**Sustainability proofing guidance**

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Cover note

*This draft document represents a preliminary proposal for an annotated table of contents for the guidance on sustainability proofing to be developed by the Commission in cooperation with implementing partners. It is based on the requirements included in the text of the InvestEU Regulation as resulting from the provisional and partial agreement by European Parliament and Council of April 2019.*

*For the purpose of this document, sustainability refers to the three dimensions as foreseen in the InvestEU Regulation: climate, environment and social.*

*Sustainability proofing is a domain in course of developing, with some areas more advanced than others. Therefore, this guidance should be considered a living document, allowing for flexibility in including new findings and improvements (such as results of ongoing or future studies). In this context, DG ENV plans to launch a study that should provide a picture of legal requirements existing on the market, test the integration of externalities in the CBA/economic appraisal and the concept of environmental accounting (monetising of impacts where possible), as appropriate. DG EMPL considers launching a similar study for the social dimension. The findings of these studies, and not only, will need to be taken into consideration and included in the guidance, when available.*

*Moreover, climate proofing methodology for infrastructure projects is in-progress of being updated by the Commission at horizontal level. Consistency of approaches between the different EU programmes should be ensured. Therefore, the before mentioned methodology should serve as input for this guidance, as applicable. Specific attention will be given to the link between the climate and environmental dimension.*

*The methodology to be used to address sustainability proofing requirements will take adequate account of the current best practices and standards, especially the experience in this field of both the EIB (EIB Environmental and Social Standards 2013), the EIF and E&S Standards and requirements of other implementing partners. Other actions at international level might be taken in consideration as well, such as the initiatives in the G20 context or the work led by UNEP. The UN Sustainable Development Goals, and the methodologies used to achieve them, will play a special role in line with the provisions of the InvestEU Regulation.*

# Introduction

The principles of environmental protection, sustainable development and social sustainability are enshrined in the EU Treaties and the EU Charter of Fundamental Rights. The EU has also committed to support and promote climate and environmental protection and sustainable development goals on an international level. Consequently, concrete actions were needed to ensure that sustainability considerations are mainstreamed in the EU sectoral policies and legislation.

In this respect, in the Commission's proposals under the 2021-2027 Multiannual Financial Framework, all major EU spending programmes include sustainability or climate proofing provisions and targets for climate action financing. For instance, the Common Provisions Regulation (CPR) and the Connecting Europe Facility (CEF) legislative proposals provide that supported infrastructure projects should be subject to some type of climate proofing. Furthermore, the proposal of a Regulation for the establishment of a framework to facilitate sustainable investment aims to put environmental and social considerations at the heart of the financial system.

The InvestEU Programme contains specific legal requirements with regard to targets related to the contribution to climate objectives and the importance of ensuring the sustainability of supported projects. Article 7(3) of the InvestEU Regulation stipulates that financing and investment operations shall be screened by the implementing partner to determine if such operations support projects above a certain size (defined later in this guidance) and, in such case, whether they have a significant environmental, climate or social impact. If so, they should be subject to sustainability proofing. Such proofing is meant to minimise potential detrimental impacts of the investment projects on the climate, environment and social dimensions, while maximising the benefits generated by the project along these dimensions, as well as the resilience of the project to potential impacts deriving from them. Furthermore, it intends to strengthen and ensure a consistent approach to proofing for all major programmes, taking into consideration the different applicable requirements.

For infrastructure operations, in view of ensuring a harmonised approach across all EU funded programmes, and to reduce the administrative burden for project developers, for the proofing of climate dimension, the methodologies and procedures provided in the guidance on Climate Proofing of Infrastructure Projects in the period 2021-2027 shall be applied [[1]](#footnote-2), as illustrated below:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Guidance on InvestEU Sustainability Proofing** (climate, environment, social) |  |  |  |  |  |
|  | **Guidance on Climate Proofing of Infrastructure** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | CEF |  |  |  | InvestEU |  |  |  | ERDF/CF |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Infrastructure |  |  |  | Policy Window 1 – Sustainable Infrastructure(Infrastructure operations) |  |  |  | Infrastructure |  |  |
|  |  |  |  |  |  | + |  |  |  |  |  |  |
|  |  |  |  |  |  | Infrastructure projects under the other 3 windows  |  |  |  |  |  |  |
|  |  |  |  |  |  | Non-Infrastructure operations underPolicy Window 1- Sustainable Infrastructure  |  |  |  |  |  |  |
|  |  |  |  |  | Policy Window 2 – Research, innovation and digitisation  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | Policy Window 3 – SMEs |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | Policy Window 4 – Social investment and skills |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

