FAIR FINANCE ASIA

TIME TO TURN

THE STATE OF SUSTAINABLE FINANCE IN ASIA: 2020

CONTENTS

ABOUT FAIR FINANCE ASIA

Fair Finance Asia (FFA) is a regional network of Asian civil society organisations that are committed to ensuring that the business decisions and funding strategies of financial institutions in the region respect the social and environmental well-being of the communities in which they operate. Seven countries within the region are a part of the FFA: Cambodia, Japan, India, Indonesia, The Philippines, Thailand and Vietnam.

Fair Finance Asia is part of Fair Finance International, which is a global network of over 70 CSOs active in 14 countries. As an Oxfam-administered program, FFA also works more broadly with Oxfam's regional CSO networks on cross-cutting themes that are relevant to sustainable finance, such as gender and human rights.

INTRODUCTION

Financial institutions play a critical role in populations' social and environmental welfare through their decisions to fund companies that can have positive and negative impacts on communities' lives. This is particularly true in Asia, which is not only home to 60% of the world's population, but also the engine of global economic growth and consequently a major market for financial institutions.

Funding businesses that operate in a socially and environmentally responsible manner has massive benefits for all, including economic and employment gains, as we show in this report. However, as we also show, the direction and speed of travel in Asia isn't encouraging. This is most evident in the region's extremely slow progress towards the 17 Sustainable Development Goals (SDGs) – measures of social, environmental and economic sustainability that are heavily influenced by companies and the financial institutions that fund them.

> The direction and speed of travel in Asia isn't encouraging.

Greenhouse gas emissions, deforestation, human and labour rights abuses, and other issues, all remain significant problems, particularly in high-risk sectors such as energy, agribusiness and infrastructure. And, in the near term, those problems could get worse as companies and their funders in Asia try to recover in the wake of COVID's impacts, particularly as they face pressures on their loan portfolios, possibly turning a blind eye to social and environmental violations.

Financial regulators need to step up to the plate and establish mandatory requirements for financial institutions to assess, and publicly report on, the environmental and social risks of the companies they fund. This is especially important in Asia, where banks have no binding obligations. Although some financial institutions are voluntarily moving in this direction, their approaches differ in both rigour and comparability. A consistently applied approach for all institutions across the region is necessary, especially as a high proportion of funding for business is cross-border. Recommendations for moving forward can be found at the end of this report.

> Financial regulators need to step up to the plate.

This 'state of sustainable finance in Asia' report is FFA's first, so we are conscious that there is room for improvement and would welcome any suggestions for strengthening it in the coming year. In the meantime, we hope you find it useful in the drive to develop a more social and environmentally responsible financial sector, which is in everyone's interest.

REASONS FOR CONCERN AND OPTIMISM

Financial institutions have the potential to generate significantly more economic and social value in Asia by funding businesses that are aligned with the SDGs. Unfortunately, the region is a long way off that point, as we highlighted in our FFA-SOMO report, *Asia's Dystopian Future? – Why Banks Need To Put Sustainable Finance Clearly In Their Sights*.

WORRYING DEVELOPMENTS

An SDG shortfall

37

of the 57 SDG targets are unlikely to be achieved in Asia by 2030, with no progress in protecting the oceans and forests, reducing inequality or climate action. Globally, an extra $3 trillion each year is needed in developing countries to hit the targets.

Approximately **25%** of the land is now in a degraded state in Central and Southern Asia due to pollution and inappropriate agricultural practices.

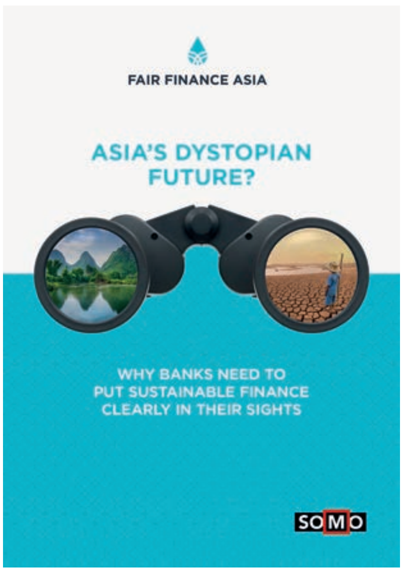
An estimated 60 million children in South Asia are in child labour, mainly in agriculture.

Climate crisis

40%

of the of the world's greenhouse gas emissions are produced by just three Asian countries, including two FFA countries: China (30%), India (7.2%) and Japan (2.7%)

An additional **$3 trillion** of green investment is needed in ASEAN countries between 2016 and 2030 for them to achieve their commitments under the Paris Agreement on climate change.



