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ESG Insights

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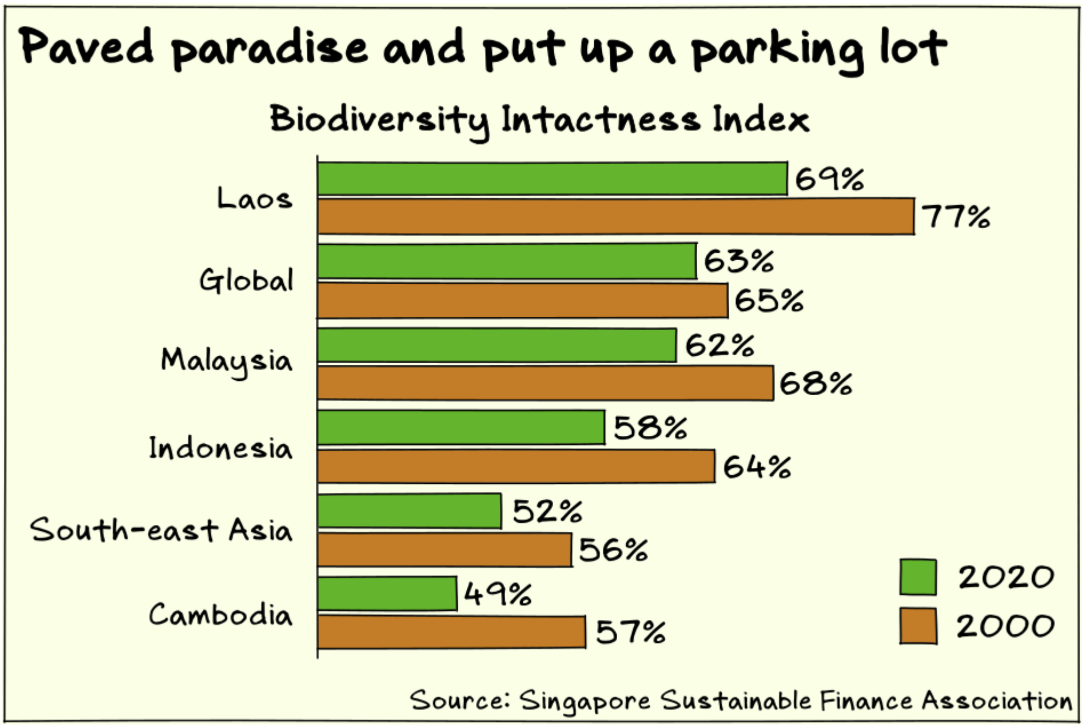
This week in ESG

- Singapore Sustainable Finance Association calls for action on nature financing
- Climate investor group polls investors on strategies, disclosures

Sustainable finance

Nurturing nature financing



As Singapore's financial sector builds momentum for the wider adoption of nature-related strategies, it will need greater support from non-financial players.

The Singapore Sustainable Finance Association, an industry group recognised by the Monetary Authority of Singapore, has published a guide to help financial institutions get started on nature financing.

At the heart of the nature financing movement is a recognition that nature-based issues present significant risks and opportunities for economies. The guide cited World Bank estimates that global GDP could decrease by US$2.7 trillion in 2030 if certain ecosystem services collapse. An analysis by Singapore government-owned investor Temasek figured that more than 60 per cent of GDP in the Asia-Pacific relies directly or indirectly on nature and ecosystem services.

On the opportunities front, the World Economic Forum sees US$4.3 trillion in business and 232 million jobs in Asia by 2030 from the nature transition to reverse negative impacts and restore nature. Globally, the nature transition could unlock US$10 trillion of business opportunities and 395 million jobs over the same period.

"We believe now is a good time for financial institutions to increase their proactivity in nature financing," the authors write. "That means understanding the materiality of nature risks and opportunities, embedding these considerations in internal processes and pursuing new business opportunities. In doing so, financial institutions will both address nature degradation in the real economy and grow their businesses."

So why aren't banks rushing to provide nature financing?

The short answer is that it's hard right now to know what an acceptable level of nature performance is. One of the 2030 targets under the internationally recognised Kunming-Montreal Global Diversity Framework is to conserve at least 30 per cent of water areas, including marine and coastal ecosystems. But that number needs to be translated for local circumstances to work.