## Definition and objectives

The InvestEU Regulation introduces the following concepts with regard to the requirement of ensuring that the InvestEU Fund will contribute to building a sustainable finance environment:

**a. Screening[[2]](#footnote-3)**: according to article 7(3), “Financing and investment operations shall be screened to determine if they have an environmental, climate or social impact”.

Screening involves assessment of ex-ante information of a financing or investment operation. It is conducted by the implementing partners, based on information provided by [promoters/final beneficiaries/financial intermediaries] requesting financing and in line with criteria laid down in this guidance.

**b. Sustainability proofing**: according to article 7(3), if the screening determines that a financing or investment operation has a significant environmental, climate or social impact, for projects above a certain size , it shall be subject to climate, environmental and social sustainability proofing.

The aim of sustainability proofing is to improve a financing or investment operation, “with a view to minimise detrimental impacts and maximise benefits on climate, environment and social dimension“

The implementing partner will determine whether sustainability proofing is to be carried out or not. In case the implementing partner concludes that no sustainability proofing is needed, it shall provide a justification to the Investment Committee

For the purpose of implementation of the InvestEU Fund, sustainability proofing is defined as a method to assess, report on and address the sustainability performance of a proposed project/operation. It involves evaluating, both quantitatively and qualitatively, the impacts of a project on its surroundings (e.g. i.e. the positive and negative climate, environmental or social impacts resulting from a specific project), but also the impacts of changing climate/environmental/social circumstances on the project (e.g. impacts on projects due to climate change or due to the availability of natural resources).

From this point of view, sustainability proofing should improve, when possible, the project design and quality by correctly identifying the impacts and dependencies (resilience), and addressing the shortcomings through evidence-based decision-making. Sustainability proofing would lead, whenever necessary, to the adaptation of the project design and the implementation of preventive mitigation and remedial measures.

Sustainability proofing is a method that assesses and reports, using one consistent approach, for the impacts of certain financing and investment operations on three relevant dimensions of sustainability i.e. the climate, environmental and social dimension:

1. significant climate impacts of a project in particular, but not limited to, on greenhouse gas emissions , and resilience to the adverse impacts of current and future climate change;
2. significant impacts of a project on environment, in particular air, water, land, nature and biodiversity as well as effects on human health; ;
3. significant impacts of a project on gender equality, the social inclusion of certain areas or populations and the economic development of areas and sectors affected by structural challenges such as the decarbonisation needs of the economy.

Why sustainability proofing?

Sustainability proofing is intended to ensure that InvestEU operations comply with responsible investment principles. That means that implementing partners and [project promoters/final beneficiaries/financial intermediaries] properly integrate environmental, social and governance considerations into their proposals.

Sustainability proofing and the related guidance:

* apply to operations above a certain size with potentially significant environmental, climate or social impact;
* respond to EU legal requirements, reflect the objectives of the EU policy for a sustainable growth, and harmonise the climate proofing methodology for EU funds in the period 2021-2027;
* support project developers in the preparation of projects by facilitating a timely preparation and implementation of projects;
* support implementing partners in performing the sustainability proofing required by the InvestEU Regulation;
* contributes to the reduction of the risks from extreme weather and climate events, and make sure that impacts on environment and social dimension are properly taken into consideration;
* integrate the social cost of greenhouse gas emissions and other externalities in the cost-benefit analysis, when possible;
* help attracting the attention of investors and lenders and contribute to dissemination of good practices;
* ensure that financing and investment operations receiving EU support are in line with or contribute to the EU goals and ambitions for a sustainable development;
* aim in its implementation at incentivizing sustainability proofing. Capacity building and awareness raising for implementing partners or financial intermediaries could be made available through the InvestEU advisory hub.

## Legal compliance

All InvestEU supported operations shall comply with applicable EU and national legislations. Project promoters, other investors or final recipients, financial intermediaries and implementing partners should be aware of their respective responsibilities in that regard.

