



## **Engaging with National Financial Sector Regulators: Lessons Learned from the Bank of Thailand & Fair Finance Thailand**

**Wednesday, 9 September, 14:00 – 15:00 (UTC/GMT +7 hours)**

### **1. Background**

The Thai Government has acknowledged that addressing environmental, social and governance (ESG) risks including climate change, environmental degradation, and income inequality, are critical to the sustainability of the Thai economy. The financial sector has a crucial role to play in mitigating these risks, by managing the impacts associated with their lending activities, incentivizing clients to adopt ESG practices, and building resilient portfolios.

To encourage the development of the sustainable finance ecosystem in Thailand, the Bank of Thailand (BOT) has supported the launch of the ‘Sustainable Banking Guidelines – Responsible Lending’. BOT signed a Memorandum of Understanding with the International Finance Corporation (IFC) in November 2019, to develop a Sustainable Finance Policy Framework, with a roadmap and tools to help the sector improve ESG risk management practices.

These developments in the sustainable finance landscape in Thailand go hand in hand with the initiatives of civil society organizations (CSOs) and coalitions including Fair Finance Thailand, that are leading the advocacy, influencing, and capacity building facilitation on ESG accountability for financial actors. Fair Finance Thailand conducts research on the sustainable finance landscape in Thailand, publishes policy assessments on Thai commercial banks, and advocate for a shift to sustainable banking.

This webinar aimed to foster a better understanding of BOT’s perspective on the role of regulators in the implementation of sustainable finance in Thailand, and how to deepen stakeholder engagement on key issues particularly with CSOs. Together, the speakers engaged in a dialogue on potential collaboration and practical support that both actors can provide each other to accelerate the development and delivery of sustainable finance policies and initiatives in Thailand and Asia overall.

The objectives of the webinar were to:

1. Foster a better understanding on the sustainable finance landscape in Thailand to date, and how recent national developments can potentially impact its cross-border investment policies within ASEAN and Asia overall;
2. Highlight the role that CSOs can play to support the work of financial sector regulators in implementing national sustainable finance policies and initiatives;
3. Discuss potential areas for collaboration and support between financial regulators and CSOs working on sustainable finance and cross-border investments in Asia.



## 2. Discussion Highlights

The webinar involved a lively discussion between **Swisa Ariyapruhya, Deputy Director, Regulatory Coordination and Sustainable Banking Division, Bank of Thailand (BOT)** and **Sarinee Achavanuntakul, Program Lead of Fair Finance Thailand and Sal Forest Thailand**. The conversation was moderated by **Dia Mawesti from ResponsiBank Indonesia**.

A number of key themes and issues were addressed during the discussion, highlighting the implementation of sustainable finance in Thailand, BOT's perspective on the landscape, multi-stakeholder collaboration, and regional developments.

### Multi-Stakeholder Collaboration

It is clear from the discussion that there is a huge potential for collaboration between regulators, financial institutions and CSOs working on sustainable finance. On a number of occasions during the session, it was stressed that banks are looking for expertise in developing policies and safeguards and that CSOs can help with that process where they have specific expertise and links to grassroots communities. Developing effective ESG practices and identifying socio-environmental risks will include stakeholder dialogue with communities and people on the ground. Doors need to be opened to a wide range of stakeholders (bottom up) as well as regulators (top down) to influence the ESG policies being developed at the national level in Thailand and in Asia overall.

Sustainable finance and the promotion of ESG is seen as a journey for BOT. Whilst some positive foundations have been laid out with respect to governance, it was recognised that there is a need for further capacity building on environmental and social issues, in particular. There is a role for CSOs and other subject matter experts to provide the knowledge necessary to support this capacity building.

Both speakers agreed on the importance of encouraging banks towards a "race to the top". Many banks in Thailand have regional ambitions, and many are looking for good ratings and striving to adhere to positive sustainability metrics. Sarinee built on this point by expanding upon the policy assessments carried out by the Fair Finance Thailand coalition. The Fair Finance Guide (FFG) Methodology has been positioned as a tool to help the banks achieve this. Although FFG assessment scores remain very low in Thailand, they have been gradually progressing. Scoring the banks through the assessments is adding to the "competitiveness" between the banks and interest in using the methodology is growing. The assessments have supported in engagement with banks at a time when the regulator is also setting the tone and putting pressure on the banks to think more about the importance of sustainable finance.

