Regional Sustainable Finance and Impact Assessment knowledge-sharing platform

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The Regional Sustainable Finance and Impact Assessment knowledge-sharing platform (RSFIA) follows up on the conclusions of the European Conference on "Environmental Assessment and the European Green Deal" (September 2022, Vodice, Croatia) that highlighted the need for the financial sector, environmental authorities, and environmental experts to discuss the diverse linkages between the new sustainable finance frameworks and formal environmental decision-making and impact assessment processes set up in all European countries and beyond.

The knowledge-sharing platform aims to foster continuous and in-depth knowledge exchange and dialogue and offers networking opportunities for stakeholders from all sectors involved in sustainable finance and mainstream environmental decision-making systems.

Background

The new European Union (EU) growth strategy known as the European Green Deal is the EU's response to some of the main global challenges faced by the current generation. By turning these challenges into opportunities, the EU Green Deal aims at transforming the EU into a modern, resource-efficient, and competitive economy and ensuring: (i) climate neutrality by 2050; (ii) economic growth decoupled from resource use; and (iii) that no person or place is left behind. Achieving the ambitions set by the European Green Deal means significant investment and therefore the EU has enhanced its efforts to connect finance with the specific needs of the European and global economy.

To this end, the EU has since 2018 been developing a comprehensive policy agenda that resulted in a well-developed regulatory landscape that lays down the three building blocks of the EU sustainable finance framework: (i) a harmonised, robust and science-based classification system, or "taxonomy", of sustainable activities, allowing non-financial and financial organisations to share a common definition of sustainability and thereby providing protection against greenwashing; (ii) a mandatory disclosure framework for both non-financial and financial organisations, providing investors with sustainability information to make informed sustainable investment decisions; and, (iii) investment tools, including benchmarks, standards and labels, providing greater transparency and supporting the financial sector to align their investment strategies and business models with the EU's climate and environmental objectives.

Specifically, the EU Taxonomy has been introduced at the EU level with the aim to facilitate the shift towards sustainable investments by setting up uniform criteria for determining whether an economic activity qualifies as environmentally sustainable. For the purpose of determining the environmental sustainability of a given economic activity, an exhaustive list of technical screening criteria have been laid down by the EU Taxonomy, covering six environmental objectives, namely: climate change mitigation and climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

The EU Taxonomy is also a disclosure tool, with companies being required to provide in their annual reports, information on the taxonomy eligibility of their revenues, investments, and operating expenses, as well as taxonomy alignment based on 3 KPIs: Turnover (net turnover refers to the amounts derived from the sale of products and services after the deduction of sales rebates, value-added tax, and other taxes directly linked to turnover), Capex (Classified as additions to tangible and intangible assets during the financial year) and Opex (direct expenditures relating to the day-to-day servicing of assets of the property, plant, and equipment that are necessary to ensure the continued and effective use of such assets). The Taxonomy requires that the financial sector shall disclose the Green Assets Ratio (GAR), which is a ratio showing EU Taxonomy-aligned financial assets as a percentage of the total assets of the financial organisation.

According to the EU Taxonomy and for the purposes of establishing the degree to which an investment is environmentally sustainable, an economic activity shall qualify as environmentally sustainable where that economic activity: (i) contributes substantially to one or more of the environmental objectives (SC); (ii) does not significantly harm any of the other environmental objectives (DNSH); (iii) is carried out in compliance with the minimum safeguards; and (iv) complies with technical screening criteria set up at European Union level through Delegated Acts.

The approved Delegated Acts establish detailed criteria for determining both substantial contribution and do-no-significant harm. When assessing an economic activity against the criteria, both the environmental impact of the activity itself and the environmental impact of the products and services provided by that activity throughout their life cycle shall be taken into account, in particular by considering the production, use, and end of life of those products and services.

Initial discussion topics

Initial research in the field - Dusík & Bond (2022), Palerm (2022), Slootweg (2022), Vu (2022), Fischer (2022), Bond & Dusík (2022) - pointed out that environmental impact assessment (EIA) should play a key role in providing the information required to be further used in determining the environmental sustainability of a given economic activity.

The EIA procedure, either as a standalone procedure or fully embedded into the national planning/construction permitting process, guarantees environmental protection and transparency with regard to the decision-making process for several public and private projects. With its wide scope and broad purpose, EIA ensures that environmental concerns are considered from the initial phases of development plans, projects, or their modifications. Moreover, it allows the public to actively engage in the process, thereby providing much-needed process transparency and accountability.

The first 1.5-day workshop organized by the platform will therefore explore practical linkages between the EU Taxonomy and EIA processes. It will, in particular, showcase how the EIA procedure (including the preparation and revision of the EIA report) might be practically used to determine the SC and DNSH of the economic activities covered by the EU Delegated Acts, one covering climate (mitigation and adaptation) and the other covering the other four environmental objectives. It will focus on the following key questions where in-depth inquiry is needed:

- **Linkages between the EU Taxonomy SC/DNSH criteria and EIA processes**: How can EIA align with an assessment of SC and DNSH at different process stages (e.g., screening, scoping, review)? Which key stages of the EIA process could be used to support the alignment process? How can the EIA report serve the EU Taxonomy purposes? Which are the most challenging criteria to be implemented and practical solutions to overcome these challenges?

- **Linkages between the EU Taxonomy SC/DNSH criteria and existing permitting processes:** At which stage of the project planning and design process could the alignment with SC and DNSH criteria be confirmed? How the overall permitting process (from authorisation to proceed with the project to authorisation to operate) can support the alignment process? In case of the authorisation to proceed with the project process, the two types of administrative procedures (either with the EIA as a standalone process or fully embedded into the process for granting planning/construction permit) should be considered. Similarly, in case of authorisation to operate, different types of national administrative procedure should be showcased (e.g., the existence or not of an environmental permit/any similar permit to operate outside the scope of the permit granted under the Industrial Emissions Directive).

- **Challenging sectors**: which are the most practical solutions to address the challenging SC/DNSH criteria introduced for certain sectors?

The first workshop will be followed by further workshops that gradually expand the discussion to other elements of the sustainable finance agenda (e.g., minimum safeguards under EU Taxonomy, DNSH principle embedded under other EU legal instruments, etc.) and present the findings to a wider audience.