

# Exploring IA and Due Diligence for sustainably transforming large projects



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# Session plan

Aim: exploring the role of IA and DD (vice versa)

This session follows up the discussions in Kutching IAIA23

## The plan:

- ❖ **Heikki Kalle** - Exploring IA and Due Diligence for sustainably transforming large projects-
- ❖ **Phil Le Gouais** - Transforming practice in ESDD for the global biodiversity framework
- ❖ **Patrick Hall** - Tough standards and soft audits to improve post-ESIA project performance-
- ❖ **Miles Scott Brown** - Let the facts guide us: tips and tricks for true independence-

# Environmental Due Diligence

**Environmental Due Diligence** is a well-established instrument for investment decisions and financing, safeguarding the management of (environmental) risks.

There are many definitions to EDD and its process

PWC: *“EDD is the process of assessing the environmental conditions of a property in connection with a property merger or acquisition (MA) so that investors are aware of the potential environmental liabilities”.*

The global environmental management, compliance and *due diligence market* will grow from \$9.7 billion in 2023 to \$10.28 billion in 2024 at a compound annual growth rate (CAGR) of 6.6% (The Business Research Company, 2024).  
N.B. the value of the contracts involved is many times higher.



# More on Environmental Due Diligence

- EDD services are provided by dedicated experts and are regulated by numerous international standards (ASTM, ISO) providing guidelines for process and documentation.
- Modern EDD encompasses besides environmental, health and safety (EHS) aspects also assessments on social and cultural as well as sustainability aspects.
- EDD is conducted throughout the (re)financing process with follow-up procedures. The process is iterative – in case of significant findings more thorough assessment is performed
- EDD is in essence voluntary process although several public investment agencies have EDD requirements



# Different worlds of IA and DD:

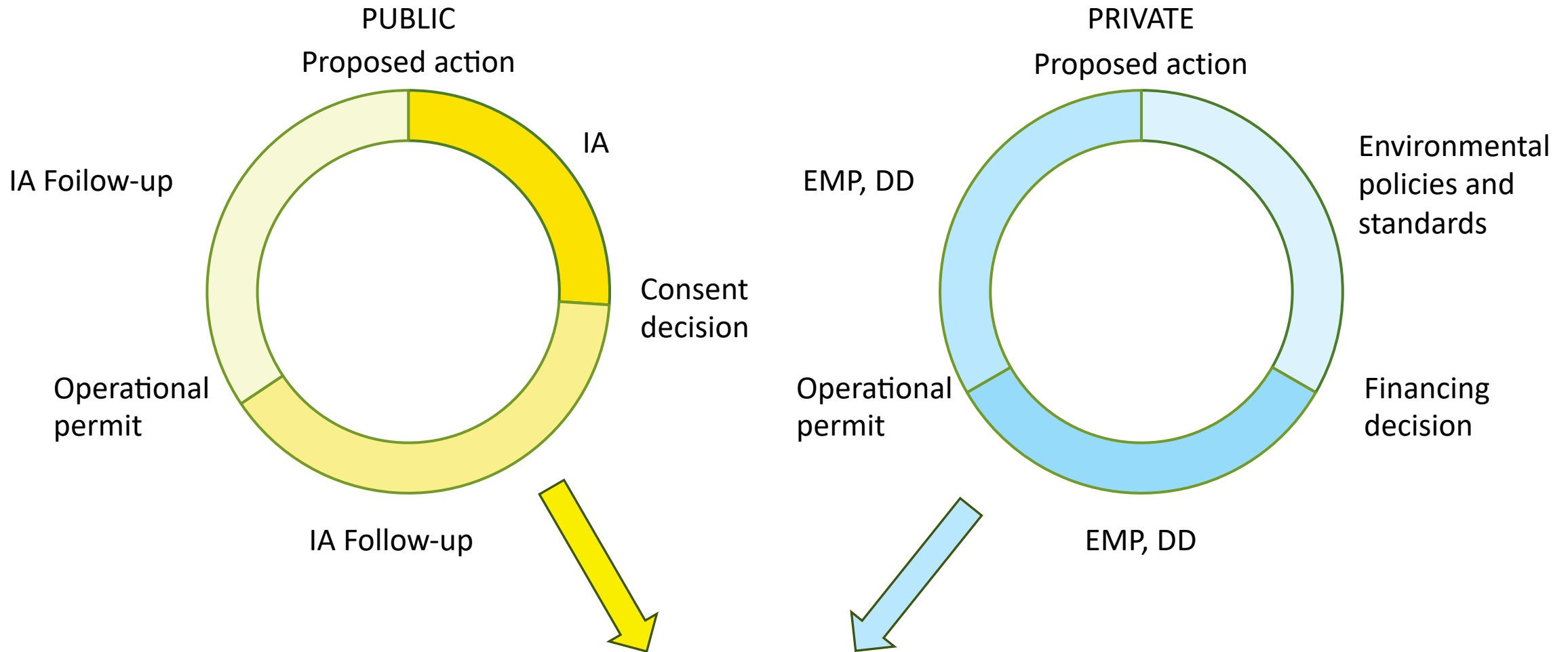
## Impact Assessment (IA):

- Public law (planning, permitting)
- Open, public process
- Uncertainties (complex world)
- Funding
- Taxpayers money
- Public responsibility
- Societal value  
(EIA-info translated in consent decision?)  
Sustainable Development Goals (SDGs) ?
- Or in the end still:  
political volatility and issues  
No insurance, government as last resort

