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Guidance on environmental criteria for projects, assets and activities to support the development of green finance

Recommandations relatives aux critères environnementaux pour les projets, les actifs et les activités visant à soutenir le développement de la finance verte

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Foreword

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The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

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This document was prepared by Technical Committee ISO/TC 207, *Environmental management*, Subcommittee SC 4, *Environmental performance evaluation,* in collaboration with Technical Committee ISO/TC 322, *Sustainable finance*.

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Introduction

This document provides guidance on identifying and assessing environmental aspects and impacts, and performance criteria for projects, assets and activities.

The intent is to support the development of green finance by assisting borrowers and financiers to take into account the environmental aspect and impacts or environmental performance of the project, asset or activity for which funds are sought. The guidance is applicable to individual, corporate or public entities providing or seeking green finance, regardless of size. A framework to determine relevant environmental criteria supported by credible information is presented. The objective of applying these criteria is to avoid, minimize, reduce and mitigate adverse environmental impacts and risks, as well as to identify opportunities to optimize environmental performance.

Key concepts involved in identifying and assessing relevant environmental criteria, including significance, context and materiality as well as "do no significant harm", are examined and examples presented. The relationship between what is determined to be environmentally significant and materiality is also explained. Concerns related to greenwashing that affect green financing decisions are addressed. Relevant information is identified to assist borrowers and financiers to align with the principles presented and to facilitate access to green finance.

This guidance is designed to be flexible. Intended users can determine the application that best suits their internal and external context. This may include, but is not limited to, their policies, processes, systems, operating environments, economic constraints, interested party needs and relevant regulatory requirements. Organizations are also provided insight on sources of information that can be applied to manage their environmental aspects to reduce their environmental impacts, manage environmental risks and optimize operational performance overall. The objective is to improve green financing, facilitate transparency and align the organization's activities with national and international environmental goals and agreements.

The environment operates as a system that includes people, and the interaction that they have with the environment and their interrelationship as citizens, communities, corporations and countries. Increasingly, there is an understanding of a critical need to address the impact on the environment that results as an outcome of human activity. There is also a parallel need to understand the effect that changes to the environment are having on humans, whether it is related to specific social concerns or broader societal issues, with immediate to long-term consequences. Green financing offers the opportunity to ensure that all three pillars critical for a sustainable future are addressed.

Annexes A to D provide additional knowledge, and covers the relationship of key concepts, other International Standards, initiatives that can help with green finance, and improving the opportunity for small and medium-sized enterprises (SMEs).

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Guidance on environmental criteria for projects, assets and activities to support the development of green finance

1 Scope

This document establishes a framework and outlines a process to identify criteria for environmental impacts and performance to take into account when considering projects, assets and activities seeking finance.

This document also gives guidance on assessing the risks and opportunities that can arise in applying environmental criteria to projects, assets and activities.

It is applicable to parties seeking finance, providing finance or other interested parties.

2 Normative references

There are no normative references in this document.

3 Terms, definitions and abbreviated terms

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3.1 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

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ISO and IEC maintain terminology databases for use in standardization at the following addresses:

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at https://www.electropedia.org/

3.1.1
organization
person or group of people that has its own functions with responsibilities, authorities and relationships to achieve its objectives

Note 1 to entry: The concept of organization includes, but is not limited to sole-trader, company, corporation, firm, enterprise, authority, partnership, charity or institution, or part or combination thereof, whether incorporated or not, public or private.

[SOURCE: ISO 14001:2015, 3.1.4]

3.1.2
interested party
stakeholder
person or *organization* (3.1.1) that can affect, be affected by, or perceive itself to be affected by a decision or activity

EXAMPLE Customers, communities, suppliers, regulators, non-governmental organizations, investors and employees.

Note 1 to entry: To "perceive itself to be affected" means the perception has been made known to the organization.

[SOURCE: ISO 14001:2015, 3.1.6, modified — "stakeholder" added as the admitted term.]

