FAIR FINANCE ASIA
BANK POLICY ASSESSMENT 2019

ASSESSING THE QUALITY OF PHILIPPINE BANKS' LENDING AND UNDERWRITING POLICIES

FAIR FINANCE ASIA BRIEFING PAPERS

Fair Finance Briefing Papers are written to generate data-driven evidence, contribute to public debate, and to invite feedback on sustainable finance policy issues.

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Fair Finance Asia- Philippines is a member of Fair Finance Asia, a regional network of Asian civil society organizations committed to ensuring responsible banking and sustainable finance across Asia. The coalition is formed by five Philippines-based organizations that advocate for the effective adoption of environmental, social, and governance (ESG) criteria in banking to mitigate the negative effects of irresponsible investments. We work with civil society, regulators, and financial institutions to build the capacity of banks to implement ESG policies, enable CSOs to effectively advocate for sustainable finance, and develop impactful, evidence-based research and case studies for awareness-raising on sustainable finance among consumers.

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FAIR FINANCE ASIA

FAIR FINANCE ASIA PHILIPPINES
Building a responsible financial sector in Asia

LIST OF ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ANGOC	Asian NGO Coalition for Agrarian Reform and Rural Development
BDO	Banco de Oro
BoD	Board of Directors
BHR	Business and Human Rights
BPI	Bank of the Philippine Islands
BSP	Bangko Sentral ng Pilipinas
COVID-19	Coronavirus
CSO	Civil Society Organization
DOLE	Department of Labor and Employment
DTI	Department of Trade and Industry
ECAC	Environmental Compliance and Assistance Center
ECC	Environmental Certificate of Compliance
ECQ	Enhanced Community Quarantine
EMB	Environmental Management Bureau
E&S risk	Environmental and Social risk
ESG	Environmental, Social and Governance
FDC	Freedom from Debt Coalition
FFA	Fair Finance Asia
FFG	Fair Finance Guide
FFI	Fair Finance International
FFP	Fair Finance Philippines
FIs	Financial institutions
GDP	Gross Domestic Product
IDEALS	Initiatives for Dialogue and Empowerment Through Alternative Legal Services
LBP	Land Bank of the Philippines
Metrobank	Metropolitan Bank and Trust Company
OJK	Otoritas Jasa Keuangan
PLCs	Publicly Listed Companies
PSA	Philippine Statistics Authority
SEC	Securities and Exchanges Commission
SFF	Sustainable Finance Framework
SIDA	Swedish International Development Cooperation Agency
S&P	Standard and Poor
SWS	Social Weather Station
UB	Universal Banks

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INTRODUCTION

On April 29th 2020, the Bangko Sentral ng Pilipinas (BSP) signed the **Sustainable Finance Framework (SFF)**[1], a landmark policy that would set the stage for the adoption of sustainability principles in the operations of financial institutions in the country. The framework was the first of its kind in the country and a turning point in the Philippine sustainable finance landscape.

Under the SFF, banks are required to integrate sustainability measures and, most notably, begin practising environmental and social (E&S) risk reporting in their operations by 2022. This includes submitting and adopting board-approved transition plans with specific timelines to implement integration strategies and sustainability policies.[2] From this, one can notice that the Framework highlights the role of the board and senior management in institutionalizing adoption of sustainability principles. This top-down approach ensures board-level engagement and accountability.

The framework comes at a time when financial regulators are increasingly encouraging financial institutions (FIs) to play crucial roles in ensuring a sustainable future for the planet. The framework not only recognizes the *"significant societal, economic, and financial risks"* banks and their stakeholders stand to face should environmental and social issues such as climate change remain unaddressed; it also marks the recognition that banks and financial institutions have a role to play in the collective development and mitigation of such risks.

As funders and sources of capital, banks and other financial institutions are crucial players in shaping a nation's development. They are also, more concretely, a crucial gateway through which we can shift resources and the flow of funds away from irresponsible businesses, and consequently mitigate their negative impacts. In the same vein, banks must be held accountable for the role their financing and investments play in enabling both the positive and negative impacts of businesses.

BANKING IN A CHANGING WORLD

The Philippines and other Asian countries have witnessed a changing banking landscape in the past decade. In Southeast Asia, several countries have begun developing sustainable finance and business and human rights action plans in line with the global trend towards responsible finance. In 2019, Thailand adopted its National Action Plan (NAP) on Business and Human Rights and Responsible Lending Guidelines. Indonesia's Otoritas Jasa Keuangan (OJK), meanwhile, issued its Regulation on Sustainable Finance in 2017.

The push for more responsible, accountable banking is no longer confined to advocacy and social responsibility but is now more widely recognized as an integral component of sound and profitable business. According to studies by the Global Investment Alliance (2018)[3], United Nations Environment (2018)[4], The Nielsen Company (2020)[5], and Harvard Business Review (2019)[6], the focus on sustainability has grown exponentially in the past decade. Moreover, increasing stressors such as climate change, shifting political environments, and the coronavirus (COVID-19) pandemic have strengthened the case for sustainable finance to safeguard the future of society and businesses. In this changing landscape, businesses that fail to consider ESG criteria in their operations expose themselves to credit, market, and reputational risks that may prove costly to them in the long run.[7]

This is especially true for the Philippines, a country identified by multiple studies to be highly susceptible to the impacts of climate change.[8] According to projections, major Philippine cities, including several[9] in the country's economic capital, Metro Manila, may be underwater by 2050, exposing banks to the risk of massive potential losses.[10]

A study by the Asian Development Bank (ADB), likewise, warns that by 2100, the cost of climate change for the Philippines may amount to the loss of approximately 6% of its Gross Domestic Product (GDP).[11]

Studies show that ESG standards not only shield businesses from risks but also lead to more profits, as higher ESG ratings correlate with both higher profitability and lower volatility. [12]

During the 2020 COVID-19 pandemic, ESG funds were more resilient and less prone to market fluctuations. According to the Standard and Poor (S&P) report, broader market funds declined approximately 13.7% in value, while the corresponding loss for major ESG funds was only 5.4%.[13]

SUSTAINABLE FINANCE AND POST-PANDEMIC RECOVERY

The COVID-19 pandemic is poised to be a turning point for sustainable finance in the coming years. As the pandemic exposes weaknesses in the current economic system, investors are increasingly turning to sustainable finance, with sustainable investment funds reaching more than $1 trillion in assets in August 2020. [14]

When the SFF was launched, Metro Manila was still under Enhanced Community Quarantine (ECQ), the first and strictest implementation of a government-imposed total lockdown to control the spread of COVID-19. The long-term lockdowns have caused the country's GDP to be in a technical recession, with the growth rate dropping to 16.5% in the second quarter, the lowest ever since the time of former President Ferdinand Marcos.[15] To soften the economic and social impact of the looming recession and COVID 19-related over-indebtedness, the BSP rolled out several other policies aimed at regulatory and operational relief for financial institutions, and interest rate and penalty grace period for consumers.

