

Environmental and Social Data Sheet

Overview

Project Name:	CRAFT - Climate Resilience Solutions Fund
Project Number:	2017-0945
Country:	Multi-Regional (Asia, Latin America and Africa)
Project Description:	CRAFT is an investment fund targeting private companies providing climate resilience solutions in order to drive adaptation to Climate Change. Companies will operate in or develop climate solutions for developing countries.
EIA required:	Multiple schemes
Project included in Carbon Footprint Exercise ¹ :	No

Environmental and Social Assessment

Environmental and Social Assessment

The operation consists of up to 30 USD million EIB equity participation in the CRAFT Fund ("The Fund"). The purpose of The Fund is to address the challenges faced in developing countries to build resilience to climate change in both public and private sector, across all economic sectors. Even in developed countries there is a lack of services, both consultancy and IT, as well as technological developments, to assist with building climate resilient pathways. In developing countries this lack is worse. The Fund aims to target this deficit of tools and services by specifically investing in private companies providing solutions to enhance adaptation and resilience to climate change particularly for the benefit of developing countries and their vulnerable populations and livelihoods. The Fund will be generalist in terms of sectors and will include investments in or benefiting projects in Asia, Africa and Latin America.

The Fund's objectives align with the EU Climate Policies, and also with key objective of the European Consensus on Development and the 2030 Agenda for Sustainable Development. Specifically the Fund activities will contribute to the objectives under SDG 13 (Take urgent action to combat climate change and its impacts) as well as through resilience in land and water use as well as adaptation in urban areas, support through several of the Fund investments: SDG 2 (End hunger, achieve food security and improved nutrition and promote sustainable agriculture); SDG 6 (Ensure availability and sustainable management of water and sanitation for all); and SDG 11 (Make cities and human settlements inclusive, safe, resilient and sustainable). Improving Climate resilience is a key aspect of most developing countries national plans and is frequently included in their Nationally Determined Contributions under the Paris Agreement. This operations is there simultaneously supporting the SDGs as well as the UNFCCC Paris Agreement. The proposed operation is aligned with the current External Lending Mandate (ELM) Climate Strategy (see section 2.1.2) as well as

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

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the African, Caribbean Pacific (ACP) and OCTs Climate Strategy and with EU priorities for the affected regions, as it supports resilience to climate change throughout Latin America and Asia, and Africa.

By nature of its activities, the Fund is expected to have strong positive environmental and social impacts and may also have positive impacts on climate change as some foreseen investments will support both adaptation and mitigation. The Bank analysed the expected portfolio and sectors of investment and established the applicable EIB requirements, including (i) the EIB Exclusion List; (ii) applicable national environmental and social laws and regulations; (iii) EIB Environmental and Social Principles and Standards.

The Fund manager will be required to ensure compliance of the investments with the EIB Excluded list of Activities, the EIB E&S Standards and core E&S requirements, the E&S national laws and regulations as well as any international conventions to which the host countries in which the investments are taking place are party to.

The mitigation of key risks and impacts derive from the Fund's capacity to identify and manage the potential environmental and social risks and impacts associated with the projects in the pipeline and operate an appropriate environmental and social management system (ESMS).

Given the size and nature of the investments to be made through the Fund, the Fund's environmental and social risks and impacts are expected to be minimal. However, by financing SMEs working in certain sectors such as agriculture or agricultural services, there may be unintended adverse impacts on local communities and the environment. The ESMS will have a rigorous environmental and social screening process and an assessment, monitoring and evaluation process for every prospective investment to be undertaken including the application of a tested and established tangible positive impact metrics tool.

In order to meet EIB's requirements, the Fund will be required to enhance its ESMS (to reflect the application of the EIB E&S Standards) including the development of its E&S capacity, hiring a dedicated senior ESG officer into the core team to support its investment decision making process and monitoring activities for the Fund. Additional sector-specific expertise in relevant sectors may be required, particularly water and agriculture, and possibly biodiversity to support the implementation of the ESMS and the underlying projects. In addition, the Fund will establish a Fund-level grievance mechanism.

Where required, meaningful involvement of local communities, including consultation and free prior and informed consent of indigenous communities who are directly affected are central to EIB's E&S requirements. Particular emphasis will be applied to the assessment of the engagement and public consultation where the sub-projects may have adverse impacts on local and indigenous communities. The funds ESMS system will also screen how each sub investment can be focussed in part on more climate-vulnerable communities or businesses, in order to design accompanying TA to reach these potential clients.

At the SME level, the Fund should establish a gender policy whereby its portfolio companies will be encouraged to hire women at all levels of company operations and management. The ESMS system will have a specific proactive gender approach and will report on gender indicators.

Where the Fund engages with communities it will encourages companies to build collaborative relationships with them. The companies, in most cases, will generate benefits to the communities it is working with, such as employment. The Fund commits to protecting the

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local communities, their livelihoods and social fabric in areas where the Fund's portfolio companies may conduct business.

The Fund's ESG Standards and sustainability targets and goals will be included as covenants and warrants into the investment agreements entered into on behalf of the Fund with underlying investees as appropriate and the performance of underlying projects/investee companies will be monitored against these targets.

The Fund Manager will submit a periodic report to the EIB using a monitoring and evaluation tool with agreed indicators satisfactory to the EIB.

Conclusions and Recommendations

The Fund Manager will be required to ensure compliance of all underlying investments with the EIB Excluded List of activities, the EIB E&S Standards and core E&S requirements, as well as E&S national laws and regulations as well as any international conventions ratified by the host countries in which the investment is taking place.

The Fund Manager will

- Review, update and enhance its existing ESMS to be in line with international good practice and EIB E&S Standards 2013 as well as include a Fund-level grievance mechanism to the satisfaction of the EIB;
- Appoint a dedicated senior ESG officer into the core team to support its investment decision-making process and monitoring activities for the Fund;
- Commit to monitor and evaluate the economic, social, environment and climate impacts of the portfolio companies invested in, applying agreed impact metrics tools and report annually to the Bank

Given the innovative profile of the foreseen portfolio and to ensure adequate ESMS implementation, the EIB will review the first three environmental and social due diligences undertaken by the Fund prior to the Fund's investment.

With the above-mentioned conditions in place the Fund is acceptable for financing in environmental and social terms.