Environmental and Social Risk Management
at the Transaction Level

standard chartered

Introduction

Market overview

What is Environmental and Social Risk?

Environmental Risk is potential material harm or degradation to the natural environment through the direct or indirect actions or omissions of a client or related entity...

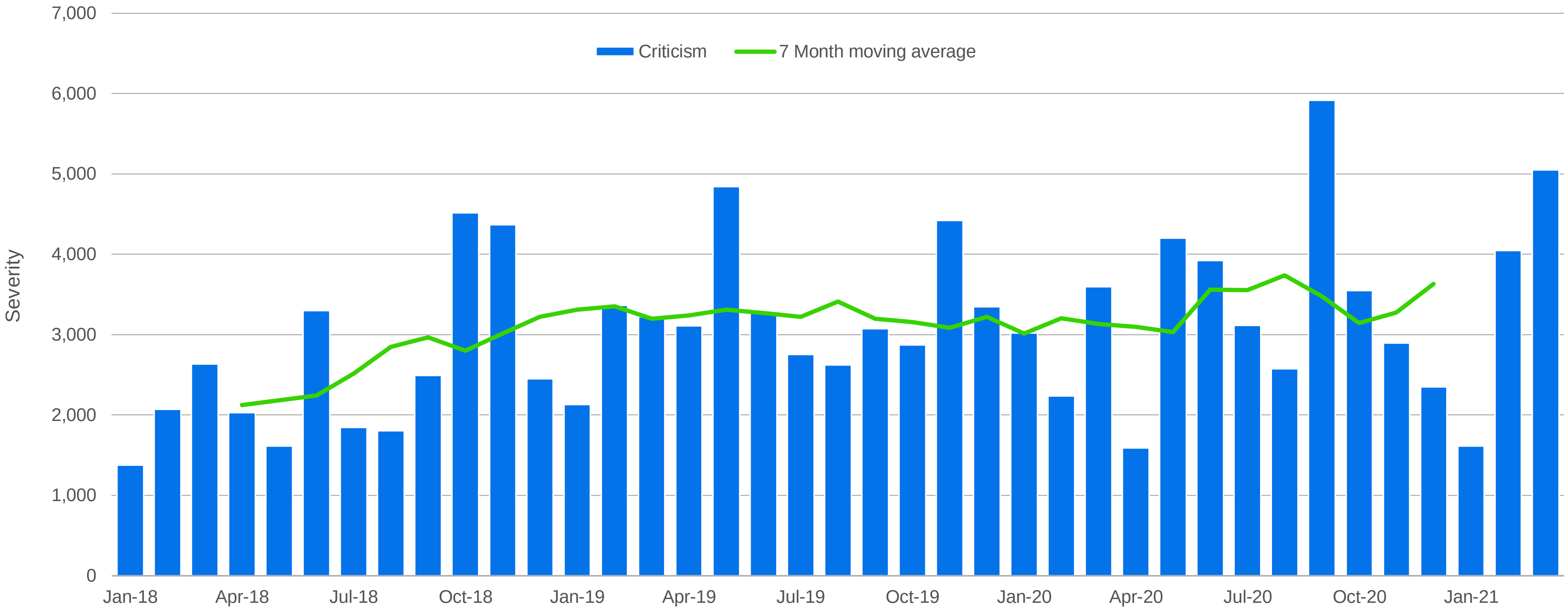
...while **Social Risk** is the potential to cause material harm to individuals or communities through the direct or indirect actions or omissions of a client or related entity.

If not managed appropriately, both can lead to **Reputational Risk** for the Bank.

Why is this important...?