Legal compliance will be verified by the implementing partner when submitting the operation for approval (cf. article 19 InvestEU regulation) and ensured for all the financing and investment operations benefitting from the InvestEU guarantee, including investment support to SMEs as delegated to the Financial Intermediaries

A non-exhaustive list of legal requirements to be considered and complied with – as applicable- is provided in Annex I of this guidance.

The sustainability proofing performed for the purposes of the InvestEU Programme would not substitute or compete with the legal requirements under the EU legislation. As it is the case for other EU funds, the financing and investment operations applying for support under the InvestEU Programme will have to comply with the applicable Union/EU legislation on their own merits, irrespectively whether the proofing is performed or not. The assessments carried out under the EU legislation provide the necessary input data (i.e. estimations of baseline emissions, estimations of the likely impacts of the project, etc.) that will be used to generate information required for the proofing.

Sustainability proofing should, in principle, lead to maximised benefits from the InvestEU financing and investment operations on environmental, climate and social dimension, thus going beyond compliance with the minimum obligations of the relevant EU legislation. It ensures that a financing and investment operation is consistent with wider EU sustainability objectives and policies. Compliance with the Union/EU law is of course relevant for ensuring the sustainability of investments. For instance, by complying with the EU environmental legislation on nature and water protection, projects applying the minimum legal standards might avoid detrimental environmental impacts. However, this does not automatically mean that they are contributing significantly to other EU climate and sustainability policy objectives. For instance, practice has shown that in certain cases standards, such as some construction standards, are not updated to the current reality and they don’t properly take into consideration climate change related aspects.

# Criteria for sustainability proofing

*The list provided below is indicative; appropriate user’s guidance will be added during the dialogue with implementing partners and from the studies referred to in the “Context” part. Moreover, these criteria should be read in connection with the matrix presented in section 3.2.2.*

## Climate change adaptation and mitigation

For **infrastructure** projects, in view of ensuring harmonised approach across all EU funded programmes and to reduce the administrative burden for project developers, for the sustainability proofing of climate dimension, the methodologies and procedures provided in the guidance on Climate Proofing of Infrastructure Projects in the period 2021-2027 shall be applied.

[Project developers are referred to the Guidance on the Climate Proofing of Infrastructure Projects in the period 2021-2027.]

For **non-infrastructure**, to be determined during the development of this guidance.

*[PLACEHOLDER: Compatibility with the Paris Agreement*

*Contribution to building climate resilience into all human and natural systems*

*Any other relevant aspects]*

### Climate adaptation

*[PLACEHOLDER: Climate change vulnerability and risk assessment*

*…]*

### Climate mitigation

*[PLACEHOLDER: Carbon footprint methodology for infrastructure projects*

*Baseline for the carbon footprint*

*Carbon price*

*…]*

## Environment

*[ PLACEHOLDER: - Summary of existing environmental assessment procedures – e.g. EIA provisions and overlapping between climate and environment criteria*

* *What sustainability proofing brings in addition to the legal requirements*
* *Clarify what will be applicable for this dimension at the start of InvestEU – 2021]*

The criteria for environmental proofing will be established taking into account relevant EU legislative requirements, their implementation and other relevant existing practices. In particular, they will take into consideration, as appropriate and where applicable, the well-established practices for assessment of major project applications co-financed under ESIF 2014-2020 and related Commission guidance documents such as Guide to Cost-Benefit Analysis of Investment Projects[[3]](#footnote-4). Moreover, the EIB Environmental and Social Standards Handbook[[4]](#footnote-5) and the EIB expertise in appraisal of financing operations will be considered, as well as any other useful practices of implementing partners. In addition, the existing practice in accounting for the natural capital impacts and dependencies applied by corporate entities will also be taken into account[[5]](#footnote-6). To this end, a pilot study is currently ongoing with the purpose of developing a Commission accounting methodology for assessing the consolidated project impact in terms of the principal components of the natural capital, building on the environmental accounting and reporting practice that emerged over the last few years, inter alia, in the context of the Natural Capital Protocol and its Financing Alliance.[[6]](#footnote-7)

One of the main objectives of the environmental proofing is to evaluate the significant impacts and dependency aspects of a project and its performance on the environment, and ensure that preventative, mitigation or compensation/remedy measures, where appropriate, are applied throughout the project’s life cycle from concept, design, implementation, operation and decommissioning.