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3.1.3
environment
surroundings in which an *organization* (3.1.1) operates, including air, water, land, natural resources, flora, fauna, humans and their interrelationships

Note 1 to entry: Surroundings can extend from within an organization to the local, regional and global system.

Note 2 to entry: Surroundings can be described in terms of biodiversity, ecosystems, climate or other characteristics.

[SOURCE: ISO 14001:2015, 3.2.1]

3.1.4
environmental aspect
element of an *organization's* (3.1.1) activities or products or services that interacts or can interact with the *environment* (3.1.3)

Note 1 to entry: An environmental aspect can cause (an) *environmental impact(s)* (3.1.5). A significant environmental aspect is one that has or can have one or more significant environmental impact(s).

Note 2 to entry: Significant environmental aspects are determined by the organization applying one or more criteria.

[SOURCE: ISO 14001:2015, 3.2.2]

3.1.5
environmental impact
change to the *environment* (3.1.3), whether adverse or beneficial, wholly or partially resulting from an *organization's* (3.1.1) *environmental aspects* (3.1.4)

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[SOURCE: ISO 14001:2015, 3.2.4]

3.1.6
environmental impact assessment
EIA
tool used to identify the *environmental impacts* (3.1.5) of a project, asset and activity prior to decision-making

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Note 1 to entry: The tool can be used to assess a project, asset and activity during its various stages, including when it is finished.

Note 2 to entry: An *organization's* (3.1.1) activities or products or services can be a project, asset and activity to be considered for a request for financing.

[SOURCE: ISO 35103:2017, 3.6.4, modified — Abbreviated term added. "asset and activity" added to the definition. Notes to entry added.]

3.1.7
environmental performance
performance related to the management of *environmental aspects* (3.1.4)

Note 1 to entry: For an environmental management system, results can be measured against the *organization's* (3.1.1) environmental policy, *environmental objectives* (3.1.8) or other criteria, using *indicators* (3.1.9).

[SOURCE: ISO 14001:2015, 3.4.11]

3.1.8
environmental objective
objective set by the *organization* (3.1.1) consistent with its environmental policy

[SOURCE: ISO 14001:2015, 3.2.6]

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3.1.9
indicator
quantitative, qualitative or binary variable that can be measured or described, representing the status of operations, management, conditions or impacts

[SOURCE: ISO 14031:2021, 3.4.1]

3.1.10
risks and opportunities
potential adverse effects (threats) and potential beneficial effects (opportunities)

[SOURCE: ISO 14001:2015, 3.2.11]

3.1.11
compliance obligations
legal requirements and other requirements
legal requirements that an *organization* (3.1.1) has to comply with and other requirements that an organization has to or chooses to comply with

Note 1 to entry: Compliance obligations can arise from mandatory requirements, such as applicable laws and regulations, or voluntary commitments, such as organizational and industry standards, contractual relationships, codes of practice and agreements with community groups or non-governmental organizations.

[SOURCE: ISO 14001:2015, 3.2.9, modified — Note 1 to entry deleted. Note 2 to entry renumbered.]

3.1.12
materiality
information essential for decision-making, which can be applied to identify issues that reflect an *organization's* (3.1.1) environmental and social impacts, as well as information that supports *interested party* (3.1.2) and strategic decision-making

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3.1.13
baseline
reference basis for comparison against which the status or *environmental performance* (3.1.7) of the project, asset and activity is monitored or measured

[SOURCE: ISO 27917:2017, 3.3.2, modified — "the status or environmental performance of the project, asset and activity" replaced "project status or performance".]

3.1.14
baseline scenario
hypothetical reference case that best represents the conditions most likely to occur in the absence of a proposed project, asset and activity

[SOURCE: ISO 14064-2:2019, 3.2.6, modified — "project, asset and activity" replaced "GHG project".]