NGO Activity and Environmental & Social Risk

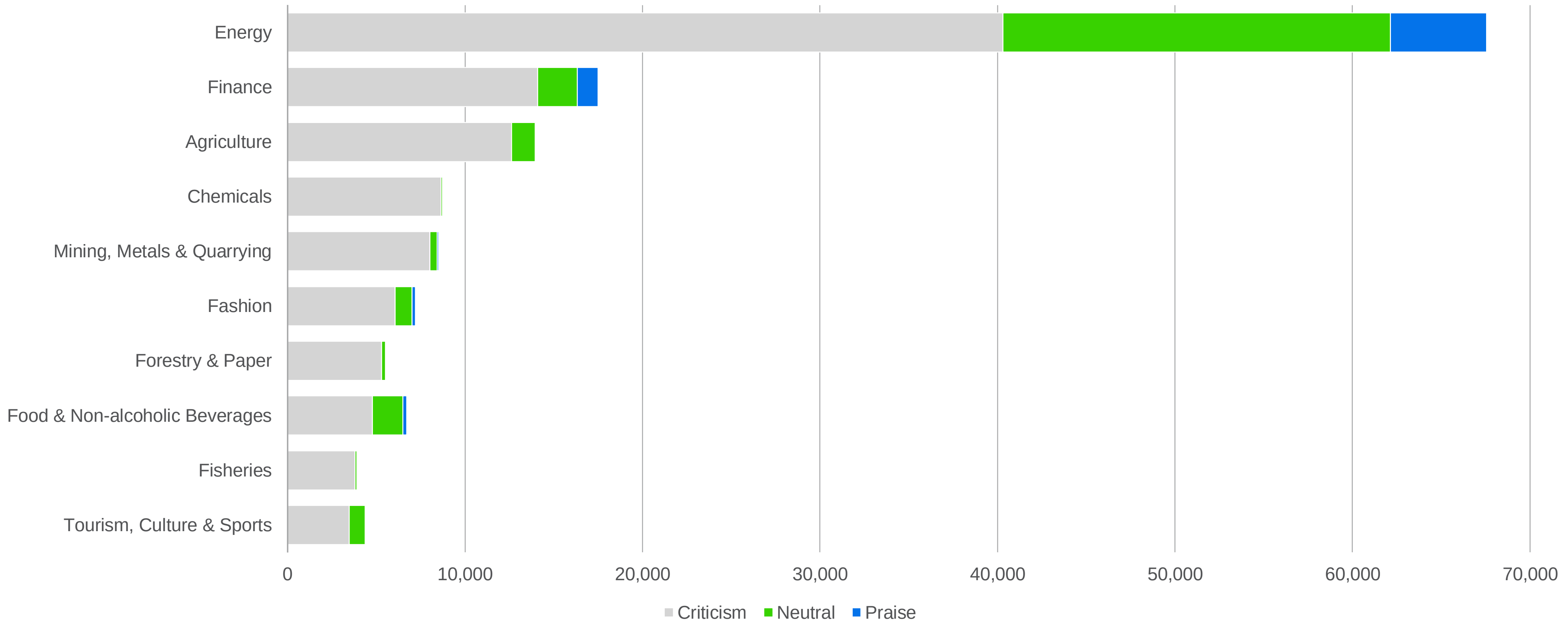
NGO Criticism Asia-Pacific Region 2018-2021