REASONS FOR CONCERN AND OPTIMISM (continued)

WORRYING DEVELOPMENTS

COVID's complications

Pre-COVID, UNESCAP estimated that the GDP of the Asia-Pacific region could decline by **3.3%** from current levels by 2050 if countries do not abandon their business-as-usual approach to growth.

Due to COVID, real GDP in FFA's seven countries is estimated to shrink by **1%** to **2.2%** in 2020, reducing government's fiscal space for sustainable development initiatives. Moreover, the extra financial resources needed to fill the poverty gap and to get people out of poverty are estimated to increase by 60%.

GROUNDS FOR OPTIMISM

Economic opportunities

$5 trillion

of extra business and an additional 230 million jobs could be created in Asia Pacific if financial institutions fund SDG-aligned companies

68% of private equity investors in Asia Pacific say that they're seeking investments that have positive social and environmental impact, alongside financial returns.

Support for sustainable finance

94%

of staff in central banks and monetary authorities surveyed in South East Asia said that their institutions should encourage low-carbon financing and green initiatives. However, only **22%** said they had mandates to support those types of investments.

There are encouraging signs that some funders, such as Japan's Mizuho and the Philippines' RCBC, are agreeing to lessening their coal financing, Several Asian countries have also made net-zero commitments, such as China, Japan and South Korea

FINANCIAL FLOWS IN HIGH-RISK SECTORS

To determine a sustainable way forward, it's important to understand Asia's financial flows, particularly who funds sectors that are most at risk of social and environmental abuses. Due to the scale and complexity of financial markets, this is essential to prioritise and focus on particular areas.

FFA commissioned research into this issue. Below we summarise some of the key findings from the study.

A complex web

There's a complex web of cross-border funding, underlining the need for a regional approach to regulating how banks deploy their finance. All FFA countries invest in their peers to varying degrees, with the exception of Cambodia.

Three countries are especially active in cross-border finance – Japan, Thailand and India.

	Agribusiness	Fossil fuels	Infrastructure	Power
Japan	●●●●	●●●●	●●●●	●●●●
India	●●	●●●●	●	
Indonesia	●	●		
Thailand	●●	●●●	●	●●●●
Philippines	●●●	●●●		
Vietnam	●			

FINANCIAL FLOWS IN HIGH-RISK SECTORS (continued)

High stakes

$550 billion+

of funding is provided by banks to four sectors in Asia that are prone to social and environmental abuse – energy, agribusiness, power and infrastructure, with Japanese banks the biggest funders.

Japanese financial institutions account for **74%** of the $225bn funding for fossil fuels amongst all FFA countries, and funds this sector in five of the six other FFA countries.

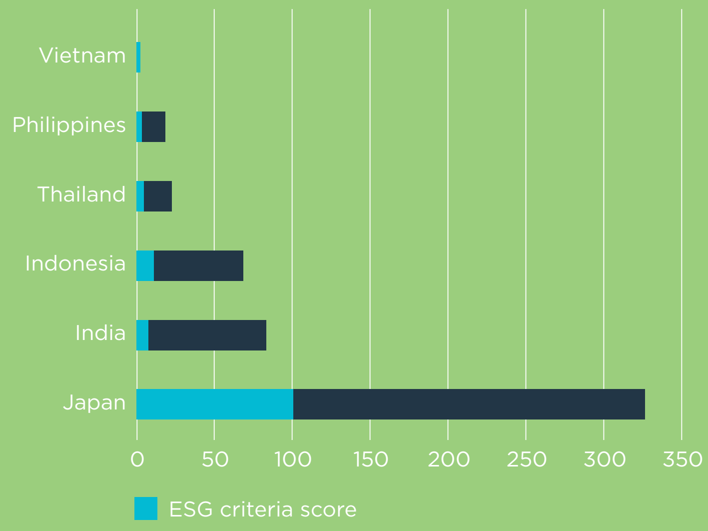
Little social and environmental screening

70-90%

of funding in each country is not assessed against social and environmental criteria, and so potentially damaging local communities.

On average, the scores for key measures of social and environmental compliance across all seven FFA countries are low, particularly for climate change (4%), gender equality (9%) and labour rights (13%).

Countries' total funding and degree of compliance with ESG criteria



THE REGULATORY AND POLICY LANDSCAPE

There have been positive regulatory and policy developments at a national level to support 'sustainable finance', but these have tended to be piecemeal, without any regional coherence that addresses the cross-border nature of financing businesses. Although there are regional initiatives that promote sustainable finance, they lack the 'teeth' to transform their advice into a reality.

