



# ASEAN TAXONOMY FOR SUSTAINABLE FINANCE

SUPPLEMENTARY DOCUMENT:  
FOUNDATION FRAMEWORK  
USE CASES



The ASEAN Taxonomy Board (ATB) is pleased to issue this Supplementary Document to the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy).

This Supplementary Document relates to the Foundation Framework, providing use cases to guide small to medium size enterprises (SMEs) in using the Foundation Framework to assess activities in the agriculture and renewable energy sectors.

Following stakeholder consultations on the ASEAN Taxonomy Version 2, the ATB received requests for more sector-specific use cases for the principles-based Foundation Framework. The use cases would, therefore, better help users navigate the decision trees that are used to assess taxonomy alignment under the Foundation Framework.

The two use cases in the Supplementary Document are the first supplementary use cases, following those which were already included as part of the ASEAN Taxonomy main document. SMEs are the focus of the new use cases as they are more likely to require guidance as compared to larger companies which have more resources at their disposal. More use cases will be issued from time to time to enhance useability and consistent implementation of the Foundation Framework.

Users are also reminded that the use cases are meant to be a guide and may be adjusted to fit the users' circumstances. For example, although Malaysia and Indonesia were used as the setting for the current use cases, users may use their respective countries' regulations, where applicable.

**ASEAN Taxonomy Board**

**9 August 2024**

## Use Case 1 – Agriculture

<b>Company introduction</b>	<b>An SME<sup>1</sup> involved in palm oil cultivation and plantation. Its main business activities include harvesting, collection and transportation of palm oil.</b>	
<b>Case context</b>	The Company is looking for a term financing for the purchase of agriculture land and additional working capital for palm oil plantation expansion and cultivation.	
<b>Sustainability efforts</b>	<ul style="list-style-type: none"> <li>• The Company has conducted an Environmental Impact Assessment (EIA).</li> <li>• The Company has conducted due diligence covering technical, management, legal, financial, social and environmental aspects.</li> <li>• Implement organic farming practices i.e. using organic fertilisers and planting leguminous cover crops to improve soil fertility, etc. in cultivating palm oil plantation.</li> <li>• Undertaking efforts to comply with Malaysian Sustainable Palm Oil (MSPO) certification by 2026-2027 for the new plantation.</li> </ul>	
<b>User entry point</b>	Which EO is the nature of the Activity most relevant to?	Cultivation of palm oil plantation using organic farming practices contributes to improving soil fertility, sequestering carbon and preserving biodiversity and ecosystem services, in particular natural pollinators for fresh fruit bunch (FFB) production.
	Which EO(s) is most aligned to the company's strategic focus?	Considering the company's efforts to cultivate oil palm plantation using organic farming practices, the activity serves EO3.
	<b>EO3 (Protection of Healthy Ecosystems and Biodiversity) is the primary EO</b>	
<b>EO3 Assessment</b>	<b>1A. Does the Activity contribute to protecting, conserving, or restoring ecosystems and biodiversity?</b>	
	How does the Activity contribute to protecting, conserving, or restoring ecosystems and biodiversity?	<p>In pursuing MSPO certification by 2026/ 2027, the company is implementing measures to protect, conserve, or restore ecosystems and biodiversity under <a href="#">Principle 5<sup>2</sup> as well as based on good agriculture practices (GAP)</a>. This includes:</p> <ol style="list-style-type: none"> <li>1. The use of "Eco-Mat"<sup>3</sup>: The company plans to use empty palm fruit bunches (mulching materials) to protect the soil and roots of palm trees from extreme heat. The use of eco-mats would also help in controlling weeds and providing nutrients to the soil.</li> </ol>

<sup>1</sup> Source: [SME Corporation Malaysia - SME Definition](#)

<sup>2</sup> Source: <https://mspo.org.my/mspo-blogs/principle-5-environment-natural-resources-biodiversity-and-ecosystems-services>

<sup>3</sup> Source: <http://palmoilis.mpob.gov.my/V4/wp-content/uploads/2020/03/Risalah-Sawit-23.pdf>

		<p>2. Introducing agroforestry systems within the palm oil plantation<sup>4</sup>: The company plans to integrate the palm oil plantation with other crops such as leguminous plants, banana and pineapples to protect, conserve, and restore the soil and biodiversity.</p> <p>3. Constructing silt pits for soil and water conservation around the plantation<sup>5</sup>.</p>
	Does the Activity minimise or eliminate negative effects of operations on the natural ecosystem and biodiversity?	Yes. The activity shall avoid the use of chemical fertilisers, pesticides, and herbicides, which may damage soil health, affect natural ecosystem and biodiversity.
	Do the company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO3 principles (e.g., employment of services from subcontractors, suppliers and/or third parties with practices detrimental to the natural ecosystem and biodiversity)	<p>Yes. As part of pursuing MSPO certification, the company have embarked several initiatives to fulfil the requirements under Principle 5: environment, natural resources, biodiversity and ecosystem services. This entails:</p> <ol style="list-style-type: none"> <li>1. Complying with regulations pertaining to environmental risk identification, mitigation and avoidance, such as Environmental Scoping Information (ESI) and Environmental Impact Assessment (ESA) which are enacted under the Environmental Quality Act 1974 and enforced for new and existing plantation projects.</li> <li>2. Additionally, the company has a certified environmental officer and Environmental Management Plan (EMP) in place.</li> <li>3. Adopting the Sawit Intelligent Management System (SIMS)<sup>6</sup> to monitor, trace, and assess compliance of its supply chain with existing laws</li> </ol>

