

The Role of International Financial Institutions in Integrating Climate Change into Environmental Impact Assessment (EIA) in ASEAN

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Abstract

This paper examines the role of international financial institutions in the integration of ‘Climate Assessment’ into Environmental Impact Assessment (EIA) procedures in ASEAN. It highlights the insufficiency of current climate assessment practices within the region, despite the increasing recognition of EIA as a tool for climate change mitigation. In contrast, international financial institutions have developed regulatory tools defining environmental assessment procedures and apply them as a tool for climate change mitigation for the projects they support. The presentation argues that banks should take on a leadership role in the direct and indirect integration of climate assessment into the EIA procedures of their ASEAN country clients.

1. Foreword

Earlier in April, the ASEAN community experienced record-breaking temperatures, highlighting the severity of impacts of climate change on the region.¹ While there is a growing recognition of the role of Environmental Impact Assessment (EIA) in climate change mitigation, the current integration of climate assessment into EIA procedures amongst ASEAN community remains loose. Conversely, international financial institutions have integrated climate assessment into their environmental assessment processes. Given that banks provide finance for projects which contribute towards greenhouse gas (GHG) emissions, they therefore have a responsibility to reduce ‘financed emissions’ by assisting their clients transition to sustainable practices and aligning their portfolios with the Paris Agreement.² This paper will therefore advocate for banks to capitalise on their experience and knowledge to play a leadership role in the direct and indirect integration of climate assessment into their ASEAN country clients’ EIA procedures.

The paper will first outline climate assessment, then provide an overview of climate assessment amongst international financial institutions (IFIs). Finally, it will outline how banks can integrate climate assessment in ASEAN.

2. Climate assessment

A climate assessment is a tool under EIA procedure which assess the effects of GHG emissions of a proposed project and considers possible mitigation measures.³ This allows decision-makers to

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¹ Maximiliano Herrera, ‘Worst April Heatwave in Asian History Ongoing in More than a Dozen Countries’ @extremetemps (14 April 2023, 10pm) <<https://twitter.com/extremetemps/status/1646875957570174978?s=46&t=vfvyHUyuWIIuWGr3e9sa-g>>, accessed 20 April 2023.

² Juan Carlos Delrieu and Others, ‘How to Align with the Paris Agreement: A Resource Note for Banking Associations and Banks’ 6.

³ Benoit Mayer, ‘Climate Assessment as an Emerging Obligation under Customary International Law’ (2019) 68(2) International & Comparative Law Quarterly 271.

determine the acceptability of GHG emissions, in reference to for instance climate commitments.⁴ A climate assessment also supports the ‘development first’ approach, which integrates climate change and GHG emissions considerations into infrastructure priorities, thus contributing towards sustainable development and climate change mitigation.⁵

Certain countries amongst the ASEAN community have, to various extents, integrated climate change-related considerations into their domestic EIA procedures. For example, Viet Nam’s EIA includes a description of basic information about the impacts of climate change of a proposed project, whilst Cambodia, in addition, requires the consideration of the effects of mitigation measures on climate change. Myanmar explicitly requires the consideration of the effect of mitigation measures on GHG emissions, whilst Malaysian guidance requires project proponents to quantify GHG emissions for large-scale agricultural, mining, or infrastructure projects. However, for many of the countries in the ASEAN community, these manifestations of climate assessment have not yet reached their true potential, and integration of climate change has remained on the agenda for strengthening the EIA procedures in ASEAN.⁶

3. Climate assessment and international financial institutions

IFIs have adopted regulatory tools defining environmental assessment procedures and apply them as a tool for climate change mitigation for the projects they support.

In particular, the World Bank’s 2016 Environmental and Social Framework considers GHG emissions as a type of air pollution that must be assessed when relevant and ‘technically and financially feasible’.⁷ Emissions must first be estimated by a borrower and the Bank then conducts GHG accounting of emissions, building on the estimates. The Asian Development Bank’s (ADB) ‘Safeguard Policy Statement’ requires the borrower to monitor and promote the reduction of GHG emissions from projects emitting 100,000 tons of CO₂ emissions or more.⁸ Further, the Asian Infrastructure Investment Bank (AIIB) requires the quantification and reporting on all significant sources of GHG emissions when it determines that a project is or will produce significant emissions, and when it is feasible and the Client has the capacity to do so.⁹ The AIIB offers support for clients that request to finance measures to quantify and report direct and indirect emissions from Project-related facilities.¹⁰

Other international financial institutions with various memberships and voting powers have also integrated climate change into their safeguard policies. For instance, the United Nations Development Programme requires an assessment of GHG emissions from relevant projects and consideration for

⁴ Benoit Mayer, ‘Climate Assessment as Customary Law Obligation’, in Benoit Mayer and Alexander Zahar (eds), *Debating Climate Law* (CUP 2021) 293. Contra Alexander Zahar, ‘Environmental Impact Assessment for Greenhouse Gas Emissions is Pie in the Sky’, in Benoit Mayer and Benoit Zahar (eds), *Debating Climate Law* (CUP 2021) 297.