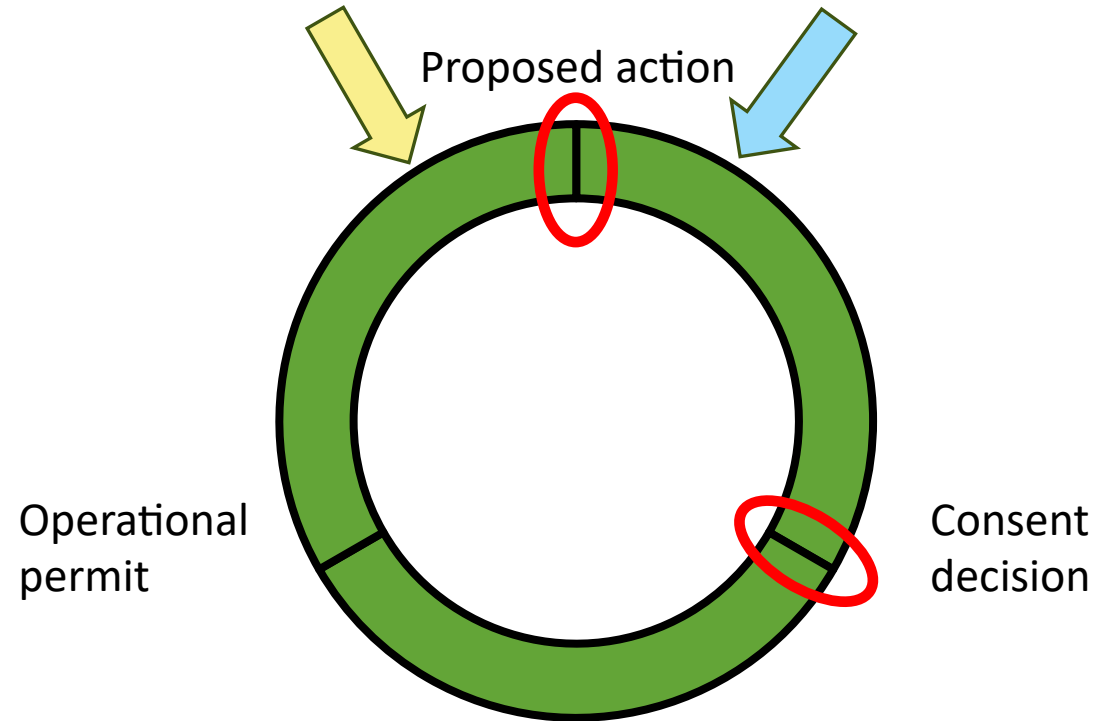
## Due Diligence (DD):

- Private law (contracting)
- Closed process  
(intellectual property, competitive advantage)
- Risks (p x e) ⇔ does this fit a complicated world?!?
- Financiers, banks, insurance companies
- Liability, compliance (just checking EIA, permits done)
- Corporate Social Responsibility (CSR) ?  
Environmental, Social and Governance (ESG) ?  
Social Licence to Operate (SLO) ?
- Or in the end still:  
Shareholders value?  
+ 'too big to fail'?

# Effective implementation of IA and DD



# Effective implementation of IA and DD



- ❖ Both Impact Assessment (IA) and DD are facing ongoing challenges related to effective implementation
- ❖ This has impact on sustainable transformation (of large infrastructure projects)

# A need for better transformation of information between EA and DD

- Careful alignment of DD and IA is needed for furthering sustainable transformation of projects.
- Also, DD can be seen as a vessel for information transfer from SEA/EIA to implementation, i.e. tiering and follow-up.
- This means that IA can provide information about environmental and social risk and uncertainties to DD at an early stage, thereby, informing DD decisions and investors and financiers about the risks and liabilities they may face if a project is not executed well.
- DD can provide useful input to IA in next development cycle.



# Let's continue the conversation!

Post questions and comments in the IAIA24 app.

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# Lessons from large projects

Case1 – Onshore windpark DD proved to be insufficient- EA helped to bring out new set of risks that were not identified by EDD. New EDD finalised after EA proved to be more adequate in risk identification.



Case 2- Magnet Factory - EA that was performed prior to EDD helped to substantiate EDD findings. EDD has potential to serve as component of EA follow-up.



# Impact Assessment



IA has started as an instrument to “think before act” a predictive environmental risk management method.

The Global EIA market is projected to grow from \$1.5 billion in 2018 to \$2.4 billion by 2030, at a compound annual growth rate (CAGR) of 5% (DataIntelco, 2022) so, EIA is the “little brother” compared to EDD.

IA is faced with ongoing challenges related to effective implementation of IA results and of its key elements of IA such as tiering and follow-up.

Strikingly enough, the two worlds of Due Diligence and IA seem to be not (yet) connected.

# THE CASE

## Baseline

- Windpark development in Northern Finland.
- The EIA of the wind park permit concluded risks related to birds and recommended studies during implementation phase to manage these risks.

## Construction

- Compliance Environmental Due Diligence (EDD) was commissioned by the buyer/owner.
- EIA findings were not included in the DD matrix that was implemented by owner and the global EDD consultant.
- During the second year of construction it became clear that the bird studies had not been carried out and were absent in the Environmental Management Plan.

## Conclusion

- Due to the lack of linkage between EIA and DD, the owner was not aware, that there was a significant risk of stopping the development since species habitats could be affected.



# OPPORTUNITIES

- Based on this case and other experiences it can be seen that:
- EDD seems to be lacking strategic environmental risk information about investment proposals that could be provided by SEA and EIA, as well as information about mitigation measures to manage those risks. Thereby, informing EDD decisions and investors and financiers about the risks and liabilities they may face if a project or development is not executed according to the standards in the permit decision.
- EDD might provide a vehicle for information transfer from SEA/EIA to implementation. Thereby, bridging the implementation gap between IA and project execution. Thus, EDD can help in addressing tiering and follow-up.