

Case study: Standard Chartered - Application of the EU Taxonomy to a non-EU solar energy project financing

Introduction

Standard Chartered is a UK headquartered bank serving clients across Asia, Africa and the Middle East. We recognise the relevance of the EU Sustainable Finance Taxonomy for EU and global financial institutions investing in third countries, which represent the greatest portion of global emissions and have a pressing need for capital to support their transition pathways to international climate objectives.

In that context, we chose to apply the Taxonomy to a solar project financing in Oman. Project Finance has clearly defined use of proceeds and high levels of due diligence, making it a financing structure to which Taxonomy might be most readily applied. Through this, we also benefitted from the opportunity to assess our internal processes and readiness for the application of Taxonomy in due course.

Case description

The Ibri II Solar PV Independent Power Plant Project (the Project) is a greenfield 500 mega-watt greenfield solar photovoltaics power plant in Ibri, Oman. The objectives of the Project are to increase the availability of the renewable power generation capacity and to contribute to filling the anticipated gap in the peak demand; and reduce the dependence on gas and other fossil fuels for electricity generation, and move to a more balanced and environmentally sustainable energy mix.

The total project costs for the Ibri II Solar Plant are approximately US\$400 million. Standard Chartered participated in a project financing transaction led by the Asian Infrastructure Investment Bank (AIIB). As a solar energy project, the transaction is considered under Climate Change Mitigation: construction and operation of electricity generation facilities that produce electricity from Solar Photovoltaic.

Based on the use of proceeds and the EU Taxonomy classification, the following three activities were considered: (1) Afforestation; (2) Existing Forest Management; (3) Cogeneration of heat/cool & power from bioenergy. These activities were assumed to make a substantial contribution to Climate Change Mitigation, and therefore should comply with the following thresholds and DNSH criteria.

EU Taxonomy requirements

The below provides a summary of the main requirements for these types of investments.

Activity	Solar Photovoltaic Energy
Do No Significant Harm	<p><i>Adaptation</i></p> <ul style="list-style-type: none"> Integration of physical and non-physical measures aimed at reducing - to the extent possible and on a best effort basis - all material risks that have been identified through a climate risk assessment. No increase of the risks of an adverse climate impact on other people, nature, assets or risk of hampering adaptation elsewhere by economic activities or adaptation measures.
	<p><i>Water</i></p> <ul style="list-style-type: none"> N/A
	<p><i>Circular economy</i></p> <ul style="list-style-type: none"> Ensure PV panels and associated components have been designed and manufactured for high durability, easy dismantling, refurbishment, and recycling in alignment with 'Manufacture of Renewable Energy Equipment' for DNSH criteria. Ensure reparability of the solar photovoltaic (PV) installation or plant thanks to accessibility and exchangeability of the components.
	<p><i>Pollution</i></p> <ul style="list-style-type: none"> N/A
	<p><i>Ecosystems</i></p> <ul style="list-style-type: none"> Ensure an Environmental Impact Assessment (EIA) has been completed [...] in the case of activities located in non-EU countries other equivalent national provisions or international standards for activities in non-EU countries (e.g. IFC Performance Standard 1: Assessment and

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	<p>Management of Environmental and Social Risks – including ancillary services, e.g. transport infrastructure and operations).</p> <ul style="list-style-type: none">▪ Ensure any required mitigation measures for protecting biodiversity/eco-systems have been implemented.
Minimum safeguards	<ul style="list-style-type: none">▪ Implementation of the OECD Guidelines for Multinational Enterprises to the greatest extent possible, focusing compliance on (1) human rights, (2) labour rights, and (3) combating bribery.▪ Alignment with the UN Guiding Principles of Business and Human Rights to prevent, address and remedy human rights' abuses committed in business operations.

Assessment

The project was chosen as being one that should have a high degree of inherent alignment to Taxonomy, and being project finance, should have high volumes of project-related information thus supporting assessment against the Taxonomy framework even though the initial due diligence was not scoped with this in mind.

It was also decided to select a project finance transaction which had a multilateral development bank (in this case AIIB) involved, and thus customary issues around client confidentiality and information disclosure, which may be encountered in other lending structures, would not be an obstacle.

Assessing at a transaction level for project finance also brings the benefit that the borrower is usually a special purpose vehicle constituted to deliver the project, so there are no issues encountered relating to other economic activities where Taxonomy assessment may be required.

The project documentation was reviewed against the Technical Annex to the TEG Final Report on the EU Taxonomy. Each aspect of alignment was considered in turn.

