



## Sustainability and governance take center stage in ASEAN corporate banking

Many banks have stopped funding new coal-fired power plants in favor of environment-friendly projects.

When Greta Thunberg told the world's elites at Davos that they must stop lending to fossil fuel projects to save the planet, US President Donald Trump dismissed her speech and called for people to reject environment-related warnings.

But it seems that sustainability has increasingly come at the forefront of businesses in the past few years, particularly when it comes to getting funding from corporate banks. In a report, Fitch Ratings revealed that global banks have become increasingly sensitive to environment, social, and governance (ESG) factors in their underwriting processes. In 2019, the study found that global banks are outright rejecting dealings with companies suspected of human rights abuses, child labour, or unsafe working conditions.



Mike Ng



Roshel Mahabeer

Following the 2015 Paris climate deal, a clutch of APAC-based banks—mostly in Australia and Singapore—stopped directly financing new thermal coal-mine or coal-fired power station projects. Chief amongst them is Singapore's OCBC Bank, the first Southeast Asian bank to announce that it will no longer fund new coal-fired power plants.

Before lending out to companies, OCBC said that they study the ESG conformance of the company in a credit and risk evaluation process.

"ESG risks may include biodiversity loss, deforestation, water scarcity and pollution. Companies' pollution prevention measures, relating to air emissions, water effluents and waste, are expected to be adopted in a manner that is consistent with local laws and regulations, at a minimum, as well

as applicable international industry standards. In our risk assessment, we also take into consideration social issues such as child or forced labour, occupational health and safety as well as any resettlement of affected communities," Mike Ng, OCBC's head of structured finance and sustainable finance, told *Asian Banking & Finance* in an exclusive interview.

The bank has set out a US\$7.02b (\$10b) target for their sustainable finance portfolio by 2022. In 2019 alone OCBC committed US\$3.51b (\$5b) in sustainable financing commitments and participated in more than 20 green loans and sustainability-linked loan transactions.

Other banks in the Southeast Asian region are not to be left behind. Standard Chartered Asia has committed US\$75b towards

the sustainable development goals (SDGs), with US\$35b specifically allocated for clean technology and renewables whilst the remaining US\$40b was for sustainable infrastructure.

**Roshel Mahabeer**, StanChart's head of sustainable finance in Asia, noted the growing collaboration and sustainability of ASEAN banks and governments. For example, central banks of Malaysia, Singapore and Thailand have joined the Network for Greening the Financial System (NGFS)—a network of central banks and supervisors seeking to better integrate climate-related risks into financial stability monitoring.

Despite this, APAC and ASEAN banks continue to lag behind their European peers in taking up ESG guidelines, a fact that both Fitch and the World Wildlife Fund (WWF) noted. Of the 35 banks assessed by WWF, only four banks from Singapore and Thailand fulfilled at least half of the 70 criteria and 51% of the banks fulfilled less than a quarter of the criteria.

"However, there is still progress as 74% of the banks have improved since 2018. These are meaningful steps in the right direction, though with only a decade left to 2030—we need to be considering E&S risks and financing SDGs at both pace and scale," Mahabeer further noted.

"Over the last 3-5 years we have seen a great increase in the number of banks and institutional investors developing E&S strategies either via a prescribed exclusion of investment activities or to more sophisticated ESG scoring models to encourage investment toward companies that have good ESG practices and support the SDGs," she added.

## Economic challenges

Adopting ESG principles remains a challenge for banks in the region, especially in countries that continue to be dependent on fossil fuels, a reality highlighted by Bank of the Philippines Island's (BPI) **Jo Ann Eala**, BPI's head of sustainability development finance.

"Noting the Philippines' dependence on fossil fuel which provides almost 80% of its energy,

these realities of our country's energy demand and supply capabilities compel the government and the private sector to provide support to diversified sources in the interest of making stable and reliable power available throughout the country," Eala said.

The bankability of sustainable projects is also still up in the air, said OCBC's Ng.

"Investments in emerging markets, where many of these infrastructure projects are, entail various forms of risk which are still not being adequately addressed. If a common framework across emerging markets is introduced, that would enhance the bankability of sustainable projects and we would see a rise in sustainable financing," he said.

Moody's Investors Service financial institutions group vice president and senior credit officer **Alka Anbarasu** also noted that ASEAN banks are not completely withdrawing from sectors that pose an ESG risk, but are instead striking a balance between such dealings and sustainable financing.

"For instance, banks are not just withdrawing from lending to industries that pose climate change risks, such as palm oil producers, coal-fired power projects. This is because such industries have a significant impact on the overall economy or livelihood of people. Also, many countries in the region don't have universal access to electricity, low per capita income and low shock absorption capacities to withstand a drastic change in banks underwriting policies," she said.

Instead, banks are working with their borrowers to promote sustainability. "At the same time, renewable energy and other green sources of energy are growing in importance. Many countries have pledged to increase green sources in their energy mix. This in itself has led to greater lending to that sector by the banks," added Anbarasu.

BPI, for example, is providing technical assistance to clients to help them comply with SGD-related laws. One example of this is BPI's employment of experts to evaluate project proposals, shared Eala. For



Alka Anbarasu

their activities with the agriculture sector, BPI has a dedicated team of agri-specialists to identify potential technical and environment problems.

## Seeds of growth

As companies and sovereigns become more environmentally aware in tandem with peoples' consciousness to climate change, corporate banks are faced with a plethora of opportunities to pursue in the ESG-banking realm.

"Companies and cities are transitioning to low carbon and more sustainable economies, so we expect to see more projects addressing the needs for climate change mitigation and adaptation in coming years. These include renewable energy projects, clean transportation and waste management to name a few," said OCBC's Ng.

StanChart's Mahabeer also noted the large buzz of activities in the sustainability space. "For example, Singapore is fast becoming a hub for green and sustainable loans with over \$10b of sustainable finance-related activity between 2018 and 2019, and the Monetary Authority of Singapore (MAS) has announced setting up a \$2b green fund."

BPI's Eala observed that more and more companies are investing in sustainability to boost their bottomline. "This is evidenced by the increasing number of private sector initiatives around energy efficiency, renewable energy, and climate resilience. Moreover, there are proven live cases of profitable sustainability initiatives, thanks to the quantitative metrics and tools provided by institutions like the IFC-World Bank." *By Frances Gagua*



Banks' funding now goes to environment-friendly projects.