

Sustainable finance and tropical forestry

Engaging clients on evolving requirements



Standard Chartered PLC is a leading international banking group listed on the London and Hong Kong Stock Exchanges. Since the merger of Standard Bank and Chartered Bank in 1969, Standard Chartered now possesses a distinctive network that stretches across core emerging markets in Asia, Africa, the Middle East and beyond. With 85,000 employees and a presence in 60 markets, its network serves customers in close to 150 markets worldwide. More than 80 percent of its income and profits are derived from Asia, Africa and the Middle East. Standard Chartered is active in 37 countries that receive official development assistance, including 11 of the least developed countries.

Standard Chartered has a dedicated Sustainable Finance team. We believe in the critical importance of being a responsible institution through managing the potential negative impact that our activities could have through strong environmental, social and governance (ESG) risk filters. Our Environmental and Social Risk Management team was first established in 1997 and works with our Sustainable Finance team to bring together our experience and expertise in ESG risk as well as spotting opportunities and structuring solutions to drive positive impact financing.

Sustainability initiatives with bearing on forestry financing

Forestry, particularly in the tropics, is a sector affected by a number of ESG issues including deforestation and climate change, land tenure, governance and human rights issues as well as supply chain legality and traceability. Standard Chartered is a member of several initiatives which seek to help address part or all of these issues, among others: the Equator Principles, the UN Global Compact, the Natural Capital Finance Alliance, as well as the Green Bond Principles, and the Climate Bonds Initiative.

We set, and regularly review, environmental & social (E&S) standards for clients via a series of public Position Statements. In 2018 we released our Sustainability Philosophy and updated our Position Statements for undertaking business across sectors that have a high potential environmental or social impact including agro-industries (fisheries, tobacco, forestry, palm oil). We will decline – and have exited - transactions or relationships where clients show insufficient intent or progress to meeting the standards we set.



Specific screening criteria and requirements for forestry

Besides cross sector screening criteria which apply to all agro-industries, such as child or forced labour, Standard Chartered will **not** provide financial services to clients who:

- Develop new plantations by converting or degrading High Conservation Value (HCV) or High Carbon Stock (HCS) forests, legally protected areas, or peatlands.
- Use fire in forestry or plantation operations including in the clearance and preparation of land for planting.

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

- Have Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) certification for their production sites; or have an agreed time-bound plan to achieve certification – applicable to Producers.
- Follow an appropriate chain of custody scheme (FSC, PEFC or equivalent scheme¹) for timber, pulp or paper products originating from high-risk countries (including but not limited to Cameroon, Gabon, Republic of Congo or Indonesia) or from unknown origin¹, to demonstrate the legal origin of the timber, including certification for those species regulated under the Convention of International Trade of Endangered Species (CITES) – applicable to processors, manufacturers and traders.

Further, we **expect** clients to:

- Implement a Sustainable Sourcing Policy for timber, pulp or paper products originating from low risk countries – applicable to processors, manufacturers and traders.

Ensuring compliance through client engagement

Our position statements are updated on a two year review cycle and as part of the review process, we conduct an annual assessment of our palm oil and forestry portfolio and categorise our clients as Red, Amber and Green according to their alignment with the new requirements of our revised Position Statements.

This method provides an indication of which of our clients were already adherent or had a time bound plan to be adherent to our position and which of our clients we would need work closer with to develop a plan. The table on the right (Fig. 1) shows our forestry clients alignment with our revised Position Statement.

	2018	2019
Red	6%	2%
Amber	1%	1%
Green	93%	97%

Fig. 1 : Forestry client alignment with Standard Chartered Position Statement

1. High-risk countries: Bolivia, Brazil, Cambodia, Cameroon, Central African Republic, China, Colombia, Cote d'Ivoire, Democratic Republic of Congo, Ecuador, Equatorial Guinea, Estonia, Gabon, Ghana, Guatemala, Guyana, Honduras, India, Indonesia, Laos, Latvia, Liberia, Lithuania, Madagascar, Malaysia, Mexico, Mozambique, Myanmar, Nicaragua, Panama, Papua New Guinea, Peru, Republic of Congo, Russia, Solomon Islands, Thailand, Uganda, Vietnam, and clients stating the product origin as "unknown".

Benefits

For the forestry categorisation; Red, Amber, Green status is based on FSC/PEFC certification, time bound plan to achieve certification, and policies around HCV/HCS forests, fire and preservation primary forest or legally protected areas.

As shown above, the forestry sector has seen a marked improvement in moving clients out of the 'Red' category. To support a deforestation free supply chain we continue to work with our clients in 'Red' to ensure they have a suitable timebound action plan in place to achieve alignment with our standards and we are putting an increasing focus on clients in 'Amber' to ensure they continue to move towards 'Green' and full compliance, including full certification of all plantation operations.

We continually track our clients' performance, on a quarterly basis, against our metrics and report our progress to our Group Reputational Risk Committee. An additional tenet of our effort to push for commodity supply chain sustainability is downstream engagement.

Engaging downstream supply chains to close the gap

Poor supply chain visibility creates higher risks for companies, especially those that directly face the end-consumer – typically the large multinational companies (MNCs) with strong brand names and reputations at stake. We encourage our clients to ensure that their policies on key sustainability issues such as having deforestation-free supply chains are cascaded down the supply chain to producers and that they are working towards full visibility of supplier actions to a plantation level. Clients are expected to demonstrate legal and certified sourcing.





Call to action

Achieving certification is a crucial tool to mitigate risk and achieve greater sustainability for forestry companies, and we encourage our existing and prospective clients to achieve maximum certification. Moving toward a fully transparent supply chain has wide-ranging benefits for producers and downstream companies, and we see traceability levels used as a key performance indicator in high-risk supply chains. We continue to remain actively involved in multistakeholder initiatives and certification bodies such as the RSPO and Cerrado Manifesto Statement of Support to promote sustainable supply chains in high-risk commodities.

Further readings

- Memberships:
<https://www.sc.com/en/sustainability/our-memberships/soft-commodities-compact-2019/>
- Standard Chartered position statement: Agro-industries
<https://www.sc.com/en/sustainability/position-statements/agro-industries/>
- Standard Chartered's Sustainability bond framework
<https://av.sc.com/corp-en/content/docs/sustainability-bond-framework.pdf>

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Developed by ZSL (Zoological Society of London), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice. SPOTT assesses commodity producers, processors and traders on their public disclosure regarding their organisation, policies and practices related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

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