NATIONAL INITIATIVES AMONG FFA COUNTRIES

JAPAN

- The Government of Japan established an '**SDGs Promotion Headquarters**' in 2016 to oversee the implementation of the SDGs among relevant government bodies.
- The Ministry of Environment, Ministry of Economy, Trade, and Industry, and the Japan Financial Services Authority, have supported a variety of sustainable finance initiatives, including supporting **climate-related disclosures** as part of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- The country launched a **National Action Plan on Business and Human Rights**, facilitated by the International Labour Organization (ILO) and involving a broad range of stakeholders, including Government Pension Investment Fund (GPIF).
- Japan is one of 49 governments to set up a **National Contact Point (NCP) for Responsible Business Conduct (RBC)**, which promotes the OECD Guidelines for Multinational Enterprises.

INDIA

- India's Ministry of Corporate Affairs published the **National Guidelines on Responsible Business Conduct** in 2019.
- The country's top 1,000 listed companies by market capitalization are required to file **responsible business reports**.
- The country is also developing a **National Action Plan on Business and Human Rights**.
- In addition, India was a founding member of the International Sustainable Finance Platform with IFC.

THAILAND

- The Government of Thailand launched a **National Action Plan on Business and Human Rights** in 2019.
- The Thai Bankers' Association issued **Responsible Lending Guidelines** in August 2019, based on international standards and guidelines.
- The Bank of Thailand signed a **Memorandum of Understanding with the IFC** in November 2019, acknowledging the importance of integrating ESG criteria into the financial sector.

PHILIPPINES

- In 2019, the Philippine Securities and Exchange Commission (SEC) mandated publicly listed **companies to submit a sustainability report**, as part of their annual reporting, with a focus on economic, environmental and social topics.
- SEC also produced **guidelines on the issuance of social and sustainability bonds** in line with the standards of the Association of Southeast Asian Nations (ASEAN).
- The Central Bank of the Philippines (BSP) recently released a **Sustainable Finance Framework**, requiring Philippine financial institutions to embed environmental, social and governance principles into their organisation, and to set up a risk management framework.

VIETNAM

- In 2015, the State Bank of Vietnam (SBV) issued a **Directive on Promoting Green Credit Growth and Environmental and Social Risks Management** in Credit Granting Activities.
- The Central Cank of Vietnam introduced the **green bank development programme**, setting objectives for lending to green industries, encouraging green practices among clients and incorporating environmental and social risks into banks' internal regulations.

INDONESIA

- In 2017, OJK also established **Regulations on Application of Sustainable Finance**, requiring financial institutions to submit an annual plan as well as a sustainability report.
- The Ministry of Agriculture implemented the **Indonesian Sustainable Palm Oil (ISPO) certification** system in 2011.
- Indonesia also started to develop a **National Action Plan on Business and Human Rights** in 2019.

THE REGULATORY AND POLICY LANDSCAPE (continued)

Memberships of bank supervisory and regulatory authorities of FFA-Plus countries in international alliances of regulators working on sustainable banking and finance

Country and authority	Sustainable Banking Network (SBN)	Network on Greening the Financial Sector (NGFS)	Financial Stability Board (FSB)	Basel Committee on Banking Supervision (BCBS)	Coalition of Finance Ministers for Climate Action	International Platform on sustainable finance (serviced by the EC)	Issuance of official national policies guidelines, principles or roadmaps on sustainable finance
China	● and: China Banks Association	●	●	●		●	●
Japan		●	●	●			
India	Indian Banks Association		●	●		●	National Voluntary Guidelines for Responsible Financing by the Indian Banks Association
Indonesia	●	●	●	●	●	●	●
Thailand	Thai Bankers Association	●					Sustainable Banking Guidelines Respsnible Lending by the Thai Bankers Association
Philippines	●	●			●		●
Vietnam	●						●
Cambodia	Association of Banks in Cambodia	●					●

THE REGULATORY AND POLICY LANDSCAPE (continued)

REGIONAL INITIATIVES

- **The Association of Southeast Asian Nations (ASEAN)**, established in 1967 and with 10 member countries, has produced: an ASEAN Action Plan on Joint Response to Climate Change; the ASEAN Guidelines on Promoting Responsible Investment in Food, Agriculture and Forestry; and the ASEAN Green and Social Bond Standards.
- **The Sustainable Banking Network (SBN)** is a voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to promoting sustainable finance in line with international good practice.
- **The Network of Central Banks and Supervisors for Greening the Financial System**, was launched in 2017 to help the financial system manage the risks and mobilize capital for green and low-carbon investments in order to achieve the Paris agreement.
- **UN Principles of Responsible Banking** were launched and will be supported by a CSO advisory board.
- **The Alliance for Green Commercial Banks** was initiated by the IFC to bring together financial institutions, banking industry associations, research institutions, and innovative technology providers to work together to develop a community of green commercial banks.

