

Environmental and Social Sustainability Framework

Standard 11 – Intermediated Finance

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This document is for information purposes only.

In case of discrepancies between the different linguistic versions,
the English version of the document prevails.

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 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 and social 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, sector, sensitivity to environmental and social 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 an 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 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 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 disclosure requirements under national and EU legislation which is applicable to their activities; and
 - b. if located in the rest of the world⁸, comply with the applicable national legislation and make available to the public information on its due diligence policies and procedures, or equivalent, for assessing and managing the environmental and social impacts and risks of

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

sub-projects, commensurate to the FI's size and the nature and scale of its business, where relevant.

- 8 The FI shall comply with specific environmental and social requirements (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.
- 9 The FI shall have in place a process for managing environmental and social impacts and risks. This process shall be commensurate to the 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.
- 10 Where requested, the FI shall provide the EIB with information related to its process for managing environmental and social impacts and risks.
- 11 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 activities⁹, as regularly amended, and any other environmental and social undertakings 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, assess and monitor the management of the significant environmental and social impacts and risks arising from sub-projects, as applicable, and ensure that agreed environmental and social undertakings are met;
 - c. require that the sub-projects comply with the applicable legislation as described in paragraphs 12 and 13 below.
- 12 For sub-projects in EU, EFTA, Candidate and potential Candidate countries¹⁰, the FI shall require that they be implemented in line with the applicable national and EU legislation.
- 13 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.
- 14 Where appropriate, the FI may be required to report to the EIB on potential significant environmental and social impacts and risks arising from specific sub-projects. Certain sub-projects may be referred back to the EIB 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.
- 15 Where possible and appropriate, the FI may receive the EIB's support for managing environmental and social impacts and risks.

SPECIFIC REQUIREMENTS

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

- 16 Where intermediated finance is fully or partially dedicated¹¹ to promoting environmentally and socially sustainable objectives, the FI may be subject to additional requirements, including reporting and undertakings, to demonstrate that its processes and systems adequately factor sustainability risks into investment decisions in line with the EU Taxonomy, as relevant.

Equity funds

- 17 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.

⁹ <https://www.eib.org/en/about/documents/excluded-activities-2013.htm>.

¹⁰ 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.

¹¹ Sub-projects geared to certain objectives, including but not limited to, climate action, environmental sustainability, gender equality, etc.

- 18 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.
- 19 Where the FI has made specific commitments regarding climate action or environmental sustainability, gender equality or other agreed areas, progress on the agreed indicators shall be monitored.

Microfinance operations

- 20 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 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 risks, they shall operate in alignment with strict client protection principles.