These policies are short-run responses that enable consumers and FIs to cope with the immediate impact of the pandemic. In the long run, Fair Finance Philippines (FFP) sees the SFF as an enabling mechanism for Philippine FIs to build back better by increasing the integration of sustainability criteria. This will in turn decrease their future exposure to pandemics and other incidents of market volatility, while also securing long-term increased profitability and international competitiveness.

BOX 1. The economy amid COVID: What's at stake?

The coronavirus pandemic and its ensuing lockdown has spurred the country's worst economic contraction for the Philippines in more than 3 decades.

Forecasted 7.6% contraction of economy in 2020[16]

Experts expect the Philippines GDP to contract by 7.6%

At least 3.3 million jobs lost[17]

The Department of Labor and Employment (DOLE) estimates at least 3.3 million jobs were lost amid the COVID pandemics. Estimates by Social Weather Station (SWS) counted much more with an estimated 27 million Filipinos jobless, according to SWS.

Closure of 26% of businesses

The Department of Trade and Industry (DTI) said in July that roughly 26% of businesses have closed since COVID-19.

BANK POLICIES AS PILLARS OF SUSTAINABLE FINANCE

Policies are indicators of a bank's priorities and help define the strategic direction and operations for a financial institution. While they are not absolute measures of sustainability and compliance with sustainability principles, they serve as benchmarks of a financial institution's investment practices, especially in critical areas like environmental, sustainability, and governance issues.

The **Fair Finance Methodology** was developed in 2014 to track banks' commitments while also enabling consumers to demand more socially responsible, fair, and sustainable investments from their banks. The methodology scores banks on nine core themes: **Climate Change, Corruption, Human Rights, Labour rights, Nature; Tax, Arms, Transparency, and Gender.** These themes are continuously updated and measured in accordance with international standards. In 2018, Fair Finance branched out to Asia, campaigning for more responsible finance in seven countries in the continent, including the Philippines.

It is in this context that Fair Finance Philippines launches its first bank policy assessment. The assessment rates five of the Philippines' largest banks to provide a baseline of sustainable finance in the Philippines and guide banks towards effective integration of ESG principles in light of the recently adopted sustainability framework.

The past years have witnessed a growing openness to sustainable finance, both from the regulatory and consumer perspectives. The policy assessment therefore also sees the potential for sustainable finance to drive better and more inclusive recovery measures for the economy that has been severely affected by the COVID-19 pandemic. While the sustainability framework paves the way for more responsible finance, it is up to the banks to ensure that these principles function not only for cursory compliance but are also truly reflected in their operations. As different sectors lay the building blocks of recovery, the next three years will be crucial in setting the tone of sustainable finance in the Philippines and determining whether its implementation will be a success.

CORE THEMES OF THE FAIR FINANCE METHODOLOGY

L-R:
Climate Change, Corruption, Human Rights, Labour rights, Nature; Tax, Arms, Transparency, and Gender.

BOX 2. Philippines; Sustainable Finance Framework

The Sustainable Finance Framework is the first in a series of activities by the BSP to create an enabling regulatory framework for financial institutions. It sets out the regulator's expectations regarding the integration of sustainability principles by banks. These include: corporate governance, risk management frameworks, bank operations, and overall strategic direction. It also covers environmental and social risks to financial stability, but with a particular focus on environmental risks, in addition to physical and transition risks and the impacts of climate change on the financial system.

The SFF defines sustainable finance as *"any form of financial product or service which integrates environmental, social, and governance criteria in business decisions that support economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment. This also covers green finance which is designed to facilitate the flow of funds towards green economic activities and climate change mitigation and adaptation projects."*

Under the SFF, banks are required to submit and adopt a board-approved transition plan with specific timelines to implement integration strategies and sustainability policies. After six months from the effectivity of the SFF, or starting October 2020, banks must provide the BSP copies of this plan upon request.

The transition plan and compliance with the SFF generally take into consideration the size, risk profile and the complexity of operations of each bank. Towards this end, mainstreaming of sustainability principles and fostering a workplace culture that will encourage the same is largely left to the discretion of the Board of Directors (BoD) through the transition plan. The SFF also requires banks to publicly disclose information on sustainable finance as part of their annual report. This complements the policy of the Securities and Exchanges Commission (SEC) requiring Sustainability Reporting by all Publicly Listed Companies (PLCs).

Looking at the definitions of the SFF, the heavy focus on environmental risks is clear, whereas social risks are indicated as one of the consequences of climate change. Other social risks mentioned in the framework include issues on safety and security, and threats to the community and cultural heritage. Unlike physical and transition risks which are more tangible, these social risks were not independently defined by the policy.

WHAT IS THE FAIR FINANCE GUIDE?

The **Fair Finance Guide (FFG)** traces its roots to **Fair Finance International (FFI)**, an international civil society network initiated in 2009 by Oxfam with the support of the Swedish International Development Cooperation Agency (SIDA). The FFI is currently composed of 70 civil society organizations (CSOs) that seek to strengthen the commitment of banks and other financial institutions to social, environmental and human rights standards.[18]

FFI uses the FFG Methodology, a rigorous methodology to assess, report on, and campaign for more responsible investment policies & practices. The methodology enables FFI to benchmark the investment policies and practices of financial institutions in critical areas such as human rights and climate change. Through this, FFI provides evidence-based research and analysis for critical dialogues with banks, raising public awareness, and ensuring improved democratic oversight of financial institutions.[19]

Since 2016, the government of Sweden's regional strategy for development cooperation in Asia and the Pacific (which runs through to 2021) has been to contribute towards increased regional integration and collaboration for sustainable development. In this context, Oxfam, with the support of the Swedish Embassy in Bangkok, Thailand began the development of a regional network of CSOs focused on regional advocacy for sustainable finance.[20]

BRINGING FAIR FINANCE TO ASIA

Fair Finance Asia (FFA) was launched in 2018 in 6 countries, together with partners from Cambodia, India, Indonesia, Japan, Philippines, and Thailand, to promote the same principles of sustainable, responsible, and accountable finance in Asia, with an Asian perspective. Vietnam would join later in 2019.