Data from SIGWATCH

NGO Activity by Sector

NGO Criticism Asia-Pacific Region 2018-2021



Data from SIGWATCH

ESG Related Incidents in Southeast Asia
2018-2021

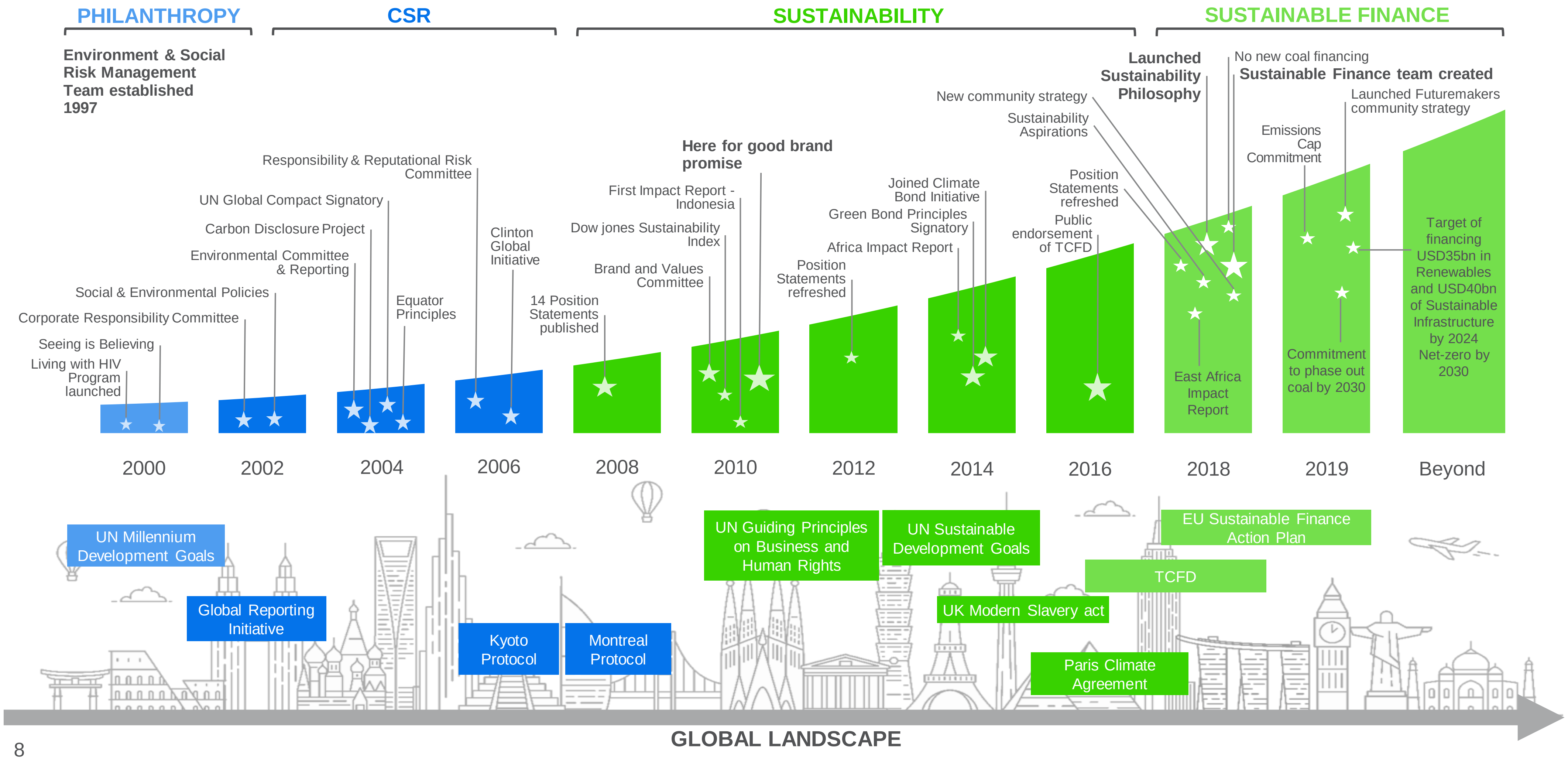
ESG Issue	Risk-related Incidents
Violation of national legislation	2,284
Impacts on communities	1,469
Impacts on landscapes, ecosystems and biodiversity	1,395
Corruption, bribery, extortion and money laundering	1,320
Local pollution	688
Fraud	680
Human rights abuses and corporate complicity	562
Supply chain issues	545
Waste issues	516
Poor employment conditions	511

Data from RepRIsk

Internal Frameworks

Standard Chartered Sustainable Finance Journey

From philanthropy to incorporating SDGs in our financing decisions



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Sustainable Finance Where it Matters Most

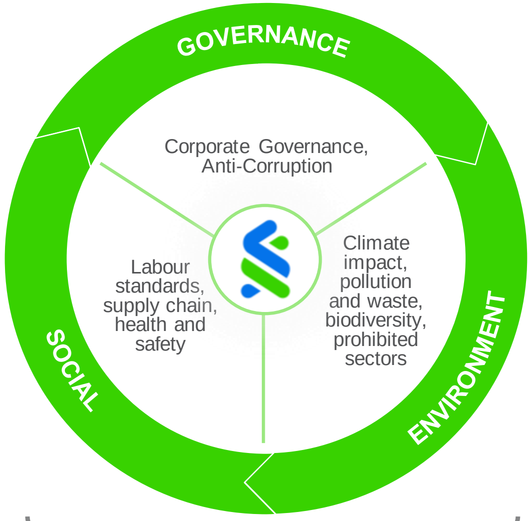
Our sustainable finance philosophy

Our Sustainable Finance Philosophy

Alignment to SDGs

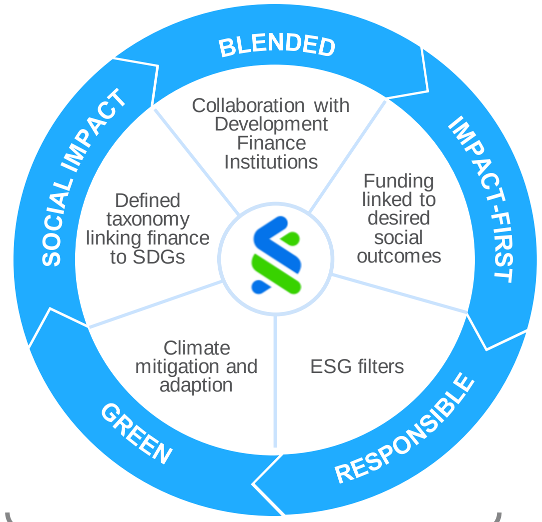
- $2.4tn SDG financing gap in emerging and low income countries[1]
- Achieving global CO_2 targets will be mainly driven in Africa and Asia
- SDGs 90% financed in developed markets, 60% financed in developing markets but only 10% financed in Africa[2]

