

Eurodad submission to the EIB Environmental and Social Sustainability Framework consultation: Standard 5 Climate Change

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“The avoided climate change impacts on sustainable development, eradication of poverty and reducing inequalities would be greater if global warming were limited to 1.5°C rather than 2°C, if mitigation and adaptation synergies are maximized while trade-offs are minimized (high confidence).”¹

IPCC Special Report on Global Warming 1.5°C

The activities, financing and operations of the European Investment Bank (EIB) and EIB clients must serve the goals of the Paris Agreement – meaning it should be compatible with achieving the Paris Agreement’s most ambitious goal of 1.5°C target, and should cause no harm to people, communities, or the planet. Climate action must be integrated into the fiscal priorities, systems planning, lending and investments of the EIB and its clients, and must adequately account for climate impacts and risks, and uphold social and gender and human rights. As such, Eurodad welcomes the EIB initiative to hold a public consultation on the draft Environmental and Social Sustainability Framework (ESSF).

However, as it stands, the current draft Standard on Climate Change does not provide enough detail in its guidance to promoters, and does not reflect the need to address both economic and non-economic elements. Additionally, a few of the definitions used are too narrow and allow for very important elements of a definition to be ignored e.g. referring to women in the gender definition, but not to non-binary and gender non-conforming communities.

As such, Eurodad presents this response to the EIB consultation and responds to questions 8 & 9 of the public consultation on **draft Standard 5 on Climate Change**.² This response outlines recommendations on the need to reflect climate risks, climate impacts and vulnerabilities, outlines enhanced guidelines for promoters and how the EIB can strengthen definitions, and includes a section summarising what’s missing from draft Standard 5 on Climate Change. All with a view to strengthening the EIB’s Environmental and Social Sustainability Framework (ESSF).

Q9. Are there any elements covered in this Standard that would benefit from more detailed guidance for promoters? Yes

Climate-related aspects of economic analysis

In order to ensure that promoters activities and operations are aligned with the goals of the Paris Agreement, more detailed data must be collected, monitored, and reported on. Doing so will also help the EIB and promoters to better track the impact of project financing on the below aspects. Useful information is given under the ‘climate-related aspects of economic analysis’ (page 6 of the draft Standard). However, Eurodad recommends strengthening the guidance to promoters to include:

The promoter will provide high-quality climate risk, impacts, and vulnerability data to the EIB; including:

Climate change adaptation aspects: [existing EIB text] + (iii) economic value of social goods and the multiplier effect of social goods;

Loss and damage aspects: (i) the cost of expected and probable losses and damages by determining developing countries’ contingent liability (the potential cost incurred of addressing an event) for extreme climatic events. The cost of climate action is variable, not stable, and is dependent on specific country circumstances

Climate vulnerability aspects: (i) a historical analysis of extreme climatic events impacts and costs in a country; (ii) the duration of an extreme climatic event, in order to help determine the requisite response. Variability of shocks means that countries can face the same or another extreme climatic event within a very short timeframe; (iii) identify what within a country is vulnerable to climate system variability and its economic value; (iv) conduct an assessment of the most vulnerable in a society and disaggregate data by gender, ethnicity, generation, wealth, food and water security, accessibility to finance, age.

Climate impacts aspects: (i) assume the highest amount of impact: Climate change and hazards are not static and are unprecedented, and thus can cause great shocks to an economy and to systems. In order to ensure that the worst-case scenario is modelled and prepared for, the modeller (be it the promoter or the EIB) should assume the highest amount of impact.

Economic analyses should (i) carry out funding gap analyses for developing countries, (ii) identify the economic stressors of climate impacts, vulnerabilities and risks in a country.

Non-financial and non-economic data: A country is more than its economy and financial stability. It is also the quality of life that citizens and residents enjoy; access to opportunities within a country; and the ability to be an equal member of society with the same high-quality, opportunities and justice remediation. As such, in addition to financial and economic data, it is essential for promoters to provide data on non-financial and non-economic risks, impacts and vulnerabilities. The promoter should take non-financial and non-economic risks, impacts and vulnerabilities into account in the environmental impact assessment/environmental and social impact assessment (EIA/ESIA) process and embed them into risk and prudential assessments.

- Indicators that could be used include: Loss of life, Livelihoods, Health, Education, Development, Gender, Culture, Heritage, Chronic and transitory needs, etc.

General requirements

Point 12 under the 'general requirements' section (page 5 of the draft Standard) states that if any changes occur during a project's implementation phase that this should be reported to the EIB.

However, Eurodad would say that any changes that occur after project approval should be reported to the EIB, not just those made during the project implementation stage. Additionally, a new Environmental Impact Assessment (EIA)/ Environmental and Social Impact Assessment (ESIA) should be carried out to determine the impact of these different transition risks, including whether they may exacerbate or create new vulnerabilities to climate impacts, and steps should be taken to mitigate any identified transition risks. Carrying out another EIA/ESIA based on the new information reported to the EIB before project implementation, will help ensure that any impacts associated with the changes can be identified and addressed before project implementation.

Engagement in the Climate Risk Vulnerability Assessment methodology (CRVA)

As part of the 'physical climate risk assessment and minimisation section' of the draft Standard 5 (page 6), it states that a Climate Risk and Vulnerability Assessment (CRVA) must be carried out if a project is determined by the EIB to be at risk from physical climate hazards.