Taking into consideration the Asian context, FFA uses the FFG methodology and public campaigns for raising consumer awareness, while also working to contribute to the development of mandatory ESG policies and practices that ensure regulatory compliance with social, environmental and human rights standards. FFA's work has focused on both national and regional campaigns, in recognition of the cross-border effects of investments throughout Asia. It further aims to contribute to the creation of a shared roadmap for bankers and investors at a regional level towards more compliance with sustainability standards and pro-poor policies.[21]

FAIR FINANCE IN THE PHILIPPINES

FFP is one of seven country coalitions advocating for sustainable finance and ESG integration at the national level, working together across borders at the regional and global level with FFA and FFI. The FFP coalition is composed of five CSOs, namely:

1. The **Initiatives for Dialogue and Empowerment Through Alternative Legal Services (IDEALS)**, which serves as the secretariat for the coalition and coordinates work with the broader FFA network
2. **Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC)**
3. **NGO Forum on ADB (the Forum)**
4. **Freedom from Debt Coalition (FDC)**
5. The **World Wide Fund for Nature Philippines (WWF-PH)**, specifically its sustainable finance team.

The FFP coalition is working to contribute towards building the capacity of banks to implement ESG policies, enabling CSOs to effectively advocate for sustainable finance, and developing impactful, evidence-based research and case studies for awareness-raising among consumers.

FFP views its advocacy to promote sustainable finance as a collaborative endeavour with CSOs, regulators and the financial sector, and as such aims to engage all players towards shaping a truly sustainable banking sector in the Philippines.

METHODOLOGICAL FRAMEWORK: FFGI

THE FAIR FINANCE GUIDE (FFG)

The FFP Policy assessment uses the **FFG Methodology**, which was launched in 2014. It aims to verify which sustainability issues play a role in the policy that financial institutions apply when assessing credit requests and selecting investments. It sets out the elements against which the environmental, social and governance criteria will be measured in the finance and investment policies of financial institutions to come up with a scorecard. In arriving at a score, the methodology considers the following **cross-cutting, sectoral, and operational themes**:[22]

CROSS CUTTING THEMES

- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Labour rights
- Nature
- Tax
- Animal welfare

SECTORAL THEMES

- Arms
- Financial sector
- Fisheries
- Food
- Forestry
- Housing and real estate
- Manufacturing industry
- Mining
- Oil and gas
- Power generation

OPERATIONAL THEMES

- Consumer protection
- Financial inclusion
- Remuneration
- Transparency and accountability

The FFG methodology is based on various international standards (such as the ISO 26000:2010 standard) that provide guidance on social responsibility. This standard recognizes that it is the fundamental and essential duty of all organizations, regardless of size and nature, to contribute towards the common good through efforts supporting sustainable development. It also considers **The OECD Guidelines for Multinational Enterprises**, which states that corporations should "contribute to economic, environmental and social progress with a view to achieving sustainable development." The methodology also drew from the various national public policies on Corporate Social Responsibility (CSR) in the European Union (EU). The FFG is regularly updated to ensure that the methodology remains rigorous and relevant. The last update was in 2018.[23]

APPLICATION OF THE FFG AND THE SCOPE AND LIMITATIONS OF THE STUDY

The application of the FFG Methodology was conducted by **Profundo**, an independent not-for-profit sustainability and research institution based in Amsterdam. Profundo was part of the same team of researchers and advocates that first developed the FFG methodology. Profundo conducted a desk review of publicly available documents and sources of information on the policies of the five largest local banks by asset size in the Philippines. These banks were selected on the assumption that they have the widest reach and largest impact among the local, universal, and commercial banks in the country. The five banks are:

1. **Banco de Oro UniBank (BDO)**
2. **Bank of the Philippine Islands (BPI)**
3. **Metropolitan Bank and Trust Company (Metrobank)**
4. **Rizal Commercial Banking Corporation (RCBC)**
5. **Land Bank of the Philippines (LPB)**

The research was conducted from March to July 2020. Since not all 2019 annual reports of the five banks were publicly accessible during this period, only those from 2018 or earlier were considered.

The FFP coalition collaborated in the research by providing technical expertise specific to the Philippine context and is the primary author of this report. The Coalition also assisted Profundo in validating the initial scores and findings with the banks before publication.

FINDINGS AND RESULTS

The FFP Policy Assessment reviewed the policies of five major banks in the Philippines across 11 different themes. These banks were BDO, BPI, LPB, Metrobank, and RCBC.

To determine each bank's rating, FFG considered both the content and scope of policies related to each theme. This was derived from annual reports, sustainability reports, banking policies and other information publicly disclosed by the banks. The highest score for each theme is 10. To ensure proper consultation of stakeholders and validation of data, Fair Finance sought responses from the banks regarding their rankings before the publication of this study.

												AVERAGE
BPI	0.2	4.2	1.3	0	0.4	0	0.6	0	2.9	3.7	1.5	1.3
LANDBANK	0.2	4.2	0	1.5	0	0.3	1.8	0	2.6	5.8	2.1	1.7
RCBC	0.3	4.2	0.5	2.3	4.8	3.5	1.8	4.7	3.1	5.1	1.4	2.9
Metrobank	0	2.5	0	0	0	0	0	0	1	2.8	0.3	0.6
BDO	0.2	5	1.3	1.9	2.1	0	0.6	0	2.9	4.6	1.1	1.8
AVERAGE	0.2	4.0	0.6	1.1	1.5	0.8	1.0	0.9	2.5	4.4	1.3	1.7

Scores are given on a scale of 0 to 10, and have been rounded to one decimal.

TABLE 1: Philippine banks' policy assessment results

CORRUPTION

Corruption is a major hindrance to good governance, decreasing trust and confidence in institutions and hampering the equitable distribution of resources and economic development, especially in emerging economies. In the Philippines, it remains a deep-seated problem that severely affects core Philippine institutions.

The Philippines has an established legal framework against graft and corruption enshrined in various laws. This includes:

- Republic Act No. 3019 (And Corrupt Practices Act)
- Republic Act No. 7080 (An Act Defining and Penalizing the Crime Of Plunder)
- Title 7 of the Revised Penal Code (RPC), which punishes Crimes Committed by Public Officers including Bribery (RPC Articles 210 to 212).