What is sorely needed is policy support to lay down locally contextualised nature targets and pathways. Without science-based zoning policies and nature transition strategies to guide the way, the financial sector will struggle to provide capital efficiently. Investments will have to price in the risk of being on the wrong side of eventual policy, and of reputational damage from critics calling for more stringent standards.

Policy guidance is also needed to resolve competing demands for resources with other developmental goals. For example, building utility-scale solar farms or mining minerals needed for batteries or agriculture can all harm local ecosystems. Banks and investors can support a national strategy for allocating natural capital, but shouldn't be the ones creating that strategy.

More importantly, financiers and businesses need confidence that the real-world outcomes of their activities are positive, and that’s not possible without deliberate system-wide plans.

Industry sectors also need to step up. While policymakers can set jurisdictional targets, industry players need to commit to aligning with those targets. Guidance on best practices and the transition away from nature-negative operations should be a coordinated effort.

Both industry and government need to work together on creating better datasets. Doing so will facilitate the development of assessment models that can better price nature risks and opportunities.

The challenges are not trivial, but that’s always true at the beginning. There are low-hanging fruit where banks and investors can start.

Some aspects of nature are better understood and developed than others. In Singapore, for example, water efficiency has been a national priority for decades, which means that policies and data are already in place to enable the financing of water-related projects.

In some ways, it shouldn’t take much for businesses to understand the materiality of nature, especially in sectors such as agriculture, mining and real estate.

Compared with climate change, some of the impacts from changes to natural systems can be detected in shorter time frames and more visible ways. Fishermen know when there’s overfishing because catches shrink, for instance.

Compared with climate change, nature-related issues are often local. Biodiversity loss in Australia doesn’t affect biodiversity in Argentina. However, greenhouse gas emissions in Australia will certainly affect temperatures in Argentina and Angola.

This means that the levers for many nature-related issues are local as well; a company that protects the local ecosystem on its properties in Australia doesn’t have to worry about whether its efforts will be undermined by what someone in Argentina is doing. This is very different from climate change, where the willingness to mitigate emissions is often affected by whether other countries are pulling their weight.

The point is that nature financing will be a long journey, and starting now will allow early adopters to develop effective systems and processes through gradual evolution rather than in a more disruptive way in the future.

Sustainable investing

Investors need to take the next step

The Asia Investor Group on Climate Change (AIGCC) polled 230 major Asian investors and found Singapore investors behind their regional peers in a number of areas.

Those were:

- Linking board remuneration to climate performance;
- Disclosing climate transition plans;
- Having biodiversity or nature disclosures and strategies;
- Disclosing physical risks or adaptation actions; and
- Advocating for climate policy and regulation.

However, Singapore investors were ahead when it came to:

- Recognition of climate risks and opportunities;
- Conducting advanced climate scenario analysis; and
- Setting policies on fossil fuels or other high-emitting sectors.

One limitation with the poll is that the lack of disclosure does not mean the absence of something. It was a well-known issue in the early days of corporate governance development in Singapore. Singapore-listed companies did not do so well in some rankings early on because they did not mention certain governance aspects in their disclosures, even though those aspects were quite basic, and the expectation was that they were being done.

It’s possible that some of that is happening here, especially with industry wariness about getting accused of greenwashing. The less you say, the less that critics can scrutinise, goes the thinking.

But taking the findings at face value, it suggests that Singapore investors have quite a bit of catching up to do when it comes to turning climate risk and opportunity assessments into action.

Acknowledging climate risks and opportunities and conducting climate scenario analyses are kind of the early steps in formulating climate strategies. You start with an internal review, you engage with portfolio companies and limited partners, and then you figure out what’s at risk, and where it’s possible to make money.

And then, it seems, quite a number of Singapore investors just stop there. A number of them don’t appear to take the next step, and formulate plans to address those risks and opportunities, and then hold the firms’ leadership accountable for carrying out those plans.

That might be short-sighted. If you’ve spent all that money doing the analysis, at least make use of it.

Other ESG reads

1. **IHH Healthcare signs S$300 million sustainability-linked loan with UOB**
2. **Singapore prices S$1.8 billion of 30-year green bonds at 2.62%**
3. **South-east Asia may see most gas projects approved in a decade**
4. **South-east Asia’s chip and solar exports to US plunge – the worst may be yet to come**
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