

Executive Summary



Promoting Interoperability Across Environmental and Social Risk Management Frameworks

How the IFC Environmental and Social Performance Standards
And World Bank Group Environmental, Health and Safety Guidelines
Align with the EU Taxonomy's "Do No Significant Harm" and
Minimum Safeguards Criteria



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New financial instruments designed to support climate, green economy, and social goals have taken various forms to reflect national or regional policy priorities and regulatory frameworks since the adoption of the Paris Agreement in 2015. However, the lack of clear, consistent, and credible information related to these instruments, as well as limitations in terms of the comparability and interoperability of different frameworks, risk hindering the achievement of sustainable development. To support the transition to a low-carbon economy, address information gaps, and reduce the risks of greenwashing, there has been growing recognition of the need to strengthen frameworks that effectively enable the transition.

These imperatives have been driving the development of sustainable taxonomies around the world. Establishing eligibility criteria and setting requirements in terms of environmental and social (E&S) risk management and disclosures are common features of the taxonomies emerging in the market. Taxonomies involve a process for implementation with defined screening criteria, which often includes safeguards that intend for activities with a positive substantial contribution to an objective of the taxonomy to avoid negative impacts on other objectives. This principle, known as “do no significant harm” (DNSH), often complemented by “minimum safeguards” (MS) requirements, has been integrated into several national or regional taxonomies developed in the past years, including the European Union (EU) Taxonomy Regulation 2020/852.

To support the implementation of sustainable taxonomies and leverage existing E&S risk management frameworks, financial institutions and other market participants subject to the EU Taxonomy, together with international networks and industry associations, have been calling for clarification of alignment between the EU Taxonomy requirements and pre-existing international standards.

In response to these increasing demands, IFC has partnered with the Equator Principles Association to conduct this research, leveraging the combined expertise and experience of IFC as a standard-setter in E&S risk management and investor across emerging markets, and 138 Equator Principles Financial Institutions (EPFIs) operating globally. Over the past decades, the IFC E&S Performance Standards (PSs) and the World Bank Group (WBG) Environmental, Health and Safety (EHS) Guidelines, have provided guidance to companies and financial institutions on how to identify, assess, avoid, mitigate and manage E&S risks and impacts as a way of doing business

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The EU Taxonomy recognizes as ‘environmentally sustainable’ economic activities that make a substantial contribution to at least one of the EU’s climate and environmental objectives, while at the same time not significantly harming any of these objectives (DNSH) and meeting minimum safeguards (MS).

in a sustainable way. The PSs and EHS Guidelines have influenced many E&S policies adopted by financial institutions – such as the Equator Principles which are used by EPFIs – and constitute an internationally recognized framework for E&S risk management, particularly for activities in emerging markets and developing economies. Companies and financial institutions have embedded these standards (PSs) and technical reference documents (EHS Guidelines) into their decision-making frameworks and have built significant experience and expertise over the years.

This report examines the interoperability between the EU Taxonomy’s DNSH and MS criteria, on the one hand, and the PSs and EHS Guidelines, on the other, each of which, for the purpose of this analysis, are considered a “Framework.” The intention of this study is to establish whether and how compliance with the PSs and EHS Guidelines may satisfy the EU Taxonomy’s DNSH and MS criteria, with particular relevance to activities outside the EU, as the EU Taxonomy looks to expand its remit to emerging markets in the coming years with progressive requirements for non-EU entities to report on their taxonomy alignment.

Both the application of the EU Taxonomy’s DNSH and MS criteria, and the PSs and EHS Guidelines, require an effective E&S risk assessment and management system to identify, assess, avoid, and where avoidance is not possible, mitigate and manage E&S risks and impacts in line with international good practices.

KEY FINDINGS of the report include:



Comparing the strategic objectives and implementation features of each Framework:

- > **The PSs and EHS Guidelines approach to E&S risk management is entirely compatible with the EU Taxonomy’s DNSH and MS requirements.** Although the primary objective of the EU Taxonomy is to enable entities to report the degree of alignment of their activities to a classification system of sustainable activities, whereas the primary objective of the PSs and EHS Guidelines is to enable entities to manage

The IFC Environmental and Social Performance Standards have become a globally recognized benchmark for E&S risk management. The application of the PSs is underpinned by the intent to “do no harm” to people and the environment.

E&S risks, both Frameworks require processes to assess and manage E&S risks and impacts in line with good international industry practice (GIIP).

The PSs and EHS Guidelines are a credible reference Framework to assess the alignment of a business activity with the EU Taxonomy's DNSH and MS criteria to qualify as "environmentally sustainable."

➤ **The EU Taxonomy and the PSs and EHS Guidelines show a large level of alignment in terms of E&S topics, impact areas and sectors.**

In particular, 5 out of 8 IFC PSs, alongside the WBG General EHS Guidelines, largely cover the issues identified in the DNSH and MS criteria.