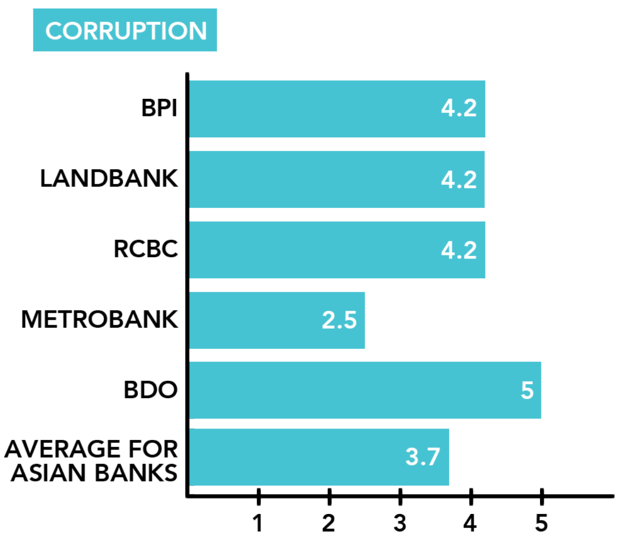
Concerning financial regulations and corruption, the Philippines also signed an Anti-Money Laundering Act (AMLA) in 2001 that created the Anti-Money Laundering Council (AMLC). The AMLA covers all financial institutions (including their subsidiaries and affiliates) supervised and regulated by the BSP, the Insurance Commission (IC) and the Securities and Exchanges Commission (SEC).[24]

Despite this, the Philippines currently ranks 113th out of 180 countries in Transparency International's Corruption Perception Index- 14 notches below its rank of 99 in 2018. There have also been concerns that the country's rigid bank secrecy laws, some of the strictest in the world, could enable corruption even in the presence of other policies that supposedly safeguard against it.[25]

Commitments in Philippine bank policies

Philippine bank policies rank strongly in anti-corruption commitments relative to other themes. For all banks assessed, corruption garnered the second-highest policy scores, with banks rating an average score of **4.02** out of 10.

Given the country's vast and complex regulatory framework, it comes as no surprise that they scored the highest under this theme. However, even though all the reviewed banks had internal operations policies aimed against bribery, money laundering and prevention of terrorist financing, this did not reflect in their investments. Only two out of the five banks, BPI and BDO, had policies that required the companies they invested in to have anti-corruption measures. Even then, it was only limited to publicly disclosing ownership and for, BDO, an anti-bribery policy. It should also be of note that while Philippine bank policies fare better in this theme than in others, these policies do not necessarily translate into practice. Even with policies as a safeguard, the finance sector can still be susceptible to abuse without adequate vigilance.



CLIMATE CHANGE

In 2019, the Global Peace Index ranked the Philippines as the country most susceptible to the hazards of climate change, with 47% of its population living in areas highly exposed to its effects. Major cities, especially those in Metro Manila, the country's economic capital, are predicted to be underwater by 2050. While the Philippines is only a *"minor contributor"* to carbon emissions on a global scale, it ranked 24th among low and middle-income countries' annual greenhouse gas emissions in 2013 due to the country's dependence on coal.[26]

Evidence of climate change and its environmental, social, and economic impact on the country is alarming and cannot be ignored. To address this, the Philippines has taken part in several international agreements to reduce global greenhouse gas emissions and mitigate the climate crisis. Most notably, it is a party to the United Nations Framework Convention on Climate Change and a signatory to the Kyoto Protocol. In 2019, the Philippines ratified the Paris Agreement on Climate Change. It also has the Climate Change Act of 2009 (Republic Act 9729), which established the Philippine Climate Change Commission and the subsequent National Framework Strategy on Climate Change and the National Climate Change Action Plan.[27] In October 2015, the Philippines submitted its Intended Nationally Determined Contributions to the United Nations Framework Convention on Climate Change (UNFCCC), wherein it stated that *"the Philippines intends to undertake GHG (CO2e) emissions reduction of about 70% by 2030"* The CO2e emissions reductions are expected to come from the energy, transport, waste, forestry and industry sectors.[28]

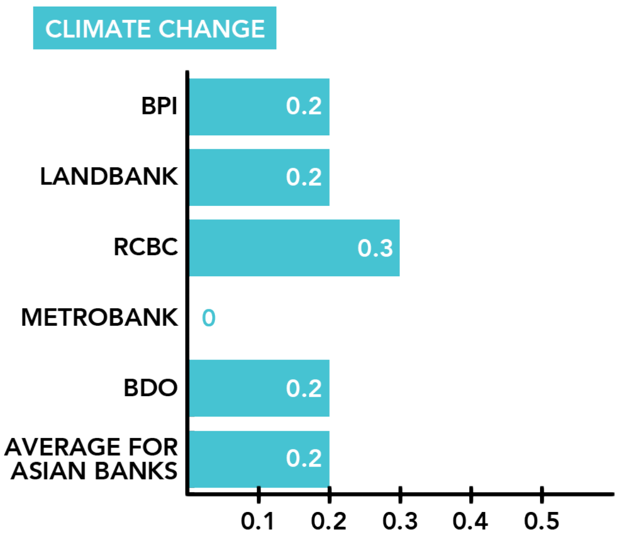
Commitments in Philippine bank policies

Banks in the Philippines have almost no disclosed policy commitments to climate change. On average, the sampled banks rated an extremely low score of **0.18** out of 10.

It should be of note that while Philippine banks such as BDO and Land Bank are positioning themselves as champions for green energy, with Land Bank, in particular, being accredited by the United Nations Green Climate Fund, both scored very low on climate and nature. The only policy commitments outlined in bank policies were focused on ensuring that the companies which the banks invested in either disclose (Land Bank) or reduce (BPI, RCBC) their greenhouse gas emissions, or switch from using fossil fuels to renewable energy sources (BDO).

This is a trend noticeable throughout Southeast Asia, where the banks that were reviewed rated low in climate change policies. However, it takes on greater meaning for the Philippines due to its susceptibility to the hazards emerging from the climate crisis.

The BSP SFF issued on 29 April 2020 specifically cites climate change and the risk it poses to financial sustainability. It likewise recognizes the *"critical role"* of banks in enabling *"environmentally and socially responsible business decisions"*. With this, it is expected that banks will integrate more concrete and extensive sustainability measures in their policies.



GENDER EQUALITY

The Philippines is consistently ranked as one of the best places to be a woman in Asia, ranking 16th globally in the 2020 Global Gender Gap Index by the World Economic Forum.[29] The country is also far above average when it comes to women in leadership positions, with 46.6% of senior management posts in the country held by women compared to the global average of 24.14%.[30]

The Philippines has several laws and policies aimed at gender equality. These include:

- RA 7882, which was passed into law on 20 February 1995, and assists small-scale women entrepreneurs[31]
- The Anti-Sexual Harassment Act (Republic Act 7877), which became a law on 14 February 1995
- The Magna Carta of Women, which was passed on 14 August 2009.

