. All projects shall also support the delivery of applicable climate change mitigation and adaptation objectives, and/or be consistent with reaching emission reduction or resilience pathways, in accordance with relevant international, EU and national legislation implementing the Paris Agreement as well as any other international agreements relevant to the fight against climate change. Clear reference points include, but are not limited to, the European Green Deal,⁹ the European Climate Law,¹⁰ National Energy and Climate Plans (NECPs) and national Adaptation Plans. For projects located in Candidate and potential Candidate countries, the promoter shall consider any timeframes for reaching compliance with specific EU climate-related legislation as arranged with the European Union through bilateral agreements and/or action programmes.
- 8 All projects located in the rest of the world shall comply with the applicable national legislation and this standard, which reflects the core principles and essential procedural elements laid down by EU legislation that the EIB considers relevant to climate mitigation and adaptation. All projects shall also be consistent with the delivery of applicable climate change mitigation and adaptation objectives, and/or be consistent with reaching emission reduction or resilience pathways, in accordance with relevant national legislation implementing the Paris Agreement as well as any other international agreements relevant to the fight against climate change. Clear reference points include the Paris Agreement and the Paris Rulebook for its implementation, Nationally Determined Contributions¹¹ and national vehicles to communicate on adaptation in accordance with Article 7 of the Paris Agreement (NDC, National Communication, National Adaptation Plan), as well as national climate change mitigation and adaptation strategies and/or related long-term strategies¹².
- 9 All projects shall comply with the EIB's alignment framework, as set out in the EIB Group Climate Bank Roadmap (CBR), including to ensure consistency with the "Do No Significant Harm" principle to climate change mitigation or adaptation objectives, as defined by the EU Taxonomy Regulation¹³.
- 10 The promoter shall provide the EIB with information establishing the project's impact on GHG emissions and its vulnerability to physical climate change risks, as well as its alignment with relevant low-carbon and climate-resilient pathways.
- 11 The extent of the promoter's reporting requirements relating to physical and transitional climate risks and impacts shall be commensurate to the risks and potential impacts identified.¹⁴
- 12 The promoter shall report to the EIB any changes that take place during the project's implementation phase that are likely to lead to significantly different transition risks, including annual GHG emissions, or physical risks to the project and to people, nature and assets, as compared to those reported to the EIB and assessed ex-ante.
- 13 When applying Standard 5, the promoter shall take into account relevant environmental and social, including gender, aspects in line with the requirements outlined in other EIB standards, in particular Standard 2 "Stakeholder Engagement", Standard 7 "Vulnerable Groups, Indigenous Peoples and Gender", and Standard 10 "Cultural Heritage".

⁹ Communication from the Commission, The European Green Deal (COM/2019/640 final), and subsequent supporting policies https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

¹⁰ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') EUR-Lex - 32021R1119 - EN - EUR-Lex (europa.eu)

¹¹ Nationally Determined Contribution is a term used under articles 3 and 4 of the Paris Agreement to designate the official document whereby each country that is a Contracting Party shall communicate and undertake its efforts to contribute to the global response to climate change, comprising its mitigation commitments set out in accordance with article 4 and, eventually, its adaptation objectives, policies and measures set out in accordance with article 7.

¹² Nationally Determined Contribution is a term used under the United Nations Framework Convention on Climate Change (UNFCCC) to refer to a statement in which a country that has joined the Paris Agreement outlines its plans for reducing its net GHG emissions.

¹³ See for example CBR Chapter 4, Annex 2 and 3 for details. Criteria on alignment with the Paris agreement defined in the EIB Climate Bank Roadmap may in some instances be more stringent than the "Do No Significant Harm" to climate mitigation criteria defined in the Taxonomy.

¹⁴ Pursuant to Standard 1.

- 14 While the preceding paragraphs refer to promoter responsibilities in relation to projects, responsibilities relating to the Paris alignment of wider activities of EIB counterparts are defined in the EIB Paris Alignment of Counterparties Framework.¹⁵

SPECIFIC REQUIREMENTS¹⁶

Assessment and minimisation of GHG emissions

- 15 The promoter shall provide to the EIB all relevant information on the nature and magnitude of the project's GHG emissions and/or sequestration, as required by the EIB in order to conduct its assessment in line with the EIB methodology¹⁷ and to determine the project's alignment with the EIB Group Climate Bank Roadmap (CBR), including consistency with the "Do No Significant Harm" principle to climate change mitigation objectives, as set out in the EU Taxonomy Regulation.
- 16 The promoter shall demonstrate, on request, that due consideration has been given to alternatives to minimise project-related GHG emissions. These measures may include, but are not limited to: the use of best available techniques (BAT) and/or any emerging techniques,¹⁸ energy efficiency, resource efficiency, adoption of less carbon-intensive or renewable energy sources, or the reduction of fugitive emissions.