Responsible Finance



- Managing the impact of our activities on communities and the environment
- Standard Chartered ESG risk team active since 1997
- Minimum standards & 7 position statements govern our activity
- >19,000 individual client ESG assessments each year

Impact Driven Financing



- We will lead in sustainable financing across emerging markets
- 2.5 million households helped through $1bn of microfinance loans
- Largest commercial provider of blended finance[3]
- Launched the world's first blue bond (Republic of Seychelles) and the first Sustainable Deposit

(1) UNDP report **(2)** https://www.unepfi.org/positive-impact/rethinking-impact/, **(3)** Convergence

Standard Chartered
Overview

Overarching Principles

- Bank Position Statements
- Internal Frameworks
- External Frameworks

How do we approach reviews?

- Annual client assessments
- Transaction-level assessments
- Issue-level assessments

What Do Our Positions Say?
Standard Chartered Position Statements

Extractives Industries
- Oil & Gas
- Mining & Metals

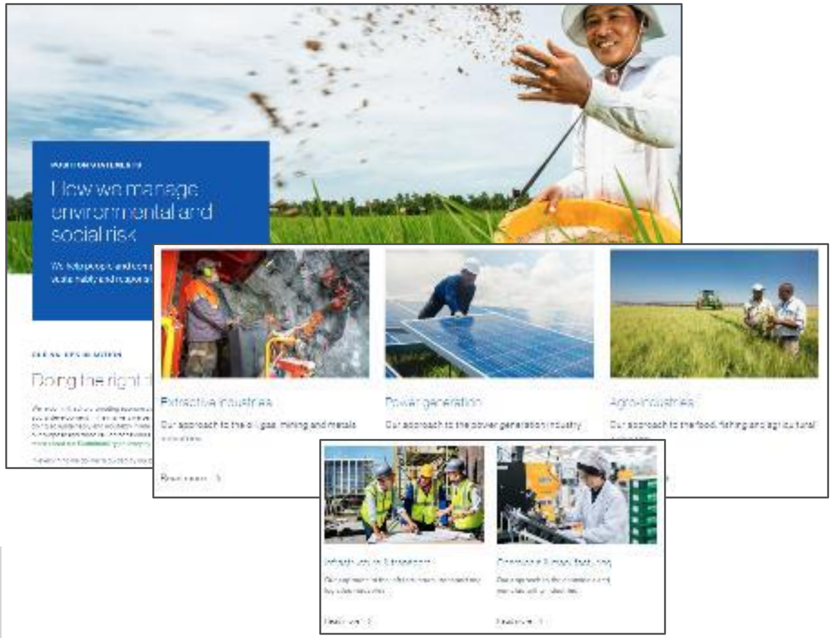
Power Generation
- Fossil Fuel Power
- Renewable Energy
- Nuclear Energy

Agro-industries
- Palm Oil
- Fisheries
- Tobacco
- Forestry
- Soy

Infrastructure & Transport
- Shipping and Ship Recycling
- Aviation

Chemicals & Manufacturing

Cross-sector Position Statements
- Climate Change
- Human Rights



What Do Our Positions Say?
Fossil Fuel Power

We will **not** provide financial services directly towards:

- New coal-fired power plant projects in any location;
- Any coal-fired power plant expansions, retrofits or dedicated infrastructure, in any location

We will **only** provide financial services to clients who:

- By 2024, are less than 80% dependent on thermal coal (based on %EBITDA at group level);
- By 2025, are less than 60% dependent on thermal coal (based on % EBITDA at group level);
- By 2027, are less than 40% dependent on thermal coal (based on % EBITDA at group level);
- By 2030, are less than 5% dependent on thermal coal (based on % EBITDA at group level).

In addition, effective immediately, all coal companies in our portfolio will be subject to enhanced due diligence by our Environmental and Social Risk Management, Climate Risk and Reputational and Sustainability Risk teams.