However, even though the Philippines fares better than its Asian neighbours when it comes to gender equality, many gaps remain in women's economic empowerment in the country. While almost half of the senior management in the country are women, the Philippines has the lowest Labor Force Participation rate among women in Southeast Asia at 46%.[32] It also ranks among the lowest in safety for women in the Asia-Pacific region, based on a 2019 report by research firm Value Champion.[33]

Commitments in Philippine bank policies

Banks rate low in gender equality policies, with an average rating of 0.62. This was also the theme that was rated one of the lowest in the bank policy assessment, second only to climate change. Only three of the five sampled banks had policies for gender equality. These policies pertained mostly to internal operations, specifically a zero-tolerance policy for gender discrimination including sexual harassment, and at least 30% participation and equal access for women at senior level positions. Only one bank, RCBC, had a pay equity policy in place for the companies it invests in or finances.

None of the banks required the companies they invested in to have measures in place for protecting employees from physical or sexual harassment or to have a zero-tolerance policy for gender discrimination.

HUMAN RIGHTS

The Philippines is a signatory to the Universal Declaration of Human Rights

(UDHR) and eight core international human rights instruments, namely:

- The International Covenant on Civil and Political Rights
- International Covenant on Economic, Social, and Cultural Rights
- International Convention on The Elimination of All Forms of Racial Discrimination
- Convention on the Elimination of All Forms of Discrimination Against Women
- Convention on the Rights of The Child
- Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
- Convention on The Protection of All Migrant Workers and Their Families
- Convention on the Rights of Persons with Disabilities.

As a signatory to these treaties, the Philippines affirms its commitment to adhering to and upholding such fundamental rights. Respect for human rights is similarly enshrined in the Philippine Constitution, which emphasizes the prioritization of measures that *"protect and enhance the right of all the people to human dignity, reduce social, economic, and political inequalities, and remove cultural inequities."*

Despite this, the country's human rights landscape is fraught with violations, including those in the area of business and human rights. With the rise of the COVID-19 pandemic, labour issues and violations of labour rights have spiked. Land issues also remain rampant, especially in rural areas and indigenous lands. In 2019, the Philippines was also ranked the deadliest country for people defending land and the environment.[34]

Commitments in Philippine bank policies

Philippine banks scored an average of **1.14** in Human Rights policy ratings, with only three of the five banks assessed having policies pertaining to human rights. None of these banks had concrete and publicly disclosed policies regarding their respect for human rights as outlined in the United Nations Guiding Principles (UNGP) on Business and Human Rights (BHR). However, BDO and Land Bank have committed to aligning with the principles of the UN Global Compact and Equator principles respectively, which includes ensuring that they respect human rights and are not complicit in HR abuses. RCBC also applies IFC performance standard 2, which stresses non-discrimination and equal opportunity.

Notably absent from the policies are commitments to ensure that the companies they finance prevent conflict over land rights and acquire natural resources with free, prior, and informed consent (FPIC) of land users. However, both RCBC and Land Bank do have policies on the prevention of conflict, securing FPIC, and meaningful consultation with communities when it comes to indigenous people- Land Bank, by virtue of its commitment to equator principles. None of the banks also highlight policies on respect for the rights of children or for the integration of human rights criteria in the procurement and operational policies of companies they finance or invest in.

NATURE

The Philippines is extremely rich in biodiversity and natural resources. To protect this, the country has established the Philippine Environmental Management Bureau (EMB)[35] and the Environmental Compliance and Assistance Center (ECAC)[36] under the EMB to ensure that businesses comply with environmental laws and standards.

Major environmental laws in the country include:

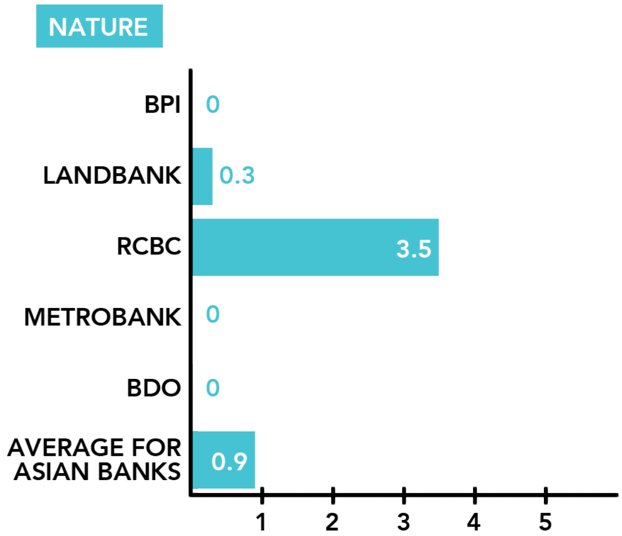
- Philippine Clean Water Act (RA 9003)
- Philippine Clean Air Act (RA 8749)
- Ecological Solid Waste Management Act (RA 9003).

Prior to their operations, all businesses that can potentially impact the environment are also required to get Environmental Compliance Certificates from the EMB.

Despite its solid policies, the country still faces many environmental challenges. As is common with developing countries experiencing the earlier phases of economic growth[37], the Philippines' rapid economic development can also bring corresponding environmental impacts, if left unmitigated. Pollution, illegal mining, soil erosion, and overfishing are only a few of the issues that pose environmental and subsequent economic challenges to the country.[38] A World Bank environmental analysis in 2009 also cites that while the Philippines has *"sound and comprehensive environmental laws and policies"*, it suffers from *"weak implementation"* on both local and national levels.[39] This was echoed by Department of Environment and Natural Resources (DENR) Secretary Roy Cimatu in February 2020, who stated that the Philippines has the laws but has a hard time implementing the same due to lack of *"personnel similar to police, and intelligence officers to handle enforcement"*. To address this gap, Cimatu is advocating for the creation of an *"Environmental Protection and Enforcement Bureau (EPEB) that shall pursue the stringent implementation of environmental laws, policies, rules and regulations with the assistance of personnel from the military, police, the National Bureau of Investigation and government prosecutors."*[40]

Commitments in Philippine bank policies

Despite the Philippines' roster of environmental laws, Philippine banks rate low in nature policies, scoring **0.76**, compared to the average of 0.9 in other Asian banks reviewed by Fair Finance. Only Land Bank and RCBC have mentioned policies regarding the protection of the environment for the companies they finance. Land Bank's policy is limited to compliance with the equator principles, whereas RCBC applies International Finance Corporation (IFC) performance standards 3, 6 and 8[41] for investments, pertaining to Resource Efficiency and Pollution Prevention, Biodiversity Conservation and Sustainable Management of Living Natural Resources, and Cultural Heritage. This covers multiple aspects of environmental protection, including the prevention of negative impacts of businesses on threatened species, protected wetlands, and UNESCO World Heritage Sites. However, concrete policies were missing for several key areas like water scarcity and the trade of endangered animals on the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) list.