Physical climate risk assessment and minimisation

- 17 The promoter shall provide to the EIB all relevant information relating to physical climate risks associated with a project as required by the EIB in order to determine a project's alignment with the EIB Group Climate Bank Roadmap (CBR), including consistency with the "Do No Significant Harm" principle to climate change adaptation objectives, as set out in the EU Taxonomy Regulation.
- 18 Where a project is determined by the EIB to be at risk from physical climate hazards, the promoter shall carry out a Climate Risk and Vulnerability Assessment (CRVA), in line with the approach adopted by the EIB¹⁹ and other relevant EIB Standards. The CRVA shall (i) assess how climate change may affect the project and the system in which the project takes place, including the natural environment and the people potentially affected, and (ii) identify commensurate adaptation measures to reduce the risks posed by climate change to the project and the system in which it takes place.
- 19 The extent of both the CRVA and the information that the promoter shall provide to the EIB (including but not limited to scoping, risk identification, adaptation planning, monitoring, engagement of authorities and stakeholder engagement in line with Standard 2) shall be commensurate to the project's characteristics, in particular its complexity and the availability of climate data and information.

¹⁵ https://www.eib.org/attachments/publications/the_eib_group_path_framework_en.pdf.

¹⁶ Specific requirements are applicable to all projects regardless of their location, unless specified otherwise.

¹⁷ Where above a defined threshold, EIB reports routinely on the GHG emissions – absolute and relative – of a project in accordance with its publicly available methodology for assessing a project's carbon footprint, *Methodologies for the Assessment of Project GHG Emissions and Emission Variations*. <https://www.eib.org/en/about/cr/footprint-methodologies.htm>.

¹⁸ As defined in Standard 3.

¹⁹ The EIB approach for conducting a CRVA is based on the methodology developed by the European Financing Institutions Working Group on Adaptation to Climate Change (https://econadapt.eu/sites/default/files/2016-11/EUFIWACC_Adaptation_Note_Version_1.0_ENGLISH_FINAL_20160601%5B1%5D.pdf) and is reviewed regularly to take account of new developments in this field.

Climate-related aspects of economic analysis

- 20 The promoter shall, on request, provide the EIB with climate-related information relevant to assessing the economic case²⁰ for the project. This may include:
- Climate change mitigation aspects: (i) the volume of GHG emitted per relevant time period, with and without the project; and (ii) the unit value and conceptual basis for the cost of carbon emissions;
 - Climate change adaptation aspects: (i) the change in exposure to physical climate risk per relevant time period, with and without the adaptation measures of a project; and (ii) the economic valuation of this change in risk;
 - For projects motivated primarily by climate considerations, when practical and feasible, the economic analysis should include an assessment of climate-related project impacts on different groups in society, with a particular focus on vulnerable groups.²¹

OTHER REQUIREMENTS

- 21 For all projects (located in EU, EFTA, Candidate and potential Candidate countries) listed in Annex I of the EIA (Environmental Impact Assessment) Directive²² and for those listed in Annex II, in respect of which the relevant competent authorities have concluded that an EIA is required, the promoter shall ensure that the information relevant to the assessment of climate change mitigation and adaptation and its conclusions are clearly distinguishable and identifiable in the EIA report.

²⁰ See Chapter 4 of the EIB Guide to the Economic Appraisal of Investment Projects.

<https://www.eib.org/en/publications/economic-appraisal-of-investment-projects>

²¹ See also paragraphs 15-16 of Standard 7 on Vulnerable Groups, Indigenous Peoples and Gender.

²² Directive 2014/52/EU amending Directive 2011/92/EU on the assessment of the effects of certain public and private projects on the environment (EIA Directive), as addressed in more detail in Standard 1: Environmental and Social Impacts and Risks.