⁵ Paula J Posas, ‘Climate Change in Development Bank Country Environmental Analyses’ (2011) 12(3) *Journal of Environmental Assessment Policy and Management* 459, 461.

⁶ See, for example, Manuel Castillo, Georgina Lloyd, and Katinka Weinberger, ‘Technical Report and Recommendations to Strengthen Environmental Impact Assessment Procedures in ASEAN’ (United Nations Economic and Social Commission for Asia and the Pacific 2022).

⁷ World Bank Group, ‘Safeguard Policies: Environmental Assessment’ <<https://perma.cc/5V35-Z5Y8>> accessed 30 November 2022.

⁸ ‘Environment Policy of the Asian Development Bank’ (ADB 2009) 38. The ‘Project Classification System’ requires that the reduction of quantified GHG emissions from mitigation measures from the project are recorded in the project input information. See ‘Project Classification System: Final Report’ (ADB 2014).

⁹ *ibid* para 42.2.

¹⁰ *ibid* para 36.

options to reduce these emissions.¹¹ Similarly, the African Development Bank's Environmental and Social Assessment requires the mainstreaming of 'climate change considerations' into all lending operations and project activities¹² following an 'Integrated Safeguards System'.¹³ And finally, the Equator Principles are non-binding guidelines adopted by financial institutions (e.g. private banks) in 2003 and updated several times since.¹⁴ The participating institutions pledge to implement certain procedures to assess the environmental and social risk arising from the projects they finance.¹⁵ The fourth update, in 2020, requires a climate change risk assessment for some large projects.¹⁶ This assessment procedure, however, focuses mainly on managing risks related to the impacts of climate change and the implementation of mitigation policies, rather than directly on mitigating GHG emissions.¹⁷ Nonetheless, the Equator Principles stand apart in that they involve a pledge by over a hundred leading financial institutions to conduct some sort of climate assessment.¹⁸

4. Integrating climate assessment in ASEAN

Banks can play a leadership role in the direct and indirect integration of climate assessment. This section will identify opportunities for greater bank involvement.

A. Direct integration

Technical assistance

ADB has previously assisted Thailand and Cambodia in strengthening their Environmental Impact Assessment procedures.¹⁹ However, technical assistance on integrating climate change in impact assessment procedures has primarily focused on climate adaptation, overlooking climate mitigation. Therefore, it is crucial to include climate assessment as part of any future technical assistance focusing on EIA in the region.

Capacity building

In terms of capacity building, to borrow from yesterday presentation, this means 'flooding' ASEAN with capacity for climate assessment: project level capacity building for proponents and larger scale capacity building for country-recipients. For instance, the publication and dissemination of guidance documents on climate assessment provides support to project proponents and national agencies to integrate climate assessment into the project operational processes in domestic practice.²⁰

¹¹ United Nations Development Programme, 'Social and Environmental Standards' (2019), 19–21.

¹² African Development Bank Group, 'Safeguards and Sustainability Series; Environmental and Social Assessment Series' (Vol 1(5) 2015), 9.

¹³ African Development Bank Group, 'Safeguard and Sustainability Series; Integrated Safeguards System Guidance Materials' (Vol 2(1) 2015) 54–55.

¹⁴ Demetri Sevastopulo, 'Banks Commit to Socially Responsible Lending' (*Financial Times*, 3 June 2003); Suellen Lazarus, 'The Equator Principles at Ten Years' (2014) 5 *Transnational Legal Theory* 417.

¹⁵ 'The "Equator Principles"; An Industry Approach for Financial Institutions in Determining, Assessing and Managing Environmental & Social Risk in Project Financing' (June 2003).

¹⁶ Equator Principles (EP4, July 2020) at 9, 19. See also Equator Principles, 'Guidance Note on Climate Change Risk Assessment' (September 2020) at 4.

¹⁷ Equator Principles, 'Guidance Note on Climate Change Risk Assessment' (September 2020) 4.

¹⁸ Equator Principles Association, 'Members & Reporting' (2022) <<https://equator-principles.com/members-reporting/>>, accessed 27 October 2022.