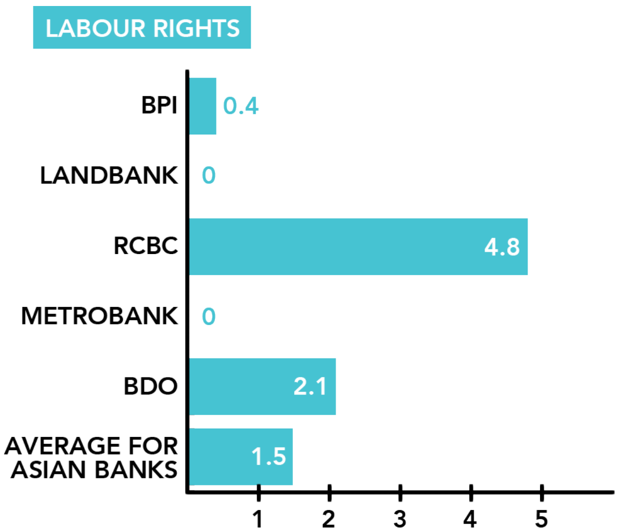
LABOUR RIGHTS

The Philippines is a signatory to the International Covenant on Economic, Social and Cultural Rights[42], which emphasizes the right to *"just and favourable"* conditions at work. This includes fair wages, safe working conditions, and reasonable working hours for workers and employees. The same is echoed in the Labor Code of the Philippines[43], which mandates adequate safety standards and the security of tenure, while protecting the workers' right to organize.

Despite this, the country saw a spike in labour disputes amid the COVID-19 pandemic, while unemployment reached a record high of 45.5% in July 2020 according to a Social Weather Stations survey[44]. While Pres. Rodrigo Duterte signed E.O. 51 to avoid illegal contractualization, schemes such as *"endo"* or end of contract remain. Additionally, workers in the informal sector have limited protection available to them.

Commitments in Philippine bank policies

Philippine banks scored an average rating of **1.46** for labour policies. Despite it being slightly higher than the Asian average of 1.4, this rating is still very low. Only three of the five banks sampled had labour rights policies directed internally and in companies they invest in. BPI and BDO had internal policies declaring compliance and support for employee rights. However, only RCBC and BDO had lending policies geared towards ensuring that the businesses they invested in upheld labour standards, including the right to collective bargaining. Only RCBC had mention of a health and safety policy in companies it invests in.



TAXES

Taxes are considered the lifeblood of the government and its main source of revenue. Taxes help support development by enabling development projects and government-funded infrastructure. Evasion or failure to comply with tax policies deprives the government of this revenue. An equitable tax system also distributes the tax burden evenly, depending on the wealth and income of taxpayers. Wealthier taxpayers bear a higher burden, in turn making greater contributions towards the functions and projects of the government. By financing businesses that pay proper taxes, banks also indirectly support the government.

Tax policies play a great role in managing tax risks, an essential component of the overall governance policies of financial institutions and businesses in general, thus underlining their importance for banks and their clients.

We are also witnessing a global trend towards institutional investors and corporates increasing their tax transparency because of tax incentives and concessions across jurisdictions for investments and projects that are sustainable, with particular focus on clean energy and green technology projects.

Commitments in Philippine bank policies

Philippine banks scored low in tax policies. While four of the five sampled banks had mention of policies on tax, these were often lacking in content and scope, putting the average rating for tax policies in Philippine banks at **0.96**. They also only pertained to the banks' internal operations, with none of the banks setting forth any concrete policies regarding tax compliance for companies they invest in or lend to. The policies, if any, pertained mostly to tax and profit reporting, or, for BPI's case, not having subsidiaries in jurisdictions with harmful or absent corporate tax practices. Only BDO had a policy explicitly stating that it has no dealings with shell or virtual exchange companies.

ARMS

The Philippines is a signatory to the Arms Trade Treaty[45], which seeks to regulate international weapons and arms trade. The country has also adopted the 2030 Agenda for Sustainable Development. SDG 16 on Peace, Justice, and Strong Institutions targets to *"significantly reduce illicit financial and arms flows"* by 2030.

Commitments in Philippine bank policies

Philippine banks scored a low rating of **0.94** in arms policies, with the score being buoyed only by policies from RCBC, as no other banks had publicly disclosed arms-related policies. Only RCBC had any publicly disclosed policy commitments against the supply and production of weapons or arms in companies it invested in or financed. No other banks had any lending policies against companies in the arms sector. The average for Asian banks was only slightly higher at 1.1.

CONSUMER PROTECTION

Ensuring consumer protection and safeguarding consumer rights are an integral part of bank sustainability. It paves the way to a healthier finance sector, where well-informed consumers can form relationships of trust with banks. In the Philippines, several laws are in place to ensure consumers are protected and can make decisions that best serve them. The Consumer Act (R.A. 7394) mandates the protection of consumers against deceptive sales practices, and providing them with accurate and adequate information to *"facilitate sound choice"* and *"proper exercise"* of their rights. It also mandates the provision of *"adequate rights and means of redress"* for consumers.

The Philippines also has the Truth in Lending Act (R.A. No. 3765), which requires banks to fully disclose the true cost of credit to customers to prevent *"the uninformed use of credit to the detriment of the national economy"*. At the height of the COVID pandemic in April, banks issued a 30-day moratorium on loan payments after the Bayanihan to Heal as One Act mandated a grace period for all loans, credit card payments and residential rent amid the ECQ. In September, the government again issued a 60-day grace period for loans due on or before December 31, 2020.[46]

Commitments in Philippine bank policies

Philippine banks fare relatively better in consumer protection policies compared to the other themes assessed in this study. However, on average, they still score low at **2.5**. All sampled banks have policies on the institutions' relationship with customers. These are mainly directed at ensuring that consumers have access to adequate remedial measures. RCBC, BDO, BPI and Land Bank also had publicly disclosed policies regarding client data protection.