External Frameworks

International Frameworks

Equator Principles

- Project Finance Advisory Services
- Project Finance
- Project-Related Corporate Loans
- Bridge Loans
- Project-Related Refinance, and Project-Related Acquisition Finance

IFC Performance Standards

- Labor and working conditions
- Stakeholder engagement
- Land acquisition
- Biodiversity
- Indigenous Peoples and Cultural Heritage

World Bank EHS Guidelines

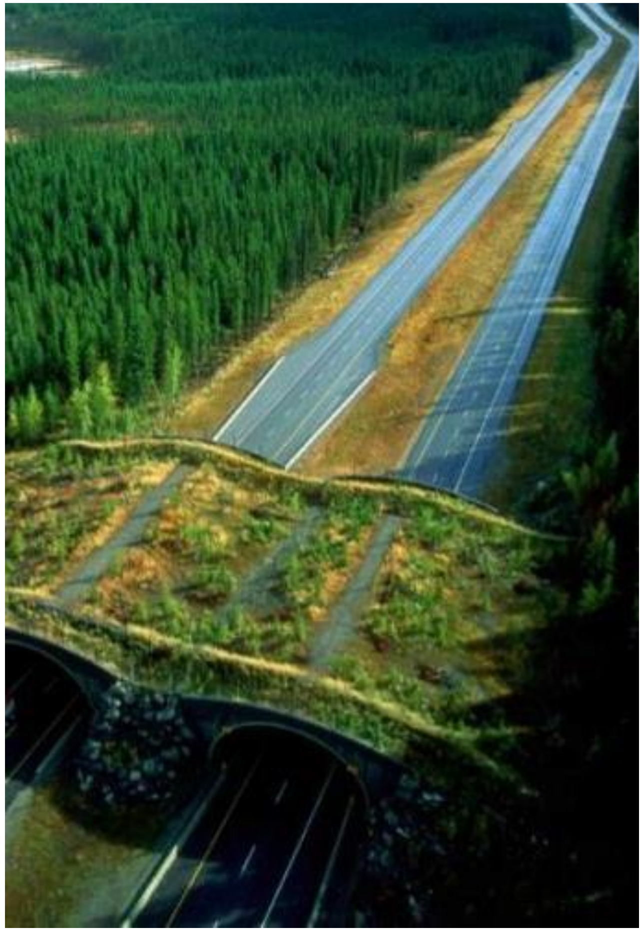
- Industry-specific guidelines and references for environmental, health, and safety

Good International Industry Practice (GIIP)

Equator Principles – EP4

- The Equator Principles (EP) is a risk management framework, adopted by financial institutions, for assessing and managing environmental and social risk in projects.
- It is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.
- 110 Equator Principles Financial Institutions (EPFIs) in 38 countries have officially adopted the EP, covering the majority of international Project Finance debt in emerging markets. SCB has been a member since 2003.

- EPFIs commit to implement EP in their internal ESRM processes, and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to comply with EP.
- IFC's Performance Standards on Environmental and Social Sustainability have become globally recognized good practice in dealing with environmental and social risk management – these sit within EP under Principle 3 (Applicable Standards).
- EP 4 is effective from 1st Oct 2020.



IFC Performance Standards

- The IFC Performance Standards: **www.ifc.org/performancestandards**
- IFC's Environmental and Social Performance Standards define IFC clients' responsibilities for managing their environmental and social risks.

Transaction-level Assessments

We Integrate ESG Criteria into All Our Lending Decisions

Over 18,000
bank-wide client assessments against position statements in 2020

Over 1,000
clients and transactions reviewed by Environmental and Social Risk Management team in 2020

Over 1,600
frontline and risk staff trained in environmental and social risk and sustainable finance in 2020

Our main impact on the environment and society is through the business activities we finance. Our **7 Position Statements (5 sectors and 2 thematic)** outline the standards we encourage and expect of our clients and ourselves.

- Extractive industries – oil & gas, metal & mining
- Agro-industries – fisheries, forestry, palm oil, agribusiness
- Power generation – fossil fuel, renewable energy, nuclear energy, dams and hydropower
- Infrastructure and Transport
- Chemicals and Manufacturing

- Climate Change
- Human Rights

In February 2021, we announced we will exit all clients, at the parent group level with >5% dependency on thermal coal by January 2030.

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Applying our criteria – the review lifecycle

