SUSTAINABLE FINANCE TRAINING ROADMAP FOR BANKS IN SOUTH-EAST ASIA

OBJECTIVE

The aim of the “Sustainable Finance Roadmap for Banks” is to assist banks in Southeast Asia to identify and articulate shared sustainability reporting objectives and demonstrating how those shared objectives can be translated into harmonised reporting requirements that can support both corporate goals as well as national and international governmental aims including the Sustainable Development Goals (SDG) and in doing so deepen their ongoing commitment to sustainable finance.

RATIONALE

With at least a decade left to the deadline to achieve the Sustainable Development Goals, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) in its 2019 Progress Report made a bold projection that the Asia Pacific region[1], home to the world’s two most populous nations: China and India, will not achieve any of the 17 SDGs by 2030 based on its current trajectory, which has either stagnated or is heading in the wrong direction. The United Nations Conference on Trade and Development (UNCTAD) estimated that financing the Sustainable Development Goals in developing countries at US$ 2.5 to 3 trillion per year.[2] Investing in the SDGs makes economic sense as it could open up US$ 12 trillion of market opportunities and create 380 million new jobs, and that action on climate change would result in savings of about US$ 26 trillion by 2030.[3]

Financing the SDGs

Public funding alone is not enough to achieve the SDGs, and there is a need for development and international financing institutions to work together in order to leverage private investments. Enhancing sustainable financing strategies and investments at regional and country levels is therefore critical in achieving the SDGs and financial institutions play a critical role in directing the much needed funding for critical activities to achieve the SDGs and the Paris Agreement.

Among the challenges contributing to the SDG shortfall in the Asia Pacific, according to the UN-ESCAP, is lack of financial resources but not the absence of funding *per se* insomuch as the fact that available finance is not being directed at the scale and speed necessary to fulfill the SDGs and goals of the Paris Agreement.[4] The seeming disinterest of private capital to finance sustainable investments and businesses is particularly apparent in Southeast Asia. The region is confronted by existential threats, such as climate change and environmental degradation, that could potentially lead to financial instability and social unrest.[5] Climate-related risks pose financial risks, which risks are highly unlikely fully reflected in asset valuations.[6]

ASEAN economies remain highly dependent on fossil fuels that contribute to climate change, which significantly exposes the region to climate-related financial risks. Some 91% of ASEAN banks continue to fund new coal fired power plants and increase their exposure to climate related transition risks, such as carbon taxes and significant improvements in renewable energy technology. In WWF’s 2019 Sustainable Banking Assessment (SUSBA), it was reported that based on the level of ESG integration as measured by a framework covering six aspects (Purpose, Policies, Processes, People, Products, Portfolio), the 35 ASEAN banks assessed are not responding fast enough to

[1] https://www.unescap.org/sites/default/files/publications/ESCAP_Asia_and_the_Pacific_SDG_Progress_Report_2019.pdf
[2] https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937
[3] https://www.un.org/sustainabledevelopment/sg-finance-strategy/
[4] https://www.un.org/sustainabledevelopment/sg-finance-strategy/
[5] https://www.wwf.sg/?uNewsID=351811
[6] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

these threat. Only 4 banks from Singapore and Thailand fulfilled at least half of the 70 criteria and 51% of the 35 banks assessed fulfilled less than a quarter of the criteria. [7] To ensure that businesses are resilient and the people of ASEAN have a secure future, ASEAN banks need to manage climate and other material environmental risks and opportunities in their portfolios.

According to the UN's four-year Strategy for financing the 2030 Agenda for Sustainable Development released in 2018, there is a need to address the barriers that hinder the diversion of finance towards sustainable development and leverage opportunities to increase investments in the SDGs by aligning global economic policies and financial systems with the 2030 Agenda and enhancing sustainable financing strategies and investments at regional and country levels.[8] The Asia Securities Industry & Financial Markets Association have called on the private and public sectors to collaborate in addressing the complex and multifaceted process of transitioning the economies' sustainability, and ensuring the international financial system is well placed to efficiently serve this challenge. [9]