However, none of the banks had any published policies that provided clear procedures for accountability in case of robbery, theft, and fraud. Neither did they have debt resolution policies or a code of conduct to protect customers against over-indebtedness. Only BPI had a comprehensive policy to avoid tie-in sales or inappropriate or misleading sales practices with regards to marketing and advertising. Notably absent were policy commitments related to providing accessibility for customers with disabilities and special needs or to prevent discrimination against clients.

FINANCIAL INCLUSION

The Philippines remains heavily unbanked, with an estimated 51.2 million Filipinos still without bank accounts. According to the 2017 Global Findex Survey, only 34% of Filipino adults have a bank account, while neighbours Indonesia, Thailand, and Malaysia have 49%, 82%, and 85% inclusion, respectively.[47] The primary reason for this was the lack of money, followed by the perceived lack of need for a bank account, and lack of documentary requirements, according to the 2019 Financial Inclusion survey conducted by the BSP.[48]

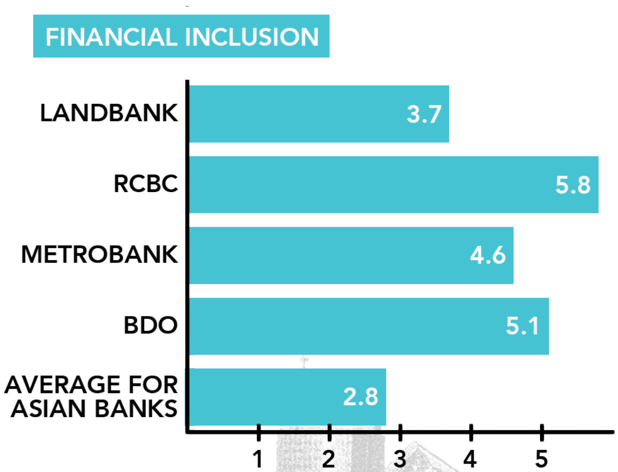
To address these challenges, the government included financial inclusion in the Philippine Development Plan (PDP) 2017-2022. Financial inclusion is one of the strategies to improve access to economic opportunities of Filipinos and stimulate economic growth. Additionally, the government continues to implement its National Strategy for Financial Inclusion under the guidance of the inter-agency Financial Inclusion Steering Committee, which was first launched in 2015.

BSP has been actively supporting and advocating for inclusive monetary policies and policy reforms focusing on digital financial inclusion and increasing financial literacy. In 2018, it released the BSP Circular No. 992 or the Framework for Basic Deposit Accounts, which outlined guidelines on how banks can offer low cost, easily accessible bank accounts to promote financial inclusion among more Filipinos. The number of basic deposit accounts has risen to 3.1 million accounts as of 2019 from 339,000 in 2018.[49] In 2019, the BSP was recognized as the 1st in Asia and 5th globally among governments promoting financial inclusion.[50]

Commitments in Philippine bank policies

Philippine banks fared highest in the Financial Inclusion theme, scoring an average score of **4.4** across the sample banks. Land Bank, being specifically mandated to promote development and spur financial inclusivity in rural communities, received the highest score with a rating of 5.8. All reviewed banks had policies and services specifically targeting marginalized groups and the poor in addition to having mobile banking services and branches in rural areas. However, only Land Bank and RCBC reported having more than 10% of their loans channelled to Micro Small and Medium Enterprises (MSMEs).

Four of the banks (BDO, Land Bank, RCBC, and BPI) were also found to have policies aimed at improving the financial literacy of low-income, marginal groups and MSMEs. Despite this, none indicated having terms and conditions available to clients in the local language. Lastly, only two banks, BDO (through its Kabuhayan Loan) and MetroBank (through its subsidiary, the Philippine Savings Banks (PS Bank)), disclosed having services that did not require collateral for MSMEs to borrow funds.



TRANSPARENCY AND ACCOUNTABILITY

The Philippines has stringent bank secrecy laws, prompting calls to lift such laws as a safeguard against potential fraud. The Bank Secrecy Law (Republic Act No. 1405), which prohibits disclosure or inquiry into deposits in banks, was enacted in 1955.[51] However, it has been criticized as an obstacle to effective investigations and anti-corruption measures.[52] The country also has the Foreign Currency Deposit Act (RA 6426) which extends the same confidentiality to foreign currency deposited in banks, except with the written permission of the depositor.

Such laws have proved to be hindrances in anti-corruption investigations against government officials in the past, and in 2019, the BSP itself expressed to Congress the need to amend the Bank Secrecy Law to comply with international transparency standards and combat financial crimes such as tax evasion and money laundering.[53]

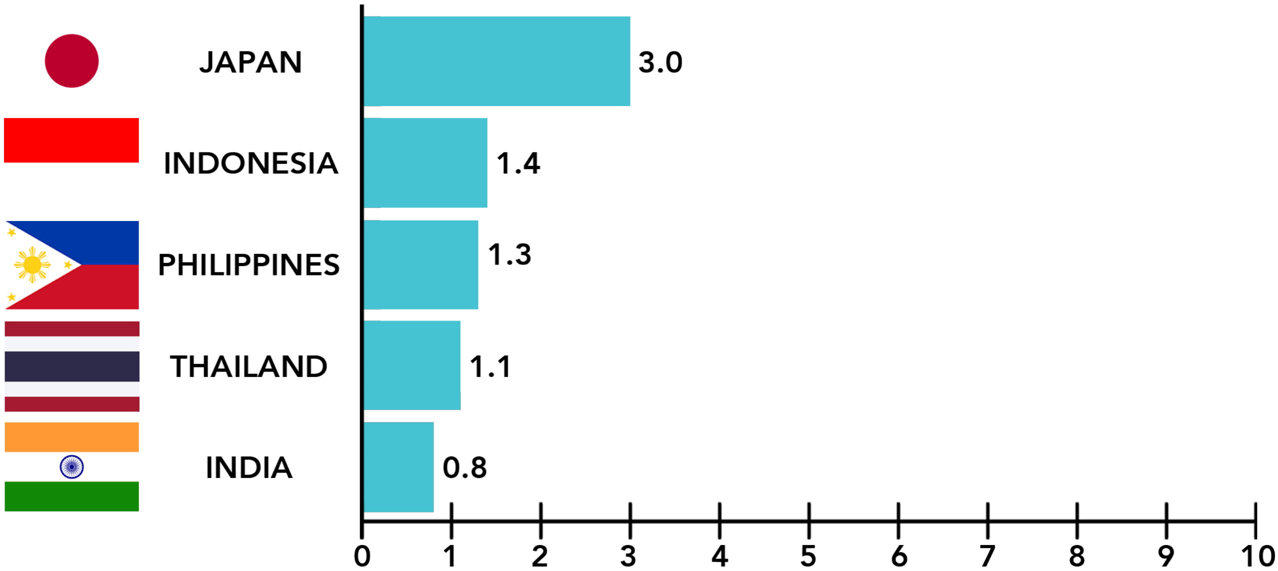
Recently, some financial institutions in the Philippines have been dragged into or have been accused of being involved in international finance controversies, renewing calls to increase transparency and amend bank secrecy laws in the country to protect the financial sector.[54]

Commitments in Philippine bank policies

The sample banks scored low in accountability, with an average rating of **1.28** among the five Philippine banks reviewed for the study. Of the five banks, four disclose their finance and investment frameworks with regards to E&S issues. However, only RCBC has its framework audited by a third party and publishes these results.