The appraisal of the project will consist of two essential components:

1. the identification, assessment of impacts, and, as far as possible, the quantification of significant environmental impacts that are anticipated. For projects at early planning stage (i.e. before a project is granted a development consent), the assessment will aim at ensuring that project’s impacts are avoided in first place or reduced by mitigation measures and adaptation of the project design. For already approved projects, this appraisal should be focused on reducing significant impacts through mitigation/compensation measures; and
2. the assessment and, as far possible, the quantification of the net (i.e. after the design adjustments have been made and the mitigation measures applied) environmental impacts and dependencies across the lifetime of the project, including economic and health impacts. To help improve comparability both between the different environmental impacts of the project (water footprint, carbon footprint, land use footprint, etc.) and between different projects, the application of accepted methods to monetise and summarise these impacts will be encouraged [and included in the cost-benefit analysis, if applicable, or economic appraisal].

When assessing the environmental impact of a project, the following environmental issues will be taken into consideration in particular, where applicable:

* Air: reduction of pollution from gases (other than greenhouse gases) and from other pollutants; contribution to the improvement of air quality; to the extent possible, particular attention will be given to areas in which limit values laid down by Directive 2008/50/EC[[7]](#footnote-8), as amended, are already exceeded or are likely to be exceeded, as well as to emission reduction commitments under Directive 2016/2284/EU[[8]](#footnote-9);
* Water: contribution to protection of the aquatic environment, reduction of water pollution, risk of contamination of drinking water, contribution more efficient water use, sustainable use of the marine ecosystem; particular attention could be given to projects in areas where the water quantitative and qualitative standards are not being met or at risk of not being met or where the project might impact on the oceans;
* Land: existing and planned land use, reduction of soil pollution, contribution to the improvement of soil quality, landfill, nature and quantity of the land/soil used;
* Biodiversity: contribution to conservation and resilience to climate of protected sites, habitats and species; potential threats to terrestrial and marine biodiversity and ecosystems; sustainable agricultural, forest management, fisheries and aquaculture practices;
* Waste management including contribution to recycling and circular economy targets;
* Management of chemicals and dangerous substances; use and management of pesticides; emission and management of pollutants, noise, vibration, light, heat and radiation; emergency prevention and response, risks to human health.

The result of the appraisal of the project’s impacts (after the implementation of preventive/mitigation/adaptation/remediation/compensatory measures) will be qualitative and quantitative with regard to the key environmental impacts on the natural capital (i.e.: air, water, land, and biodiversity). These quantified impacts, whenever possible, will be subsequently monetized and included in a discounted cash flow within the Cost Benefit Analysis[[9]](#footnote-10) or economic appraisal.

## Social

*The below suggestion for a list of criteria, based on international standards, is included for illustrative purposes and should be revised and streamlined in the dialogue between the Commission and implementing partners, in the light of the ongoing and future studies and having in view the feasibility of application for some of the mentioned aspects. Moreover, exact definitions (e.g. of ‘poor areas’, ‘poor’, ‘very poor’) will be developed later.*

Compliance with applicable EU and Member State social legislation is bare requisite for operations supported by InvestEU. The screening and sustainability proofing process shall serve to verify the requisite and further ascertain positive social impacts.

### Social Impact Objectives

The following criteria aim to describe the social impacts – negative and positive - that can be expected from the operation as pursued by the promoter:

- Access to clean water and sanitation

- Access to education

- Access to energy

- Access to financial services

- Access to affordable health care, including long-term care

- Access to information and digital services

- Affordable housing

- Childcare and support to children

- Community development, including in urban depressed areas

- Employment generation / Labour market integration

- Gender Equality and empowerment

- Inclusion of people with disabilities

- Socio-economic integration of minorities and vulnerable people

- Socio-economic improvement of rural areas

- Social inclusion and economic development of areas, sectors or populations affected by structural challenges such as the decarbonisation needs of the economy

In the case of intermediated finance, the pre-set eligibility and exclusion criteria of financial products towards final recipients shall be accounted in respect of the social impact of financing/investment operations.