Southeast Asia Regulatory Initiatives on Sustainable Finance

Although banks in the region have been slow in their response to climate change, ASEAN regulators and central banks are actively engaged with the issue. Announcing regulations and establishing national sustainable finance policies and guidelines calling on financial institutions to direct much needed capital to sustainable activities. Singapore, Malaysia, Thailand, Indonesia and the Philippines are all signatories to the 2015 Paris Agreement and have committed to reduce their emission intensity ranging from 20% to 36%. The Central banks of Malaysia, Singapore and Thailand, in particular, have joined the Network for Greening the Financial System (NGFS), which is recommending central banks and supervisors to better integrate climate-related risks into financial stability monitoring. By the end of 2019, seven (7) banking associations or regulators in ASEAN will have issued sustainable banking guidelines.[10]

The Indonesian Financial Services Authority (Otoritas Jasa Keuangan ("OJK")) published a comprehensive Sustainable Finance Roadmap in 2015 to develop the sustainable finance sector, with the three main objectives of (1) increasing funding from financial services institutions for green projects, (2) increasing demand for green financial products and services, and (3) increasing supervision and coordination of the implementation of sustainable finance. In 2017, OJK issued a regulation to strengthen the commitment to support sustainable finance by requiring financial services institutions, issuing companies and public companies to implement sustainable finance principles (such as responsible investing, management of social and environmental risks, and inclusivity) in their operations. The regulation also provides that OJK may provide incentives for effective implementation of sustainable finance.

The Bank Negara Malaysia issued a discussion paper in December 2019on "Climate Change and Principlebased Taxonomy" for public consultation. The discussion paper aims to provide an overview of climate change and its impact to the financial system. It is intended to serve as guidance to facilitate financial institutions in (1) identifying and classifying economic activities that could contribute to climate change objectives and (2) preparing and building capabilities in managing the financial risks from climate change. Pursuant to the Budget 2020 speech, RM2 billion will be allocated to Bank Pembangunan Malaysia Berhad's Sustainable Development Financing Fund, that will grant a financing rate subsidy of 2% to companies that contribute to the 17 SDG.

The Bank of Thailand encouraged financial institutions to comply with its Sustainable Banking Guidelines – Responsible Lending. The guidelines have four main objectives: (i) to promote commitment on issuing loans responsibly; (ii) to promote awareness of stakeholder engagement; (iii) to promote internal implementation mechanisms to improve efficiency and productivity; and (iv) to promote transparency. For example, under the

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[7] https://www.wwf.sg/?uNewsID=351811

[8] https://www.un.org/sustainabledevelopment/sg-finance-strategy/

[9] https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf

[10] https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf

guidelines, banks are required to establish internal policies and processes to address key ESG risks in their lending activities and to publish relevant statements, policies and processes in their annual/sustainability reports or websites. A memorandum of understanding regarding the guidelines was entered into between the BOT, the Thai Bankers' Association and 15 banks in Thailand on 13 August 2019.

The Monetary Authority of Singapore (MAS) is pushing for deeper ESG integration within Singapore's financial institutions by engaging the senior management and boards of local banks to promote effective adoption of industry standards and enhancement of ESG disclosures. In November 2019, MAS set up a USD 2 billion green investments programme to invest in public market investment strategies that have a strong green focus. MAS has co-drafted a set of draft Environment Risk Management Guidelines with the Investment Management Association of Singapore to provide guidance to asset managers on sound environmental risk management practices for funds and segregated mandates. The guidelines will be issued in the first quarter of 2020 for public consultation.

In the Philippines, the Bangko Sentral ng Pilipinas (BSP) issued Memorandum Circular (MC) 1085 in April 2020 entitled "Sustainable Finance Framework" that requires banks to embed sustainability principles, including those covering social and environmental risks areas, in their corporate governance framework, risk management systems and strategic objectives; as well as disclose in their Annual Reports their sustainability strategic objectives and risk appetite, overview of their E&S risk management system, their E&S risk exposures from different industries or sectors and their impact to bank, and their products and services and other initiatives that adhere to internationally recognized sustainability standards and practices.

While prudential regulations on sustainable finance are a step in the right direction towards channeling funding activities that will contribute to the achievement of the SDGs, there is a need for harmonization of policies in the region as ASEAN's economies are very much interdependent. Regional coordination is imperative because like climate change, investing and financing are not confined within borders and regulations and policies can impact on the free flow of investments particularly in emerging economies that are often most in need of investments to fund the SDGs and Paris Agreement.