Also, none of the banks discloses the names of companies it invests in or to which it has granted credit above USD 10 million. While all banks publish breakdowns of their portfolio by region, size, and industry, none provide sufficiently detailed breakdowns of their portfolio beyond this. Neither do they publish companies that have been blacklisted or excluded from investment due to sustainability issues or the reason for this exclusion. Only Land Bank publishes a sustainability report in accordance with GRI standards, although BPI and BDO publish reports that contain some disclosures. It was meanwhile found that only BPI and RCBC had policies that indicated that their sustainability reports were verified externally. Only Land Bank participates in grievance mechanisms for communities adversely impacted by the activities it is connected with.

PHILIPPINE BANK POLICIES IN RELATION TO ASIAN BANKS



AVERAGE SCORES PER COUNTRY FOR THE NINE THEMES ASSESSED

The aggregate Philippines bank policy ratings fall in the middle of the five Asian countries whose banks policies have been reviewed for the Fair Finance Guide. Based on nine of the eleven outlined themes, the Philippines ranked third, with an average score of 1.3, following Japan, which scored 3.0, and Indonesia, with a score of 1.4. This ranking, however, excludes the theme scores for financial inclusion and consumer protection, which are the first and third highest theme scores for Philippine banks.

It should be noted that the Philippines also scored far below average for climate change among the five countries, rating 0.18 against the average of 0.4. Considering that the Philippines has been deemed most at risk from the climate crisis by several studies, it is imperative that banks in the country step up their environmental and climate policies with the sustainable finance framework.

Interestingly, Philippine banks also scored lower for gender equality policies, despite the Philippines being ranked as one of the most gender-equal countries in Asia. Other themes where Philippine banks fell behind the average score were nature, arms, and transparency and accountability.

THEME	PHILIPPINE BANKS	AVERAGE SCORE
CLIMATE CHANGE	0.18	0.4
GENDER EQUALITY	0.62	1
NATURE	0.76	0.9
ARMS	0.94	1.1
TRANSPARENCY & ACCOUNTABILITY	1.28	1.9

TABLE 2: Themes where Philippine banks scored below the average

On the other hand, Philippine banks scored above average in four of the policy themes. These were taxes, human rights, and labour rights (see Table 3). The Philippines also scored higher than average for corruption-related policies (4.2), which had the highest average score for the nine themes reviewed across the six countries at 3.7.

THEME	PHILIPPINE BANKS	AVERAGE SCORE
TAXES	0.96	0.8
HUMAN RIGHTS	1.14	1.1
LABOUR RIGHTS	1.46	1.4
CORRUPTION-RELATED POLICIES	4.02	3.7

TABLE 3: Themes where Philippine banks score above the average

In general, there was an absence of attention to human rights, gender issues, and biodiversity by banks across the countries included in the study. Climate change was notably the weakest point on average among all the themes.

WAYS FORWARD

As the country recovers from the impact of the COVID-19 pandemic, financial institutions have a great role to play in building back better our economy and society. The Fair Finance Asia Policy Assessment shows several weak points in banking policies among the major Philippine banks. Most notably, these fall under climate policies, nature, and transparency and accountability. With the advent of the SFF, Philippine banks are poised to improve their policies and ratings.

A top priority for banks in the country should be to strengthen their climate change policies, which fell low even in comparison to other Asian countries. Financial institutions have a key role in ensuring that the Philippines is on track to the reach the climate goals enshrined in the several Climate Agreements that it is a signatory of. However, efforts to strengthen environmental criteria among banks must also be holistic, adequately meet social and governance guidelines, and not overlook associated issues that accompany environment-related projects. Further, these efforts should not be limited to just boosting green bonds and renewable energy, but also integrate policies that actively monitor and mitigate climate risks among banks and the companies they invest in. Applying robust, comprehensive, and sharp policies are key, especially as the Philippines, its economy, and by association, its banks and businesses, stand to be severely affected by an unmitigated climate crisis.

Transparency is another key issue that banks must improve on, as it is further tied to other themes like corruption and consumer protection. Several financial institutions in the Philippines have been dragged into global controversies in recent years. Such issues bring reputational risks and can foment distrust in financial institutions. Transparency is a prerequisite for accountability, increases trust[55], and allows elevated opportunities for the improvement of services. As a first step towards increased transparency, banks in the Philippines are encouraged to disclose their policies. Such a move can help banks integrate sustainable finance in their operations more effectively by opening policies for thorough review and collaboration. The Fair Finance policy assessment team noted that Philippine banks had limited disclosure or publicly available information on its policies, affecting their ratings. Greater transparency and disclosure from the banking sector in the coming years can help improve these ratings in future policy assessments.

Lastly, it must be noted that while the Fair Finance policy assessment is based on a comprehensive and updated review of global standards, its scope is limited to a review of bank policies and cannot fully reflect the external implementation of these policies. It is therefore recommended that civil society, the public, and the government remain active in monitoring banks for true compliance and practice of the policies that they have set in place, using the assessment as a guide. This can be done with increased public awareness on the role banks play in crucial environmental, social, and governance issues.

The Sustainable Finance Framework leaves room for banks to determine their own means and methods for integrating E&S principles in their operations. The success of sustainable finance in the Philippines is therefore largely dependent on the banks' capacities and commitment towards truly and effectively integrating E&S criteria in their policies. The methodology and scorecard in this policy assessment can help serve as a benchmark for Philippine banks and identify policies that can be further strengthened as they move towards sustainable finance in the coming years. This in turn helps keep Philippine banks globally competitive, as the methodology is based on various international policies on ESG criteria and human rights integration. FFA also advises greater collaboration between banks and other stakeholders, including regulators and civil society organizations, that can increase their capacity to effectively integrate ESG principles in their policies and systems.

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