### Target beneficiaries

This metric is intended to identify the primary beneficiaries, by category and geographical location, of the operation to be supported by InvestEU:

- Employees

- Clients/Customers

- Suppliers

- Distributors

- Other third parties

Project promoters and other investors, financial intermediaries and implementing partners shall be aware of inadmissibility of operations involving practices violating the UN Sustainable Development Goals in the EU and in third countries.

### Employees

This metric is intended to capture the number and category of individuals finding (or maintaining) a direct job because of the InvestEU operation:

- Permanent Employees (newly hired / jobs maintained)

- Part time Employees (newly hired / jobs maintained)

- Employees: Female

- Employees: Low Income Areas

- Employees: Disabilities

- Employees: Minorities/Previously Excluded

Project promoters and other investors, financial intermediaries and implementing partners shall be aware of the Union policies related to working and employment conditions.

### Clients

This metric is intended to capture the nature and extent of specific individuals targeted by the InvestEU operation. For healthcare providers, client individuals refers to patients.

Client Individuals: Female

Client Individuals: Poor

Client Individuals: Very Poor

Client Individuals: Rural

Client Individuals: Students

Client Individuals: Disabilities

Client Individuals: Minorities/Previously Excluded

Client Individuals: Children/Adolescents

Client Individuals: Old age

### Third parties (suppliers, distributors)

This metric is intended to capture the impact of InvestEU operations on livelihoods affected through their participation in supply or distribution chains (inside and outside the EU).

Project promoters and other investors, financial intermediaries and implementing partners shall be aware of inadmissibility of operations involving practices violating the UN Sustainable Development Goals in the EU and in third countries.

- Female

- Poor

- Very Poor

- Rural

- Students

- Urban

- Disabilities

- Minorities/Previously Excluded

- Children/Adolescents

- Old age

## Interconnections between the climate, environment and social dimension

*[PLACEHOLDER: Section to address the interlinkages between the three dimensions and other horizontal issues*

*Horizontal issues (for instance human health) with a potential impact on climate, environment and social should also be taken into account, this includes for instance in the transport sector traffic congestion and the alleviation of it.]*

# Process

## Threshold and screening

### Threshold

In line with the principle of proportionality, the Guidance to be provided by the Commission will include adequate provisions to avoid undue administrative burden and projects below a certain size as defined in the guidance will be excluded from the sustainability proofing.

The threshold(s) are established [building on relevant provisions of existing regulations, such as the EIA Directive, climate proofing for infrastructure projects, and thresholds set by implementing partners for direct financing for which a full due diligence process is implemented] during the preparation of the guidance and in cooperation with the implementing partners.

For direct operations, the threshold shall concern the total project cost and it shall be [EUR 25 million].

[For intermediated transactions *[proposal]*:

1. Where financing of individual final beneficiaries is lower than [EUR 12.5 million], sustainability proofing shall not be required, but compliance with legal requirements of the underlying project should be ensured;
2. For intermediated transactions where financing to final beneficiaries is expected to exceedthe threshold indicated above, the implementing partner will assess the financial intermediary’s ability to implement the sustainability proofing requirements when providing financing to final beneficiaries. [The implementing partner reserves the right to ask for information related to the specific project]

### Screening criteria for InvestEU

Financing and investment operations shall be screened by the implementing partner –when applicable- to determine if they expect to support projects above the threshold and, in such case, whether they have significant environmental, climate or social impact. If so, they should be subject to sustainability proofing.

 *[Proposal]*

 [In case the impact is deemed to be significant for only one or two of the dimensions, no proofing shall apply for the remaining one/s]

Specific criteria need to be elaborated in order to assess the dimension/characteristics of the impact that will trigger the need for proofing. These criteria:

* concern the basic information to be provided by a project promoter in order to ascertain whether or not a particular operation has significant environmental, climate or social impacts;
* target all operations (as applicable); nevertheless, the information to be provided has to be proportionate to the size [and nature] of the operation in question;

In the process of determining if an in-depth sustainability proofing is needed for the project/operation, the implementing partner will take into account the following criteria:

* Characteristics of the project – to be expanded
* Location of the project – to be expanded
* Characteristics of the potential effects of the project – to be expanded
* Context – to be expanded
* *[ Additional criteria might be added in the process of developing the guidance]*

These criteria are based on Annex III of the EIA Directive. They would have to apply in any case and they can be a relevant mechanism both for infrastructure/non-infrastructure projects.

