FAIR FINANCE ASIA - PHILIPPINES statement on the BSP SUSTAINABLE FINANCE FRAMEWORK

Fair Finance Asia – Philippines strongly supports the issuance and implementation of regulatory policies on sustainable finance by the Bangko Sentral ng Pilipinas. A strong regulatory framework is a must in order to build a sustainable financial sector that contributes to sustainable development in the Philippines. Market actions and efforts to build the capacity of financial institutions are also key in order to develop the market for sustainable finance.[1]

1 WE SUPPORT THE DEVELOPMENT AND IMPLEMENTATION OF A COMPULSORY SUSTAINABLE FINANCE FRAMEWORK

BSP Circular No. 1085, series of 2020 is a step in the right direction. Although the circular is voluntary, it still uses strong and compulsory language to set out its expectations from banks.

It specifically places the responsibility on the Board of Directors and the Senior Management to approve transition plans with specific timelines and to operationalize and mainstream sustainable finance principles in their respective organizations. These provisions increase the accountability of the organization and its leadership. The board-approved transition plan and sustainability disclosure also ensures that there will be a top-down organizational change. This will be supported by the required policies and operational directives which will result in system-level changes across the organization.

2 WE ENCOURAGE A HOLISTIC APPROACH TO THE INTEGRATION OF SUSTAINABLE FINANCE PRINCIPLES

We recommend the inclusion of the UN Guiding Principles on Business and Human Rights in the Policy Statement as a guiding framework. Business enterprises must prevent, mitigate, and remedy human rights violations which they have caused or contributed to, even if these impacts were the result of actions by their suppliers or business partners. Related to this, BSP may also urge banks to reinforce or require sustainability reporting from its business partners/clients, similar to the approach undertaken by the Securities and Exchange Commission for publicly listed companies.[2]

We encourage the BSP to strengthen the guidelines on social risks and impacts and increase the support for capacity-building of banks to assess and address the same. Social factors affecting sustainability, being less tangible and with no established market data track record, is a challenge for most financial institutions.[3]

[1] Summary of Highlights 2016 International Sustainable Finance Forum & 4th Annual Meeting of the Sustainable Banking Network (SBN) Bali, Indonesia - December 1 & 2, 2016, page 2.
[2] SEC Memo Circular No. 4 of 2019: http://www.sec.gov.ph/wp-content/uploads/2019/02/2019MCNo4-1.pdf
[3] UN PRI. ESG Integration: How Are Social Issues Influencing Investment Decisions? 2017. Page 7.

Under the definition of terms, Section 153 B Environmental & Social (E&S) Risk, we recommend the express inclusion of decent work and living wage as key issues. "Decent work transforms societies for the better, driving development that is more equitable, inclusive and sustainable." Sustainable and quality working conditions are also precursors for sustainable economic growth and development.[4]

We propose to include in E&S situations where land tenure security and human rights are not respected. Disregard and impact of investments on health should also be included, as manifested by the pandemic we are facing.

In relation to ESRMS, beyond principles, clear and measurable targets should be formulated for better monitoring of compliance. At the same time, ESRMS should also be communicated by the financial sector to its clients, and not be confined within the banks.

3 WE URGE CAUTION AGAINST GREENWASHING. GREEN FINANCE AND GREEN ENERGY IS NOT AUTOMATICALLY SUSTAINABLE FINANCE.

Green finance and particularly green bonds are making headway in the Philippine financial landscape. Greening the financial system and the energy sector undoubtedly plays a central role in shifting the pathway of the Philippines towards sustainability.

We reiterate that in order to integrate sustainability principles into the strategic direction, corporate governance and risk management frameworks of banks a holistic approach necessary. To illustrate, even if a green bond finances the construction of a renewable energy power plant but does not consider governance issues (ex. Corruption in procurement), and social issues (ex. human rights and labour violations) then the project and the bank is still exposed to the same financial and reputation risks and volatility. And the investment it made may still cause harm and other negative social impacts.

4 WE BELIEVE THAT SUSTAINABLE FINANCE IS POSSIBLE FOR DEVELOPING COUNTRIES AND SMALLER FINANCIAL INSTITUTIONS

In support of mainstreaming efforts for the framework, we encourage BSP to feature in its publications local best practices and innovations on sustainable finance by Philippine financial institutions both big and small. For example, Center for Agriculture and Rural Development (CARD) Bank. CARD Bank is a Microfinance-oriented rural bank established in 1997 and based in San Pablo City, Laguna. It is a member of the Global Alliance for Banking on Values. It has 54 branches and serves more than 900,000 clients. CARD Bank's success and continued growth is evidence that sustainability is doable in the Philippine context and is a strategic business decision that will boost overall performance and profit in the long-term.

[4] UN. Academic Impact. Decent Work and Economic Growth.

5 WE ENCOURAGE THE BSP TO FACILITATE MULTI-STAKEHOLDER ENGAGEMENT AND RECOGNIZE THE IMPORTANT ROLE OF CIVIL SOCIETY ORGANIZATIONS (CSOS) IN BRIDGING THE RELATIONSHIPS BETWEEN STAKEHOLDERS.

In a virtual dialogue between Vietnam and the Philippines a senior banking official of a large Philippine commercial bank expressed that banks are in need of technical assistance in order to move towards sustainable finance. She went on to state that "CSOs can help banks assess reputational, financial, and legal risks, engage with local stakeholders, and can inform, mediate, and resolve a broad range of development issues. CSOs' on-the-ground knowledge, communications networks, and technical expertise can inform the design, implementation, and accountability of sustainable projects.

CSOs and international donors have the ability and the resources to organize and provide capacity-building and technical assistance for banks particularly for the smaller ones. CSOs also play a major role in documenting and cascading lessons and best practices on sustainable finance[5]."

For example, in a case study published by Oxfam in 2018 several CSOs and their networks operating in the US, Europe, and the Philippines uncovered that RCBC did not comply with IFC disclosure standards in relation to several high-risk clients, namely its connection to 19 coal-fired power plants across the Philippines.

CSOs mobilized technical and financial resources across 3 continents in order to undertake the research for the case study that ultimately paved the way for affected communities to become aware of, and to access IFC's independent accountability mechanism. This also helps to keep Philippine financial institutions compliant with global standards.[6]

Additionally, CSOs and affected communities have first-hand knowledge and experience regarding the potential and actual E&S impacts of projects and investments. Engagement and dialogue with stakeholders can help avoid and minimize risks encountered during planning and implementation whereby CSOs and communities can help build realistic forward-looking analysis and stress testing scenarios. Engagement also ensures that the financial institutions and investors remain accountable, transparent and committed to their sustainable finance policies.

CONCLUSION

A voluntary guideline and framework on Sustainable finance is a helpful starting point. However, to ensure long-term impact and systemic change a stronger and coherent policy package of guidelines, frameworks and actions must be established at the national and global level. A soft approach and a comply or explain approach should be transitional tools only while banks and the industry are still building capacity to shift and comply. After the expiry of the 3-year board-approved transition plan, stronger requirements and regulations should be imposed as sustainable finance principles and our financial regulations reach maturity.

Lastly, we underscore the important role of regulators in laying at least the base foundations and guidelines for disclosures, prudential regulations, market conduct, and reporting standards for enhanced ESG compliance.

[5] Virtual Dialogue on Greening the Finance System.
[6] Oxfam International (2018). How can development finance institutions can be transparent in their financial intermediary lending, and why they should be.