### Opportunities and Challenges in Implementation of Sustainable Finance

Swisa highlighted BOT's new sustainable finance priorities and action plan and pointed out the ongoing challenges of working on sustainable finance in the context of promoting financial stability during the COVID-19 period. Shifting priorities and resource allocation to respond to the pandemic, may lead to sustainable finance issues taking a secondary focus. There remain major challenges in balancing the needs of various (and sometimes conflicting) stakeholders involved in financing decisions. When assessing the ESG factors involved in a project, there is often resistance on the part of financial institutions in turning down loans and missing out on future business.



As a result, there is a need for CSOs to continue to draw attention to the on-the-ground impacts of financing on vulnerable communities and the environment, and for regulators to set mandatory foundational standards and benchmarks for sustainable finance in order to be able to accelerate compliance and implementation. Dia emphasized this, by citing examples of the Indonesian coalition's engagement with the national regulator, OJK. Dia pointed out that more often, the absence of the regulation is not the issue, but rather how to get financial institutions to comply and implement the regulations in an effective and meaningful manner.

On the one hand, in Thailand most commercial banks have already signed up to the Sustainable Finance Guidelines and whilst BOT is now working on the development of sustainable banking regulations, it emphasizes that the approach to sustainable finance should be an industry led one in order for understanding and integration to be meaningful. On the other hand, Sarinee and other CSOs believe that financial regulators have an important role to play particularly in laying down the foundations for mandatory regulations on ESG transparency and accountability if we are to urgently meet our shared commitments towards the SDGs and Paris Agreement.

Understanding of ESG issues and principles is relatively nascent in the region and has often been placed as a responsibility for Sustainability Departments in financial institutions. But many feel that ESG needs to be better integrated across all departments in a bank, especially amongst those making loans and assessing credit risks. ESG issues must be part of the business decision and not an "add-on". Human resources, expertise and skills remain a challenge in Thai banks. BOT has been continuing with its (virtual) training supporting banks to develop their policies. Ongoing capacity building is key. BOT is keen to ensure that ESG issues do not end up as a series of "checklists". There is a need for proper understanding and implementation of ESG issues across all departments in banks for a coordinated approach.

Forums such as the Bangkok Sustainable Finance Forum seen as useful by both BOT and CSO coalitions in promoting the importance of ESG, and understanding of associated risks. These platforms enable engagement with senior management in the banks, which has been very important in Thailand so they understand the strategic importance and value of ESG issues. Messaging from senior management and executive leadership within a financial institution is seen as very valuable to encourage greater understanding across employee groups.

### Cross-border Investments & Regional Collaboration

It was noted that in Thailand cross-border investment interests are increasing, with many Thai banks becoming regional players and financiers. This means that Thai banks can be advocates for sustainable finance and take a leadership role within the region. But there remain challenges for implementation at the regional level.