## Infrastructure projects

### Pre-appraisal stage

* Policy check –as per Article 18 of the InvestEU Regulation and provisions of the Investment Guidelines
* A first verification of the legal compliance
* Environmental, climate and social screening

### Appraisal stage

|  |  |  |
| --- | --- | --- |
|  |  | **Sustainability Dimensions** |
| **Elements of analysis** | **Environment** | **Climate** | **Social** |
| **Sustainability proofing** **🡪** **Identify-assess-manage-value…**  | **Negative impacts generated BY the investment** | * Compliance with EU ENV legislation
* Compliance with Implementing Partner and InvestEU ENV Standards
* Identification/assessment of impacts and risks and identification of measures, applying the mitigation hierarchy
* Inclusion in the project costs of mitigation, compensation and remediation measures
* Include in the economic analysis both (i) the above-mentioned costs and (ii) the valuation of significant negative environmental externalities, when possible
 | * GHG accounting : report absolute and relative emissions
* Valuation of GHG emissions included in the project’s economic analysis- reference to socio-economic price of carbon
* Assess risks/impacts of negatively affecting the resilience of affected areas, communities and ecosystems and their services (as part of the impact assessment process) or of generating maladaptation
* If possible, include valuation of these negative impacts in the economic analysis
 | * Respect for EU Charter of Fundamental Rights and Pillar of Social rights
* Compliance with ILO Core Conventions
* Compliance with Implementing Partner and InvestEU social standards
* Compliance with the OSH Framework Directive
* Inclusion in the project costs of mitigating and remedial actions
 |
| **Risks for / negative impacts ON the investment** | * Identify ENV elements (not linked to CC) to which the project may be sensitive and exposed (e.g. scarcity of critical natural resources / materials, exposure to natural and man-made disasters)
* Assess vulnerability of investment
* Identify possible mitigants (including changes in project design, location)
* Assess cost-effectiveness of mitigants or carry out a CBA of the project with/without them
 | * Early Climate vulnerability screening
* Climate Risk and Vulnerability Assessment for projects considered at sufficiently high risk according to EC methodology
* Simplified approaches for investment other than infrastructure and adapted approach for different types of financing such as intermediated finance
* Identification of adaptation measures
* Assessment of their cost-effectiveness or inclusion in CBA as relevant/possible
 | * Assess contextual risks to the project linked e.g. with labour issues, human rights, conflict/fragility)
* Identify other social dimensions that may threaten project
* Identify possible mitigants
* Assess viability of project (likely non-quantitative)
 |
| **Positive impacts generated BY the investment** | * Define outcome/impact indicators
* Valuation of positive impacts (including from compensation activities beyond net losses) - included in the project’s economic analysis to the extent possible
* Define scoring system that considers non-monetized positive impacts
 | * Define outcome/impact indicators
* Valuation of positive impacts and inclusion in CBA to the extent possible – methodology to be agreed
* Define scoring system that considers non-monetized positive impacts
 | * Define outcome/impact indicators
* Define scoring system that considers non-monetized positive impacts
 |

### During the lifetime of the project

*This section refers to the relation between the implementing partner and the [project promoter/financial intermediary/final beneficiary of the InvestEU support].*

* Monitoring requirements for the project (e.g. implementation of preventive, remedial, mitigation and compensation measures on the basis of which negative impacts were reduced/eliminated/offset)
* Reporting requirements: what the promoter should report to the IP

## Non-infrastructure projects

Simpler method could be envisaged for non-infra projects – to be developed

Types of non-infrastructure projects (non-exhaustive):

* Research, innovation and digitisation (RID) activities:
	+ large RID projects: improving access to risk finance for large sized RID projects emanating from larger firms, PPPs, SPVs or stand-alone projects;
	+ Access to finance for innovative SMEs and small mid-caps
* Intermediated access to finance for SMEs
* Microfinance and support for social enterprises, projects form private sector organisations active in the social investment space (their activities cover different sectors and sub-sectors, including smart and inclusive mobility, urban renewal, rural socio-communities, homelessness, integration of vulnerable populations, community development, integration of third country nationals, digital inclusiveness, entrepreneurial skills)

