

## CLIMATE CHANGE

# financing the future

Standard Chartered, the international bank, has shown a commitment to mitigating climate change by providing financial expertise and other support to renewable energy in emerging economies. By doing so it is also opening up new business and reducing risk

A stunning archipelago of white sandy beaches and sun-drenched countryside, SinAn County is one of South Korea's best-known holiday destinations. But now the coastal community on the southwest tip of the country finds itself on the map for an additional reason.

Stretching across a salt lake the size of 96 football pitches sits Asia's largest photovoltaic power plant. The 25 megawatt SinAn solar project has been generating enough clean electricity to supply 7200 households since becoming fully operational during the last quarter of 2008. From a climate change perspective, the solar facility marks a significant step forward for South Korea. The 162-acre site has the potential to reduce the country's greenhouse emissions by 24,000 tonnes per year, roughly equivalent to planting 168,000 trees. At present, the country relies almost exclusively on imported fossil fuels for generating its electricity.

With a price tag of \$195 million (£130m), such breakthrough technology doesn't come cheap. Which is where Standard Chartered comes in. With more than a century's experience of operating in Asia, the London-headquartered international bank was called in to arrange financing for the project.

Working closely with its client – a South Korean conglomerate with a background in the engineering sector with whom Standard Chartered has had a long working relationship – Standard Chartered helped draw up the project contracts, carried out the due diligence, and arranged the financial structuring.

It proved no small task. The project was the country's first large-scale renewable energy project, and with relatively untested policy frameworks in place and no financing history to draw on, Standard Chartered had to work closely with the government and other partners to help develop the regulatory framework needed to support such a deal.

'The SinAn project is a significant first step for the Korean energy sector, while our ability to play an influential role in the global renewable energy market provides us with a first mover advantage in our core markets of Africa, Asia and the Middle East,' says David Edwards, CEO of Standard Chartered First Bank Korea.

However, Steve Mercieca, an associate director in Standard Chartered's renewable energy and environmental finance team, says the challenges have nonetheless been formidable. 'It's not like doing a wind project in Europe, where thousands of projects have already been carried out,' he says. 'You have to think creatively if you're to structure something on this scale that hasn't been done before.'

Mercieca and his colleagues have had to go to great lengths to ensure the bank's project portfolio is both environmentally and financially sustainable. Fortunately they can draw on the bank's currency funding and syndication capabilities, plus its in-house risk management skills. In the case of SinAn, for example, Standard Chartered worked with technical consultants to obtain production forecasts and talked



■ The SinAn solar project, which became fully operational in late 2008. South Korea's first large-scale renewable energy project, it was developed against a background of relatively untested policy frameworks and no financing history

with suppliers to structure contracts so that risks were allocated across the board. It also subsequently syndicated the debt to a group of local institutions.

Additionally, the bank made sure the project conformed to the renewable energy strategy of the South Korean government. By doing so, the electricity generated by the solar plant now qualifies for a fixed price tariff regime, thereby improving its prospects of producing a healthy return on equity.

Emily Farnworth, director of corporate engagement at The Climate Group, an international NGO focusing on engagement with the private and government sectors, says financial institutions looking to break into the low-carbon market should draw on Standard Chartered's approach to avoid getting their fingers burned.

'Banks can better understand the priorities of the local area by working with key stakeholders like the government and community representatives,' she says. 'They can also see how these priorities tie into decisions that the government might be making on movement towards a low-carbon economy.'

Mercieca and his colleagues are now considering other opportunities where the successful investment model used in SinAn can be replicated. But they will be different, and the bank's role will change from project to project. In some cases it may act as lead arranger of debt, in others as a financial advisor or as an equity investor. On occasion it might do all three.

Standard Chartered's renewable energy and environmental finance team already boasts other breakthrough investments in its recent deal history. In

Uganda, for example, the bank was awarded 'African power deal of the year' in 2007 for an innovative run-of-river hydroelectric plant, which uses the natural flow of a river to generate electricity. In this instance it acted as lead co-arranger and as a writer of commercial debt for the owner of the 250 megawatt project.

Given the growing demand for energy in the emerging markets where Standard Chartered specialises, Mercieca sees 'tremendous potential' in the near future for developing wind and solar projects. Technologies such as waste-to-energy and geothermal schemes, are also attracting his investor's eye.

It all makes for a neat synergy as far as Mercieca is concerned: 'As a bank, we believe in clean energy, and at the same time we're seeing a huge appetite for renewables in countries such as India and China. We have the know-how and expertise from other markets to help make renewable energy projects happen.'

So there is a business benefit to the bank's support for projects that may also help save the planet. Apart from presenting new commercial opportunities, they also provide Standard Chartered with sound risk mitigation, as the bank's main markets are among the most vulnerable to the ramifications of climate change.

**'we have the know-how from other markets to help make renewable energy projects happen'**

## the company

Standard Chartered is a London-based FTSE 100 bank whose main markets are Asia, Africa, the Middle East and Latin America. With 75,000 employees, it offers personal banking through 1750 branches in more than 70 countries as well as divisions specialising in wholesale banking, Islamic finance, and in helping small and medium enterprises. It:

- has made a commitment to the Clinton Global Initiative to take a leading role in the financing of renewable and clean technology projects. Working with other Initiative partners, it aims to channel \$8-10bn into such schemes by 2012
- became one of the founding adopters, in 2008, of The Climate Principles, which it set up with a group of financial institutions and The Climate Group. The Principles provide a framework across the financial sector to help develop expertise, products and services to address the challenges of climate change

Last year Standard Chartered carried out a climate change risk assessment of its loan portfolio and identified a number of 'pinch points' – industry sectors in countries that are comparatively more vulnerable to climate change risks. 'The study brought to light the fact that financing mitigation and adaptation solutions can be profitable business for banks,' says Yulanda Chung, head of sustainable business.

But investing in the low-carbon market will never be without risk. Apart from the lack of regulatory clarity, many sectors continue to rely heavily on government subsidies to compete. Betting on the development of new technologies also has an inevitable risk element to it. There are also the ramifications of the credit crunch to consider. Whatever the current market conditions, however, Mercieca says there is no question of Standard Chartered shifting strategy. 'Credit crisis or not, we still need to face the issue of climate change, and we are aiming to put ourselves in the front line to help develop a sustainable future,' he pledges.

■ Further information: [ed.grattan@bisslancaaster.com](mailto:ed.grattan@bisslancaaster.com) and [www.standardchartered.com/sustainability](http://www.standardchartered.com/sustainability)

## ibe comment STANDARD CHARTERED

This report demonstrates the enlightened approach of a bank to today's climate change issues. Standard Chartered has actively embraced the wider issues that unpredictable changes in the climate pose at a practical level for its customers. The SinAn Project is an example of bringing together in-house expertise with knowledge of both banking practices and climate change understanding.

### Features of note:

- the proactive approach to working with government and local communities in South Korea
- innovative finance to fund the project locally
- the wider understanding of climate change risk assessment as it relates to the bank's loan portfolio

PHILIPPA FOSTER BACK OBE, INSTITUTE OF BUSINESS ETHICS