HOW CAN FFA CONTRIBUTE?

As a regional network of more than 70 civil society organizations in seven countries in Asia, FFA provides both a regional and grassroots national perspective. Working closely with our CSO partners and other organizations, we're helping to advance sustainable finance in the region in several ways.

PROVIDING EVIDENCE AND ADVOCACY

Financial institutions and their regulators need to make evidence-based decisions. FFA provides that evidence through commissioned research and policy analysis, as well as helping to elevate and shape the discussion through forums, blogs and other channels.

Building the evidence base

- Research by FFA and Profundo revealed the scale and complex flow of banks' funding between the seven countries currently covered by our partners in Asia
- The FFA-SOMO report, *Asia's Dystopian Future?*, highlighted the scale of the social, environmental and economic problems that Asia faces if it fails to embrace sustainable finance, and provided recommendations for banks and regulators.
- Our partners in our seven countries assessed and published banks' policies compliance with environmental, social and governance criteria. Two countries did this for the first time – Cambodia, the Philippines and Vietnam.

Engaging in discussions

- FFA Philippines provided inputs to the Sustainable Finance Framework, launched by the country's central bank.
- FFA India contributed to the Business Responsibility and Sustainability Reporting framework being developed by the Stock Exchange Board of India (SEBI).
- Together with ResponsiBank Indonesia, we promoted the role of sustainable finance in ensuring sustainable palm oil production in Indonesia.
- A Fair Finance Thailand policy brief highlighted the risks of households becoming over-indebted during the COVID pandemic.
- Local communities' voices and interests were represented in case studies of two controversial hydropower projects in Laos financed by Thai banks.

HOW CAN FFA CONTRIBUTE? (continued)

BUILDING CSOS' CAPACITY

During 2020, FFA held five regional capacity-building webinars, attended by more than 400 participants in total. These were complemented by regular, national-level training initiatives run by FFA's in-country partners. Some of the issues covered included:

- Training in Building Impactful Case Studies.
- Developing Effective Campaigns for Financial Sector Advocacy: Highlighting Environmental Risks & Challenges.

- Sustainable Finance in the Time of COVID: Advocacy in Changing National and International Landscapes.
- Financial Sector Regulators: Lessons Learned from the Bank of Thailand & Fair finance Thailand.

ENHANCING FINANCIAL INSTITUTIONS' UNDERSTANDING OF SUSTAINABLE FINANCE

We explain to financial institutions the core principles and benefits of sustainable finance, embodied in the Fair Finance Guide Methodology, and how they relate to practical implementation, such as systematically screening loans and investments for social and environmental impacts. Examples include:

- *Greening the Financial Sector*, attended by more than 40 national and international organizations, including the Asian Development Bank and the Vietnam Bankers Association, as well as speakers such as the Head of Sustainable Finance from the Philippines' BDO Unibank, organized by Fair Finance Vietnam.
- *Integrating Human Rights Considerations into Financing Decisions*, with speakers from Ausbil Investment Management, ELEVATE and the Thailand Community Resource Centre (CRC), organized by Fair Finance Philippines.
- *Addressing Supply Chain Risks and Trends in the Palm Oil Sector*, involving more than 180 participants, including 34 from financial institutions, organized by ResponsiBank Indonesia.
- *Worksop for Thai Bankers on Responsible Lending Policies*, with 15 participants from seven Thai banks, organized by Fair Finance Thailand.

HOW CAN FFA CONTRIBUTE? (continued)

COMMUNICATING INSIGHTS AND PERSPECTIVES

We communicate on sustainable finance issues and developments to audiences in the public and private sector through a variety of channels, from Twitter and FaceBook through to our website. During the year, we not only trebled our Twitter followers and increased visitors to our site by 10 times, but also generated coverage in leading media outlets, such as *Reuters Breaking Views*, *Japan's Business Times*, and Singapore's top business radio station, *Money FM 89.3*.

COLLABORATING WITH OTHER ORGANIZATIONS

The complex regional and multi-sectoral nature of the challenges in advancing sustainable finance requires a collaborative effort involving a range of organizations. In addition to our network of Asian CSOs, and our affiliation with Fair Finance International, we work with an increasing number of international, regional and sectoral organizations and programmes.