## Cost-benefit analysis or other types of analysis to be used for the economic appraisal of projects

*[PLACEHOLDER: Section to be developed in order to explain different aspects, such as:*

* *Applicability of the CBA depending on the sector and alternative solutions (for cases where a CBA is not applicable, other solutions might be envisaged such as the economic appraisal of a project)*
* *Who is responsible for carrying-out the CBA, if required*
* *Recommended methodologies– reference to guidance to be used (such as Guide to Cost-Benefit Analysis of the Investment Projects, other relevant guidelines)*

*Who does what?*

* *Any other relevant aspect]*

# Intermediated finance

In case of intermediated operations, the implementing partner will assess the financial intermediary and its capacity to act in line with legal obligations, as well as with specific requirements as the ones outlined in the guidance.

*[PLACEHOLDER: - exclusion criteria*

*- contractual requirements – reference to provisions to be included in the contract between the implementing partner and the financial intermediary (such as the obligation of the financial intermediary to verify the legal compliance of the underlying operation)]*

[In case of portfolios of transactions above the threshold indicated in section 3.1.1, the implementing partner will (i) obtain an acknowledgement of the financial intermediary on the sustainability proofing principles; (ii) in case the financial intermediary expects to extend financing above the thresholds stated in section 3.1.1., discuss – as part of the due diligence- the financial intermediary’s ability to deal with sustainability proofing while providing financing to final beneficiaries.

Intermediaries need to comply with relevant legislation and support only underlying projects that also comply with the relevant legal framework.

* Banks
* Funds

The Commission’s Guidance will examine the requirements needed in case of operations having as final customer individual persons, vulnerable groups or social enterprises. Those cases require adequate protection based on high ethical finance principles as it is the case today for micro-finance operations covered by the European Code of Good Practice for Micro-finance operations.

# Roles and responsibilities

*[ PLACEHOLDER – to be further developed*

*The templates for the following documents will have to be established:*

* + *content of the information about the project and its impacts to be provided by the project promoter for the appraisal by the IP;*
	+ *checklist for the appraisal by the IP of the information provided by the project promoter;*
	+ *summary of the sustainability proofing appraisal by the IP to be submitted to the Commission and the Investment Committee. ]*

## Role of the project promoter

The project promoter shall comply with relevant legislation in force and carry out the required assessments in line with the legal provisions.

In case the project is subject to legal requirements of performing a certain assessment, the promoter will have to present the results of that assessment to the implementing partner/financing institution. The promoter would also provide to the implementing partner/financing institution all the information necessary to carry out its due diligence, in line with its own procedures and the requirements of the guidance.

*[contractual requirements – to fulfil Art. 7(3), the project promoters shall be obliged to provide adequate information to the IP to enable the sustainability proofing appraisal ]*

The climate, environmental and social standards to be respected by the [promoter/financial intermediary] will be included in the financing contract, and they will have to comply with them.

The [promoter/financial intermediary] is required to provide periodic reports to the implementing partner in accordance with their existing rules and procedures.

## Role of the implementing partner/financing institution

The implementing partner/financing institution shall verify the compliance of the analysed projects with the relevant EU legislation, international standards –including by means of representations- in accordance with relevant internal rules and procedures. The implementing partner will proceed with the climate, environmental and social proofing of the projects – as applicable- in line with this guidance, and the related guidance on Climate Proofing of Infrastructure Projects for climate proofing dimension. The implementing partner/financing institution will promote InvestEU as an instrument supporting sustainable finance principles as required by the InvestEU Regulation.

In case the implementing partner concludes that no sustainability proofing is needed, it shall provide a justification to the Investment Committee.

In cases where proofing is required, the implementing partner will prepare a sustainability proofing summary concerning the climate, environmental and social dimensions, in line with the provisions of the guidance. The summary will include also information on the changes introduced in the project and the arrangements agreed with the promoter to ensure that the requirements of the InvestEU Regulation are met. [This summary will be presented to the Investment Committee].