3.1.15
greenwashing
false or misleading information, either intentionally or inadvertently, regarding the environmental or sustainability attributes of a product, asset and activity, which can have consequences on the assessment of financial and non-financial *materiality* (3.1.12)

3.1.16
green finance
financial instrument, product or service that support projects, assets and activities that result in lower adverse *environmental impacts* (3.1.5), reduced environmental risks or enable opportunities to improve environmental and environment-related social performance

Note 1 to entry: A non-exhaustive list of examples of public, private, public–private or civil society agents can include: angel investors, venture capitalists, private equities businesses, banks, governments, international organizations, non-governmental organizations (NGOs), asset management companies, pension funds, sovereign wealth funds and foundations/endowments.

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3.1.17
life cycle thinking
consideration of all relevant *environmental aspects* (3.1.4) (of a product, asset and activity) and associated *environmental impacts* (3.1.5) during the entire life cycle

Note 1 to entry: A life cycle perspective is synonymous and refers to the consecutive and interlinked stages of a product, asset or activity from inception to end of life, including a circular approach, and is intended to prevent shifting an environmental burden or creating an environmental externality.

Note 2 to entry: This does not necessarily mean that a detailed life cycle assessment should be undertaken.

[SOURCE: ISO Guide 64:2008, 2.6, modified — Abbreviated term deleted. "asset and activity) and associated environmental impacts" added to and "(product)" deleted from the definition. Notes 1 and 2 to entry added.]

3.2 Abbreviated terms

BAT	best available technology
EIA	environmental impact assessment
ESG	environmental, social and governance
GHG	greenhouse gas
GRI	Global Reporting Initiative
LCA	life cycle assessment
SASB	Sustainability Accounting Standards Board
SME	small and medium-sized enterprise
TCFD	Task Force on Climate-related Financial Disclosures
UN SDGs	United Nations Sustainable Development Goals

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4 Principles

4.1 General

These principles explain the context in which to address environmental benefits, including environmental aspects and impacts associated with projects, assets and activities for the development of robust, credible and reliable green finance opportunities.

4.2 Accuracy

Accuracy should be aimed for by carefully evaluating sources and data quality and using appropriate methods. Bias should be avoided and uncertainty minimized.

4.3 Completeness

All relevant and important information for the intended use should be included, in such a way that no additional information will substantially change the results of the assessment to the knowledge of those undertaking the assessment.

NOTE In this principle, "important information" refers to an environmental aspect or impact that is on its own or in combination with other issues, environmentally significant and material to the viability of the project, asset or activity.

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4.4 Consistency

Assumptions, methods and data should be applied in the same way throughout the assessment process to arrive at conclusions in accordance with the purpose and scope of the assessment.

4.5 Credibility

All steps of the assessment should be conducted in a transparent and fair manner, and the information provided to interested parties should be truthful, accurate, substantive and not misleading.

4.6 Relevance

Identified environmental aspects and impacts, data sources, assumptions, boundaries (temporal and spatial) and methods should be appropriate to the needs and meet the known requirements of the intended users. This should take into account life cycle thinking, wherein the borrower and the financier should have a common, shared understanding of the entire life cycle of the project, asset and activity to ensure that environmental impacts are not unintentionally shifted elsewhere, imposing an environmental, social or financial burden.

4.7 Transparency

Care should be taken to ensure that objective evidence provided, whether in reports or other documented formats, is available, comprehensive and clearly stated.

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4.8 Sustainability

Incorporating an appreciation for the universal call to balance environmental, social and economic outcomes should underpin any request for financing. This includes consideration of the context of the request as well as concepts such as “do no significant harm”, the protection of biodiversity, resilience of ecosystems, decarbonization of human activities and a commitment to a low carbon economy.

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5 Purpose

The purpose of this document is to support the exchange of information and communication between borrowers and financiers on the relevant environmental aspects and impacts, and the related risks and opportunities of projects, assets and activities in the context of seeking or providing finance.

Knowledge about and understanding the environmental aspects and impacts is important as they pose known or possible socio-economic consequences. These are of increasing interest to owners and managers seeking finance on one side and financiers (such as investors, lenders or insurers) on the other side.