<sup>4</sup> Afandi, Ahmad & Yahya, Zuraidah & Nurzuhaili, & Hashim, Zulkifli & Syarif, Yaqin. (2017). Managing Soil Deterioration and Erosion under Oil Palm, Accessible via [https://www.researchgate.net/publication/326930499\\_Managing\\_Soil\\_Deterioration\\_and\\_Erosion\\_under\\_Oil\\_Palm](https://www.researchgate.net/publication/326930499_Managing_Soil_Deterioration_and_Erosion_under_Oil_Palm) on 15 March 2024

<sup>5</sup> Source: Afandi, Ahmad & Yahya, Zuraidah & Nurzuhaili, & Hashim, Zulkifli & Syarif, Yaqin. (2017). Managing Soil Deterioration and Erosion under Oil Palm, Accessible via [https://www.researchgate.net/publication/326930499\\_Managing\\_Soil\\_Deterioration\\_and\\_Erosion\\_under\\_Oil\\_Palm](https://www.researchgate.net/publication/326930499_Managing_Soil_Deterioration_and_Erosion_under_Oil_Palm) on 15 March 2024

<sup>6</sup> Sawit Intelligent Management System (SIMS) is a centralised platform developed Malaysian Palm Oil Berhad (that allows tracking palm oil production, transportation and utilisation to ensure regulatory and sustainability compliance. This includes compliance to regulatory requirements such as licensing. Source: <https://sims.mpob.gov.my/about-sims/>



		and regulations, as well as sustainability best practices.
	<b>Yes, the activity contributes to protecting, conserving, or restoring ecosystem and biodiversity.</b>	
<b>DNSH / RMT Assessment</b>	<b>2A. Does the Activity avoid causing potential significant harm to other EOs?</b>	
	Has an EIA been conducted and approved on the Activity?	Yes.
	What are the results of the EIA, where do the impact of the Activity lie?	The EIA reported that the land is suitable for palm oil plantation.
	(EO1) Does the Activity avoid leading to or causing extensive deforestation practices?	Yes. The acquired land is an existing agriculture land. Additionally, the company is implementing zero burning policy in conforming with criterion 7 of Principle 5 of MSPO certification.
	(EO2) Does the Activity consider the expected future climate in its current and planned practices?	Yes, this includes the use of organic fertilisers and pursuit of protecting watercourses and wetlands as per criterion 5 of Principle 5 under the MSPO standard.
	(EO3) Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? ( <i>i.e., inhibitions to the dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit.</i> )	At this point of time, the Activity does not cause detrimental effects. This is in line with criterion 6 of Principle 5 under MSPO standard in protect and conserve: <ul style="list-style-type: none"> <li>1. Species diversity;</li> <li>2. Landscape-level ecosystems and mosaics;</li> <li>3. Ecosystem and habitats;</li> <li>4. Ecosystem services;</li> <li>5. Community needs; and</li> <li>6. Cultural values.</li> </ul>
	(EO4) Does the Activity avoid releasing hazardous substances at all stages of its lifecycle?	Yes, by using organic fertiliser, it minimises the risk of releasing hazardous substance to the immediate environment.
	(EO4) Does the Activity avoid significant inefficiencies in the use of materials or the direct or indirect use of natural resources at one or more stages of the product lifecycle?	Yes, resources management is included under the MSPO.
	<b>Yes. The activity avoids causing potential significant harm to other EOs</b>	
<b>Initial Classification</b>	<b>Green</b>	

<b>Social aspect Assessment</b>	<b>4A. Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments?</b>	<p>Yes, the Company and its subsidiary meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments as follows:</p> <ol style="list-style-type: none"> <li>1. <a href="#"><u>Principle 4 of MSPO standard: Responsible to Social, Health, Safety and Employment;</u></a></li> <li>2. <a href="#"><u>Convention 138: Minimum Age Convention 1973 (Malaysia ratified the convention on 9 September 1997);</u></a></li> <li>3. <a href="#"><u>Convention 182: Worst Forms of Child Labour Convention 1999 (Malaysia ratified the convention on 10 November 2000);</u></a> and</li> <li>4. Trade Union Act 1959.</li> </ol>
<b>Final Classification</b>	<b>Green</b>	