➤ As of now, **the primary requirements imposed by the EU Taxonomy are for reporting purposes, while the PSs and EHS Guidelines are primarily designed to provide an effective E&S risk management approach.** However, both processes require a level of public disclosure and transparency, and the underlying approach for screening alignment with the EU Taxonomy implies strong E&S risk management processes.

➤ The enforcement of EU regulations¹ is under the scrutiny of supervisors and potentially subject to mandatory audits. **If applying the PSs and EHS Guidelines to assess and report their alignment with the EU Taxonomy, companies will need to collect and store audit evidence** that may not necessarily be collected or documented as part of current PS-based assessment processes.

➤ **The PSs and EHS Guidelines must be applied at the time of the transaction and monitored throughout the project/investment cycle, while reporting against the EU Taxonomy² is expected to be done once a year.** Nevertheless, the EU Taxonomy reporting requirement assumes that an assessment has been done at a more granular level, compatible with a transaction-by-transaction approach.

[2]

Comparing technical requirements:

➤ By setting minimum standards applicable even where host country regulations are less stringent than EU regulations, **the PSs and EHS Guidelines represent a useful and credible framework to satisfy the requirements of the EU Taxonomy for activities in non-EU countries.**

By setting minimum standards applicable even where host country regulations are less stringent than EU regulations, the PSs and EHS Guidelines represent a useful and credible framework to satisfy the requirements of the EU Taxonomy for activities in non-EU countries.

¹ Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 (Disclosures Delegated Act); and Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures (SFDR)

² Through the Disclosure Delegated Act and SFDR

- The EU Taxonomy pre-selected the E&S topics to be addressed for each sector, while an analysis performed under the PSs (sector agnostic) and EHS Guidelines would be adapted to each business activity/transaction. **While a comprehensive PS-based assessment is likely to capture all relevant E&S topics for a given business activity, screening the activity’s alignment with the EU Taxonomy would require checking that all topics listed in the EU Taxonomy are addressed.**
- **With regards to social aspects, both IFC PSs and WBG EHS Guidelines and the EU Taxonomy are largely similar in terms of scope** and refer to the same international standards.

The report further provides a deep dive comparative technical analysis of two sectors: electricity generation from wind power and manufacture of cement.

ELECTRICITY GENERATION FROM WIND POWER

- The Industry Sector EHS Guidelines on Wind Energy, combined with the General EHS Guidelines and the relevant PSs, adopt a more holistic approach than the EU Taxonomy, addressing additional issues, such as :
 - impact on water associated with wind power plant construction,
 - sector-specific occupational health and safety hazards, and community health and safety hazards,
 - broadening the scope across the multiple stages of project evaluation and monitoring (for instance with regards to biodiversity).
- The criteria set by the EU Taxonomy, however, are usually more specific and detailed (particularly on water and biodiversity): based on EU legislation and related to qualitative descriptors to determine good environmental status, they require the calculation of specific indicators and the respect of nationally established thresholds.

MANUFACTURE OF CEMENT

- Overall, the Industry Sector EHS Guidelines for Cement and Lime Manufacturing, combined with the General EHS Guidelines and the relevant PSs, align with most of the EU Taxonomy DNSH/MS requirements applicable to the Manufacture of Cement activity.
- There are a few instances where the PSs and EHS Guidelines are less specific (e.g., climate change adaptation) than the DNSH/MS criteria, and other instances where the PSs and EHS Guidelines are more granular and broader in scope, addressing more topics (e.g., water and wastewater, circular economy, biodiversity, worker rights), and considering the entire project lifespan (construction, operation and decommissioning).
- The PSs and EHS Guidelines include more operational information in terms of recommended prevention and control techniques than the EU Taxonomy, particularly for operations carried out outside the EU, where EU Directives and Regulations referred to by the DNSH and MS criteria are not applicable.

Practical Tools associated with the research: Wind Power and Manufacture of Cement



To make the interoperability between the EU Taxonomy and the PSs and EHS Guidelines operational, new tools are needed to help practitioners clarify expectations in addition to the PSs and EHS Guidelines to comply fully with the DNSH and MS criteria disclosure requirements – and eventually demonstrate alignment with the EU Taxonomy.

To address and illustrate this need in a practical manner, an operational tool was developed building on the comparison tools presented in this report. The tool sets a checklist of what should be done to comply with the EU Taxonomy's DNSH and MS criteria, in cases where the PSs and EHS Guidelines would be applied. For the two sectors covered in depth in this report (Wind Power and Manufacture of Cement), the tool provides a detailed comparison of the requirements of the EU Taxonomy (including generic and specific DNSH, and MS criteria) and those of the PSs and EHS Guidelines (including general and industry sector guidelines). In cases where a PS-based assessment is not sufficient to meet the EU Taxonomy criteria, the tool indicates additional actions to be taken to fully comply with the DNSH and MS criteria.

Of relevance, as the EU Taxonomy does not provide generic criteria for DNSH on climate change mitigation and transition to a circular economy, this report does not provide an analysis on these objectives, however, the sectoral tools do cover these two objectives.