Eurodad recommends that the EIB ensures that there is participation and engagement of local communities and stakeholders in the Climate Risk Vulnerability Assessment methodology (CRVA). This participation and engagement process must be institutionalised to ensure that policy, decision-making and project development and implementation are based on local expertise, knowledge and needs. The EIB and promoters should continuously seek the input and expertise of the scientific community and civil society to refresh the pool of knowledge and information that the EIB and promoters are drawing from.

Q8. Given the complex terminology, the EIB has provided a number of definitions in the footnotes of the Standard. Are these sufficient? No

The definition(s) section of the draft Standard on Climate Change is a helpful tool and covers many relevant terms. However, some definitions are too narrow and promoters risk not fully reflecting upon the full scope of a climate, gender and/or economic aspect. As such, Eurodad recommends strengthening the section to include:

- The definition on 'do no significant harm' is too narrow. Narrowing the scope to 'significant' harm implies that only 'noteworthy' harm should be considered with regard to climate impacts, and excludes the possibility of low to moderate harm being project outcomes. A do no harm principle must be applied to all project financing to ensure that the environment, biodiversity are not adversely affected by projects, and to ensure that projects do not exacerbate climate change impacts. As such, projects must seek to 'do no harm' and support counter-cyclical opportunities, including with regard to developing countries.
 - Projects should support energy access, a reduction in fuel poverty and a just transition for industries and workers in fossil fuel generating developing countries.

- Projects cannot simply be about securing a 'good' financial outcome or sound financial investments. Project design should include an assessment of the environmental and social impacts and opportunities, a gender analysis as well as an assessment of the economic impacts, including the economic impacts on livelihoods, employment and education. Doing so should help create a stronger understanding of how the project contributes to sustainable development, without conflating climate action with sustainable development.
- The definition on 'vulnerability' is too narrow. Developing countries in the Global South often face climate shocks and impacts that further exacerbate their vulnerabilities to climate impacts, thereby derailing project implementation and sustainability, or affecting the future economic status/rating of a country due to climate impacts. As such, risk is too narrow a metric to use for determining vulnerability. Climate impacts (physical manifestations of climate change), climate vulnerabilities (sensitivity to climate impacts) and climate risks (possible negative financial and non-financial impacts) should all be accounted for, and additionally integrated into sectoral strategies. This is because these all impact a country's fiscal space in different, mutually reinforcing ways. Resources to help develop a stronger definition include the [universal vulnerability index](#).
- The definition on 'gender' is too narrow, and doesn't explicitly include non-binary and gender-nonconforming communities.

Missing elements that should be included

In order to ensure that promoters activities and operations are better aligned with the goals of the Paris Agreement, Eurodad makes the following recommendations on how to strengthen draft Standard 5 on Climate Change:

Valuation models

The EIB should strengthen the valuation models used to assign value to a climate risk and integrate a country's vulnerability into project valuation to climate change. This must include the risk of increased debt due to lack of climate action and the risk of continued, accelerated, and/or intensified climate change on a country. Indicators that should be used include risks to Life, Poverty, Debt, Livelihoods and Sustainable development, etc. This work should also help to incentivise clients and partners to collect such data.

Project procurement

Asset purchases and refinancing operations of the promoter should be aligned with the Paris Agreement's goals, to ensure alignment with climate objectives and to further reduce the risk of 'stranded' assets that have no worth in a net-zero emissions economy.

Transparency

All relevant documentation – including final projects, project proposals, analyses, technical reports, financial reports, methodologies, modelling, assumptions – must be publicly available.

Accountability

The promoter must ensure that the EIB Complaints mechanism is public and the details of it should be shared with, and explained to project implementers and the communities in which the project is being implemented. It should be available in the languages of all countries where the promoter is active; and it should be in a format that is accessible for communities. Any grievances should be handled by an independent body. Those impacted by projects must feel able to share lessons learned and seek compensation.

Previous Eurodad responses to EIB public consultations on climate change

- Making the European 'Climate' Investment Bank work for developing countries: https://d3n8*8pro7vhmx.cloudfront.net/eurodad/pages/772/attachments/original/1595497401/Eurodad_EIB_public_consultation_response_July_2020.docx.pdf?1595497401

Endnotes

- 1 "The avoided climate change impacts on sustainable development, eradication of poverty and reducing inequalities would be greater if global warming were limited to 1.5°C rather than 2°C, if mitigation and adaptation synergies are maximized while trade-offs are minimized (high confidence)." IPCC (2018). Special Report: Global Warming of 1.5°C. Available at: <https://www.ipcc.ch/sr15/chapter/spm/>
- 2 European Investment Bank. 'ESSF 2021 – Standard 5 – Climate Change'. ESSF 2021. Accessed 3 August 2021. https://consult.eib.org/consultation/essf-2021-en/user_uploads/standard_5.pdf.

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Eurodad

Eurodad (the European Network on Debt and Development) is a network of 58 non-governmental organisations from 19 European countries who work together on issues related to debt, development finance and poverty reduction. The Eurodad network offers a platform for exploring issues, collecting intelligence and ideas, and undertaking collective advocacy.

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