In the application request for the InvestEU Fund support, the implementing partner will include the relevant results of any assessments related to sustainability proofing. This shall contain any appropriate quantitative and qualitative information regarding the climate, environment and social sustainability. For this purpose, the guarantee request form shall comprise a brief presentation of these aspects. The sustainability status of the project will be included also in the scoreboard to accompany the guarantee request form. [Specific criteria for calculation of the sustainability score to be developed]

For direct operations, the implementing partner will monitor the projects/operations proofed in accordance with its internal rules and procedures and will inform the Commission in case any substantial adverse change in the sustainability parameters of the projects occurs.

For intermediated finance, the implementing partner will check in the monitoring activities foreseen in its own rules and procedures that no material changes have occurred since the sustainability proofing check was discussed in the due diligence.

[In case of underlying projects with a cost above the threshold of [EUR 25 million] considered to have an impact on at least one of the three dimensions, the intermediary will perform the sustainability proofing in line with this guidance and present the results to the implementing partner]

## Role of the Investment Committee

The Investment Committee (IC) shall consider in the decision making process the summary of the results of the sustainability proofing to be received from the implementing partner, to be duly reflected also in the guarantee request form and in the scoreboard.

Sustainability proofing is one of the aspects to be taken into account by the IC in their decision on granting the EU guarantee.

The IC is entitled to request supplementary information from the implementing partner on sustainability aspects and the results of the proofing, if they consider it necessary.

## Role of the Commission

The Commission, in cooperation with the implementing partners, will ensure that the developed guidance is applied consistently and coherently across the windows of the InvestEU Fund.

The Commission will make sure, via the relevant governance bodies and related documentation, that its policy priorities are correctly reflected and addressed and its sustainability commitments are respected.

The Commission will verify through the policy check to be performed in line with Article 18 of the InvestEU Regulation and the provisions of the Investment Guidelines, the alignment of the financing and investment operations with the EU sustainability policies and objectives.

# Annexes:

## List of relevant legal requirements which the projects/operations should comply with

*[Indicative list of the legal requirements to be taken into consideration]*

## Template for the summary to be presented to COM and the IC

## Guidance on the Climate Proofing of Infrastructure Projects in the period 2021-2027

## Glossary of terms used

Example:

'financing and/or investment operations' means operations to provide finance directly or indirectly to final recipients in the form of financial products, carried out by an implementing partner in its own name, provided by it in accordance with its internal rules, policies and procedures and accounted for in its own financial statements or, where applicable, disclosed in the notes to the financial statements;

## Case studies of sustainability proofing

## More annexes to be determined at a later stage

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1. To this end, DG CLIMA is currently preparing an overarching guidance on the climate proofing of EU funded infrastructure projects in the period 2021-2027. [This guidance will apply to projects seeking support from the EU funds – the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), as well as Connecting Europe Facility (CEF) and the infrastructure projects to be financed with support from the InvestEU Programme.] [↑](#footnote-ref-2)
2. Screening in the context of InvestEU should not be confused with the screening in the meaning of the EIA Directive. For InvestEU, the implementing partner shall perform this activity with the purpose of establishing if sustainability proofing of the financing and investment operations should be carried out by the implementing partner [↑](#footnote-ref-3)
3. Insert reference. [↑](#footnote-ref-4)
4. <http://www.eib.org/attachments/strategies/environmental_and_social_practices_handbook_en.pdf> [↑](#footnote-ref-5)
5. If proved possible by the results of DG ENV study [↑](#footnote-ref-6)
6. The methodology was developed by signatories to the Natural Capital Protocol (NCP) initiated by the World Business Council on Sustainable Development (WBSD): <https://naturalcapitalcoalition.org/protocol/>. The environmental accounting and reporting practice was first introduced by Puma Sportswear in 2012 and subsequently established for all companies of the Kering Group. The methodology is developed in cooperation with PWC and available in the public domain with results being published annually <http://www.kering.com/en/sustainability/epl>. Environmental accounting is increasingly applied by financial service companies and the Commission is planning further work in this area as part of the Sustainable Finance Action Plan adopted on 8 March, 2018. [↑](#footnote-ref-7)
7. Directive 2008/50/EC on ambient air quality and cleaner air for Europe. [↑](#footnote-ref-8)
8. Directive (EU) 2016/2284 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC. [↑](#footnote-ref-9)
9. [Simplified methodologies to assess social, environment and economic cost effectiveness of projects could also be used whenever appropriate] [↑](#footnote-ref-10)