For example, for our #DecadeOfAction roundtable launch of our FFA-SOMO report (see above), we brought together 10 leading international players, such as the IFC and Asia-Pacific Financial Forum, and UNEP-FI. We have also started to build sectoral engagement, for instance, providing inputs to strengthen the policy tool for the ASEAN Guidelines for Responsible Investments in Agriculture and Forestry together with Grow Asia, and GRAISEA.

OFFERING EXPERTISE THROUGH OUR CSO PARTNERS

The FFA network brings the following diverse experience and expertise:

- *The ResponsiBank coalition* in Indonesia is considered a valuable adviser to the national financial regulator (OJK) on environmental and social safeguards. The Indonesian coalition brings expertise on sustainable agricultural value chains, forestry, palm oil, and fossil finance.
- *Fair Finance Japan* has proven track record in in-depth research on the cross-border financing activities of Japanese FIs. Together with other local CSOs, they coordinate the No Coal Japan Campaign. The Japanese coalition brings expertise in labor rights, human rights, sustainable supply chains, and fossil finance.
- *Fair Finance Philippines* brings valuable expertise in land rights and sustainable livelihoods. Two other regional networks are members of the Philippine coalition: ANGOC (Asian NGO Coalition for Agrarian Reform and Rural Development) which works on food security in 14 Asian countries; and NGO Forum on ADB which focuses on holding Asian MDBs' financial intermediaries accountable to safeguarding and ESG standards.
- *Fair Finance Thailand* brings expertise in infrastructure finance, transparency, and accountability, and consumer empowerment. Among its members is International Rivers which works with a network of Asian CSOs on water governance in the Mekong and South Asia. The Thai coalition was also a highly engaged stakeholder in the development of the national BHR framework launched in 2019.
- *Oxfam* leads 3 FFA coalitions in Cambodia, India, and Vietnam.

RECOMMENDATIONS FOR MOVING FORWARD

Financial regulators and supervisors have a crucial role to play in setting sustainability criteria for financial institutions. These requirements have to be mandatory, as experience has shown voluntary arrangements rarely deliver the desired results or at a much slower pace. Banks will need to significantly change how they operate and implement more concrete, time-bound actions if we are to achieve our shared commitments towards the SDGs and Paris Agreement.

Below we set out FFA's recommendations for financial regulators and supervisors, and banks, to help overcome the sustainability challenges – and realise the opportunities – in Asia.

FINANCIAL REGULATORS AND SUPERVISORS

- **Create an ESG level playing field in the form of mandatory regulatory or legally binding minimum requirements to avoid free riders among competing banks.** These requirements need to strengthen the ESG risk and impact assessment methods of the banks, as well as the defining and promoting lending to activities that contribute to social and environmental sustainability, and phase out lending that is not aligned with the Paris climate goals and the SDGs.
- **Build their capacity and resources for improving their supervisory scrutiny** of non-sustainability practices, incomplete risks assessments and capital buffer allocation by banks.
- **Provide different supportive tools to banks** in order to facilitate the implementation of the mandatory measures.
- **Develop a comprehensive socially and environmentally forward-looking scenarios**, which complement the currently developed scenarios that predict the consequences of climate change but tend to ignore social aspects. The scenario's will have to be adapted to what FFA countries need and how their banking sectors can adjust their operations.
- **Promote diversity in the banking sector** to support more agile and innovative banking services.
- **Identify and create fora for Asian regional coordination and cooperation** national financial authorities to support and strengthen the regulatory and supervisory measures on sustainable banking in the region.

RECOMMENDATIONS FOR MOVING FORWARD (continued)

BANKS

- **Strategically re-align loans and underwriting services** so that they directly benefit climate mitigation, environmental resilience, and the promotion of respect for human rights and labour rights, in Asia.
- **Operationalise ESG risk management methodologies as well as sustainability impact assessments**, which fully take the long-term future into account. These risk assessments will require allocating appropriate capital reserves.
- **Obtain all necessary information from borrowers about potential negative impacts on sustainability**, and condition their financing agreements to ensure those negative impacts are averted and/or addressed swiftly.
- **Integrate high standards for due diligence processes** to prevent negative environmental, social and governance impacts on communities, people and planet.
- **Introduce remedial procedures and grievance mechanisms**, in case severe social and environmental damage has occurred anyway, and has to be paid for.
- **Develop innovative financial products that have positive ESG impacts**, advertise them, and proactively advise their clients, companies, or projects on how to achieve those positive outcomes with the bank's support.
- **Ensure transparency of the impacts the new strategies and processes** by providing full disclosure including on financial exposures to different industries and use of ESG information, and publishing that information in formats that are useful to different stakeholders including CSOs.

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