Sustainable Finance and Reporting

UN-ESCAP also identified the lack of reliable data across all the SDGs and in all subregions as one of the Asia and the Pacific's biggest challenges in monitoring the progress of the SDGs in the region, with nearly a quarter of all SDG targets lacking evidence that relate to the environment. South and Southwest Asia have the best data availability, while the Pacific subregion has the worst. Southeast Asia in particular leading subregion on SDG 4 (quality education), SDG 7 (clean and affordable energy) and SDG 9 (industry, innovation and infrastructure) while it is moving in the wrong direction on SDGs 8, 13 and 16 (peace, justice and strong institutions. The UN-ESCAP report suggests that the region should increase its use of alternative data sources, such as surveys, to increase monitoring of SDG progress.[11] The establishment of sustainable finance policies in the ASEAN region could potentially help in creating accessible and reliable data on the progress of SDGs as prudential regulations require banks to formulate sustainable finance frameworks that are consistent with their national development plans and disclose the progress of implementation.

Compounding the shortage of reliable data is the proliferation, and sometimes confusing landscape of disclosure frameworks, incentive structures, data collection methods, and external assessments developed and implemented in various jurisdictions and markets. These fragmented approaches while well-meaning may only serve to introduce challenges and complexity that may ultimately undermine the development of sustainable finance.[12] There is a need for a common yet flexible framework that would take into consideration the nuances and differences in development levels and priorities and paths to sustainability among different countries while

[11] https://www.unescap.org/sites/default/files/publications/ESCAP_Asia_and_the_Pacific_SDG_Progress_Report_2019.pdf
[12] https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf

providing accurate, relevant and comprehensive reporting framework that would help banks comply with regulatory requirements and at the same time track and report their sustainable finance commitment and targets.

SUSTAINABLE FINANCE TRAINING FOR BANKS IN SOUTHEAST ASIA

The last five years have seen the signing of the 2015 Paris Agreement, publication of the United Nations 2030 Agenda which includes 17 Sustainable Development Goals ("SDG"), the European Commission's publication of Sustainable Finance Action Plan, the launch of the UN Principles for Responsible Banking, and other major international initiatives focusing on sustainability within the financial sector. In addition, Southeast Asia has also seen the rise of regional and national regulatory initiatives and policy to scale up sustainable finance in the region. Given the state of sustainable finance in Southeast Asia, banks in the region are confronted with the challenge of developing their own sustainable finance plans that are cognizant of the environment, social and governance risks of climate change in their operations and financial interests.

Recognizing the pivotal role that banks play in creating a sustainable financial system that will facilitate the flow of resources towards a more inclusive and sustainable activities and support low carbon climate resilient development, the Global Reporting Initiative (GRI), UN-ESCAP, United Nations Environment Program Finance Initiative (UNEP-FI), World Wide Fund for Nature (WWF) and the Association of Development Finance Association in the Asia Pacific have agreed to work together to support Southeast Asian banks through knowledge sharing session and capacity building workshops that will help them adhere to regional and national sustainable finance strategies through the *"Sustainable Finance Roadmap for Banks."* This program will have two (2) segments:

1) *Sustainable Finance Forum: Financing the SDGs in Southeast Asia*. This will be a half-day summit that will bring together thought leaders and leading sustainable finance experts from the public, and private sectors and intergovernmental organisations to discuss cross-cutting and pressing issues on Sustainable Finance in the region. The webinar series on Sustainable Finance Training Roadmap for Banks will be launched at this event
2) *Webinar series: Sustainable Finance Training Roadmap for Banks.* This is series of online seminars and trainings that will be offered to banks to inform banks in the following topics that are relevant to Sustainable Finance that can help banks in developing their own sustainable finance plans that is consistent with international aspirations and national goals:

   2.1 Relevant and current international policies and global trends on sustainable finance, and how banks can align their sustainable finance frameworks with the SDGs and Paris Agreement;

   2.2. Creating an effective governance and a culture conducive for the implementation sustainable finance policies and programs;

   2.3 Impact and target-setting for banks to help banks increase their positive and reduce their negative impacts and manage their environmental and social risks through their activities, products, and services;

   2.4 Engaging clients, customers and stakeholders through sustainable finance products and service offerings that are aligned with the SDGs; and

   2.5 Promoting transparency and accountability through sustainability reporting.

PARTICIPANTS

This program is designed specifically for banks, particularly the sustainable finance plan prepared by banks to train them in building a coherent and complete narrative with evidence of compliance to the expected standards in their Sustainable Finance Framework.

For the launch event, in addition to bank executives and representatives, the Sustainable Finance Forum shall bring together guests from intergovernmental organizations, governments and financial institutions that have a stake in the success of sustainable finance in Southeast Asia.