1) Client-level ESRA

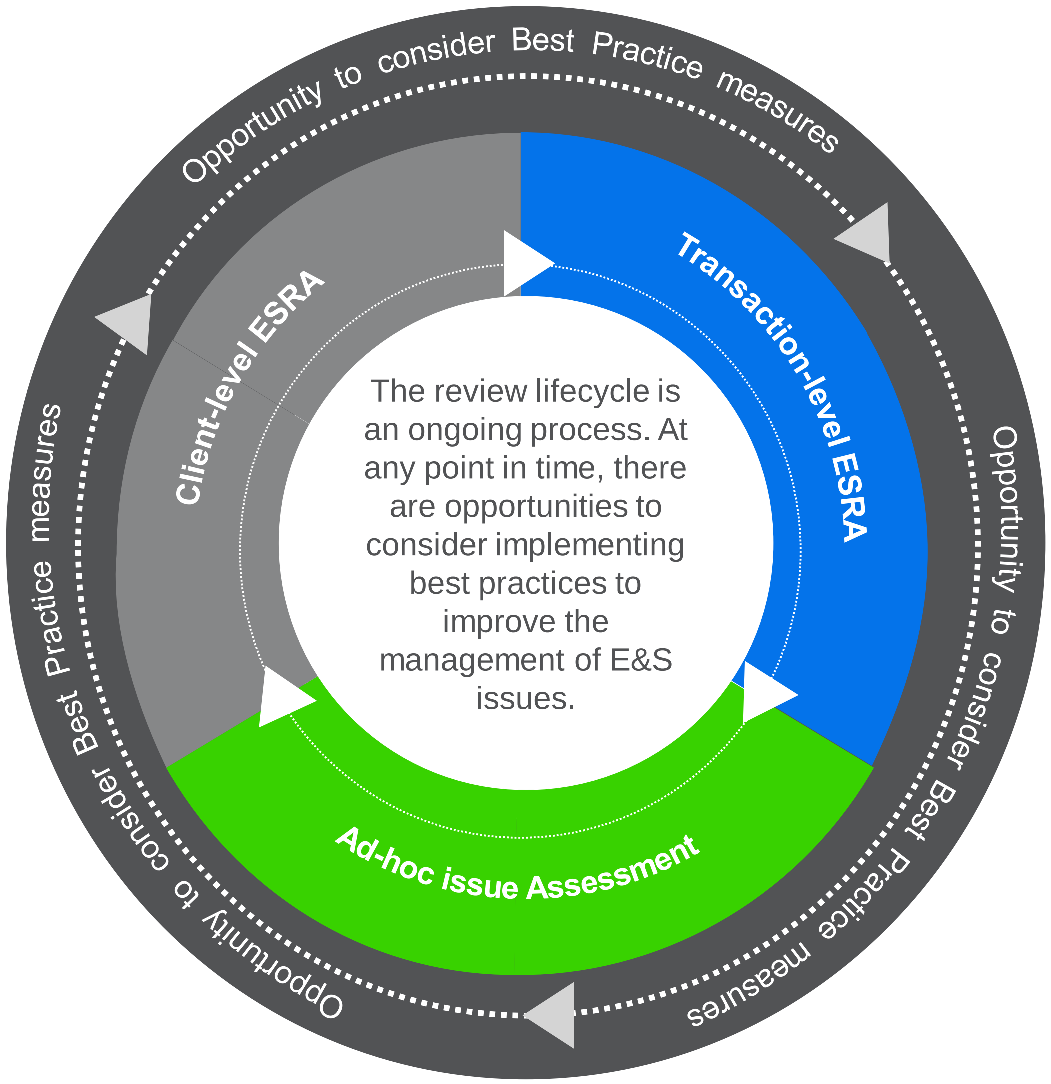
- Initial Borrowing Limits
- Annual Renewal
- Benchmarks clients' E&S risks and responses against SCB Criteria

2) Transaction-level ESRA

- Transaction involving a project / asset
- Equator Principles Procedure
- Benchmark project / asset E&S risks and responses against SCB Criteria

3) Ad-hoc issue assessment

- Media / NGO issue
- Determines any emerging misalignment with SCB Criteria



Risks and Incidents for Transactions

Project-specific risks

- A tailings dam collapses at mine which we have financed, impacting both local communities and wildlife in the vicinity of the mine
- An NGO alleges that a client’s manufacturing site employs underage workers, or workers employed under a bonded labour structure
- A client’s operations are halted by the local regulatory authority due to a lack of necessary environmental permits, or material breaches of permits that are held
- The client is featured in national media over plans to expand their plantations onto lands owned by local tribes

Summary

Key Points

For Transaction-level assessments

Identify

- Environmental and Social Impact Assessment (ESIA)

Mitigate

- Environmental and Social Due Diligence (ESDD)

Manage

- Environmental and Social Action Plan (ESAP)

Monitor and Report

- Quarterly and Annual Reporting
- Biodiversity Studies
- Stakeholder Engagement
- Environmental Impact

Risk Management Responsibility

Stage	Sponsor	Lender
Identify		
Environmental and Social Impact Assessment (ESIA)	X	
Mitigate		
Environmental and Social Due Diligence (ESDD)		X
Manage		
Environmental and Social Action Plan (ESAP)	X	X
Monitor and Report		
Reporting, studies, etc.	X	X

Thank you

Questions?

