

ToR for a climate change risk assessment

GENERAL SCOPE OF WORK: SUMMARY

The steps for conducting a climate change risk assessment are below. It is assumed the assessment will be conducted in conjunction with environmental and social (E&S) due diligence.

The due diligence scope of climate change-related work will include the following:

- Identify relevant physical (acute and chronic) and transition (policy and legal, social and reputation, market, and technology) climate change risks. The evaluation should consider the investee, its community, and value chain.
- Evaluate the materiality of risks and identify the most material climate change risks.
- Develop recommendations for risk adaptation and risk mitigation measures to be considered for the investee.
- Develop a carbon footprint for scope 1, 2 and material scope 3 GHG emissions.

The assessment results should be included in the E&S Due Diligence Report, while key actions should be documented in the ESAP.

PHYSICAL CLIMATE CHANGE RISK ASSESSMENT

Identify material physical risks and associated impacts:

- Identify key climate variables and have an understanding of the historical climate of the region.
- Have an understanding of the overall business and its value chain, as well as the geographical context of the location(s).
- Determine whether any national adaptation or more localised policies, strategies and plans would impact the investee.
- Engage with management to determine:
 - To what extent historical weather events have impacted the asset's operations and value chain.
 - Whether physical climate change has been integrated into design criteria or existing processes, such as existing risk management processes.
 - Implemented or planned controls or adaptation measures.
- Develop a list of the most significant baseline climate hazards.
- Use publicly-available tools to identify the most significant future climate hazards.
- Determine the exposure and vulnerability of the assets to identified climate hazards.

- Identify and rank the most significant physical climate risks related to identified climate hazards.
- Identify and quantify the potential business impacts from the most material physical climate risks.
- Identify high-level adaptation options and controls to address both present and future material risks.

TRANSITION CLIMATE CHANGE RISK ASSESSMENT

A carbon footprint including Scope 1, 2 and material Scope 3 GHG emissions sources in line with a globally accepted methodology, such as the GHG Protocol, or local national legislation in the operating country, should be developed.

Identify the key transition risks and associated impacts:

- Identify key and relevant climate change transition drivers under the social, technology, economic, and policy and legal categories. This should include a desktop review of relevant publicly-available information to understand for each of the categories:
 - **Social:** Employee profile of the target, presence of NGOs and activities related to the target value chain, the general awareness and perceptions of climate change in the country or region, and where possible, local communities.
 - **Technology:** Likely technological disruptions to part of or the entire value chain.
 - **Economic and market:** Changes to the economic feasibility of the value chain, access to markets, etc.
 - **Policy and legal:** Government NDC and alignment with national mitigation plans, planned government climate change-related legislation (for example, mandatory GHG emissions reporting, mitigation, or carbon pricing). Climate-related lawsuit activities in the country relevant to the target and value chain.
- Engage with management to determine:
 - The level of maturity and understanding of climate change transition risks.
 - Resilience of the value chain to these risks.
 - Mitigation initiatives implemented and planned.
 - Potential transition risk hotspots.
- Identify and rank the most significant transition climate risks.

- Identify and quantify the potential business impacts associated with the most material transition climate risks.
- Identify high-level mitigation options and controls to address both present and future material risks.