The value for the borrower of understanding the socio-economic consequences of environmental aspects and their related impacts lies in their ability to present their projects, assets and activities in a transparent, objective and relevant detailed manner to potential financiers. Taxonomies are an approach to categorize or clarify the risk and opportunity to support green finance. There are at present hundreds of options that can assist borrowers and financiers to determine whether an economic activity contributes substantially to at least one environmental objective. This can assist interested parties in choosing environmental performance indicators relevant to the project, asset or activity, such as life cycle thinking criteria, carbon footprint options, etc.

NOTE 1 A carbon footprint is defined as the net amount of greenhouse gas (GHG) emissions and GHG removals, expressed in CO_2 equivalents (see ISO 16759). More insight on GHGs is provided in ISO 14067:2018.

This evidence can provide the financier with confidence that the potential borrower understands the risks and opportunities, which addresses at its core, the credit worthiness and ability of the borrower to service a loan. Presenting objective evidence to the financier can provide a better understanding of

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the environmental benefits and the measures taken by the borrower, which can result in lower interest rates or other favourable terms and conditions.

The value for the financier of understanding the socio-economic consequence of environmental aspects and impacts is to have the information necessary to evaluate a potential borrower's projects, assets and activities in an efficient and rigorous way. Applying this knowledge will support decision-making on both sides of the transaction and serve to enhance communication and build trust for the business relationship. This is not only favourable for the development of robust, credible and reliable green financial markets, it also supports the ability of the financier to document the non-financial effects of providing finance.

NOTE 2 The growing need to provide objective evidence of environmental risks and opportunities, including positive and negative environmental impacts and related effects thereof when financing, is an expectation in the context of meeting international agreements and guidance frameworks such as the Equator Principles[36], the Paris Agreement[34], the Task Force on Climate-related Financial Disclosures (TCFD)[42] and the United Nations Sustainable Development Goals (UN SDGs)[35]. See Annex C for additional information.

The information expectations of the financier and the borrower should take into account a number of factors in order to inspire the cooperation of both parties. The risk and opportunity related to projects, assets and activities should be assessed on significance, context and their relationship to materiality and should include life cycle thinking (or a life cycle perspective). Small businesses do not always have access to detailed data such as information in a detailed life cycle assessment (LCA). One option for them can be to research generic or publicly available data, which can be in the form of an environment product declaration (EPD) or an LCA. Where this is not available, the information requested should balance the benefits and costs, using options that are reasonable and practical. The information requested and provided should use the simplest approach when small business is involved.

NOTE 3 As small businesses tend to have limited resources, borrowers and financiers can find that open-source data or publicly available data can provide sufficient information for assessments.

As a financier will be concerned with more than just one request for green financing, there is a need for a consistent process for evaluation and due diligence. The financier needs information that enables the assessment of the relative risk of one request against the others they receive. Hence there is a need to address the level of detail that allows this comparison with some degree of formality and confidence. Both sides should find a balance that allows economic activity in a sound environmental manner. Refer to Annex D for insight on opportunities for the financier and the small business borrower to collaborate on green finance. If applicable, the borrower and the financier should consider the GHG emissions, including consideration of the measurement, monitoring, analysis and evaluation to enhance the environmental performance over the life cycle of the proposed project, asset and activity.

There are different requirements and cultural norms in the financial infrastructure and systems around the world. Additionally, there are emerging financing mechanisms such as those enabled by distributed ledger technology, including blockchain, and other more fluid and more open systems enabling the flow of capital. The guidance that follows may be used in part or in whole to foster the development of green finance in a universal and ubiquitous manner in more traditional financial systems as well as for newer mechanisms that are striving to improve and automate the delivery and use of financial services.

Figure 1 outlines a generic process for a request for financing to support the development of green finance as well as various stages that are expected in addressing the information exchange between the borrower and the financier.