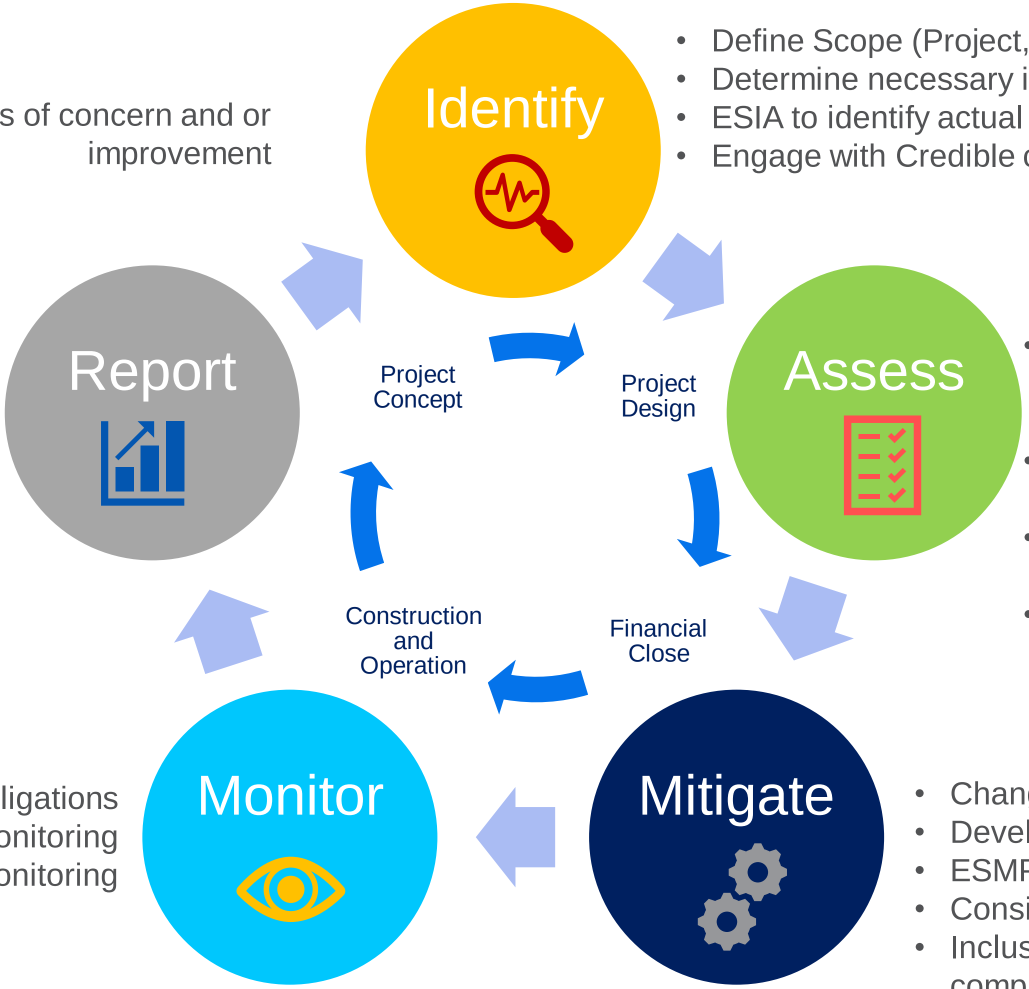
Case Studies

Key Points: Risk Management for Transaction-level assessments

Identify areas of concern and or improvement

- Define Scope (Project, Asset, AoI, associated facilities etc)
- Determine necessary information (Scope of Work)
- ESIA to identify actual and potential E&S Risks
- Engage with Credible consultants

Format of Lender reporting
Other reporting (regulatory, corporate etc)
Public disclosures



- Assess risks against E&S performance standards (host country laws, international standards (WB, IFC), Industry best practice;
- Assess risk level based on impact and likelihood of occurrence
- Assess need to undertake further due diligence, site visits, E&S studies, stakeholder engagements etc
- Engage with credible consultants

Monitoring of E&S Obligations
Frequency of Monitoring
Internal reporting or independent monitoring

- Changes to project design where feasible (BAT)
- Develop Action Plans and strategies to mitigate E&S Risks
- ESMP, CMP, ESAP, BAP, SEP, LRP etc
- Consider Residual Risk Acceptance
- Inclusion of E&S provisions in loan documentation for E&S compliance, monitoring and reporting

Case Study 1: Road Upgrade Project

- Financing the EPC contractor (Concessionaire) for a Government led Road Widening project (2 lane to 4 lane National highway).
- Construction period: 24 months
- Government led acquisition of approx. 250ha of both Gov and private land spread over 21 revenue villages.
- 27 religious structures and about >400 residential / commercial/ public structures from 16 villages are to be removed involving in displacement of people.
- Road traverses 2 forest reserves, of which one hosts an elephant corridor