The tools are available at www.ifc.org/ifceutaxonomy

As leading international standards and technical reference documents for E&S risk management, the Performance Standards and EHS Guidelines are a credible Framework to satisfy the DNSH and MS criteria set by the EU Taxonomy.

The conclusions of this report suggest that the IFC PSs and WBG EHS Guidelines, as leading international standards and technical reference documents for assessing and managing E&S risks and impacts, are a useful and credible Framework that can be leveraged to satisfy the DNSH and MS criteria set by the EU Taxonomy. While some differences exist when comparing the details of each Framework, the overall approach of the PSs and EHS Guidelines is similar to the EU

Taxonomy's DNSH and MS criteria approach: identifying the risks and impacts that are material, and assessing, avoiding, mitigating, and managing them in line with good international industry practice (GIIP).

This alignment and comparability are relevant to activities within the EU, as well as activities in non-EU countries:

- For activities conducted in EU countries, although the EU Taxonomy's requirements – in particular DNSH – make reference to detailed EU regulations that are not systematically directly aligned with the language of PSs and EHS Guidelines, application of the latter remains useful for practitioners. As per PS1, para. 15, users of the PSs are required to ensure that business activities “will operate in compliance with applicable laws and regulations, and meet the requirements of Performance Standards 1 through 8.” Therefore, whether or not the PSs requirements and EHS Guidelines levels and measures are fully aligned with EU requirements, compliance with EU regulations for activities within the EU is embedded in the framework of the PSs as a minimum requirement for business activities.
- **The PSs and EHS Guidelines may constitute an even more relevant framework when assessing alignment with the EU Taxonomy's DNSH and MS criteria for activities in non-EU countries, and bring significant value to close a fundamental gap that the EU Taxonomy will face when extending its reporting requirements to activities in emerging markets.** The PSs and EHS Guidelines can provide consistency in underdeveloped regulatory environments, and are widely known to financial institutions globally, creating potential synergies for the PSs to support the implementation of the EU Taxonomy as its scope of application expands. Indeed, for the EU Taxonomy's DNSH and MS criteria that refer to international standards rather than European regulations for activities in third countries, the PSs, by requiring business activities to achieve whichever is more stringent between host country regulations and the levels and measures presented in EHS Guidelines (PS Overview, para. 7), provide a strong framework to support the application of GIIP for activities in non-EU countries, in line with the objectives of the EU Taxonomy.

Moreover, the PSs and EHS Guidelines are aligned with those DNSH and MS criteria of the EU Taxonomy that are not related to specific and detailed EU regulations. This is especially the case for the generic criteria for DNSH to protection and restoration of biodiversity and ecosystems, where compliance with **Performance Standard 6** (which is explicitly cited by the Climate Delegated Act) may be sufficient to meet the criteria both for activities within and outside the EU. On the other hand, for some E&S topics (e.g., pollution, water), the generic DNSH and MS criteria of the EU Taxonomy reference

For activities in non-EU countries, the PSs and EHS Guidelines bring significant value to close a fundamental gap that the EU Taxonomy will face when extending its reporting requirements to activities in emerging markets.

This report also provides helpful foundations and operating principles for companies and financial institutions subject to those taxonomies adopted outside the EU which include similar DNSH and MS requirements.

many EU regulations. In such cases, the use of the PSs and EHS Guidelines (in addition to their minimum requirement of meeting national laws) remains relevant, but systematic gap analysis between EU regulations, PSs requirements, and EHS Guidelines guidance would be required for economic activities that are conducted within the EU.

To further connect the EU Taxonomy's DNSH and MS criteria with the PSs and EHS Guidelines from an operational perspective, new tools are needed to clarify expectations to complement the PSs and EHS Guidelines to comply fully with the DNSH and MS criteria disclosure requirements, and eventually demonstrate alignment with the EU Taxonomy. To support and illustrate this objective, an operational tool accompanying this report was developed based on the comparative analysis presented for two economic activities: electricity generation from wind power and manufacture of cement. These tools set a checklist of what should be done to comply with the DNSH and MS criteria, in cases where an assessment based on the requirements of the PSs and levels and measures of the EHS Guidelines would be conducted. Such tools could be replicated for other economic activities listed in the EU Taxonomy, and for other environmental objectives of the EU Taxonomy to further help practitioners.

The analysis presented in this report also provides helpful foundations and operating principles for companies and financial institutions subject to those taxonomies adopted outside the EU which include similar DNSH and MS requirements. While not necessarily fully aligned with the EU Taxonomy requirements, several taxonomies contain features that are interoperable and comparable to the EU's DNSH and MS criteria. The conclusions of this report support further efforts globally to promote alignment and interoperability of sustainable finance frameworks across markets.

Moving forward, additional research and analysis may be considered to integrate the continuous developments that will take place in this area, not only at EU level (e.g., European sustainability reporting standards, Directive on corporate sustainability due diligence, etc.), but also globally, in particular with the emergence of new regional and national taxonomies, and international sustainability standards. In addition, potential future revisions and/or updates of the PSs and EHS Guidelines, would have to be taken into consideration when revisiting the findings of this report.

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