Technical Screening Criteria

The project is a solar PV plant, so will not result in any direct emissions. As such, it meets the TSC requirement “*Facilities operating at life cycle emissions lower than 100gCO₂e/kWh, declining to net-0gCO₂e/kWh by 2050, are eligible*”. Additionally, “*Solar PV is currently derogated from performing a PCF or GHG lifecycle assessment subject to regular review in accordance with the declining threshold*”, and “*Solar PV is currently deemed to be taxonomy eligible, which is subject to regular review*”.

Do No Significant Harm Criteria

The project Environmental and Social Impact Assessment (ESIA) and associated documentation:

- does not speculate on climate adaptation;
- confirms there are no material ecosystem or biodiversity impact (thus the additional DNSH criteria under Ecosystems are not required);
- confirms that the panels have an expected lifespan aligned to the project (>15 years), though insufficient detail is provided as to how the specific panels used are “designed and manufactured for...easy dismantling, refurbishment and recycling”. Citing ESIA Volume 4, “The provisions for end-of-life or decommissioning of the Project are unknown at this stage and it is possible that the Project may remain in place long after this date”;
- confirms the ESIA has been undertaken in alignment with IFC Performance Standard 1.

Social Safeguards

The project ESIA and associated documentation confirms IFC Performance Standard 5 will be applied, and e.g.:

- a Resettlement Action Plan has been developed;
- a Stakeholder Engagement Plan has been developed.

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It is also to be noted that Standard Chartered has adopted a Position Statement on Human Rights, reflected in internal systems and processes, which aligns with the OECD Guidelines and UN Guiding Principles.

Outcome

The outcome of the assessment showed this specific transaction aligned to Taxonomy.

Challenges

Some of the challenges encountered during the case study are listed below.

What were the challenges in applying the EU Tx?	What would be needed to overcome these challenges?
<ul style="list-style-type: none">▪ <i>Gathering additional information for an assessment on climate adaptation</i>	<ul style="list-style-type: none">▪ <i>Changes to internal due diligence processes</i> – these are already underway as part of our climate risk management approach.▪ <i>Development of shared tools and databases</i> – for example those pursued as part of the Coalition on Climate Resilient Investment (CCRI) and Climate Resilience Risks and Opportunities Coalition (CRROC).
<ul style="list-style-type: none">▪ <i>Enhancing information disclosure to improve assessment on circular economy criteria</i>	<ul style="list-style-type: none">▪ <i>Changes to internal due diligence processes</i> – ensuring this information was gathered during the initial transaction of due diligence, to aid Taxonomy assessment.▪ <i>Considering updating market approaches</i> – particularly for project finance, the IFC Performance Standards are commonly used, and often applied through the Equator Principles standardising.
<ul style="list-style-type: none">▪ <i>Information provided at transaction origination may not be updated</i>	<ul style="list-style-type: none">▪ <i>Update reporting requirements</i> – projects are expected to provide periodic reporting, enforced through loan documentation. Where information is needed to assess ongoing Taxonomy alignment, this will need to be included in documentation prior to the transaction closure.

Recommendations

Based on the learnings from this case study, the following reflections are offered:

Peers

- **Plan ahead:** aligning internal systems and processes to support application of Taxonomy is likely to be a time-consuming process drawing upon different functions and specialist skill sets. Preparing early will have significant benefits.
- **Consider systems implications:** central to applying Taxonomy systematically are the systems themselves, whether these are core credit systems, or transactional systems for particular product types such as project finance or transaction banking. Thinking about the cycles upon which these systems are updated or replaced, alongside Taxonomy timelines, will be important in minimising the manual burden of Taxonomy application.

Regulators

- **Consider Taxonomy ‘process flows’:** Taxonomy assessment is structured as a stepwise process, but then documented in a tabular manner in the Technical Annex. It would be exceptionally helpful to have a process flow tool, perhaps via a website, that presented this information in the order considered in a due diligence process.
- **Give further guidance where Taxonomy is subjective:** in considering Taxonomy alignment, judgemental decisions had to be made e.g. the absence of detailed information on solar panel reuse (viz circular economy). As these subjective decisions aggregate in a portfolio, it will be helpful to have additional guidance on how they are made, documented and disclosed.
- **Recognise the implementation of Taxonomy in financial institutions’ systems and processes:** to be scalable, Taxonomy cannot be applied case-by-case; it will need to be embedded in core systems (e.g. for banks, in credit systems). Implementation will take time given the diversity of these systems across financial institutions, and reflecting changes to technical screening criteria will also need appropriate notice periods.
- **Give more guidance on Social Safeguards:** these are the cornerstone of Taxonomy, but subject to less documentation within the Taxonomy at this point. Either expanding this guidance, or, linking it to underlying materials (e.g. OECD Due Diligence Guidance for Corporate Lending and Securities Underwriting) would be helpful. It is also to be noted that these social safeguards are often applied across the entire activities of a financial institution, meaning they are considered outside the stepwise process for Technical Screening Criteria.