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Due Diligence Standard Procedure Guidelines

RdA Climate Solutions



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1. Executive Summary

The HOOP project aims to unlock bio-based investments and deploy local bioeconomies in Europe through a systemic and cross-cutting approach. It offers project development assistance to a group of 8 Lighthouse Cities and Regions to build the technical, economic, financial and legal expertise needed to develop investments to valorise biowaste and wastewater, with the aim of obtaining safe and sustainable bio-based products.

Due diligence is an important business technique to consider before making any key business decisions, such as implementation or financing a new project. Actually, there is no due diligence standard applied to Urban Circular BioEconomy (UCBE) projects from the valorisation of biowaste and wastewater sludge. Most of the due diligence applied to UCBE projects are confidential and performed by large companies, banks, funders/investors and consultants. Therefore, great efforts were allocated to standardise the HOOP Due Diligence process as much as possible, providing a standard framework for detailed due diligence as a basis for bankable projects.

The HOOP Due Diligence was designed as a standard procedure applied to UCBE projects with the key opportunity of being able to be implemented by the HOOP Network of Cities & Regions and all cities and regions (outside of HOOP) interested in. Thus, HOOP Due Diligence standard procedure is characterised as ongoing/continuous, multidisciplinary, proactive and reactive process through which Project Parties (Promoter, PPP, Public Entity, Contractor, etc.) can ensure that they covered several risk areas in order to deliver a responsible and successful project implementation by the HOOP's Lighthouse Cities and Regions. Thereafter, the projects from Lighthouses with Project Maturity Level (PML) higher than 4 will be subject to the HOOP Due Diligence process under the HOOP Project Development Assistance (PDA).

An innovative multistep methodology was followed to develop the HOOP Due Diligence standard, involving 1) an inventory of relevant and recognised due diligence standards; 2) design of the risk matrixes for each risk area, with a set of questions/indicators (relevance section) to understand and assess such risk for the parties involved, a checklist of all documentation (evidence section) to support any of the claims made within the relevance topic, a risk allocation/responsibility section to identify which Party will bear the risk, and prevention and mitigation measures section; 3) consultation of HOOP's financial partners; 4) consultation of external experts; 5) consultation of the HOOP Circular Investors Board to ensure that the HOOP Due Diligence complies with all the financial requirements and the process can be accepted in the future as a valid due diligence process; 6) presentation and discussion of the HOOP Due Diligence's risk areas and related key aspects during the 4th CIB meeting on 21st September 2022; and 7) public HOOP Due Diligence Workshop held during the HOOP's Circular Investors Day in Porto (Portugal) on 4th October 2022, attended by investors, banks, researchers, enterprises, project developers, cities, public entities, among others, in order to increase the confidence in the developed due diligence process and standard.

D5.5 DUE DILIGENCE STANDARD PROCEDURE GUIDELINES

The HOOP Due Diligence standard covers 22 risk areas, such as credit; currency; financial market; governance and management; interface and partnering; regulatory; land availability and site; permitting and intellectual property; construction; technology; IT (Information Technology); supply chain; circularity; performance; O&M (Operation & Maintenance); bioproduct; environmental; social and cultural heritage; political and MAGA (Material Adverse Government Action); and EU Taxonomy. However, other risks concerning human resources, force majeure events and compliance with regulations and standards were not considered as specific risk areas, because they are transversal to those 22 risk areas.

Hence, this Due Diligence standard procedure is a base, i.e., a starting point, which may and should be tailored to the specificities of each UCBE project from the HOOP's Lighthouses, given the great diversity of typologies, scales, valorisation technologies and bioproducts involved.

In conclusion, using this Guidance, Project Promoters are de-risking and increasing the bankability of their projects. Cities and local entrepreneurs are better prepared to prevent and mitigate some risks if they want to keep having green funding and financing supports. Thereby, European cities and regions will be able to accelerate their transition to a low-carbon, resilient and resource-efficient economy through the implementation of the HOOP Due Diligence standard in order to monitor, prevent and mitigate several key risks and, therefore, complying with requirements and goals from public policies and strategies toward a circular and carbon-neutral economy by 2050.