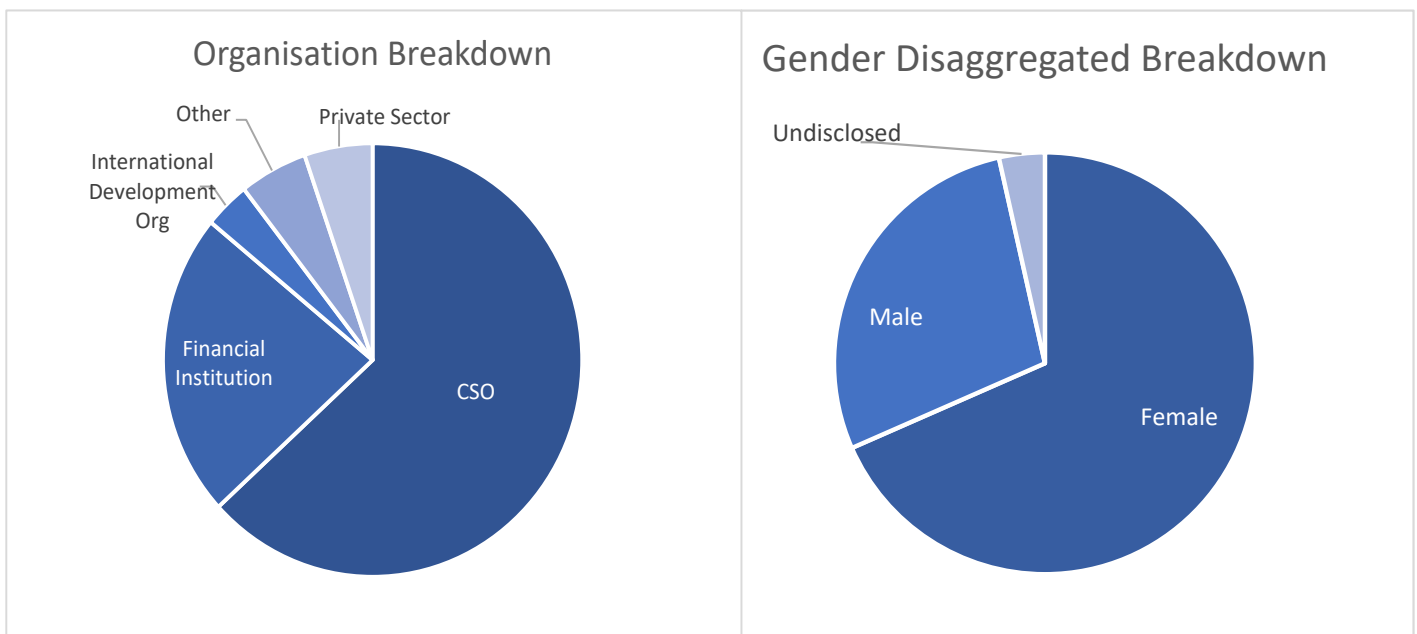
To draw attention to these challenges, Sarinee spoke about some of the case studies developed by the coalition on the financing of regional dams and hydropower by Thai banks. In this regard, the emphasis has been on changing the way that projects are financed to integrate sustainability and fair finance issues. This is important to reduce and mitigate the negative impacts of some large infrastructure projects that receiving cross-border financing.



In response, BOT stated that they are actively involved in policy discussions with other central banks and regulators to promote greater adoption of sustainable finance principles, and transparency. Many regional banks are now also part of the “Network of Greening the Financial System” so working with other regulators will be increasingly important in the future. Thailand’s growing cross-border investment interests in ASEAN are an opportunity to increase its regional influence, by ensuring continuous progress happens at the national level sustainable finance policy development and implementation.

### 3. Participant Profile

A total of 57 participants joined the webinar



### 4. Feedback from Participants

A total of 12 participants provided in-depth feedback after the webinar. Detailed statistics are available for reference, but a summary of responses highlighted the following:

- 69% of respondents to the feedback survey were from civil society organisations, and 16% were from financial institutions. Other respondents included representatives from the private sector.
- 87% of respondents strongly agreed that the content of the webinar was relevant to their organisation’s line of work, and 80% strongly agreed that they will be able to apply the lessons learned to their own engagement activities.
- 83% agreed that the speakers were able to deliver their lessons effectively, and 81% agreed that questions were answered clearly.
- 90% of the participants rated the webinar overall either highly or very highly.



Participants expressed that they would also like to understand if regulators such as the Bank of Thailand, will be using or referencing any ESG safeguard policies developed by international or multilateral financial institutions such as the World Bank, Asian Development Bank (ADB) or International Finance Corporation (IFC). The feedback received by participants highlights the need for ongoing attention in this area, to build capacity and strengthen engagement by CSOs and contextualize existing frameworks for realities experienced on the ground.

## 6. Next steps

There were a number of themes and issues raised in the webinar that can support going forward into the next phases of work. These included:

- The need for capacity building is still very important and many banks lack the expertise and knowledge to take a comprehensive approach to all ESG issues. There is a role for FFA and other partners to provide more capacity building and training for FIs and well as offering expertise where relevant.
- There is a need to better engage with the senior management in banks, carrying out some engagement and interaction with them so that they see the strategic importance of ESG.
- There is an opportunity to further use FFG assessments as a tool for continuous improvement. Experience from Thailand suggests that the FFG methodology has been useful to the commercial banks.
- FFA partners and coalitions can help the banks with the development of their ESG policies and guidelines by opening up consultation avenues with a range of stakeholders (particularly communities).