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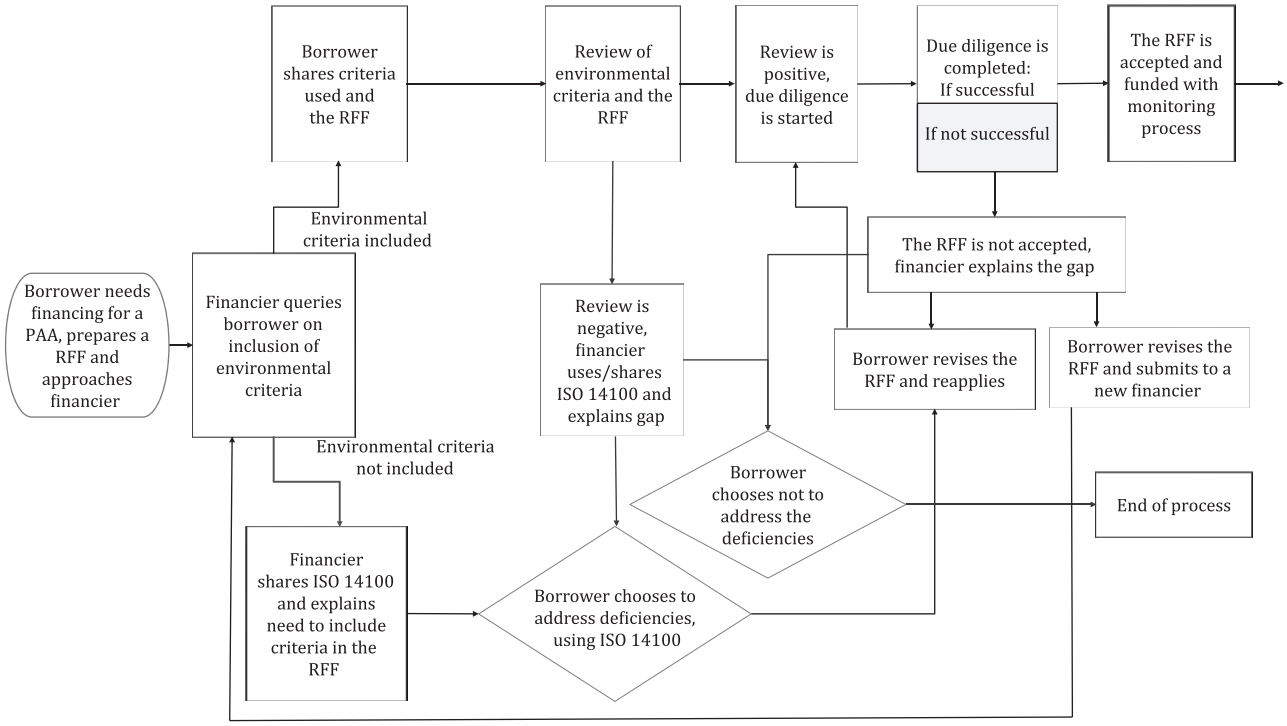

Key

PAA products, assets and activities

RFF request for financing

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Figure 1 — Generic process for a request for financing to support the development of green finance

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6 Criteria for determining the environmental aspects and impacts of projects, assets and activities

6.1 General

Understanding context is an important concept when determining those environmental aspects and environmental impacts that need to be taken into account when assessing projects, assets and activities. Context includes objective evidence and assumptions that include internal and external issues such as:

— environmental conditions related to climate, air quality, water quality, land use, existing contamination, natural resource availability and biodiversity, that can either affect the organization's purpose or be affected by its environmental aspects, including consideration of those in its supply chain;

— the external cultural, social, political, legal, regulatory, financial, technological, economic, natural and competitive circumstances, whether international, national, regional or local;

— the internal characteristics of the organization, such as its activities, products and services, strategic direction, culture and capabilities (i.e. people, knowledge, processes, systems).

NOTE The SDGs[35] and other initiatives provide examples of external drivers (see Annex C).

These issues can affect the determination of what is environmentally significant and what becomes material.

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