## Use Case 2 – Renewable Energy

<b>Company introduction</b>	The company is classified as Medium Enterprise based on Indonesian regulation: Government Regulation Number 7 of 2021 on Facilities, Protection and Empowerment for Cooperatives and Micro, Small and Medium Enterprises (MSMEs). The company provides mini-hydropower plants in rural areas for supply to the State Electricity Company.	
<b>Case context</b>	The Company is looking to expand their current operations to other villages. Therefore, they will start new project financing to increase the capacity of the mini hydropower plant.	
<b>Sustainability efforts</b>	<ul style="list-style-type: none"> <li>• The Company has a net zero emission efforts in line with Indonesia's NDC target.</li> <li>• The Company has conducted an Environmental Impact Analysis.</li> <li>• The Company has conducted due diligence covering technical, management, legal, financial, social and environmental aspects.</li> <li>• The Company has empowered the surrounding community through job creation, has a program to maintain sedimentation around the river.</li> <li>• The Company has policies related to occupational safety and health, social security for workers, and protection of human rights and workers' rights.</li> </ul>	
<b>User entry point</b>	Which EO is the nature of the Activity most relevant to?	This activity relates to EO1 as the business and operations of renewable energy for mini hydropower plants, which facilitates the reduction of carbon emissions and contributes to climate change mitigation.
	Which EO(s) is most aligned to the company's strategic focus?	Considering the company's target to achieve net zero emission and the focus on expanding the mini-hydropower plant, this activity is most relevant to EO1.
<b>EO1 (Climate Change Mitigation) is the primary EO.</b>		
<b>EO1 Assessment</b>	<b>1A. Does the Activity avoid / reduce GHG emissions?</b>	
	How does the Activity avoid or help reduce emissions?	Mini-hydropower plants have lower direct emission greenhouse gas (GHG) emissions per kilowatt-hour compared to power plants with fossil fuel sources.
	Does the Activity avoid locking in high-carbon activity?	Yes, the expansion and increased capacity of the mini hydropower plant contribute to addressing climate change through providing a renewable energy source generated with low carbon generation. The company also has a roadmap to net zero emission, which in the medium to long term will seeks to reduce GHG emissions in its supply chain and infrastructure by selecting low carbon materials and suppliers, and adopting new technologies with high efficiency and low emissions.
<b>Yes, the Activity avoids/reduces GHG emissions.</b>		

<b>DNSH / RMT Assessment</b>	<b>2A. Does the Activity avoid causing potential significant harm to other EOs?</b>	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA?	Results from the EIA show adverse impacts on surrounding habitats and biodiversity, due to land disturbance, habitat disruption, and pollution of soil and water resources.
	(EO3) Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem?	The expansion of the mini hydropower plant will open up land around the river, which has an impact on the risk of soil erosion and disturbance to aquatic biota and vegetation.
<b>No. The Activity causes potential significant harm to EO3.</b>		
	<b>2B. Has the implementation of remedial measures already commenced at the time of assessment?</b>	<p>Yes, to mitigate this harm, the Company has done several programs including:</p> <ol style="list-style-type: none"> <li>1. Land clearing is carried out in stages and limited to the activity site as needed and prevents further land expansion.</li> <li>2. The results of land clearing in the form of biomass are placed on the low periphery of the area which functions as an erosion control/retainer to inhibit surface flow carrying eroded soil particles.</li> <li>3. Creating temporary settling ponds and drainage channels or catchment channels that match the volume of runoff water.</li> <li>4. Revegetating the cliff area Implementing and optimizing community development and empowerment programs.</li> </ol>
	<b>3A. Does the Activity no longer cause significant harm to other EOs at the time of assessment?</b>	Yes. Based on the assessment date, remedial efforts have been made to mitigate identified risk in the EIA. Periodic monitoring and reporting of the process will be conducted.
<b>Initial Classification</b>	<b>Green</b>	
	<b>4A. Does the Company meet minimum national standards relating to human rights, forced labour, child labour</b>	<p>The social aspect assessment will cover the Company and will be assessed in accordance with Indonesian legislation and regulations.</p> <p>The Company's operations meet minimum national standards/regulations as follows:</p>



	<p><b>and impact on people living close to investments?</b></p>	<ul style="list-style-type: none"> <li>• Respect human rights (Constitution of the Republic of Indonesia Year 1945);</li> <li>• Prevention of forced and child labour (Labour Law 2003 as amended in Law Number 11 of 2020 concerning Job Creation);</li> <li>• The entity provides a decent wage for the workers (MSMEs based on Law Number 11 of 2020 concerning Job Creation);</li> <li>• The Entity has efforts and policies to ensure occupational health and safety practices in the workplace; and</li> <li>• The entity has implemented community and environmental empowerment programs in the area close to investment.</li> </ul> <p>Yes, the Company meets minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments.</p>
<p><b>Final Classification</b></p>	<p><b>Green</b></p>	