¹⁹ See, for example, 'Technical Assistance to the Kingdom of Cambodia for Strengthening the Environmental Impact Assessment Procedures and Capabilities' (ADB 1994); 'Technical Assistance to Thailand for Strengthening the Environmental Impact Assessment Review Process' (ADB 1995); 'TA 7566-REG: Strengthening and Use of Country Safeguard Systems: Completion Report' (Asian Development Bank 30 April 2017).

²⁰ Mengqi Shao, May Tan-Mullins, and Linjun Xie, 'Asian Infrastructure Investment Bank (AIIB)'s Sustainable Safeguard Mechanism on Energy Projects' (2021) 38 *Energy Strategy Reviews* 170, 172.

Policy advice

International financial institutions are in a unique position to engage in higher policy dialogue to identify options for integrating climate assessment into national systems by cooperating with ASEAN country members. This can be seen from practice. For instance, ADB has a strong relationship with the ASEAN community. The Bank has cooperated with ASEAN on environmental matters since 1997, providing regional technical assistance into ASEAN's Regional Haze Action Plan.²¹ More recently, ADB has facilitated the cooperation between ASEAN and nine other co-financing partners in launching the 2019 ASEAN Catalytic Green Finance Facility (AGCF).²²

The AGCF provides ASEAN community with access to technical assistance and \$1 billion in loans from co-financing partners which can be used for green infrastructure projects. An interesting aspect of the facility is that projects require a climate assessment at the screening stage of a proposed project: an estimation of GHG reduction against business-as-usual baseline.²³ It is yet to be seen what fruits the facility will bear, however, by implementing climate assessment as a criterion for project selection, and explicitly excluding fossil fuel projects, such initiatives can support reaching sustainable development in ASEAN.²⁴ It also facilitates the direct integration of climate change in impact assessment in the region.

B. Indirect integration

In terms of indirect integration, this is mainly by operationalising and strengthening bank-led climate assessment processes. For example, by requiring climate assessment as a precondition for all financed infrastructure projects within the ASEAN community. This approach enhances transparency and provides essential information about GHG emissions, enabling well-informed decisions aligned with climate commitments. This isn't controversial – climate risks differ from traditional financial risks and thus banks need to play a leadership role in collecting and assessing GHG emissions more systematically.²⁵ However, a misalignment exists between the approaches taken by individual IFIs regarding the thresholds for quantifying significant GHG emissions. For instance, ADB sets its threshold at 100,000 tons of CO₂ emissions, whereas the World Bank and AIIB follow the Performance Standard 3 threshold of 25,000 tons of CO₂ emissions. Moreover, there are caveats to quantifying direct emissions, requiring them only when it is 'technically and financially feasible'. These inconsistencies have the potential to hamper leadership, thus closer partnership on aligning climate assessment standards between IFIs would enhance their role in the indirect integration of climate assessment in ASEAN. This aligns with the pledges made by banks to support their clients' climate change objectives.²⁶

²¹ 'ASEAN-ADB Cooperation toward the ASEAN Community: Advancing Integration and Sustainable Development in Southeast Asia' (ADB 2016) 27.

²² 'Overview: ASEAN Catalytic Green Finance Facility (ACGF)' (*Asian Development Bank*, 13 February 2023) <<https://www.adb.org/what-we-do/funds/asean-catalytic-green-finance-facility/overview>> accessed 20 April 2023.

²³ 'An ASEAN Infrastructure Fund Initiative: Investment Principles and Eligibility Criteria' (ASEAN Catalytic Green Finance Facility April 2020) 3.

²⁴ Muhammad Sadiq and others, 'The Role of Environmental Social and Governance in Achieving Sustainable Development Goals: Evidence from ASEAN Countries' (2023) 36 *Economic Research* 170.

²⁵ Eddie Yue, 'How can the Banking Industry Contribute to Efforts in Tackling Climate Change?' (*Hong Kong Monetary Authority*, 30 December 2021) <<https://www.hkma.gov.hk/eng/news-and-media/insight/2021/12/20211230/>> accessed 18 April 2023.

²⁶ Eg 'ADB Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific' (Asian Development Bank 2018) 4; 'AIIB to Fully Align with Paris Agreement Goals by Mid-2023' (*AIIB News*, 26 October 2021) <<https://www.aiib.org/en/news-events/news/2021/AIIB-to-Fully-Align-with-Paris-Agreement-Goals-by-Mid-2023.html>> accessed 20 April 2023.

5. Conclusion

To conclude, climate assessment is an important tool under EIA to mitigate the effects of climate change. Ultimately, a concerted effort is needed from IFIs to collaborate with their ASEAN country clients and leverage their knowledge and experience to ensure the effective integration of climate assessment, both directly and indirectly. Such leadership can support international climate goals, promote sustainable development and building capacity across the ASEAN community.