Challenges

- ESIA not required
- EPC contractor not in control of the design/ route of the project
- Government led acquisition and compensation;
- Covid travel restrictions
- Infrastructure projects considered as sustainable under our framework (SDG 9)

Priority Issues

- Biodiversity / critical habitat
- RoW Deforestation/ land use change
- Land acquisition and compensation
- Involuntary resettlement
- Loss of access
- Labor and working conditions
- Dust and Noise during construction

E&S DD Mitigation measures

- Road design – drainage, overpasses vs underpasses, route, river crossings etc
- Grievance mechanism
- Private sector responsibilities under government managed resettlement
- Biodiversity management plan
- Tree replanting programme /offset 10:1
- Traffic management plan
- Construction ESMP
- Grievance mechanism
- Independent monitoring
- E&S provisions in loan documentation

Case Study 2: Utility Scale Renewable Energy

- 4 utility scale renewable PV energy projects
- Each project developed and financed independently of each other within a region with high potential for solar and wind energy.
- Regional importance for biodiversity and migratory bird pathways of which two species are critically endangered.
- Long term surveys estimate critically endangered bird species are dying at the rate of 15% annually due to collision with high voltage power lines with approx. 150 individuals left.

Challenges

- ESIA not required for small scale renewables projects
- Government led acquisition and compensation;
- Renewables projects considered as sustainable under our framework (SDG 7)
- Covid travel restrictions
- Changing regulations

Priority Issues

- Biodiversity / critical habitat within the project AOI
- Transmission lines and risk of migratory bird strike/ collision
- Water stressed region
- Lack of hazardous waste management infrastructure
- Labor influx (Spread of communicable disease)
- Labor and working conditions
- Supply Chain E&S issues

E&S DD Mitigation measures

- Overhead transmission lines to be buried
- Biodiversity action plan
- Long term monitoring programmes for threatened bird species
- Rainwater harvesting and robotic cleaning to conserve water
- Cumulative impact study of further planned developments in the region

Case Study 3: Waste to Energy

The project is a 75MW Waste-to-Energy (WtE) plant comprised of three generator sets incinerating 4,000 tons of municipal solid waste (MSW) per day, from this landfill and others outside the district.

It is a large-scale centralised treatment area including facilities applying a variety of treatment technologies for waste including waste to bio fertiliser.

Project need as local municipal landfill had run out of space

Generated electricity will be supplied to the national grid

Challenges

- Lack of host country regulations on WtE projects
- Construction had commenced
- Lack of data on input waste stream and its associated net calorific value (NCV)
- Renewables projects considered as sustainable under our framework (SDG 7)

Priority Issues

- Waste input and design specification to meet plant efficiency and emissions limits
- Poor working conditions
- Late payment of wages and no employment contracts
- No grievance mechanism
- Underage workers on site
- Poor HSE management on site
- Slag and fly ash management

E&S DD Mitigation measures

- Applied EU design standards for incineration of waste and WBG EHS Guideline for Waste Management Facilities
- Corrective action plans put in place as CP's to drawdown to address labour issues
- Increased frequency of independent site monitoring visits
- Key E&S action plan milestones tagged to disbursement schedule

Case Study 4: Transition

- Refinancing of an operational coal fired power station, providing regional baseload duty.
- The borrower has a target to support the development of 1750MW of renewable energy by 2025.
- The CFPP is set to remain highly utilised and profitable even under an emission target trajectory going to zero by 2050, and forecasts estimate the continued operation of the plant may support the scaling up of additional wind and / or solar projects in the region.
- Current generation capacity comprises of gas /renewables (75%) and coal (25%).
- The borrower's generation mix is currently supported by 11 wind and solar projects totalling >800MW of capacity.

Challenges

- Reputational Risk / NGO Activism and Adverse media
- Perceived alignment with the Banks Publicly disclosed policies
- Defining what transition means for the bank

Priority Issues

- Borrower's track record: Adverse media assessment
- E&S performance of the asset against national requirements and the bank's standards
- Borrower's transition/ diversification plans and track record;
- Maturity date on the refi loan: limiting the banks exposure

E&S DD Mitigation measures

- Compliance with emissions standards and reporting of GHG data covenanted with the loan documentation;
- Strengthening and disclosure of the borrower's diversification strategy
- Ongoing monitoring of borrower's energy mix and opportunities to support scaling up of additional wind and / or solar projects.